CSR, Sustainability, Ethics & Governance
Series Editors: Samuel O. Idowu · René Schmidpeter

Samuel O. Idowu
Claus Strue Frederiksen
Asli Yüksel Mermod
Morten Ebe Juul Nielsen *Editors*

Corporate Social Responsibility and Governance

Theory and Practice

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Samuel O. Idowu • Claus Strue Frederiksen •
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Editors

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Editors
Samuel O. Idowu
London Guildhall Faculty of Business and Law
London Metropolitan University
London, United Kingdom

Claus Strue Frederiksen
Department of Media, Cognition and Communication
University of Copenhagen
Copenhagen, Denmark

Asli Yüksel Mermod
Economics and Administration Sciences
Marmara University
Beykoz Istanbul, Turkey

Morten Ebe Juul Nielsen
University of Copenhagen
Copenhagen, Denmark

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This book is dedicated to all global citizens who are genuinely striving to be socially responsible through their various life activities in order to make the planet Earth a better place for everyone.

Foreword

Although there is a convincing argument that corporate social responsibility (CSR) has existed in various forms prior to and throughout processes of industrialisation and commercialisation, the concept has only recently become widely recognised as a distinct concept that can be subjected to forms of governance. Earlier forms tended to be incorporated within the activities of religious leaders, civil philanthropists and paternal capitalists and tended to be considered within localised intentions, rather than collectively within what we today consider under the CSR umbrella. By comparison, contemporary corporate social responsibility has gained prominence through the adoption of central tenets across governments, voluntary organisations, transnational corporations and small and medium enterprises. Across industries, ranging from high technology to the food chain, CSR professionals are employed, policies are developed and activities undertaken. Such developments are undertaken in the name of corporate social responsibility or one of the plethora of similar terms such as community citizenship, corporate sustainability, local content or social impact that companies are developing in order in part to establish distinction. Yet despite the burgeoning professionalization of CSR, many of the issues which contributed to the concept becoming influential still exist. For instance, the pervasive influence of globalisation processes remains, government corporate controls continue to weaken, evidence for climate change mounts, environmental disasters happen, producers and manufacturers in emergent regions struggle to gain equitable entry into international markets, the power imbalance between TNCs and southern hemisphere governments continues, companies are complicit within acts of political violence and repression and people die horrifically while working on consumer goods for Western markets in conditions that lack rudimentary health and safety regulations.

When looking at the magnitude of these problems, it is appropriate to ask if CSR as a theoretical construct is failing as a practice. My answer is a resolute no. When examining the question, it is important to position the contextual development of CSR alongside the onset of de-regulated neo-liberalism during the 1980s and the stark conditions, contradictions and suspicions that accompanied the devastation of social welfare arrangements and economic and environmental governance frameworks. By comparison, today governments are supporting and encouraging CSR across public and private sectors, oil and gas TNCs acknowledge their contributions to climate change, greenhouse gas emissions are being controlled, mining companies are seeking to minimise their hazardous waste and designer labels reconcile cost efficiencies, safety and reputation. In other words there has been progress. Nevertheless as the preceding problems indicated there is still considerable scope for heightened CSR related development and activism across professional, political and academic spheres. In short, there are considerable gaps in knowledge and provision to be filled. Springer's excellent series, *CSR*, *Sustainability, Ethics and Governance* is helping to fill this gap.

Within studies of CSR, the huge growth of publications has provided considerable illumination. However the increase has not been without problems. At one level, there has been a detachment of theory from practice. Consequently the concept has become abstract, located within philosophical and ethical discussions or applied and isolated within particular localised applications or caught within the business versus social case crossfire. Refreshingly Idowu, Frederiksen, Yüksel-Mermod and Nielsen's *Corporate Social Responsibility and Governance*: *Practice & Theory* overcomes many of the dichotomies that exist within other texts. By interweaving practice and theory and crucially grounding CSR within governance arrangements across internal and external dimensions, the concept becomes operationalised within manageable and controlled frameworks. Moreover the range of studies within this collection extend across industries and continents. Ways are explored in which CSR and corporate governance become integral within and between industries, nation-states and global processes. In so doing the book will hopefully contribute to shifting the increasingly sterile debate about the desirability for, and feasibility of, regulated global standards towards more fluid, interdependent and inclusive forms of governance.

Hence although there remains much for exponents of CSR to develop and deliver, books like *CSR and Governance* will provide invaluable learning tools that are essential if CSR is to contribute fully to addressing fundamental concerns facing people around the world.

Stephen Vertigans
Head of School of Applied Social Studies
Robert Gordon University
Aberdeen, UK

Preface

Corporate social responsibility (CSR) is a field that has continued to reshape our world. What does this mean is perhaps an understandable question a newcomer to the field of CSR might want to ask. Corporations and stakeholders of this era have fully understood that our past ignorance in dealing appropriately with certain issues has been responsible for many of today's social, economic and environmental challenges that we have had to live and deal with. Embedding CSR into corporate strategies should hopefully ensure that corporate entities and their stakeholders would be encouraged to behave responsibly and act ethically at all times, this would make our world a better world for all inhabitants of planet Earth.

Being socially responsible is actually everybody's business. It is not just only corporations or big businesses that should be responsible. In any event small- and medium-sized enterprises are by far the largest employers of labour worldwide, so they impact more on our world than big corporations. Many of the CSR related issues which affect all companies touch on human rights, bribery and corruption, carbon emissions, child labour, pollution, discrimination, terrorism and several other issues which affect us all either directly or indirectly. That is why CSR is everybody's business. Not only that, we are also stakeholders in one form or another to all corporate entities of this era, we are therefore charged with ensuring that these entities behave responsibly and do the right things at all times, that is another reason why CSR is everybody's business. Corporate social responsibility will continue to throw more light into things we should and should not do as we continue to advance our knowledge about the social and environmental consequences of our actions and inactions, this can only happen through research, debate, corporate accountability and transparency towards corporate stakeholders and the civil society. We have an open forum to do this and one hopes that this is a general understanding worldwide.

The issue of weak and inappropriate corporate governance has caused a series of unimaginable problems and made life much more difficult for everybody globally. The mysteries caused by the 2008 global financial crisis are still as fresh in everybody's mind as if it happened yesterday. Without being too rhetorical, this will continue to be the case for a very long time; many countries are either still feeling the impact or just coming out of the problems it caused them. Governance issues have been understood worldwide as being important which perhaps explains why nearly all countries around the world today have put in place some sort of corporate governance codes for companies to either comply with or explain why they have not complied with these codes. A good system of governance is a precursor to running a successful and sustainable business, which is at least our understanding of the state of play in the twenty-first century.

This book has addressed many dimensions of CSR and Governance that are important to corporate entities in different economies of the world. It has been fortunate in its ability to have attracted interests from respectable scholars and philosophers of repute from Europe, North America, Australia and Africa. It is therefore hoped that the information it contains will be useful to our readers from any sector of society, for example education, industry and commerce, practitioners, international organizations, governments, non-governmental organizations and those who are concerned about the adverse impacts of corporate activities on mankind, the environment and also the future of our planet.

Summer 2014

Samuel O. Idowu
London Guildhall Faculty of Business & Law,
United Kingdom

Corporate Social Responsibility and Governance: An Introduction

Why has corporate social responsibility (CSR) over the last few decades taken a significant proportion of the literature on management? Why is everybody talking about CSR? Why have we suddenly realized that good governance is the key to managing a successful business enterprise? All these are relevant questions which chapters in this book have competently answered. Our world has been drastically reoriented following the emergence of CSR on the corporate scene. The field of CSR has brought to our awareness several issues we either deemed as unimportant or were ignorant of their importance a few decades ago. The globalisation of the world economy has brought with it several benefits; it has similarly increased the number issues and difficulties that must be strategized by corporate entities, if they aspired to survive and prosper in their ever more competitive markets. Globalisation has meant that corporations must think globally, they can now not just formulate their strategies in terms of a particular nation state's borders since it has become glaringly clear that a mishap in one particular country could affect the remaining 195 countries that make up our world; see the global financial crisis of 2008 as an example of this. Our world continues to be a complex place in many ramifications, but demonstrating a high degree of responsibility in everything we do should hopefully simplify matters and lessen the complexity for everyone.

Both corporate and individual citizens of the world have a number of ethical choices to make; corporate entities importantly must understand and inculcate this mindset into what they do. These entities it is hoped are aware that their failure to incorporate activities that would enable everyone to conveniently make their ethical decisions would put them at a competitive disadvantage. The license to operate which all corporate entities require are held by their stakeholders; that's a fact which corporate entities of this era are aware of. Needless to say, withholding this license by any relevant groups of stakeholder could mean an immediate demise of the corporate entity which requires it; the ensuing difficulties after that demise could result into unimaginable mysteries to all.

The globalisation of the world economy has brought with it a series of changes in our business settings. Corporate strategies are now formulated by corporate entities with global dimensions in mind, nation states are now connected economically and skilled labour (and perhaps unskilled labour) now move freely across the traditional country borders. A newspaper article in London, UK, in 2013 noted that there are 100 languages spoken in London alone (nothing can be more diverse than that), and many other changes which have helped to transform our world and made it better for everyone, corporate social responsibility has played a considerable part in effecting many of these changes and will hopefully continue to do so.

Idowu (2010) notes that societies around the world are gradually coming to terms with the understanding that we all have to behave responsibly and change our less responsible behaviours in dealing with certain issues which affect mankind regardless of whether we live in an advanced or the less advanced part of the world. Some of the consequences of past corporate actions are gradually unfolding and being felt either with similar or the same level of intensity by us all in terms of climate change or global warming and food crisis (even in the first world which was thought to be unthinkable a few years back; talk less of the third world, this is now almost a reality in both parts of the world!), even though the reverse should actually be the case (because of the advancements in modern technology in the science of agriculture). Drinkable water is also posing some problems; some of man's natural resources endowed by nature are gradually becoming extinct. Scientists are suggesting that things would have to change not just for the sake of the present generation but most importantly for the sake of future generations. Man's natural resources are exhaustible, we must all understand that; therefore we can no longer afford any more to use these resources irresponsibly or behave recklessly with them either as individuals or corporate entities.

The old economic model used before CSR according to Prof. Judge Mervyn King (of the King Reports South Africa) was based on some wrong and unsustainable assumptions; King notes that this model assumed the following:

- There were limitless resources in nature
- Planet Earth had an infinite capacity to absorb waste
- Companies/citizens can Take-Make-Waste natural resources
- Accountability was only necessary for providers of capital

These were yesterday's assumptions theorized on the basis of a wrong economic model which has failed us abysmally and brought about many of the problems noted above in Idowu (2010), but corporate social responsibility has now provided us with a window of opportunities to do away with these wrong assumptions and unsustainable economic models because they will only destabilise and cause global problems with unbearable consequences to this generation and future generations. We have all understood that life will become unsustainable if we continued to exist as we did before.

This book, *Corporate Social Responsibility and Governance: Practice and Theory*, provides an insight into how scholars from 10 countries around the globe understand and perceive CSR and governance in their countries of abode. The book has been fortunate in the sense that its contributors, who are responsible academics, provide theme focussed account of how these scholars see CSR and Governance from different disciplines in these countries. They have each provided an account of how CSR has either contributed or redirected thoughts in their countries of residence. Many of them are trained philosophers.

The book has been divided into four parts, each part focusing on different dimensions of CSR and CG, and the chapters have been grouped together according to their themes. Part I, Corporate Social Responsibility and Governance, has three chapters; Part II, Corporate Social Responsibility and Ethical Values, is made up of five chapters; Part III, Reporting Corporate Social Responsibility, contains four chapters; and Part IV, Instrumental Corporate Social Responsibility, has five chapters.

In the very first chapter entitled '*The Relationship Between Corporate Social Responsibility, Good Governance and Accountability in the Economy of Communion Enterprises*' Baldarelli et al. reflect on the new frontiers of CSR and the principles and practice of good governance based on the Economy of Communion (EoC) Enterprises, which they define as companies with an ideal motive. These authors note that the practice of EoC emanated from Brazil in 1991 in an attempt to solve poverty problems in the São Paulo area of Brazil. It is now used by well over 1,000 enterprises in all the continents of the world. The chapter presents both the theoretical framework and empirical perspective using two Italian EoC businesses to demonstrate the functioning of EoC Enterprises. It should make a good read.

Jastram and Prescher take over the story with a chapter on '*egitimizing CSR Governance Initiatives and Instruments'*. These authors use some CSR governance instruments, for example the German Government's the National CSR Strategy put in place in order to address the negative socio-economic and ecological impacts of globalisation. Jastram and Prescher note that CSR governance instruments are soft law which is often non-mandatory for the adopting organisations. The chapter argues that the lack of legitimacy analysis in CSR governance research leads to an underestimation of the democratic, participatory potentials within the global governance and of the potential empirical impacts of CSR governance instruments and initiatives.

In a final chapter of this part of the book by Roelofsen et al. entitled '*Maintaining the Corporate Social Responsibility of Sustainable Entrepreneurial Firm*', these scholars focus the chapter on the role of corporate governance in periods of business growth. The chapter explores the extent to which corporate governance mechanisms could be seen as effective mechanisms in maintaining the CSR-identity of growing sustainable entrepreneurial firms (SEFs). Having conducted a thorough review of the literature, these scholars conclude that the following barriers to business growth could impact on the CSR-identity of SEFs: overtrading/uncontrolled growth, control and delegation, decentralization and formation, and indirect expression of identity. They furthermore note that some mechanisms of corporate governance might either prevent or compensate for the dilution of the CSR-identity of SEFs in periods of business growth. They provided the following examples of these as: strategy, human resource management, organizational culture, formal monitoring, coordination, media involvement and social monitoring.

Paul Wilson, a famous American scholar, in Chap. 4 on '*The Lure of Corporate Virtue*' explores the notion that corporations are moral agents that may aspire to virtuosity. For corporations to lose their innocence as natural moral agents do, Wilson notes, they too may enter a moral life cycle, and because the loss of innocence may result in a sense of care about how one behaves, it is reasonable to expect corporations to manifest the effect of care. In order to test the validity of his assumption, the author uses 18 corporations that made the Built-to-Last list in his attempt to exemplify how corporations care about their core ideology. Wilson in fact uses Merck and Company, Inc. as his example and discusses one way that ethicists may turn the care of corporations about their mission statement to the advantage of the entire moral community.

Azizul M Islam continues the journey of the book with a chapter entitled '*The Social Audits and Global Clothing Supply Chains: Some Observations*' which delves into the supply chains sector. The chapter discusses some preliminary insight in relation to the use of social audits by the global clothing and retail companies that source garment products from developing nations. In the era of globalisation, many companies based in developed nations have continued to transfer their production facilities to many parts of the developing nations, notably to some countries in Asia. This action has given rise to widespread global stakeholder concerns about irresponsible practices in the sector, for example the use of child labour, inadequate health and safety standards, poor working conditions and violation of labour laws at many of these production locations. Social audits appear to be a tool for companies to monitor the working conditions and encourage acceptable working practices. The chapter notes that those companies which use social audit effectively maintain their legitimacy within the wider community and consequently obtain the license to operate from key stakeholders.

Maria Aluchna in Chap. 6 entitled '*Employee Volunteering as an Element of CSR: Evidence from Polish Listed Companies*' notes that the concept of CSR is implemented into business with the use of different operational and strategic schemes, for example environmental protection actions, education and information initiatives, social dialogue programs etc. Aluchna notes a shift in the role of business in society with regard to interest in CSR and employees' engagement in management. The author argues that there are significant changes in perception of companies' dedication to their social performance, stakeholder policy and social dialogue. Employee volunteering, Aluchna notes is an essential component of CSR and an important theme in management studies as well as in corporate activities.

In the seventh chapter entitled '*Multinational Corporations in Developing Countries: Bringers of Working Standards or Modern Slaveholders*' Fifka and Frangen-Zeitinger argue that the socio-economic role of multinational corporations (MNCs) in developing nations is heavily disputed. These authors argue that some see MNCs as agents of change whilst others perceive them as modern slaveholders in terms of their employment practices. In order to establish the 'truth', Fifka and Frangen-Zeitinger set out to explore these two perceptions of MNCs and note that they are in fact bringers of no change to many of their host nations despite all their efforts to portray themselves as such.

A chapter by Constantinescu and Kaptein concludes the second part on the book. The chapter notes that despite the presence of several CSR standards and guidelines, less attention has been paid to how ethical concepts and models relate to these CSR standards. These authors evaluate three prominent CSR standards and guidelines – the Global Reporting Initiative (GRI), Global Compact and ISO 26000 – using the Corporate Ethical Values (CEV) Model based on clarity, consistency, achievability, supportability, visibility, discussability and sactionability. The chapter also analyses how CSR standards and guidelines embed the aforementioned virtues.

In the ninth chapter of the book, Mara Del Baldo poses a relevant question on whether the time has come for SMEs to dive into the pool of Integrated Reporting. Del Baldo using findings from her study of some unlisted Italian SMEs argues that there are several derivable benefits for SMEs when they combine the economic, social and environmental performance reports into a single report. Del Baldo notes that there will be greater clarity about relationships and commitments, deeper engagement with all stakeholders, better decisions in terms of economic, social and environmental dimensions and lower reputational risks. The findings of the study suggest that when an authentic commitment to social responsibility, sustainability and transparent disclosure exists, the integrated report improves corporate disclosure and acts as a driver of stakeholders' dialogue and stakeholders' commitment.

In Chap. 10, Frederiksen and Nielsen, two of the editors of the book, set out to establish whether or not the current practices within CSR reporting by companies provide relevant useful information to stakeholders in order to assess the CSR commitments of companies. These two scholars/philosophers undertook an empirical study of CSR reporting by some large global companies. Their study has revealed that CSR reporting by these companies has not assisted stakeholders to evaluate properly the CSR commitments of these companies. Frederiksen and Nielsen have provided their reasons for coming to this conclusion as revealed by their empirical study of these companies' CSR reporting.

In another chapter in this part of the book, Finch, an Australian scholar, catalogues various typologies of sustainability reporting frameworks in Australia. Finch notes that the traditional frameworks are an inadequate reflection of business as they focus solely on economic performance to the detriment of non-economic performance but concludes that the Global Reporting Initiative (GRI) guidelines provide a more complete picture of total business welfare.

The final chapter of this part of the book, again by these two Danish philosophers Frederiksen and Nielsen, evaluates the framework for reporting CSR in terms of the quality of these CSR reports. The two scholars argue that a good CSR report should enable stakeholders to evaluate a company's CSR commitments from four different dimensions. They also argue that a company's CSR should be concerned with its ethical responsibilities, in other words they argue it should provide a fair and reasonably transparent sketch of the ethical behaviour of that company.

In the very first chapter of the final part of the book, Dobos, another Australian scholar, provides an interesting definition of CSR when he argues that "CSR is management using the resources of their corporation to promote the welfare of non-shareholders of the company". He argues that when CSR is used to gain competitive advantage, then it could be described as "Instrumental or Shared Value CSR". The chapter goes on to expound on the Zero-Sum CSR and provides three argumentative strategies for reconciling Zero-Sum CSR with the moral rights of shareholders.

In Chap. 14, Regina Queiroz, a Portuguese philosopher, explores the importance of Phronesis to CSR. Queiroz begins her chapter with an argument that "CSR challenges economic rationality understood as a maximization of individual utilities". Phronesis, Queiroz notes, "is the practical wisdom that always relates individual interest with the collective". Drawing from the theories of several philosophers of old, for example Aristotle, Queiroz argues that CSR coheres better with morality grounded in phronesis than utilitarianism.

Lauer, an American/Ghanaian philosopher, in Chap. 15 looks at the importance of critical social theory in the African Business Paradigm. Lauer argues that contrary to the general belief, cultural diversity is best regarded as a vehicle for discovering fundamental convictions about the possibilities for a transnational meaning for economic justice rather than the main obstacle to its realization. This scholar notes that the chapter aims to correct the shortfalls in the assumptions sustaining the recent history of the international human rights documents and proposals offered in the discourse of transnational corporate social responsibility theorists.

In the penultimate chapter of the book, Toft, another Danish philosopher, delves into the argument of the new Marxist left who argue that CSR is a self-defeating oxymoron. The chapter discusses the challenge of the new Marxist to CSR and provides an overview of the current Marxist-inspired CSTR thinking.

The very final chapter of the book by two Turkish sisters/scholars and an old student of one of them, entitled '*Corporate Social Responsibility in the European Union: An Assessment of CSR Strategy*', investigates the role of CSR in corporate governance focussing on the role of the Europe 2020. The chapter notes amongst others that the Europe 2020 expects all EU member states to improve their sustainability performances and their national CSR frameworks in order to foster social responsibility. The 2014 Soma coal mining disaster in Turkey was used by these chapter authors to demonstrate how CSR could be improved from both its environmental and corporate governance perspectives at the EU level.

A careful read through of the issues highlighted in this introductory chapter to each of the 17 chapters featured in this book should hopefully reveal that these chapters have one common theme and message: that CSR is an important part of corporate operational practices. Modern corporate entities have come to realize that long term economic growth and success would be far too difficult to achieve if they carried on with the ethos of the now-outdated and irresponsible old capitalism. Many of these chapters have demonstrated either directly or indirectly that success is no longer measured only in terms of the bottom line results or share prices on the stock market; in any case a company that is perceived to be socially irresponsible would have a poor bottom line result and lower share price at the stock exchange. It is now no longer a case (as was previously believed) that it is only society which benefits from corporate entity's CSR actions but the entity actually helps itself to operate sustainably and consequently do well because of its triple bottom line actions (Elkington (1997)). That is modern capitalism, which is what now pervades the world we exist in.

Samuel O. Idowu
London Guildhall Faculty of Business and Law,
London, UK

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About the Editors

Samuel O. Idowu is a Senior Lecturer in Accounting and Corporate Social Responsibility at the London Guildhall Faculty of Business and Law, London Metropolitan University, where he was course organizer for Accounting Joint degrees, Course Leader/Personal Academic Adviser (PAA) for students taking Accounting Major/Minor and Accounting Joint degrees and currently Course Leader for Accounting and Banking degree. Samuel is a Professor of CSR and Sustainability at Nanjing University of Finance and Economics, China. He is a fellow member of the Institute of Chartered Secretaries and Administrators, a fellow of the Royal Society of Arts, a Liveryman of the Worshipful Company of Chartered Secretaries and Administrators and a named freeman of the City of London.

Samuel has published about 50 articles in both professional and academic journals and contributed chapters in edited books and is the Editor-in-Chief of two major global reference books by Springer – the *Encyclopedia of Corporate Social Responsibility* (ECSR) and the *Dictionary of Corporate Social Responsibility* (DCSR), and he is a Series Editor for Springer's CSR, Sustainability, Ethics and Governance books. Samuel has been in academia for 27 years winning one of the Highly Commended Awards of Emerald Literati Network Awards for Excellence both in 2008 and 2014. In 2010, one of his edited books was placed in 18th position out of 40 top sustainability books by Cambridge University Programme for Sustainability Leadership. He has examined for the following professional bodies: the Chartered Institute of Bankers (CIB) and the Chartered Institute of Marketing (CIM) and has marked examination papers for the Association of Chartered Certified Accountants (ACCA). His teaching career started in November 1987 at Merton College, Modern, Surrey; he was a Lecturer/Senior Lecturer at North East Surrey College of Technology (Nescot) for 13 years where he was the Course Leader for BA (Hons) Business Studies, ACCA and CIMA courses. He has also held visiting lectureship posts at Croydon College and Kingston University both in the county of Surrey, England. He was a Senior Lecturer at London Guildhall University prior to its merger with the University of North London, when London Metropolitan University was created in August 2002.

Samuel has served as an external examiner to a number of UK Universities including the University of Sunderland, the University of Ulster, Belfast and Coleraine, Northern Ireland and Anglia Ruskin University, Chelmsford. He is currently an External Examiner at the University of Plymouth, The Robert Gordon University, Aberdeen, Scotland and Teesside University, Middlesbrough, UK. He was also the Treasurer and a Trustee of Age *Concern*, Hackney, East London from January 2008 to September 2011. He is a member of the Committee of the Corporate Governance Special Interest Group of the British Academy of Management (BAM). Samuel is on the Editorial Advisory Board of the *Management of Environmental Quality* journal, *International Journal of Business Administration* and *Amfiteatru Economic* journal. He has been researching in the field of CSR since 1983 and has attended and presented papers at several national and international conferences and workshops on CSR and has made a number of keynote speeches on CSR at a few international conferences.

Claus Strue Frederiksen, Ph.D., is a postdoctoral fellow at the University of Copenhagen (philosophy unit). Frederiksen has published several articles about moral philosophy and business ethics in international journals and books and is field editor on the *Encyclopedia of Corporate Social Responsibility* published by Springer. His current line of research is corporate social responsibility reporting.

Dr. Asli Yüksel Mermod is a Professor of Finance at Marmara University – Business Administration department for nearly 18 years. She studied Economics (Volkswirtschaftslehre) at Konstanz University in Germany and Marmara University where completed her Master's and Doctorate degrees at the Marmara University Banking and Finance Institute. Her research areas cover bank management, CSR, socially responsible investing, ethical finance, brand equity, electronic finance and financial services marketing. She teaches international banking, international finance, project finance, bank management, portfolio management, principles of finance and financial markets and institutions courses for undergraduates and investments and banking, bank funds management, project finance and management, risk management in banking for MBA, Ph.D. and Executive MBA classes. She has published books on bank management, service marketing, brands and measuring brands' equity, electronic banking and risks in different countries like Germany, the UK and Turkey. She has also published many articles in different finance journals. She co-edited two books lately: *Corporate Social Responsibility in the Global Business World* (Springer 2013) and *People, Planet and Profit* (Gower 2014).

Besides her research and teaching responsibilities, Dr. Yuksel Mermod has taken an active part in administration at Marmara University. She was a Vice Director of Marmara University Institute of Social Sciences and was the Erasmus-Sokrates Programme Coordinator for post graduate studies. She was also on the board of management in banking and finance institute for several years. She has key positions in some international scientific conference organizations in terms of organization and scientific committee membership, board of referees and she contributed in some international academic groups which organize conferences, new book projects and journals about CSR with esteemed academicians from all over the world. Besides Marmara University she was a visiting professor at Bahcesehir University (BAU) in Istanbul, Webster University in Geneva-Switzerland and Montreux Business School in Montreux-Switzerland.

Morten Ebbe Juul Nielsen is an Associate Professor in applied philosophy at Copenhagen University, associated with the philosophy department and the institute for food and resource economics. He has published extensively in political philosophy, normative ethics, business ethics, and legal philosophy. He is currently working on two interdisciplinary research projects, Governing Obesity (on personal responsibility and obesity policies) and Global Genes, Local concerns (on the ethics of bio-banking). Key research topics are legitimacy and pluralism, consent, and liberty.

List of Contributors

Maria Aluchna is an Associate Professor at Department of Management Theory, Warsaw School of Economics (SGH), Poland, and Academic Director of CEMS MIM at SGH. She studied marketing and management at the Warsaw School of Economics where she graduated in 1998 with an M.A. (Econ) degree. She specializes in corporate governance (ownership structure, board, executive compensation, transition economies) as well as in strategic management and corporate social responsibility. She was awarded Deutscher Akademischer Austauchdienst (DAAD) scholarship for research stay at Universität Passau and Polish-American Fulbright Commission scholarship for the research stay at Columbia University. She received Polish Science Foundation award for young researchers (2004, 2005). Since 1998 she has been working at the Department of Management Theory, at the Warsaw School of Economics obtaining Ph.D. degree (2004) and completing habilitation procedure (2011). Currently Maria Aluchna teaches "Corporate governance" (both in Polish and English for CEMS program), "Transition in Central and Eastern Europe" (in English in cooperation with the University of Illinois, Springfield) and "Strategic management" (in English). She also serves as the faculty advisor for case competition of Warsaw School of Economics student teams and is the lecturer of the Summer University Warsaw. She is the member of the editorial team of *Journal of Knowledge Globalization* and *European Journal of Economics and Management* as well as of the Polish journals – "Przegląd Organizacji" [Organization Review] and e-Mentor. Maria Aluchna is the member of European Corporate Governance Institute (ECGI) and European Academy of Management (EURAM). She is also the Academic Director of the Community of European Management Schools (CEMS) program at Warsaw School of Economics. She is the team member at the law firm Głuchowski, Siemiątkowski i Zwara.

Maria-Gabriella Baldarelli Ph.D. is an Associate Professor of Accounting at the University of Bologna, Department of Management. She has also served as a Visiting Professor to a number of universities: the University of Pula-Hroatia in May 2006; the University of Vlore (Albania) from 12 to 15 May 2009; a Visiting

Professor- Teaching staff mobility at the New Bulgarian University of Sofia, Bulgaria, from 22 to 27 November 2010; the University of Sao Paulo, Brazil, between May and 1 June 2011; and the University of Diocese of Buia (UDEB), Camerun, from 4 to 8 February 2012. She is a Partner of the Editorial Board, the International Review "Economic Research" (UDK 338; ISSN 1331-677X). Her research interests include: financial statements in tour operators and travel agencies; corporate social responsibility; ethical, social and environmental accounting and accountability; sustainability in tourist enterprises; responsible and accessible tourism for blind people; economy of communion enterprises; and gender (pink) accounting. She is a member of the Board-Centre of Advanced Studies on Tourism (CAST; http://www.turismo.unibo.it), as delegate of the Department of Business Administration, University of Bologna. She is a delegate of SISTUR (Italian Society of Sciences of Tourism) for the Emilia Romagna region. She has been a member of the SIDREA council since December 2009. She is a reviewer for the following academic journals: *Journal of Business Ethics and Economic Research*.

Mara Del Baldo is an Assistant Professor of Entrepreneurship and Small Business Management and Financial Accounting at the University of Urbino (Italy), Department of Economics, Society and Politics. She was also a Visiting Professor at the University of Vigo (Spain), the Jurai Dobrila University of Pula, Croatia, and the New Bulgarian University of Sofia, Bulgaria. Her main research interests include: entrepreneurship and small businesses; corporate social responsibility, sustainability and business ethics; SMEs and networking strategies; financial and integrated reporting; and ethical, social and environmental accounting (SEAR). She has published in different Italian and foreign journals as well as in national and international conferences proceedings and books. She is a member of several national and international networks and, among these: the European Council for Small Business, the Centre for Social and Environmental Accounting Research (CSEAR), and the European Business Ethics Network (EBEN) Italian Chapter. She is a reviewer for a number of journals and is an Editorial Board member for several international journals (i.e. *Piccola Impresa/Small Business*; *Journal of Business Administration Research*, *International Journal of Society Systems Sciences*, *International Journal of Business and Management*, *International Journal of Modern Accounting and Auditing*).

Vincent Blok is an Assistant Professor in Sustainable Entrepreneurship and Responsible Innovation at the social sciences group, Wageningen University, and research fellow at the Faculty of Philosophy, Radboud University Nijmegen. Blok's research group is specialized in sustainable entrepreneurship, business ethics and responsible innovation and is involved in several (European) research projects in the field of sustainable entrepreneurship and responsible innovation. Blok's work appeared in *Journal of Cleaner Production*, *Entrepreneurship & Regional Development, Review of Social Economy* and *Journal of Responsible Innovation*. See www.vincentblok.nl for more information about his current research.

Mihaela Constantinescu obtained her Ph.D. in 2013 at the Faculty of Philosophy, University of Bucharest, Romania, with a thesis on “The Moral Responsibility of Organisations”. During her doctoral studies, she was a visiting researcher to the Rotterdam School of Management, Erasmus University, The Netherlands. Her research interests include ethics management, virtue ethics, and corporate responsibility. Mihaela co-authored the Romanian volume on *Institutionalising Ethics: Mechanisms and Instruments* and is author and co-author of a number of articles published in international scientific journals such as the *Journal of Business Ethics*. She has been a member of the Research Centre in Applied Ethics (www.ccea.ro) since 2009 and has theoretical and practical expertise in the fields of ethics management, corporate social responsibility and public relations. With an academic background in both philosophy and communication, Mihaela has worked as a public relations consultant in the private, nongovernmental and public sector organisations, while offering ethics counselling to the latter.

Ned Dobos is Lecturer in Ethics at the University of New South Wales, Canberra, Australia, and an adjunct researcher with the Centre for Applied Philosophy and Public Ethics. He has held visiting fellowships at the Oxford Uehiro Centre for Practical Ethics, and at the MacMillan Centre for International Studies at Yale University. Dr. Dobos is the author of *Insurrection and Intervention: the Two Faces of Sovereignty* (Cambridge University Press 2012), co-author of *The New Pacifism: Just War in the Real World* (Oxford University Press, forthcoming), and co-editor of *Global Financial Crisis: the Ethical Issues* (Palgrave).

Caterina Ferrone is Research Fellow in Accounting at the University of Naples “Federico II” (Italy), Department of Economics, Management, Institutio. She was also a Visiting Professor to the University of Barcelos, Portugal and the University of Katowice, Poland. Her main research interests include: corporate social responsibility, sustainability and business ethics, non-profit organizations, social cooperative, social enterprises, financial and integrated reporting, and social and environmental reporting. She has published in different Italian and international journals as well as in national and international conferences proceedings and books. She is a member of the Centre for Social and Environmental Accounting Research (CSEAR), the European Business Ethics Network (EBEN) Italian Chapter, the International Society Third Sector Research (ISTR) and the Italian Business Economics Academy (AIDEA Giovani).

Matthias S. Fifka is Professor for Business Administration and Business Ethics at the University Erlangen-Nuernberg. He is also a Visiting Professor at the University of Dallas (USA), the Nanjing University of Finance and Economics and the Shanghai Jiao Tong University (China), the École Supérieure des Sciences Commerciales d’Angers (ESSCA) (France), and the Maastricht School of Management (Netherlands). He serves as external evaluator at the Maastricht School of Management and the Hamburg University of Applied Sciences. From 2011 until

September 2013 he held the Dr. Juergen Meyer Endowed Chair for International Business Ethics and Sustainability at Cologne Business School (CBS).

His research and teaching focuses on issues of strategic management, especially the strategic implementation of sustainability and corporate social responsibility, business ethics, corporate governance, international management as well as the American political and economic system.

He is and has been a member of several scientific commissions and boards, e.g., for the European Union, the Federal Ministry of Labor and Social Affairs, and the German Association of Environmental Management (B.A.U.M. e.V.). Moreover, since 2008, he has been serving as the deputy director of the German American Institute in Nuernberg. He also advises different types of organizations on management and CSR issues.

Matthias S. Fifka earned his doctorate in 2004 with a dissertation on business associations in the United States. In 2011, he completed his *Habilitation* with a large study on corporate citizenship in Germany and the USA.

He has published numerous books and more than 40 articles in renowned journals (e.g. *Business Strategy and the Environment*, *Corporate Social Responsibility and Environmental Management*, *Business Ethics: A European Review*) and edited volumes, and serves as member of the editorial board and reviewer for several journals. He frequently contributes articles and interviews to a variety of national and international media.

Nigel Finch is Associate Dean (Undergraduate) at The University of Sydney Business School, Director of Admissions, Associate Professor of Accounting and a member of the Business School Executive Committee.

His academic qualifications include degrees in accounting, business and law and a doctorate in business law. His professional qualifications include membership of CPA Australia and the Institute of Chartered Accountants in Australia. He is also a fellow of the Financial Services Institute of Australasia, the Taxation Institute of Australia, the Australian Institute of Company Directors and CPA Australia. His principal areas of research and teaching include: financial reporting, financial performance measurement and the valuation and impairment of assets. He is a co-author of *Fundamentals of Corporate Finance* (Pearson 2010), *Best Practices in Management Accounting* (Palgrave Macmillan 2012) and *Contemporary Issues in Mining: Leading Practice in Australia* (Palgrave Macmillan 2012). He is the editor of the *Journal of Applied Research in Accounting and Finance*, and a member of the editorial board of the *Journal of Intellectual Capital and Managerial Finance*. Dr. Nigel Finch is a Certified Practising Accountant, a Chartered Accountant, a Chartered Tax Adviser and an adviser to several businesses and industry groups in Australia and Asia. He is a member of the Business Council of Mongolia, a founding director of Australia Mongolia Business Council Limited and a member of CPA Australia's International Advisory Committee.

Anna Frangen graduated from Cologne Business School with a Master degree in International Business, majoring in European Management. In the context of her work as a research assistant to the Dr. Jürgen Meyer Endowed Chair, she supported empirical studies in the areas of international business ethics and sustainability, and co-authored a book chapter on sustainability management. She has since 2013 worked as a consultant at Ernst & Young in the area of Financial Services/ Transaction Advisory Services.

Muhammad Azizul Islam is an Associate Professor of Accounting at the School of Accountancy, Queensland University of Technology (QUT), Brisbane, Australia. Prior to starting at QUT, Dr. Islam worked as a Lecturer and Senior Lecturer at Deakin University, Melbourne, as a Lecturer at RMIT University, Melbourne, as a Lecturer and Assistant Professor at the University of Dhaka and as a Lecturer at Khulna University, Bangladesh. He is a Certified Practising Accountant (CPA Australia). His research interests include corporate social and environmental disclosure, auditing and accountability. Dr. Islam graduated with honours from the University of Dhaka. He completed a Masters in Accounting at the University of Dhaka and a Masters in Globalization and Economic Development at the University of Antwerp, Belgium. He obtained his Ph.D. from RMIT University, Melbourne. Dr. Islam has authored many research journal publications on corporate, social and environmental accounting. Over the last 10 years, he has presented his works at many international conferences and university seminars. He supervises Ph.D. students and provides public consultation in the social and environmental accountability area. At QUT, he is the team leader of the Accounting for Social and Environmental Sustainability research group.

Sarah Jastram is a postdoctoral scholar and Lecturer at the Institute of Management at Humboldt-Universität zu Berlin in Germany. She holds a Master of International Business Administration from University of Hamburg and a Bachelor of Business Administration from University of Technology in Sydney, Australia. Her research focuses on the intersection between business and society, especially with regard to the strategic management of Corporate Social Responsibility and Private Self-Regulation. Dr. Sarah Jastram's Ph.D. on the Legitimacy of Private Governance at the Example of ISO 26000 won the Special Science Award by the German Institute for Standardization (DIN) in 2012.

Muel Kaptein has worked as an academic and consultant in business ethics since 1991. Since 2002, Muel is Professor of Business Ethics and Integrity Management at the Erasmus University of Rotterdam in The Netherlands. His research focuses on areas such as measuring and managing ethics in organizations, and he teaches courses in leadership, sustainability, and governance. He has published more than 40 articles in international scientific journals such as *Academy of Management Review, Human Relations*, *Journal of Organizational Behavior*, and *Journal of Management*. He is co-editor of the *Journal of Business Ethics*. Muel is author and co-author of various books including *Ethics Management* (Springer, 1998), *The Balanced Company* (Oxford University Press 2002), *The Six Principles for Managing with Integrity* (Articulate Press 2005), *The Living Code* (Greenleaf 2008), *Workplace Morality* (Emerald 2013), and *Servant of the People* (SSRN). Muel is also partner at KPMG Integrity, which he co-founded in 1996, where he supports organizations in auditing and improving their integrity, soft controls, fraud risk management, compliance, and sustainability. His personal website is: www.muelkaptein.com

Hakan Karaosman is a Ph.D. candidate in the European Doctorate in Industrial Management (EDIM) Program funded by the EU. Due to the double doctoral degree structure of the program, he has been performing his research under the supervision of Universidad Politecnica de Madrid, Madrid, Spain, and Politecnico di Milano, Milan, Italy, since 2013. Hakan Karaosman completed his Bachelor of Science degree in Environmental Engineering in Trakya University, Edirne, Turkey, in 2008, after which he pursued a Master of Business Administration program in Marmara University, Istanbul, Turkey. Subsequent to his MBA degree, he was accepted to the European Joint Masters in Management and Engineering of Environment and Energy (ME3). During and after his master studies, he held positions in the industry. His industrial experiences and positions helped further shape his research interests. Ethical fashion, sustainable production and cross-cultural consumer behaviour shall be listed as his research interests. His research seeks to further explain how consumers from different countries respond to ethical fashion initiatives and how sustainability should be improved in terms of production within the industry. Given both scholars and marketers attempt to comprehend how sustainability should be embedded in consumer marketing and production, his research aims to bring significant implications.

Helen Lauer is a Professor of Philosophy and served as the Head of the Department of Philosophy and Classics, University of Ghana (2008–2012) until her last sabbatical before formal retirement. She taught philosophy at UG, Legon full time since 1988, and in recent years has presented foundations of ethics, methods of the sciences and critical thinking to all undergraduates as a requirement for the B.A. and for the B.Sc., as well as to all Law and Business students, and in 2012 completed a syllabus and textbook *Ethical Issues in AIDS Management* for Masters Degree students of public health. Prior to a 1-year post-doctoral work at Oxford University, UK, she received B.A. degrees both in comparative religion (summa cum laude) from City College and Hunter College in New York (1976) and later in mathematics at UG Legon (2000). Her M.A. (1983) and Ph.D. (1986) in philosophy were obtained from the City University of New York Graduate and Research Center. Her area of concentration in analytic philosophy is action theory and intentionality, which she embarked upon under the dissertation supervision of David M. Rosenthal. She is a member of the Board and honorary secretary of the Scientific Organisation for the Reappraisal of the HIV-AIDS hypothesis (Rethinking AIDS).

Julia Prescher, M.Sc., gained her Master of Science in Business Administration from Humboldt-Universität zu Berlin in Germany. During her academic studies, she spent 6 months at Universitat Pompeu Fabra, Barcelona in Spain. Her scientific interest focuses on financial accounting, international management, corporate social responsibility, private governance and supply chain management.

Regina Queiroz obtained her Ph.D. in Political Philosophy at the University of Lisbon, 2002. She is currently doing research at the Institute of Philosophy of the Faculty of Human and Social Sciences of the New University of Lisbon (IFILNOVA) and has been teaching business ethics at the Nova Business School of the New University of Lisbon. Regina Queiroz's areas of expertise are ethics, mainly business ethics, and political philosophy. She has published articles on business ethics and political philosophy.

Myrthe Roelofsen has an M.Sc. in management, marketing and economics with a specialisation of management studies.

Kristian Høyer Toft is an Assistant Professor at the Center for Applied Philosophy, Department of Learning and Philosophy at Aalborg University, Denmark. He did his Ph.D. in political theory on the issue of global justice and human rights. He has been a postdoctoral researcher at the University of Copenhagen working in the areas of biotechnology-ethics and justice. He has published on global justice theory applied in the areas of genetically modified plants and hunger, climate change and land grabbing. Currently, he works on developing a political theory of corporate social responsibility.

Paul E. Wilson is an Associate Professor of Philosophy and Religion and a CAPE Site Coordinator for Shaw University, Raleigh, North Carolina. In addition, he is a Distance Education Trainer and online instructor for Shaw University. His areas of interest are ethics, philosophy of religion, and online learning. Some of his essays have appeared in the *Journal of Social Philosophy*, *Journal of Business Ethics*, *Vetus Testamentum*, and *the Journal for Philosophy in the Contemporary World*. He has served as the editor of the online journal of the North Carolina Religious Studies Association (NCRSA), *Thinking About Religion*: http://organizations.uncfsu.edu/ncrsa/journal/index.htm. In September, 2013, he presented a workshop at the Fall Forum of the North Carolina Association of College and Teacher Educators, "How Asynchronous Should Your Online Class Be?" In February, 2014, he delivered an essay at the North Carolina Philosophical Society, "Combating Suicide Bombers through Non-violent Activism." The latter essay is part of ongoing research on non-violence.

Emiel F.M. Wubben is an Associate Professor in Strategic Management (Wageningen University, NL), has a Doctorate in the field of History of Economic Thought (Tinbergen Institute), an M.Sc. in Theoretical Economics (Erasmus University) and has specialized in strategic management of agrifood companies, broadly defined. For History of Economics Society (USA) granted him the 'J. Dorfman Dissertation Award 1994'. Wubben is an Assistant Professor of Strategic Management and Business Environment at the Rotterdam School of Management (1993–2000) and taught at the University of Tilburg, the University of Leyden and Texas A & M. His current prime research interest is on the edge or interface between the visible hand of management and authorities vs. the invisible hand of markets, and systems to realize profitable transitions towards a more sustainable biobased economy. This interest materializes in research on synergy parks, M&As, IOR, clusters, academic spin offs, collective action, sustainability, CSR, and biofuels, sourcing from literature on network theory, stakeholder management, RBV, TCE, business models, industrial architecture, absorptive capacity, strategic niche management, etc. He organized various conferences and is reviewer for a wide range of journals and conferences. He was supervisor of the winner of the 2010/2011 Ph.D.-Thesis of the Year Award in Business Administration, awarded by NOBEM on behalf of the Dutch business schools. Emiel Wubben is Research Fellow at the WASS at Wageningen University (NL), partner in ARBOR (EU-Interreg initiative) and supervises three full-time Ph.D. candidates and a handful of external Ph.D. candidates.

In education Wubben has a liking for courses on strategic management, advanced management and marketing, industrial organization, advanced business strategies and transition to the biobased economy. If any, his sectoral focus is on horticulture. In teaching, the focus is on strategic management and advanced business strategies. His courses won various recognitions. For long he was member of the Ph.D. Admission Committee of Mansholt Graduate School, member of admission committees of five M.Sc. programs, member of the Advisory Board for the *Exploring Corporate Strategy and Principles of Strategy* textbooks (Prentice Hall) and research and educational program coordinator.

Wubben has (joint) publications in a variety of journals such as *Entrepreneurship and Regional Development*, *Energy Policy*, *British Food Journal*, *Journal on Chain and Network Science*, *Journal of Strategy and Management*, *China Insights Today*, *Postharvest Review*, *Supply Chain Management*, and *International Journal on Food System Dynamics*, next to book (contribution)s for *Edward Elgar, Routledge, MacMillan,* and *Wageningen Academic*, and publications in popular press and consultancy reports.

Ülkü Yüksel is a Senior Lecturer (A/Professor) in the Discipline of Marketing at the University of Sydney Business School, Sydney, Australia, since 2004. Previously she worked as an Assistant Professor and Visiting Scholar in Marketing, at the Michigan State University, and Technical University of Istanbul. She also held an academic position as a Visiting Scholar at the New York University Stern Business School in 2009 and in Royal Holloway University of London in 2014. Ülkü Yüksel has made the move from industry to an academic career after a 13-year-long professional business career in the international services sector. Her substantial industrial experience and positions as Director of Sales, Marketing and Consultant in the hospitality, advertising, and financial services industries, with two giant corporations of these sectors, Citibank Corporate HQs and Kempinski-Lufthansa, framed the basis of the context of her research interests. Ülkü's research interests include the broad areas of international marketing and cross-cultural consumer behaviour. Specifically, culture, withholding consumption, (e.g., anti-consumption, boycott behaviour), and consumption under stress are the sub-areas she is interested within these broad concepts. Her research explores consumers' evaluations, information processing and decisions as consumers involve with brands, products, services, and corporations. Within this context she focuses on three major areas: (1) How do consumers evaluate others and react to various sorts of information for their decision on action or inaction? How do consumers evaluate the fairness of and react to marketing and manufacturing tactics? (e.g., boycotts); (2) How do consumers react to different stimuli of fear (e.g., in announcement, advertisements) with regard to their consumption tendency? How do consumers evaluate consumerism when mortality is salient? How should persuasive messages (announcements) be altered to amend consumers' reactions when they face a self-threat? (3) When and how does culture matter in these constructs? Ülkü uses experiments to collect data, although she also makes use of mixed methodologies when the research question necessitates. Ülkü uses experiments to collect data, although she also makes use of mixed methodologies when the research question necessitates. Her research is useful for marketers, managers and social policy makers as they try to understand the effects of culture, environmental uncertainty and turbulence, and perceived stress on consumer or managerial decision making.

Her most recent articles are published in several journals including *Journal of Business Research*, *Journal of Macromarketing*, *Journal of Strategic Marketing* and *Journal of Business and Industrial Marketing*.

Part I
Corporate Social Responsibility and Governance

Chapter 1
The Relationships Between CSR, Good Governance and Accountability in the Economy of Communion (EoC) Enterprises

Maria-Gabriella Baldarelli, Mara Del Baldo, and Caterina Ferrone

Abstract The chapter aims to propose a reflection on the new frontiers of corporate social responsibility (CSR) and the principles and practices of good governance that are based on the experience of the Economy of Communion (EoC) enterprises which can be defined as companies with an "ideal motive" in that they are the results of a charismatic founder (Chiara Lubich) and the fruit of an ethical substratum, that directs every field of human behavior and, therefore, that economic behavior too.

The experience of EoC enterprises was initiated in Brazil in 1991 to solve poverty problems near the São Paulo area, and now it has developed all over the world with 1,000 enterprises that are located in every continent.

After presenting the theoretical framework, the study is based on the empirical analysis of two cases of Italian EoC businesses (Ridix spa and Rainbow Library Engraved in Val d'Arno-FI (Florence)) in which the principles of communion and reciprocity enter as fundamental elements of the mission, governance and accountability. A specific attention has been addressed to the mechanisms (operating procedures, decision-making processes and the logic of power) relative to the

This paper is the work of a common research project. However, Baldarelli Maria-Gabriella wrote Sections 1.3, 1.5.1, 1.5.3 and 1.6; Del Baldo Mara wrote Sections 1.1, 1.2 and 1.4; Caterina Ferrone wrote Section 1.5.2.

M.-G. Baldarelli
Department of Business Administration, University of Bologna, Bologna, Italy

University Institute of Sophia (Fl), Florence, Italy
e-mail: maria.baldarelli@unibo.it

M. Del Baldo (✉)
Department of Economics, Society and Politics, "Carlo Bo" University of Urbino, Urbino, Italy
e-mail: mara.delbaldo@uniurb.it

C. Ferrone
Department of Business Economics, University of Salerno, Via Ponte Don Melillo, 85051 Fisciano, SA, Italy
e-mail: cferrone@unisa.it

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governance, trying to outline how the relationship develops dynamically with the CSR and the communion which is declined in this context as: dialogue, trust and reciprocity. The comparative perspective in which the cases are presented highlights the different economic results that are achieved in spite of the same intense application of CSR and the EoC pillars in managing the businesses.

The reflections that emerged contribute to deepen the knowledge of a phenomenon which has been studied by scholars in various fields, to offer insights on the coherence of the enterprise's governance according to the EoC project guidelines and to diffuse good examples of a new culture of solidarity.

1.1 Introduction

Different types of companies are strongly involved in pursuing corporate social responsibility (CSR) objectives: (a) maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large; and (b) identifying, preventing and mitigating their possible adverse impacts (EU 2011, p. 6, *A Modern Understanding of Corporate Social Responsibility*). Among these, we can consider: social enterprises (Austin et al. 2003; Mair and Marti 2006); large companies oriented towards inclusive business models (Gradl and Knobloch 2010; Gradl and Jenkins 2011); community-based businesses (Peredo and Chrisman 2006); "territorial" small and medium-sized firms (Putnam 1993; Storper 2005; Del Baldo 2010a, b; Del Baldo and Demartini 2012), and EoC (Economy of Communion) enterprises (Lubich 2001a; Bruni and Uelmen 2006, Baldarelli 2006, 2011; Argiolas et al. 2010; Bruni and Sena 2013; Buckeye and Gallagher 2013).

Departing from this premise, the chapter aims to propose a reflection on the new frontiers of CSR and the principles and practices of good governance that are based on the experience of companies (the EoC enterprises) which can be defined as companies with an "ideal motive" (Molteni 2009) in that they are the fruit of an ethical substratum, which directs every field of human behavior and, therefore, that economic behavior too.

The experience of EoC enterprises was initiated in Brazil in 1991 to solve poverty problems near the São Paulo area, and now it has developed all over the world (Gold 2010) with 1,000 enterprises that are located in every continent. On May 2011, the EoC project finished 20 years of life. These companies are the results of the charismatic founder: Chiara Lubich (2002, 2003).[1] In the definition of the Economy of Communion, we read thus: "During the Brazil trip which was in May 1991, Chiara Lubich was left profoundly touched by the strong social inequality

[1] Chiara Lubich is the founder of the "Focolare Movement", an interfaith movement which has the purpose to achieve the universal brotherhood. Today, its members are approximately 140,000 belonging to 187 different countries, including non believers and believers of 350 different churches and other religions

encountered in the favelas that surround the metropolis of São Paolo. In this context that she launches a proposal: to have companies be set up, guided by competent people' (Gold, 2010: 333–334). The idea of Chiara Lubich may be summed up in these words: "I thought that some companies could be brought forth among our members, in such a way as to commit the capacities and resources of everybody for producing wealth on behalf of those who are in need. Their management should be entrusted to competent persons, who are able to make them work effectively as well as bring in assets. And that is to say, in part they should be used for the first Christian community's own aims: help the poor and sustain them till they get a job; another part in developing education structures for 'New Men' - that is, people educated in and animated by love, apt to what we call 'The Culture of Giving'. A final portion, of course, to increase the company" (Lubich, 2001a: 23–24)

This experience constitutes the focus of our study which is based specifically on the empirical analysis of two cases of Italian EoC businesses (Lubich 2001a; Baldarelli 2009, 2011) in which the principle of reciprocity (Bruni 2004, 2006) enters as fundamental element of the mission, governance and accountability (Matacena 2011; Jamali et al. 2008).

Consequently, in the analysis of the afore mentioned cases we will address our attention on the mechanisms (operating procedures, decision-making processes and the logic of power) relative to the governance, trying to outline how the relationship develops dynamically with the CSR and the communion which is declined in this context as: dialogue, trust and reciprocity (Argiolas 2013). The two cases have been chosen precisely because, in the first the value proposed by the company is recognized by the market, so we may use the traditional tools here, amongst which is the financial statement that confirms the procedure of governance, even though it considers various characteristics, nevertheless it has its value and may be recognized by the market. In the second case, however, even if governance is based upon the same values and on the same practices as the first company, the value proposed is not recognized by the market and the company is experiencing a time of deep crisis. In this case, therefore, we adopt an evaluation model, different from the preceding one, so we may better understand how wide is the gap between these two values.

The paper is divided into two main parts. In the first one the theoretical framework is drawn through the analysis of recent European and international guidelines that mark the evolution of the concept and socially responsible practices and of contributions in the literature focused on good governance in relation to CSR. In the second part the research develops through the qualitative analysis (Yin 1994; Eisenhardt and Graebner 2007) of the two cases (Ridix spa and Rainbow Library Engraved in Val d'Arno S.r.l., in the Province of Florence). The research methodology used is based on the presentation of two research cases (see paragraph 5.1). Specifically, the empirical analysis is focused on two cases: the first one is focus on the coherence among governance, reciprocity, value production and value recognition, while the second addresses the relationship among reciprocity, value produced and value acknowledged. The main theme of the analysis is the presence of shared values and the belonging to the EoC project. The comparative perspective in which the cases are presented highlights the different economic results that are achieved in spite of the same intense application of CSR and the EoC pillars in managing the businesses.

The reflections that emerged from the study have both scientific and managerial/operative implications. On the one hand, they contribute to deepen the knowledge of the governance mechanisms of a phenomenon which has been studied by scholars in various fields (Gold 2004; Bruni and Uelmen 2006; Baldarelli 2006, 2011; Argiolas 2006; Gold 2010).

On the other hand, in relation to the consistency of the EoC phenomenon, the study contributes to offer insights on the relationship among CSR, governance and accountability and on the coherence of their governance according to the project guidelines (www.edc-online.org). This with particular relevance to the following aspects: the enhancement of human labor; the importance of ties and relationships; time dedicated to listening and dialogue; involvement based on trust; attention paid to the competitive logic of the market in order to find the right balance between efficiency and communion; and concern to satisfy clients based on the ability "to put oneself in others' shoes". These principles have been promoted, at the same time, by way of the creation of "Schools for Entrepreneurs" and other training initiatives such as EoC commissions at a local, national and international level, which, since 2001, have been aimed teaching entrepreneurs and managers the optimum use of company governance tools and enhancing the exchange of experiences within logic of reciprocal growth (Argiolas et al. 2010; Gold 2010).

The thread running through the analysis is the presence of a commonality of values and belonging to the EoC project, which involves companies throughout the world. The comparative viewpoint with which they are examined highlights the various economic results that are achieved notwithstanding the intense application of CSR within their activities.

In this context, our work contribute to provide reflections for the functioning of these "laboratories" to understand strategies, in order to offer efficient solutions to problems that projects might face, and to diffuse good examples of this "new" culture of solidarity.

1.2 CSR and Governance

In the last decade, corporate governance received more and more attention due to various reasons, among which are financial scandals and the more recent global financial crisis. On the scientific level, within the ample corpus of studies dealing with corporate governance, enterprise governance has been introduced in the attempt to bridge the gap between corporate governance studies and business success literature (Connell 2004).

Enterprise governance refers to the set/systems of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that organization's resources are used responsibly (Paci 2003). Briefly, the system of corporate governance is conceived in terms of systems of decision-making processes and of internal control, configuration of assets and related matters.[2]

Over the past decade, scientific debate on corporate governance mainly focused upon the big companies and was articulated into four chief theoretical approaches (Cornforth 2004): agency theory; stewardship theory; resource dependency theory and stakeholder theory. These different approaches may be interpreted in various ways and are used to justify various models of corporate governance.

In agency theory, the managers act as agents of the principal (Wheeler and Davies 2004) but they pursue individual interests, potentially contrary to those of the shareholders (Keasey et al. 1997, pp. 3–5). Since, therefore, there is the risk that the administrators act in an opportunistic manner, the discipline regarding corporate governance has to, principally, protect the interests of the investors (Cornforth 2004, p. 14).

According to stewardship theory (Muth and Donaldson 1998), administrators act in the interests of shareholders in the pursuit of common interests. Their main function is that of improving organizational performance, strategies and decision-making procedures and providing managers with the best possible support within the perspective of reciprocal assistance (Hung 1998).

This approach contributes towards offering a guide towards understanding the explanation of the relationship between CSR and governance, since it refers to a model of motivations and managerial behaviors based on a concept of Man that is diverse from the theory of rational choice and on cooperative and non-conflictual government, founded on trust and oriented towards the long-term (Davis et al. 1997). Attention shifts, in fact, to motivational and relational aspects which are well adapted to the vision at the core of a firm's mission and to the system of government typical for socially oriented businesses.

In resource dependency theory (Pfeffer and Salancik 1978), it is ascertained that companies must be managed to best fit in with that general and specific environment they operate in. It is within this perspective that administrators have to especially guarantee resource procurement necessary for the development of companies while maintaining good relationships with key external stakeholders. Consequently, board members should be chosen by way of co-option mechanisms, principally considering quality of relationships maintained with external interlocutors (Cornforth 2004, p. 13).

[2] Specifically, the aspects that lead corporate governance are: proprietary asset and the composition of the firm's organs of government, relations and interactions among these organs (ownership, board of directors and management), the distribution of power and responsibility to the highest levels of the organization, the modalities of selecting and remuneration of upper and middle management, transparency of the acts of government and internal control, the economic and financial information system, the modes and the instruments with which the decision-making processes and behaviors conform to the principles that inspire the functioning of the business. See Molteni 2004.

Finally, stakeholder theory (Freeman 1984; Freeman and Evan 1990) emphasizes the role of stakeholders[3] within the structures and processes of corporate governance echoing the concept of CSR (Wieland 2005; Freeman et al. 2010). We, thus, underline the need for systems of governance characterized by the decentralization of the decision-making power and by the involvement of stakeholders (by way of stakeholders engagement strategies, stakeholders commitment and stakeholders dialogue; by way of systems of accountability aimed at guaranteeing transparency and participation and mechanisms of recruitment of representatives of the various categories within governance and control organs; see Clarkson 1995; Andriof and Waddock 2002) since just such a gap, within the systems of corporate governance of the big banking, industrial and financial groups, has favored opportunistic behaviors, imbalances and conflicts of interest (Turnbull 2002a, b, 2003) and contributed to the economic crisis of the past decade (ACCA 2008; OECD 2009).

As it has been quoted above, the thread of study on CSR and spread of relative procedures has highlighted the strong link between responsible company management and the governance and has contributed to the debate on good governance (Alford 2006; Zamagni 2006a, b).

CSR can broadly be defined as the extent to which firms integrated on a voluntary basis social and environmental demonstrate concern in their ongoing operations and interactions with stakeholders.[4] The European Commission sustains that companies state their CSR by adopting a system of open governance, which is able to conciliate the interests of the various stakeholders within the context of a global approach of the quality and sustainable development (EU Commission 2001, 2002, 2006). The OECD also states that the structure and the procedure of corporate governance should acknowledge the rights of stakeholders and encourage their participation in the creation of wealth and employment, starting from access to information through transparency (OECD 2001).

On the one hand, as far as the scientific level is concerned different theories – some of which have been previously presented – attempt to explain CSR practices within a more systems-orientated view of the organization and company (stakeholder theory, legitimacy theory, and political economy theory). CSR domains of action include finance, principles of governance, formalization of the CSR policy, organizational structure of CSR, and dialogue with stakeholders. Among CSR systems several authors include training programs for employees, building of a

[3] The cardinal rule of stakeholder theory is that "he who governs the firm must consider the rights, the interests and the expectations of all those who may be influenced by managerial decisions and who, conversely, may exercise their influence on the results of such decisions" (Freeman 1984, p. 46).

[4] "CSR expresses more than simply the requirement that business should be conducted ethically – it refers to the notion of responsibility for the impact of corporate activity on the wider body of stakeholders, both internal and external stakeholders, and both economic (employees, customers, banks, suppliers, competitors) and social stakeholders (family members, the physical environment, the government, trade and business associations, etc.), and it is this attribution of responsibility that underpins the willingness of society to legitimate business" (Gray et al. 1996). See also Godoz-Diez et al. 2011; Uhlaner et al. 2004.

socially responsible culture among employees, support of CSR internal entrepreneurship, involvement of the employees in the construction/evaluation of CSR communication (reporting) and in CSR auditing/control of the enterprise (Morgan et al. 2009; Sharma 2000).

On the other, different concepts and practical techniques that have been developed under the umbrella of CSR research[5] and related strands of research.[6] Among these is located that of corporate governance (Jones 1980; Freeman and Evan 1990). A number of scholars have approached the concept of CSR from a corporate governance perspective, shifting the focus of the research around the ways to govern the complex system of a company and articulating the concept of CSR as a method for corporate governance intended as the system by which companies are directed and controlled (Cadbury 1992) dealing with the organizations of the relationship between shareholders, boards of directors, management and other stakeholders of the corporation (Jo and Harjoto 2012). Thus, CSR ought not to be seen as a set of outcomes, but as a process (Jones 1980, p. 65).

Where an adhesion to multiple declensions of CSR is present, corporate governance positions itself at the center of relations between stakeholders, strategic profile and internal processes, human capital (Gazzola and Mella 2006) is experienced as enlarged governance (Sacconi 2008). This enlarged model of governance is based upon the duties of trust of the company towards all stakeholders and it is valid for all types of organization (public or private large or small) (Sacconi 2005, p. 114).

The nexus between corporate governance and the manager's and/or the entrepreneur's/business owner's responsibility is a theme which, in recent decades, has moved to the forefront and has merged into the ethics of responsibility theory: the duty of management is to actualize a balance of interests among all stakeholders, and social responsibility can (and must) be redirected towards the emersion of moral preferences and their connection with particular types of businesses (civil and social businesses) or, in for-profit firms, towards particular mechanisms of governance in which a relational perspective prevails (Alford and Naugthon 2002; Zamagni 2003). Following this assumption, is it possible to affirm that socially oriented businesses are characterized by "good" systems of governance (Del Baldo 2012) since CSR is an instrument of governance that increases trust and facilitates the encounter among actors within/outside the company (Jones and Thomas 1995). CSR "enters" into the company's mission through the direct involvement of the owner and the managers, and is carried out through organizational processes and policies that are integrated with its corporate strategy, modifying corporate culture and corporate governance – in a way that favors processes of democratic stakeholding and the orientation towards the common good (Zamagni 2006a, 2007).

[5] These include the concepts of corporate social performance (Carrol 1979; Wood 1991); corporate social responsiveness (Ackerman 1973); corporate citizenship (Waddock 2004); corporate accountability (Zadek et al. 1997; Gray et al. 1996); sustainability and triple bottom line (Elkington 1994) and corporate social entrepreneurship (Austin et al. 2006).

[6] For actual thoughts concerning theoretical strands dealing with CSR, see Garriga and Melé 2004.

CSR influences corporate governance, which is “nourished” by business ethics as well (Hendry 2001). In recent years, there has been a strong re-evaluation of the role of ethically connected values inspired by the managers’ and companies’ governing bodies, spread and shared throughout the company (Longenecker et al. 2006) and capable of giving rise to forms of “humanistic management” (Zamagni 1995; Argandoña 1998, 2003, 2008; Melé 2002, 2009, 2012) and humanistic governance (Pirson and Turnbull 2011) and make companies and the subjects that they govern agents of civilization (Röpke 1960; Novak 1996). Such a perspective signals the passage from a governance centered on managerial and entrepreneurial aims to a multi-polar or holistic model (Sciarelli 2007; Sorci 2007) which considers all who “matter” to the company taking ethicalness towards the stakeholders on the part of the top management/entrepreneur into account. Consequently, this implies accountability and transparency as an essential prerequisite for the correct working of the economic systems (Rusconi 2006).

Moreover, this requires attention being focused on the elements of the trinomial mission-corporate governance-accountability and on their reciprocal relations, starting from the assumption that “in every enterprise there exists an explicit and coherent coordination between mission, governance and accountability” (Matacena 2005, 2008, 2010).[7] The model can be used to analyze the relations among mission, governance and accountability and its applicability can be extended to diverse typologies of businesses (for and non- profit businesses, large and small and medium-sized companies, private and public companies belonging to the private and public sector).

This implies that in the following sections, after presenting the guiding principles of the EoC project, we will identify those aspects of the system of governance in the EoC companies – which are strictly related to the ethical substratum synthesized in the mission and reflected in the accountability tools – that orient towards a socio-competitive synthesis (Molteni 2004) derived from a stable and structured approach to CSR.

1.3 The EoC Project: Conceptual Network and Governance Guiding Principles

EoC companies are the fruit of a new “lay vocation” destined to changing “from within” society and economy and to humanizing the market. The challenge the founder (Lubich 2001a) of the EoC project launched to the economics experts and

[7] Mission is conceived in terms of explication and a synthesis of the company aims; corporate governance as the command structure and the tools and processes present in the company for government; accountability as the informative responsibility of the company through the use of accountability tools to take and give account of the business activity (i.e. the social balance or the sustainability report).

to entrepreneurs has, indeed, opened up a new way of doing business and living the economy: an economic acting and a new culture which applies the principle of reciprocity, fraternity and communion placing the needs and the aspirations of men and the common good at the core of company activity.

Such a challenge implies: (a) creating new wealth involving people in hardship and those disadvantaged in the procedure; (b) redistributing wealth, first of all, creating it differently, i.e. in an inclusive, sustainable, brotherly and fair way, seeking authentic participation, starting from the employees, up to the management of the company; and (c) living a direct relationship with the true faces of poverty (Ferrucci 2011).

Specifically, the objectives of EoC are the following: (a) producing "new men" able to live a culture of giving, as opposed to the culture of having of capitalism[8]; (b) promoting universal fraternity throughout the various spheres of economic action; and (c) contributing to the creation of a world free of the poor by way of the distribution of earnings produced for directly providing for the most urgent needs of people in economic hardships,[9] for promoting relationships of reciprocal trust within the company itself as well as with its stakeholders – consumers, suppliers, competitors, local and international community, public administration - , for living and spreading a culture of giving, of peace and legality, of attention to the environment.

Indeed, the assets are distributed into three equal parts: one is for the training of "new men", who are able to manage the companies respecting the fundamental values of the person; one is in order to alleviate situations of poverty whether local or far-off ones, and the third part is for the company itself, so it may develop and grow and produce income.

Being an Economy-of-Communion business thus means aiming at universal fraternity by way of economic activity, which is developed adopting the culture of "giving". The pillars upon which the EoC businesses are founded are: dialogue, trust and reciprocity (Bruni 2006; Argiolas et al. 2010). A company comes to be an Economy-of-Communion company by the practical application of this charisma (Bruni and Smerilli 2008; Argiolas 2009). The entrepreneur, who founds EoC companies, is prepared to put his talents, creativity and risk-taking into play for an end which surpasses the boundaries of his company. Into his management silently enters "Providence", the so called "hidden partner", which materializes into ideas and into the strategic and operational intuition which are thought of individually but also together with other stakeholders too.

A fundamental principle in which the principle of communion reverberates is relative to the pact of unity. The "brother" is not "only" represented by the different stakeholders. Widening the concept of subjects to whom the business has to answer, every subject has equally of importance (Signori and Rusconi 2009), even those

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[8] Throughout the Sophia University.

[9] Throughout the non profit association, named Azione Mondo Unito (AMU) Association ONLUS.

with no "stake" in the company. Such a theory is well known in literature by way of the concept of universal business and global enterprise (Catturi 2003b).

An important tool deriving from the principle of communion is the "communion of soul", whereby the difficulties and joys in achieving aims and objectives are communicated. The definition of the objectives and the measurement of their achievement are closely correlated through an authentic form of communication: what has been understood and experimented is communicated for the purpose of growing together and this is another aspect of the dialogue (Argiolas et al. 2010).

Consequently, a further tool is colloquium that involves deep dialogue, where calmness and tranquility are called upon, a face-to-face talk to resolve doubts, starting the journey again with heightened tenacity – a journey is referred to more than managing. An opposing opinion said with love has the power to reflect: loving means thinking of that which is good for the other, shifting the centre of gravity from oneself to the other (Argandoña 2011). The novelty is in never pursuing single decisions, rather decisions taken together for the good of the "third party" who has to receive them. This helps overcome the boundary entering into the dialogue and reciprocity. The logic of fraternity also means a basic equality which reminds us of an intra- and inter-generational justice and equity, terms well known to those who today are dealing in the area of sustainability (Alford et al. 2006; Alford and Compagnoni 2008).

A further tool of communion regards "the time of truth", which is not simply a correction of a mistake committed by a subject, whether an employee or external collaborator, as much as a path which allows him to improve, in qualitative terms, his relationship with work: with colleagues and with the company.

The afore-mentioned aspects imply a change in corporate governance, both in the meaning which regards the systems of government power and in the procedures of management and internal control. For example, one hour given over to charity in the company needs to be constructed, and in the measurement, it is merged within the distribution of the added value to the workers. For this reason, the quantum is not sufficient, rather "how much" this is an expression of "improved" reciprocity relationships with work, with the sacrifice that this involves (Bruni 2007). Actually it is that which develops *upon* and *after* interpretation of the results, it is the relation that is generated through the numbers which, illuminated by the tools of spirituality, also generates new "life", new "ideas" in the company. Since one does not stop at correcting a single error but one goes on and on and it is not just correcting, but correcting oneself in freedom. It may also be a form of reciprocal growth of times "notwithstanding" the evidence of the numbers.

In this way, models of governance, based upon conflict, leave room for an innovative model, which might be the Economy of Communion, which, rather than being based on conflicts, is based upon internal and external collaboration.

Really, there are two aspects which qualify this model of corporate governance: the first is inserting ethical principles into the production of profit; the second is the wealth of the company thought of, not as an end in itself, rather as a means which allows achieving a much wider aim which is that, as we reminded you previously, of universal fraternity. Therefore, the workplace is comfortable and welcoming, working hours are adequate and remuneration is commensurate to the work carried out. Moreover, every person working in this typology of company finds a climate of fraternity, oriented towards the culture of giving, where communication is fundamental both within and outside the company and thus developing opportunities of human and professional growth, to whatever level on the hierarchical ladder.

In EoC companies, the role of the single manager gives way to a figure of chorus management, where everybody plays his/her "active" role and is involved in the management of the company, where, there being a leadership that listens, promotes and involves the person, it is capable of creating new services with the collaboration of others, making them participants in it all.[10]

Moreover, the EoC Company acquires the capacity to share, with coherency and trust, its own company experience with other companies, whether internal or external to the project, in order to succeed in survival and development. Indeed, the governance of a company which has communion at its heart, as main value, allows it not only to transmit trust and therefore create this "relationship capital" throughout all organizational levels and positions, but especially allows it to spread trust outside it, even at the time when it finds itself facing structural choices, like for example, those of outsourcing production as an alternative to the acquisition of another new company.

The decision-making process, which regards the structural choices outlined above, is complicated by a series of preliminary meetings, that allow the involved parties to clarify their positions, but such a way of proceeding, which lengthens decision-making procedures of the company's top management, has the aim of underlining that decisions are taken together, in full respect of all. As a consequence, problems are focused especially at the beginning of the strategic process, but the trust generated creates an oiling which the next stage of the process benefits from, with greater options to delegate in full respect of human values, and therefore that which may seem to be irrational behavior reveals itself to be opportune, allowing a slimming down of procedures and a full responsibilization at the various levels of the organization.

Besides, trust, which spreads throughout the whole company, manifests its effects even outside and this leads to the facilitating of both formal and informal relations. From this it derives that in, national and international, inter-company relations, ethics also spreads to company networks and, should there be common ethical grounds, as in the case of industrial Poles, the network itself becomes the "moral subject" in its operativeness (Rusconi 1997, p. 92) all the while maintaining

[10] Indeed, a renowned scholar expresses himself thus on the subject of the qualities of a manager. "Maybe now, there is need for other qualities: not just taking the initiative, but creating it and facilitating it. Not just talking, but also listening. Not just commanding, but promoting. Being, rather, like a conductor of an orchestra, who knows that the other fellow plays the violin, or the horn, better than him, but one who is able to listen and facilitate the many skills of the individual members of his orchestra to such a degree that out of the harmony of everybody playing together, a symphony comes to life." Burckart 1999, p. 79.

the dignity and the importance of "moral subjectivity" of the subjects who actively exercise them while carrying on company management.

The active presence of persons (the poor), who "depend" for their survival and development on that third of the assets of the companies of the project, sets a mechanism of cohesion off, which reciprocally and multi-directionally involves every subject internal to the company, that is: the partners, the administrators, the executives, the managers, the staff, etc.

This allows for the development and extension of a reciprocal control system, not making use of the logic of punishing but having the intention of altogether bettering its own services placing greater attention on the operating carried on, not just by themselves but by the others, as well. In this sense, the situations of neediness develop a type of control, even if "from afar", to operate bettering the quality of those products and services provided, which thus become the expressions of the "value" of relations that have developed throughout the production process (Naughton and Laczniak 2004). This virtuous circle, which is engaged within the internal control processes, is also useful for learning purposes, for sedimenting and circulating knowledge.

From this, it emerges that those methodologies held to be more effective concern the active participation in company management change which must begin from within and, if its "ethics base" is the same as for EoC companies, working upon this common denominator brings significant advantages.

In EoC companies, accountability is considered fundamental in orientating mission and governance as well as allowing the management of the values and principles of ethically keen companies (Baldarelli 2005, p. 97). To this end, a specific model of communication of economic, social and ethical responsibility was developed, the so called RainbowScore. RainbowScore is an organizational support for defining, programming and evaluating both the economic and ethical and value-based performances. This contemplates, in accordance with a unitary logic, seven aspects of the life and resources of the company (economic capital, relational capital, training and innovation, business culture, socio-environmental quality, human capital and corporate image/reputation and communication/involvement) from which value, intended in a multi-dimensional sense, springs.

1.4 Brief Notes of EoC Project Evolution

The EoC project developed over three phases. The first concerns the start-up phase where the constitution and continuation of EOC business management was characterized by the impulse of the project launch time, the passion for resolving the problems of the world, the impetus and will "to do" in order to "be" bearers of charisma (Lubich 2001b; Gold 2010, p. 105).

The second stage has been characterized by the prevalence of management issues, and the need for greater professional preparation for the managers.

Currently, the project has entered into a third one, characterized by a greater balance between entrepreneurialism and managerialism.

For an appraisal of the phenomenon as a whole, we can cite existing statistical investigations and those carried out by scholars in various fields (Gold 2010; Callebaut 2010; Di Ciaccio 2004). Since the project started, it gradually took root throughout the various areas of the world and was held under observation by many scholars, who, initially, were only economists (Bruni 1999). Subsequently, scholars from almost every discipline joined them (Baldarelli 2006; Argiolas 2009; Gold 2010) and the various interdisciplinary publications on this subject matter bear witness to this (Bruni and Pelligra 2002; Bruni and Crivelli 2004).

The attention paid by scholars to EoC companies, together with certain entrepreneurs who had labelled themselves as pioneers in the field, led to moments of checking the current state of affairs in the project thus making certain turning points necessary on the basis of the difficulties, which emerged from company practice. This permitted, from time to time, transforming difficulties like: uncertainties, disadvantages, stagnation, into occasions of reflecting upon and launching anew these companies, gathering novelties in progress, which were gradually underlined.

The pioneers of this project were pushed forward into taking part in it, since they were enlivened by the dream of alleviating poverty near and far, to achieve universal fraternity. This has, at times, led to the "reorganization" of existing companies, the constitution of new companies[11] and to resolving the problems of company management. It was precisely for this reason that around the mid Nineties the Bureau Internazionale di Economia e Lavoro, support organ to the EoC, made up of scholars, entrepreneurs and students was constituted. During the course of its meetings, EoC problems were examined, and an attempt was made to solve them. The Bureau was gradually substituted by EoC Commissions (Gold 2010) which on various levels – international, national and local – function as "laboratories" to understand, every time, the strategies to suggest in order to make the project go ahead in the most adequate manner possible.

The first difficulty regards the methods by which the initial "prophetic" idea (Lubich 2001a) could be translated into ways of definition of aims, methods of management and bookkeeping -accountability. This has required deep reflection, which is still ongoing, in that the culture of giving has slowly but surely been deepened and molded into actual situations, thus highlighting the importance of communion and reciprocity at an intra- and inter-company level.

The evolutionary process has also required, over time, a different terminology to highlight that which was really going on, till the concept of companies, who work

[11] Among these, is Ancilla Consulting, about which the owner, Tita Puangco, tells us: "It was set up in 1991 in Manila, the Philippines, as an immediate answer to the Economy of Communion project. Then, I worked as a bank official, a safe and well-paid job, but in accordance with my husband, I decided to join the invitation of Chiara leaving my job in order to create a consultancy firm . . . Ancilla is now in the fourteenth year of activity . . . Thanks to its professional commitment and Providence, from the 22 staff of ten years ago, now we have 48 professional workers, at the service of 270 customers".

for universal fraternity (Gold 2010) was reached. From 2008, new guidelines have been prearranged to lead EoC companies in such a way as to make their management and organization characteristics more evident. They are based on the following main points:

1. Entrepreneurs, employees and business;
2. Relationships with customers, suppliers, financial backers, civil society and external subjects;
3. Ethics;
4. Life and production quality;
5. Harmony in working environment;
6. Training and education;
7. Communication.

We have a lot of example of best practices relative to these main points. With specific reference to the first one (Entrepreneurs, employees and business) we can cite an Italian company operating in the tourist sector where the workers are informed of the accession to the project, initiatives and ideas to support the aims of the EoC. They can donate part of their earnings or their gratuities for the purpose of the EOC project. Furthermore, in Argentina a company that operates in the mechanical sector assumes a possible reduction in salary for all in order to allow any new recruitment.

With regard to "Relationships with customers, suppliers, financial backers, civil society and external subjects" we can invoke an Italian tourist enterprise that deals with the selection of hotels, media, drivers, able to meet the standards set by the agency first through viewing the structures that will be proposed to the customer. The aim is to maintain quality standards also checking courtesy of staff, quality of meals served. Moreover, in Paraguay, a company in the electric industry has proposed a collaboration with competitor to acquire new job.

Concerning the pillar of "Ethics" we can mention in Hungary, a construction company which refused to pay bribes to acquire a new building plot or, in the Philippines, a bank participating in the project EoC that decided to provide low interest loans to workers in difficulty.

As regards the point "Life and production quality" a company in the food sector uses only foods or natural products without the use of chemical additives; crops are made using environmental products, energy saving light bulbs, trying to minimize the plastic containers and making themselves available for a real collection. Indeed, it has been recognized eco-camp.

The principle "Harmony in working environment" is translated into practice, for example, in an Italian company of taps that involved workers to define and organize the new working environment of the new factory, or in a foundry, in Brazil, where medical workers and families assistance were proposed and implemented.

Finally, "Training and education" were carried out in a cooperative service through a training plan for all employees and the principle of "Communication" was implemented in a company of American Environmental Consulting where a point of discussion and collection of opinions on the internet was created.

From these points, we may infer some managerial models, amongst which that one which considers the pillars of dialogue, trust and reciprocity (Argiolas et al. 2010).

Moreover, the Manifesto for Economy of Communion action was established in 1999 (www.edc-online.org), where who were dealing with EoC (scholars, students and entrepreneurs) recognised themselves as bearers of a new culture, which affects all scientific disciplines. Principles which orientate management has been promoted, at the same time, by way of the creation of "Schools for Entrepreneurs" and other training initiatives which, since 2001, have prepared managers orienting them, firstly, to the most important values of the project and secondly, teaching the entrepreneurs and managers the optimum use of company governance tools. The Schools for entrepreneurs became, at the same time, an occasion for the exchange of experiences and of sharing the life of the company, within the logic of reciprocal growth. Later, how to translate these guidelines into orienting directions for consultancy and for providing adequate tools (the "RainbowScore" method) has been pondered (Golin and Parolin 2003). From 2000 onwards, in particular, the orientation towards creating a new culture was also developed with regards to company relations, globalization and sustainability, vigorously affirming that the company culture may modify that anthropological one and so provide governments with the bases for an alternative route towards development (Catturi 2003a, 2004). Industrial Poles have been built in order to make the entrepreneurial experience of EoC companies more visible. They first came into being in Brazil and later they spread to various parts of the world: Italy (the town of Loppiano), in Argentina, in Belgium, in Portugal and in the USA.

From the evolution which came about in recent years, we may extract some interesting considerations, among which the very first businesses, which adhered to the project at the start of the 90s, were mainly existing companies which modified their management procedures answering to the project. Indeed, from 1992 to 1996, there was a time of significant enlargement in terms of numbers of companies adhering and we underline that in the last five-year period numerous new companies have been set up, and others, of previous constitution, have decided to adhere. Furthermore, EoC entrepreneurs prefer the small and medium dimension, because it is leaner and flexible and makes the creation and development of relational assets smoother (Gui and Sugden 2005). In this way it also allows governance development horizontally, thus better responding to the orientations of the project.

The data obtained from the Center for Italian EOCs shows that there are approximately 230 businesses throughout all various parts of the Country (Italy), which accounts for approximately a quarter of those spread all over the world (Figs. 1.1 and 1.2).

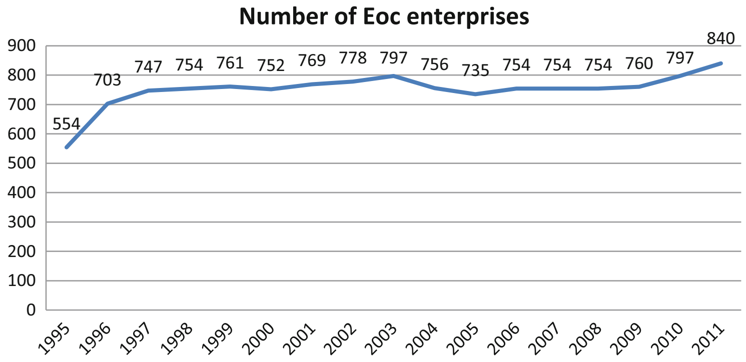

Fig. 1.1 Numbers of EoC companies

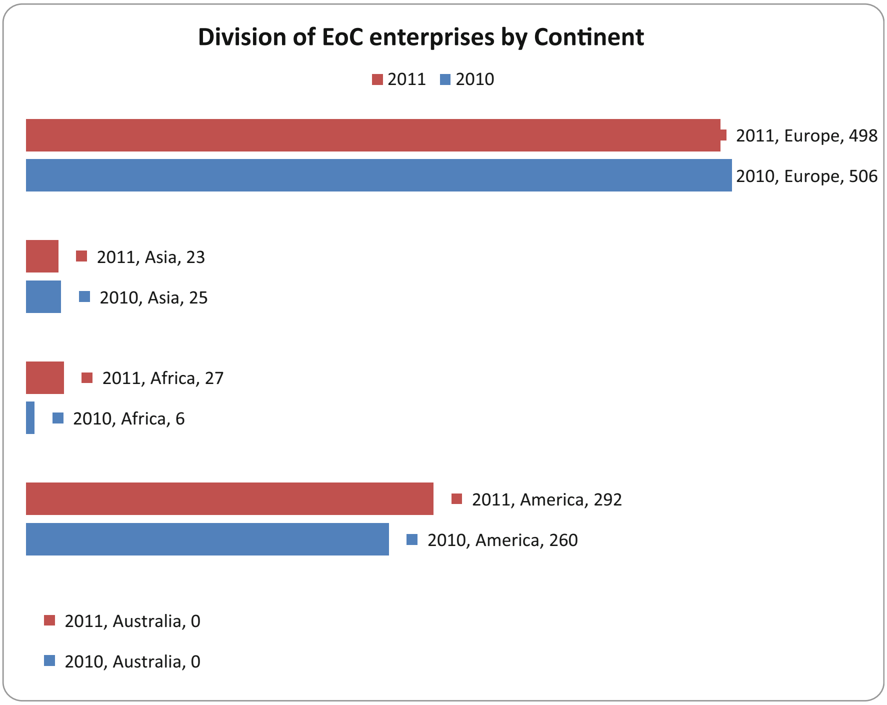

Fig. 1.2 Distribution of EoC companies by Continent

1.5 Empirical Analysis: Two Cases Among Governance, Reciprocity, Value Production and Value Recognition[12]

1.5.1 Methodology

The research methodology for analyzing the two cases is different following the theory according to which companies have to produce value, yet not always is this value proposed, recognized by the market (Catturi 2004, 2007).

The two cases have been chosen precisely because, in the first the value proposed by the company is recognized by the market, so we may use the traditional tools here, amongst which is the financial statement that confirms the procedure of governance, even though it considers various characteristics, nevertheless it has its value and may be recognized by the market. In the second case, however, even if governance is based upon the same values and on the same practices as the first company, the value proposed is not recognized by the market and the company is experiencing a time of deep crisis. In this case, therefore, we adopt an evaluation model, different from the preceding one, so we may better understand how wide the gap is between these two values.

The methodology adopted is that of the research cases (Naumes and Naumes 2006). The analyses have been carried out by semi-structured interview and by re-elaborating the financial statements as well as other materials coming from the sites of the two companies and via correspondence exchange retrieval, interviews to the owners, administrators and others in charge at the two companies.

1.5.2 The Case of RIDIX Spa: Governance and Reciprocity

Ridix S.p.A. was founded in 1969 in the municipality of Grugliasco, in the Province of Turin, when the owner of a company decides to cede his activity, due to his advanced age and some of his employees thus think of putting their liquidation money together to establish a small share capital thanks also to the initiative of an entrepreneur of Swiss origin who moved to Italy: Klem Fritshi.

The company rises within the commercial sector, having a total of seven people between partners and employees. It works in the promotion, sale and technical assistance on the Italian market of products made by foreign companies (machine tools, machinery, cooling lubricants, normalized materials for molds as well as other articles for consumption for the metal-work industry). Therefore, on the Italian market it imports and represents technology and cutting edge products within the sector of precision mechanics, with a sales team spread all over the

[12] For the editing of this section, we thank Dr Kelly Amato for collaboration in the operative phase of this analysis.

whole country and with an internal structure organized to readily respond to the needs of customers.

Its mission is: *"selling, in Italy as a for-profit company, quality products and services (pre- and post-sales) of foreign suppliers qualified in the sector; developing the best commercial service carefully listening to the needs of the customers; representing the interests of the producers who entrust their sales agency to it, maintaining a very close and continual co-operation relationship with them; being updated at all times and being at the forefront of the business of trade and agency on the Italian market"*.[13]

It holds certain values to be defended: *"appropriateness, sincerity, transparency in behaviors; establishing relationships of respect with Customers, Suppliers and Competitors, keeping itself within the law; corruption is not acceptable,* i.e. *the sale must be based on the technical characteristics of the products; giving value to both internal and external collaborators, marrying market and civil life, managing working time while caring for family values; openness towards solidarity, also through destining part of profit towards the needy and adhering to project of social promotion, like the Economy of Communion; attention to nature and the working environment"*.[14] The Ridix mission includes the elements of tradition and innovation, especially following 45 years of activity and with the son of the founder as new President. Indeed, we can make out, in the words of the founder, certain key elements that we find in the company mission.

From one of the interviews, the founder indicates some fundamental elements of his company:

> Opening oneself up with spontaneous trust to others, their diversity, has been that which has provided a direction to my daily activities, both in the personal and private spheres as well as in the public and professional ones. We became part of the project designed by Lubich and called Economy of Communion. This requires a complete rethink of company objectives, whose profits are in part committed to reinvestment and production improvement, a second part of these profits is for the training of persons that make up the real wealth and the genuine "capital" of a business, a third part, finally, is to be utilized for bringing to life those projects for helping and solidarity aiming at bettering living conditions of entire populations crushed under the burden of material misery.[15] (Ruffini and Zibetti 2012)

The element, which characterizes the company, is the attention to the person, whether he is to be considered a collaborator, supplier, customer or competitor. This element translates into company operating practices. Ridix puts policies of work and family conciliation into play, as far as flexibility of timetables is concerned.

Due to the economic recession and to the uncertainties upon the labor market, in 2009, Ridix deemed it necessary to reduce personnel costs, particularly removing three labor units. In order to solve and share this difficult management choice, the

[13] www.ridix.it, the "who are we?" button, mission.

[14] From www.ridix.it, the "who are we?" button, values.

[15] www.ridix.it, Profile of the founder.

executives proposed, at a meeting, not to sack anybody but to reduce the work timetable of each labor unit (whether employees, partners and manager) by two hours per day, as well as, consequently, reducing wages, proportionately. The whole company unanimously accepted this proposal and, subsequently, once the times of economic difficulty subsided, the "normal" rhythms of work resumed and the wages were "reset". A worker's prize was even awarded.

The company places its focus on the person and on the quality of the product offered, on the basis of the relations built with customers, which on various occasions, designed the product together with Ridix.

In 2010, with collaboration with GKN, MKR and Blaser, they were able to transform 100 % of work waste made up of cooling mud and recyclable briquettes whereas previously, everything was disposed of at high cost, with significant environmental impact. Some companies that benefit from this innovative system are: Fiat, Iveco, Nissan, Land Rover, JBC, Carraro, Volvo Penta, Mercury, Lamborghini, Porsch, Bombardier (Beraci 2010).

In the area of respect for the environment, as stated in the mission, Ridix has always invested very carefully, in particular, in the choice of suppliers and partners, and in the choice of acting as representative for high-precision machine consumption material. Indeed, Ridix has been the sole representative in Italy for 40 years of a brand which pays particular attention to reduction of pollution (Zussino 2013).

Innovation is one of those essential aspects, owing to the rapidity of the marketplace and it responds to the needs of the customers who continually change.

To favor this aspect and the functional quality of the company, Ridix is equipped with an organizational structure of the functional kind.

In its functional structure, the company is homogeneously divided into areas, which carry on various activities. This kind of structure is frequent in companies that produce products or services which are substantially homogeneous in nature and which serve markets with similar characteristics where efficiency is an important factor in competition.

It is a company that, as has been said before, places the human figure at its core, through: propriety, sincerity, transparency and attention to nature and work environment; today, 52 people[16] find work in the company, whose organigram is outlined below in the chart (Fig. 1.3).

Thanks to the functional structure, indeed, high levels of local efficiency through high specialization in roles may be achieved, which certainly means a greater operating efficiency within each function. Persons dedicated exclusively to carrying out certain operations systematically find themselves solving similar issues developing a specialized competence. Indeed, the strong technical specialization allows

[16] Personnel training policies are ordinarily adopted for the placement of new employees and for the updating of the existing workforce. Safety and health at work are catered for by D. Lgs (Legislative Decree) N°: 81/2008. The various measures adopted in evaluating risk is divided according to risks by workplace or by the various duties and have seen to it that accidents, till now, have been light in entity and have been irrelevant as regards the health of employees. Taken from the Financial Report, 2012, Ridix S.p.A.

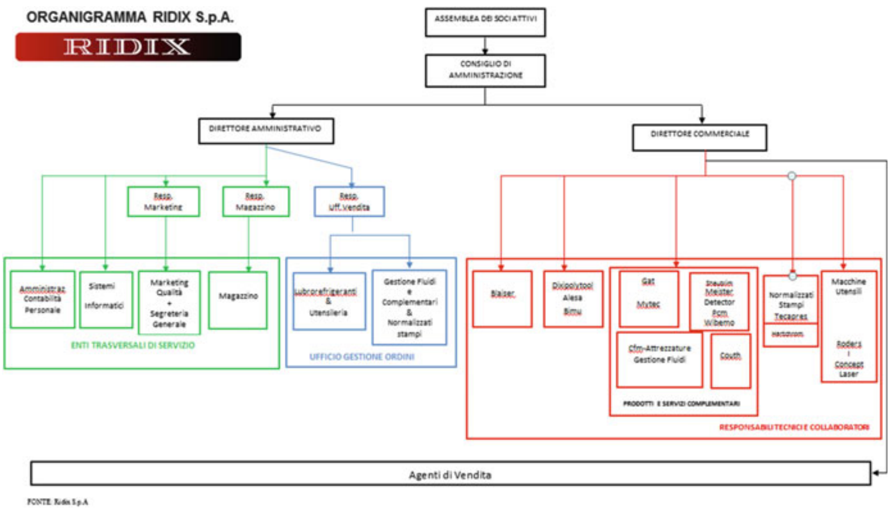

Fig. 1.3 Ridix organizational chart

for the pursuit of economies of scale. Particularly focusing attention on management, we can identify two main areas:

– *Administration management* whose control is directed towards administration, accounting, workforce, storehouse, sales office
– *Commercial management* which directly controls the areas of the (Blaser, Hartchrom, etc.) products as well as all complimentary services.

We saw the changing hands from the founder Clem Fritschi to his son, coming to guide the company as President, with M. M. by his side, as Chief Executive as well as G. G., Director of Sales.

Governance of the company is based on a choral dimension, where the company promotes participation of its employees, since they are meant as an element of strength in its organization, by way of:

– Sharing of decision-making process;
– Participating in economic and financial results of the company in both positive and negative cases;
– Listening to and paying attention to work-family conciliation.

To favor the creation of a climate of sharing and one of relationships within the company, as well as support for company decisions, reports are compiled, meetings are held, and publications are spread throughout the company.

Becoming part in Economy of Communion, which came about in 1991 (when the project was launched) generated yet more of an impulse to the company which better stated its objectives. In particular, for the ends of sharing the profits derived from management results, Ridix operates in the following way:

– A quota goes to the Azione Mondo Unito Association ONLUS, which operates in the field of international cooperation in favor of situations of unease and poverty having an intention of not making people depend on assistance, rather of promoting economic and social actors operating in the area;
– Istituto Universitario Sophia, at Loppiano, in the Province of Florence, a university organization having the aim of spreading a culture of communion through the exchange and relationships between teachers and pupils in the field of science and experience;
– Reinvestment within the same company.

Since 1997, Ridix carries out its activities in accordance with the ISO 9001:2008 quality control system[17] directing to continual betterment of its procedures to efficiently and effectively satisfy needs of every customer. Every phase of the sales process is structured following quality standards for one, great objective: full satisfaction for every customer. Within the ISO 9001: 2008 system, the Audit Report, which is carried out for Ridix by the Swiss association for Quality and Management Systems,[18] finds its place. From here, we deduce that the company, following the 2009 accounting period, loss-making, in 2010 registered an upturn with the increase of orders and the turnover reached numerical values in line with previous years. The economic result has, though, been penalized by the contraction of profit margins. As regards resources, the report at hand highlights that training of the workforce depends on the needs outlined by the management through a planning of accompanying visits by those in charge of the products, with an educational slant, and great attention is reserved for training in the field of safety. Evaluation of stress-related work issues is in the developmental stages.[19]

Accounting surveys are made within the company by general management. These surveys regard general accounting, analytical surveys and statistical ones. The latter carried out on each product, in real time, and which can also be consulted online. Management considers the financial statement not just as a bookkeeping tool towards the external world, but also as an internal management tool, as well as a real support to company decisions. Besides, a budget is drawn up every year, whose objectives leap from the open consultation between the management group and lower organizational levels. Consequently, the company results are spread by way of: meetings, assemblies, reports or other types of publications. All of which

[17] ISO 9001:2008 is a voluntary legal norm which has become current reference, identified at a global level, for the certification of the management system for quality of organizations of all sectors. This international norm allows organizations, in whatever sector, to have the satisfaction of their customers increase through effective application of a system of management for quality (customer instructions, approach by processes, continual controlling of suppliers, document and data availability, continual improvement and yet more).

[18] All documentation supplied by Ridix S.p.A., Audit/ Assessment Report edited by S.Q.S.

[19] Reference to the Legislative decree of 9th April 2008, N°. 81 "Application of article 1 of law of 3rd August 2007, N°. 123, in the subject area of health protection and safety in the workplace".

clearly demonstrates the character of ethical orientation (Baldarelli 2005), which is indissolubly linked to the Economy of Communion project of this company.

1.5.2.1 Valuation of Management and Reciprocity Trend

By analyzing the financial statement it is possible to check the balance of the company. Analysis is carried out through checking the balance of incomings, which highlights the ability of the company to producing incomings in order to remunerate production factors. Moreover, we need to evaluate the financial balance, or rather, the capability of the company to readily and economically respond to financial commitments.

During 2012, the company tried to focus all its efforts, besides on making the quota of the market grow, to make up for, as much as possible, the sales profit margins on the various products. The general average of sales was + 1.50 % compared to 2011.

It is interesting to mark out how the company in question was able to contain insolvencies, which fell from 0.50 % to 0.33 % of turnover. In light of a general sector economic trend which continues to be critical, 2012 saw a contraction of production. Notice the difficulties of customer companies that are suffering high labor costs, competition from new emerging nations, the great pressure of taxation, excessive bureaucracy and insecurity regarding the future. All this, not only slows down investments for the renewal of needed machinery to ever be at the forefront of technological progress, but also imposes certain cost containment policies on customer companies. Ridix policy carries on in search for new collaboration complementary to the activity carried on; believing that finding more and more opportunities of synergic collaboration to its activity is useful in developing the business.

The 2012 accounting period was positive. Increase in turnover, improvement of operating margins, reduction of losses on credits conceded and stable exchange rates, all allowed confirming a pre-tax profit higher than that of the previous year. In the following table, the results of the last three accounting periods, in terms of production value, operating gross margin and the pre-tax result, are shown (Table 1.1).

To better describe the incomes of the company situation, some indices on income-making compared to the same indicators relating to previous financial statements are shown in the following table (Table 1.2).

By profitability indicators, we can see the ability of a company to produce income and generate resources. In particular, the ROE, which is determined by the relation between net income and average net capital, is determined by the choices within the characteristic management, together with decisions of financial and wealth management. It indicates the level to which the remunerative base of the capital acquired by the company with the constraint of "full risk" is commensurate. While ROI outlines the yield of characteristic activity which is compared with all investments undertaken in the characteristic activity; or rather, it summarizes the

Table 1.1 Ridix results of the last years

	31/12/2012	31/12/2011	31/12/2010
Production value	21,711,331	22,535,136	18,635,853
Operating gross margin	429,217	366,021	250,861
Pre-tax result (EBIT)	532,401	507,804	(31,947)

Table 1.2 Ridix economic and financial ratios

	31/12/2012	31/12/2011	31/12/2010
ROE net	0.07	0.09	
ROE gross	0.16	0.14	
ROI	0.05	0.05	0.03
ROS	0.03	0.02	0.02

yield of the characteristic management. Finally, as for the ROS, it expresses sales profitability, with values that range between 0.02 and 0.03. This means that the company is able to use a portion of profits (after covering the characteristic management costs). We, moreover, show the indices of wealth soundness of the company, or rather, its ability to maintain financial balance in the medium- to long-term period (Table 1.3).

Net financial position of the company feels the investment made to buy 160,000 of its own shares, as a consequence of a number of partners, who held 32 % of the share capital, leaving the shareholder group; such investment represented a financial commitment of € 670,000. Besides, in the 2012 accounting period, the debenture debt also came to expire, and was integrally reimbursed.

To better describe the financial situation, we report some statement of accounts ratios, compared with the same ratios relating to the statements of accounts of the previous accounting periods (Table 1.4).

The ratio of primary liquidity equals 1.38; therefore the financial situation of the company is to be believed good. The ratio of secondary liquidity is 1.63. The value taken up by the net circulating capital is surely satisfying in relation to the amount of current debts. The indebtedness ratio equals 1.96. The amount of debts is to consider important depending on their own existing means. The cover rate of look-ups, equal to 7.75 which reveals that the amount of their own means and consolidated debts is to be considered appropriate in relation to the amount of look-ups. Their own means, along with the consolidated debts are to be considered an appropriate amount, in relation to the amount of look-ups.

A further examination has been carried out by way of *analysis indices,* which have permitted a greater knowledge of company dynamics. They can be divided into three types:

The remuneration composition ratios

Remuneration composition ratio may also refer to personal remuneration. The ratio is to be considered as a percentage (Table 1.5).

Let's see how the remuneration composition ratio has fallen since 2010 with 10 % of wealth dedicated to the fixed capital amount of 2012 where we find just 5 %.

Table 1.3 Ridix structure margins

	31/12/2012	31/12/2011	31/12/2010
Structure primary margin	3,063,715	3,346,426	2,782,607
Structure primary quotient	6.83	5.78	3.96
Structure secondary margin	4,253,173	4,297,803	3,899,622
Structure secondary quotient	9.10	7.14	5.15

Table 1.4 Ridix last financial ratios

	31/12/2012	31/12/2011	31/12/2010
Primary liquidity	1.38	1.41	1.39
Secondary liquidity	1.63	1.64	1.63
Indebtedness	1.96	1.73	1.82
Cover rate of lock-ups	7.75	6.43	4.67

Table 1.5 Ridix remuneration composition ratio

Remuneration composition ratio	2012	2011	2010
	0.05	0.05	0.10

Table 1.6 Ridix workforce remuneration composition ratio

Workforce remuneration composition ratio	2012	2011	2010
	0.69	0.71	0.91

However, in the case of the composition ratio of remuneration for the workforce, which defines how much the company distributes as wealth to them. Here too, we see a noteworthy decrease from 2010 to 2012 (Table 1.6).

Structure indicators

Structure indices tell us how much the company acquires factors externally, rather, in what measure internal resources are utilized. It is evident that Ridix S.p.A. utilizes almost exclusively internal resources. We should remember, indeed, that the nearer the indicator to the unit, the less the company uses external resources (Table 1.7).

Technical efficiency indices

Clearly seen is that the company in question has been recognised by the environment, let's analyze indeed, the following table (Table 1.8).

From the analysis indices, we find that Ridix S.p.A. is well established throughout the surrounding area, indeed, the environment which the company addresses to looks upon it very favorably. We are dealing with a solid company which is able to distribute wealth to the workforce in a good percentage.

Table 1.7 Ridix structure index

Structure index	2012	2011	2010
	0.97	0.97	0.98

Table 1.8 Ridix technical efficiency index

Technical efficiency index	2012	2011	2010
	0.99	0.98	0.99

1.5.3 The "Arcobaleno in Valdarno" Case: Reciprocity, Value Produced and Value Acknowledged

Arcobaleno in Valdarno srl (Limited) was set up in 2006 and started its activity in 2007 with a share capital of € 50,000 and four partners.

The founder (G.), in the past, managed a business as sole administrator but felt the need to share his entrepreneurial and work experience with others. From this came his immediate taking up of the project when Lubich launched him (www.arcobaleno.net). Thus was established the first company to work fraternally for the common good. The objectives of the partners still go hand-in-hand with those of the EoC: universal fraternity and a world without "the poor". Following the positive first experience, the partners thought of contributing to the newly constituted Industrial Centre thinking of a new company: "Arcobaleno in Valdarno", which has set up shop since 2007.

The company in question has developed its activities into: publishing, bookshop, office equipment, informatics, and other accessories.

Over the course of the initial years of trading it is faced with a "physiological" statement of losses. This carries on in the instituting phase of the company and also in the phase of ordinary business activity. What's more, from the financial report it emerges that shows a worrying and increasing short-term debt exposure. From here we could infer that the company's position, if evaluated by traditional methods and tools, would lead to an altogether negative evaluation of the methods of its management. Subsequently, we will better analyze the aspects of governance.

Indeed, in the trading offices of "Arcobaleno in Valdarno", reciprocity is utilized in its governance. Partners are treated in the same way, independently of the sum of quota paid in. Everyone is present with his own character, his emotions and his culture, and nobody has to give up his identity, rather, he has to express it. Reciprocity is the consequence of the social nature of the culture of giving and giving oneself, characteristic of EoC. From this base logic springs trust, which is fundamental for arriving at building real relationships, both internal and external to the company. In keeping with this logic, the entrepreneur, besides studying economic processes, company procedures, has to understand the person in all his dimensions, he has to pay attention to his needs. This, also means, that dialogue is an important tool for company governance. Trust and dialogue are at the basis of the reciprocity in the theoretical, but also in company practice, of the company of the case in question.

For this reason, we will expand upon the lines taken on governance, which are used in the company, by way of the interview of one of its partners and company administrator,[20] concentrating on the important aspects thereof. Thus he expresses his idea of the company:

> Being an EoC company does not inhibit producing a profit. . . The aspect that distinguishes us is the brave reciprocity. Reciprocity means sharing an idea, sharing the operativeness. It means trusting yourself, exchanging emotions, exchanging knowledge, lifetime moments. Creating moments of personal relations, with that collaborator with a sick child, for example. As regards working and management operativeness we are all the same. The project is a social one, universal. Together with others, there isn't just the economic relationship, but rather there's all our persons.

Specifically relating to governance, following is the answer to how conflict of interests is handled in an EoC company.

> There is no recipe for how to manage conflict, rather that propensity which directs you to act responsibly as entrepreneur. I might have two employees who steal but I won't deal with them in the same way, I'll try to understand why each has stolen, why he has lived this attitude hiding from view, how t face him person-to-person, yet not in the same way. Maybe that person will repent and will say he's sorry, maybe as well as condone his actions it's necessary to intervene in his circumstances.
>
> Within reciprocity there is the risk that what is "incalculable", since there may be dramatic circumstances to consider which might fall heavily onto the company, and mark the company's social nature. We need to be ready. We suspended some wages for 6 months and then we lowered them to protect the wages of the employees. This is trying to make the company transparent in coherence with company reciprocity.

With regard to the relationship with employees, the entrepreneur states: *"It is one of sharing. Respecting yourself and having others respect you becomes collaboration, teaching a job, leading the other person out to be, one day, a managing director of a business"*.

The entrepreneur thus expresses the difference between his doing business before and after having known the EoC project: "*You begin to do the same things as before, you produce or you sell the same product, but in different ways. Probably even the product changes since it was obtained differently: respecting the environment, work, health of the persons"*.

Some moments of company life, with choices adopted, are outlined below:

[20] For the administrator of "Arcobaleno", EoC has far-off origins, even before the beginning of the project in Brazil: "*L. and I (G.) we had already soundly understood that we would be working for others before launching the EoC, and we came together to work in fraternity for the common good. We had understood that if we do everything for love, that has the values of a common company with the surplus value which is that of fraternity and sharing. I came from the experience of being a sole trader, I felt the need to share the work expression too. With this need, when Chiara spoke about the "culture of living", we immediately agreed and joined. The essence of EoC can be found in the "how" we arrive at the result,* i.e.,*from the idea of the product to delivery of the same, being held to account for after-sales service. It is a "vocation" which has to be renewed each morning and embodied into the social community"*.

A girl resigned, but she got her wage just as if she had given notice. She phoned to thank the company knowing that she didn't deserve it stating: "once again you have shown your ethics in following things, you have chosen the more costly way, but we thank you for this testimony.

Regarding accountability, Arcobaleno in Valdarno, reiterates that the tool on which to base decisions is not just the financial report but it is living one's all for that project, being able to sustain the sacrifices, day after day, for that project and at the same time being ready to "lose it" if you are not able to produce value for the common good.

For this reason, we have decided to apply the model which enables us to calculate the value proposed and the value recognized. For Catturi (2007), the documents, even if they are drawn up into quantitative and monetary terms, display the characteristic of communicating the "way of being" of the company. Therefore, they tend to exalt one particular aspect of the "internal life" and the manifestations of "social life" (Catturi 2003b, p. 505). In the profit and loss statement, the assembled value corresponds to the whole of consumption, whereas the value produced corresponds to the earnings, i.e. to the value effectively spread. In the company perspective we will have (year 2010):

Value assembled: € 194,966	value created: € 188,548

For environmental outlook (market in broadest sense) we will have:

Value proposed: € 194,966	Value recognized: € 188,548

Catturi explains that the wealth situation is the anticipation of the future while the economic report represents the recent past. Therefore, the company financial statement represents the present projected into the future but still anchored in the past. If the value recognized, continues Catturi, is greater than the value proposed, it means that the market likes the value the company declares having amassed. "If the opposite should be the case, it demonstrates the non-full accepting of the value, and indicates the ethics and business culture in that "environment" are not accepted" (See Catturi 2003a, b, pp. 513–519).

In this case, it is as if the company proposed a higher value than that which is the real value of the goods/service in keeping with that environment and, consequently, the company overvalues the goods. We would say that its ethical stance is not compatible with that value or it is lower to that proposed value. In our case, as for Arcobaleno in Valdarno, looking at the objectives and its mission, we can state that its company culture greatly anticipates its anthropological one. Therefore, we have to wait for that culture is accepted by the context wherein it is operating (Baldarelli et al. 2009).

Supporting these results, we may highlight how certain tools are applied that have been described previously (Argiolas 2013; Golin and Parolin 2003). Concerning "communion of soul", for Arcobaleno in Valdarno, reciprocity means sharing the idea, and operativeness. Savoir faire a proposal, yet listening to the proposals of others. Trusting everybody, in a kind of infusion of living reciprocity, that is, in the exchanging of emotions, exchanging knowledge, exchanging skills. Making the idea of the other person, not working for you but for humanity as a whole. Paying attention that everybody is called "us" and not sticking solely to your idea, even when it's tiresome to do so. The living your-self to the other person is not just living part of the company assets, but these are the consequence of reciprocity, which is created in giving yourself and receiving the other person. It is, at the same time, understanding that as entrepreneur, cutting yourself off from something is not losing, but, growing together with the other.

Another important instrument of communion is "the communion of experiences". With the partners and collaborators a relationship of sharing is formed. Respecting yourself and having others respect you becomes a collaborating, teaching becomes a job, leading the other to one day become a company executive. For example, the other partner has always vainly tried to establish a relationship with the doorman, after many attempts, one day, he asks him where he comes from how long he's been doing this job, and finally he has started speaking to him and say hello to him, and a relationship has been set up. Another example concerns the social environment wherein the company works. A company of a neighbor has gone on fire and he has lost everything. We have taken the stance of giving a sum as well as involving other entrepreneurs in the area see to it that he might start up his activity again.

Another important tool regards conversation that translates itself into trying to find moments of personal relationship with that partner who has, for instance, a sick child. It is that reciprocity which is much more important; I do business more listening to him than doing other things. Sometimes, you feel the weight, but it's essential that you do it.

Not less important, regarding "the moment of truth", or better the moment of testing. To this, Arcobaleno in Valdarno acts responsibly as entrepreneur, as man in this society with existing laws. For example, for two employees who steal, they will not be treated in the same way, we will try to find out why he stole, why he did so hiding from the others, how to face this person on a one-to-one basis, but it will not be the same as with the other person. We will look at the "person" before applying the law. Maybe that person will repent and he will ask to be forgiven, maybe that, besides condoning his actions, it is necessary to intervene in his circumstances. He might even not say he's sorry or deny his mistake completely, and he prefers to leave the company, the important thing is to have used humanity. In certain cases, a paternal behavior is required, while others require respect for the law.

From this experience, we note that the greater proportion of operating time is taken up in a constant building up of relations. So, measure and accountability have to foresee new ways of dealing with things (See Bruni and Smerilli 2008, pp. 90–91). The tools presented represent an investment in training and, at the same time, in relational assets (Gui and Sugden 2005). Such tools are useful, in that it will translate into company, into a new commitment in work with the deepest sense of belonging, which may be spring of an increase in economic wealth.

Concluding Reflections

The evolution of the relationship between companies and stakeholders, which is being traced out, and has been over recent years, throws a positive light on participation to corporate governance and a management which can embrace the many dimensions of human living, thus responding to the pressing challenges that have been thrown down by present times. We need, indeed, to find sound ways to reach multidimensional success, where the person and his relationships are placed at the center of business actions, through a management style of relations. It is necessary to build up a participation in corporate governance, in the human capital and posing, as prerequisite, a true relationship character, which must not only be promised on paper, but must be fruit of patient and constant work among the various hierarchical levels of the company, focused around trust. A solid example of these types of good governance is to be had in the EoC companies, whose distinctive features of the mission, governance and accountability have been underlined.

EoC companies originate from the desire to serve the needs of the community, i.e., from putting the human being as well as his dignity right at the center of their operations. More precisely, they originate from a charisma (the charisma of unity and of communion), spread by the founder, Chiara Lubich. Charismas are the home to great human "innovations", which are then made universal by the institutions and bring into the social and economic world, so say that the economy is fruit of charismas too (von Balthasar 1974). The enterprises which take part in this charismatic economy are, sometimes, called civil enterprises (Bruni and Smerilli 2008), sometimes ethically oriented enterprises (Baldarelli 2005), or enterprises with an ideal motive (Molteni 2009). In these enterprises, the nature of the motivation plays a really special role. The motivation that inspires them is not profit, rather a mission or "vocation" which, in various ways, is born out of the intrinsic motivation of their promoters. EoC businesses are also "travel companions and activators" of all initiatives regarding the social and civil spheres. They attempt to go beyond the borders that exist between profit-making companies and non profit-making ones through networks based on dialogue, trust and reciprocity (Bruni 2006; Argiolas et al. 2010).

As the two cases highlight, in the EoC companies, it is the quality itself of the strategic process that changes, promoting extended participation to all

(continued)

operative units. Such a process requires great preparation and relational work (Golin and Parolin 2009).

Another aspect that emerges from the analysis is that the EoC companies develop the "globalization of solidarity" (Gold 2004), since, especially considering the actual conditions of the countries wherein they operate, they are developing a model of growth and relationships which adapts itself to the specific competitive and environmental circumstances and situations of the local contexts. At the same time, every company fits in better with the place where it finds itself in, with deep roots in the competitive, social, cultural and political context, which, from what has emerged from research carried out favors the sustainable development of the area in which these companies are situated.

The development of the "ethical" potentials of these companies, from a mold of base values, opens to acquire a whole series of "orientations" that mirror, rather they draw a stimulus, which is different from time to time, from the place of origin, in order to calibrate the whole of objectives and the methods of governing the economic character and environmental and social sustainability, to become true engines for economic development of the area where they operate.

Here then, the study aims to underline the need to broaden the sphere of knowledge to better spread managerial culture through an education oriented towards understanding the EoC company management and their purpose for universal Fraternity of which they represent a puzzle piece, as may be read: "*The realisation of a more united world cannot do without the economic dimension, but at the same time, does not finish in it. As an economy closed up in itself has no sense, so an EoC closed up in itself . . . has none. The world united needs that the culture of Communion even more penetrates all aspects of social life . . . It places itself at the disposal of the humanisation of the economy, beside and, at the same time, in a harmonious relationship with the other spheres of social life and the other scientific disciplines*" (Argiolas 2009, p. 344).

This aim is not easy and the work itself has a number of limitations. Firstly, an "economic" project with charismatic nature (Weber 1947) cannot be understood in its complex implications, but only looking at single cases. They represent a piece of a much bigger mosaic, even if they may provide "a taste" of this mosaic, whenever some shapes and some "colors" may be seen. Secondly, we therefore need to consider this boundary which touches both cases outlined and which, necessarily, brings "individualness", i.e., the finiteness in time and space of a project that goes over and beyond them. In time, because the project has an "a-geographical" extension, in as much as it's "transcendent", and in space in as much as it's, by its very nature, fruit of a "spirituality" (Bruni and Sena 2013) of communion which reveals its

(continued)

"essence" and its "becoming", only in the condition of a relation with the other person who, in this case is the relation between subjects internal to the company and the relation between the enterprises.

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Chapter 2
Legitimizing Corporate Social Responsibility Governance

Sarah Jastram and Julia Prescher

Abstract Corporate Social Responsibility (CSR) governance initiatives and instruments like ISO 26000, the European Multi-stakeholder Forum on CSR, or the National CSR Strategy of the German government have been created to address negative socio-economic and ecological effects associated with the globalized economy.

CSR governance instruments are soft law and depend on a voluntary adoption and implementation by organizations. A crucial success factor of soft law is legitimacy, which enhances governance effectiveness by increasing the chances for norm adoption by the norm addressees. Yet, legitimacy has long been overseen by CSR governance research leaving its positive effects on public acceptability and governance compliance widely out of sight.

We argue that the lack of legitimacy analysis in CSR governance research leads to an underestimation of the democratic, participatory potentials within global governance and of the potential empirical impacts of CSR governance instruments and initiatives.

With this paper, we are contributing a normative concept as well as an empirical analysis of legitimacy designs of selected CSR governance initiatives. Empirical methods include document analyses, expert interviews, and participant observations. Our outcomes and recommendations provide scholars as well as practitioners with a better understanding of how to design and how to manage legitimized CSR governance approaches and thereby support the effectiveness of governance in the field of CSR.

S. Jastram (✉) • J. Prescher
Institute of Management, Humboldt-Universität zu Berlin, Spandauer Straße 1, Berlin 10178, Germany
e-mail: sarah.jastram@hu-berlin.de; julia.prescher@web.de

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2.1 Introduction

Due to economic globalization, nation-states have partly lost control and influence over international business activities (Rasche and Gilbert 2012). Cross-boarder ecological and socio-economic problems such as the global financial crisis, environmental disasters, or unethical working conditions in international supply chains cannot be addressed on a nation state basis. At the same time, public criticism against unethical business conduct and the call for more Corporate Social Responsibility are increasing every year. Yet, there is still no international organization, which has the executive power or the legitimacy to effectively regulate for more CSR and for more ethical conditions and effects of international trade (Scherer and Palazzo 2011). Hence in a globalized world, governance faces the challenge to ensure social and political order outside state territories (Risse 2004; Späth 2002).

Against this background, we are observing the emergence of new modes of governance (Benner et al. 2004; Fransen 2012; Mückenberger 2008a; Quack 2010), some of them addressing governance gaps in the field of Corporate Social Responsibility like the United Nations Global Compact, the Business Social Compliance Initiative, or ISO 26000 (Crane and Matten 2010; Jastram 2010; Schwartz 2004).

New modes of governance are distinguished by the fact that they include private actors and by non-hierarchical modes of steering (Risse 2004). Representatives from different sectors join together in multi-stakeholder dialogues and networks to work on solutions for problems that none of the involved actors is able to solve alone (Mückenberger 2008b, 2010).

These CSR governance initiatives and involved instruments constitute norms and processes that are soft law, which means that they depend on a voluntary adoption and implementation by their addressees (Risse 2004).

A crucial success factor of governance in general, in particular of soft law, is legitimacy (Risse 2004; Scharpf 2005; Schmelzle 2011). Legitimacy is a political term, relating to the acceptability of governance from the perspective of its addressees (Zürn 2004). Legitimacy enhances governance effectiveness by increasing the chances for norm adoption and compliance even when governance instruments are in conflict with the particular economic interests of their addressees (Mückenberger and Jastram 2010).

Yet, legitimacy research remains surprisingly rare within the field of CSR governance studies (some few research groups form the exception: Esser and Rasche 2006; Gilbert and Rasche 2007; Mückenberger and Jastram 2010; Jastram 2012; Scherer and Palazzo 2007; Scherer et al. 2006), which demonstrates a dramatic underestimation of the positive effects on public acceptability and compliance that go along with a legitimised governance approach. We therefore argue that legitimacy needs to become a core analytical category within the debate of new modes of governance in the field of CSR because legitimacy and effectiveness are closely coupled and thereby both represent success factors of any type of governance. In fact, legitimacy and effectiveness are sometimes defined as two elements of one concept. Scharpf (1970, 2005) for instance established the terms input and output legitimacy. Input legitimacy refers to "the participatory quality of the decision-making process leading to laws and rules" (Risse 2004, p. 7), in particular the participation of those who are subsequently affected by the adopted rule. Output legitimacy relates to the actual problem-solving potential of political regulation and thus to its effectiveness (Risse 2004).

Against this background, our fundamental research question is: *how can the legitimacy of new modes of governance be judged?* This question includes two aspects: (1) the need for normative criteria for a legitimacy analysis, and (2) the motivation for an empirical legitimacy analysis focussing on new modes of governance.

With this paper, we are contributing a descriptive as well as a normative analysis of (input) legitimacy designs of selected CSR governance initiatives, namely the ISO 26000 norm-building process on social responsibility, the CSR governance approach of the European Commission, and the National CSR Strategy of the German government.

Our analysis is based on empirical methods including document analyses, expert interviews, and participant observations. Our outcomes and recommendations provide scholars as well as practitioners with a better understanding of how to design and how to manage legitimised CSR governance approaches and thereby support the effectiveness of governance in the field of CSR.

In the following paragraph, we will explicate our fundamental theoretical model.

2.2 Theoretical Framework[1]

Our theoretical framework consists of legitimacy categories and indicators developed by Jastram (2012) and it is embedded in the current scientific debate about the possibilities of legitimate governance beyond the nation-state. In current global governance research, non-hierarchical, procedure-based approaches are increasingly used for answering questions concerning normative legitimacy in the global setting. Such procedure-based legitimate processes are being discussed under the term deliberative democracy (Cohen 1989; Habermas 1992a, b; Risse 2004; Zürn 1998). An advantage of the concept of deliberative democracy is that it is not bound to the nation-state and therefore compatible with global governance processes (Jastram 2012).

[1] The theoretical framework and the ISO 26000 case analysis are summarized and translated versions of Chaps. 2 and 4 of Sarah Jastram's dissertation called "Legitimation privater Governance", published in German by Springer in 2012.

2.2.1 Theory of Deliberative Democracy

The theory of deliberative democracy emphasizes the active involvement of all citizens in a participative democracy and the ideal of public deliberation of political topics (Habermas 1992a). It is assumed that a reasonable consensus of those affected by a norm "should greatly enhance the legitimacy of the rule thus ensuring a high degree of voluntary compliance in the absence of sanctions" (Risse 2004, p. 16).

The fundament for the theory of deliberative democracy forms Habermas' discourse ethics (Habermas 1996). His central assumption is the autonomy of all citizens. According to Habermas, citizens can be seen as autonomous only if they are the addressees of norms as well as their creators at the same time. Political governance legitimizes itself by the means of rules, which were given to themselves by autonomous citizens through a discursively structured formation of opinion and will. On the one hand, autonomy has to be ensured through corresponding processes; on the other hand, those processes have to be legitimized themselves (Habermas 1973). The validity of a norm therefore depends on the acceptance by those stakeholders affected by it. What is crucial is that all affected by a decision can take part in the discourse in an equal way and that every stakeholder has the chance to vote for or against all relevant decisions (Habermas 1992a). Since it is almost impossible to organize the general public, Habermas (1992a) acknowledges that discourses can be conducted in a representative manner. However, in that case a high degree of internal and external transparency is necessary.

According to Habermas, the so-called ideal speech situation is an essential condition for true discourses to even come about (1984). This requires that all discourse participants have equal opportunities to use so-called communicative speech acts, initiate discourses, and to present their position through argumentation. In the course of this, any restriction to the freedom of communication of any participant must be avoided. What matters is solely the strength of the better argument (Habermas 1984). Even though the ideal speech situation represents an ideal type description of the optimal conditions of a discourse which does not exist in reality (Dryzek 1990), it nevertheless enables us to analyze empirical phenomena since it serves to answer the question of how close or how far the empirical situations are from the ideal (Müller 2007).

With regard to the formal framework of a deliberative process, Habermas refers to the conditions of perfect democratic processes described by Dahl in "Democracy and its Critics" (1989, pp. 106–118):

- "Effective participation": During the norm-building process all citizens need to have an adequate and equal opportunity to communicate their preferences concerning the result of the process, to ask questions, and to contribute arguments for or against a decision.
- "Voting equality at the decisive stage": All citizens must have the same voting rights at key decision-making levels.

- "Enlightened understanding": All citizens need to have an adequate and equal opportunity to reach a sophisticated decision in their own best interest.
- "Control of the agenda": The demos must be sovereign to decide which topics will be set on the agenda.
- "Inclusion": The demos has to include all adults affected by a binding collective decision.

Just like Habermas, Dahl (1989) emphasizes that these normative criteria are ideal conditions of perfect democratic processes, which most likely will not exist in reality. Nevertheless Habermas (1992a) believes that the ideal process can, at least approximately, be implemented.

It becomes clear, that Dahl's normative criteria complement and specify Habermas' deliberative approach. Both authors stress the importance of inclusion, transparency, and egalitarian deliberation to enable autonomous self-legislation by those affected by a norm or by a governance initiative.

In the following section we will present empirical legitimacy criteria and indicators, which will form the basis for our legitimacy analysis.

2.2.2 Empirical Indicators

The following framework serves as a normative reference for the analysis of legitimacy in the field of global governance. Based of the theory of deliberative democracy it consists of three main criteria: inclusion, transparency, and deliberation, which have been specified with a set of empirical indicators to operationalize the normative theory and to allow for empirical governance analysis (Jastram 2012).

2.2.3 Inclusion

Inclusion implies that ideally all individuals affected by a decision should have access to the democratic governance process (Dahl 1989; Habermas 1992a). Since that is rarely possible in practice, representative solutions need to be found. In this context, the stakeholder-model is increasingly being used as a reference for representation in global governance. Referring to this approach, the first empirical indicator is described as follows:

Indicator I1 *All relevant stakeholders have, in principle, equal rights to participate in the governance process.*

Normative questions that arise in this context are: Who are the relevant stakeholders, which are the relevant stakeholder groups, how many stakeholders should be included in a governance process?

Benner et al. (2004, p. 203) argue that the selection-criteria "should be openly communicated and applied consistently". This view is captured in the formulation of the second inclusion indicator:

Indicator I2 *The selection of the participating stakeholders is based on transparent criteria.*
A further inclusion indicator covers a general election opportunity to account for the aspect of representation.

Indicator I3 *All participating stakeholder representatives have been elected and can possibly be deselected by their constituency.*

2.2.4 Transparency

Transparency can be defined as the open access to all decision-relevant information as the foundation of deliberative processes. Accordingly, Beisheim and Dingwerth explain: "a high level of transparency not only ensures that accountability mechanisms can work, but also increases the likelihood that a decision, once it has been reached, represents an outcome which the addressees are likely to accept" (2007, p. 12). Against this background, the following transparency indicator is being defined:

Indicator T1 *All documents concerning the governance process are freely accessible.*
This includes documents about general rules of the process, as well as agendas, protocols, and attendance lists. Documents shall not only be accessible to participants of the process, but also be publically available.

2.2.5 Deliberation

Deliberation is often considered as being the decisive qualitative criterion of democratic processes (e.g. Nanz and Steffek 2005). Deliberation can be defined as horizontal discourses, based on the concept of argumentation and persuasion with the aim of consensus-building, taking into account equal participation opportunities for all attendants of the process. The following indicators express these requirements:

Indicator D1 *All participating stakeholders have an equal opportunity to make proposals for the agenda.*

Indicator D2 *All participating stakeholders have equal opportunities to contribute arguments, questions, and other statements to the discourse.*
Here, it is especially important to consider whether potential power asymmetries could discourage participants to effectively articulate their interests and arguments.

In this context, power is understood as the ability to enforce one's own interests against someone else's based on an unequal distribution of resources (see Dahl 1957; Lukes 2005). The relevant question is whether such an unequal distribution of resources influences the perceived participation opportunities within the process from the perspective of the stakeholder representatives (Jastram 2012).

Further indicators for the deliberation category are equal voting rights for all participants as well as the consensuality of the process. Finally, the fundamental changeability of the rules of governance processes is a crucial condition of the deliberative democracy (Habermas 1973). The remaining indicators are therefore:

Indicator D3 *All participating stakeholders have equal voting rights at all relevant stages of the process.*

Indicator D4 *The goal of the process is a consensus between all participants.*

Indicator D5 *The rules of the process itself can be subject to deliberation.*

2.3 Methodology

Guided by the research question developed above, we conducted three theory-based, qualitative empirical case studies. To be eligible for our analysis, relevant CSR governance initiatives had to be non-hierarchical, dialog-oriented modes of governance (theoretical sampling). We selected an international, a European, and a national CSR initiative, to capture different approaches on different levels of governance. Our cases are the ISO 26000 norm-building process, the CSR governance approach of the European Commission, and the National CSR Strategy of the German government.

The ISO 26000 analysis is an updated version of an earlier study (Jastram 2012) and it is based on participant real time observations during the standardization process, as well as on expert interviews, and document analyses. The analyses of the CSR governance approach of the European Commission and of the National CSR Strategy of the German government have both been conducted in 2013. They are mainly based on document analysis and on follow-up e-mail inquiries with experts from the EU and from the German Federal Ministry of Labour and Social Affairs (BMAS).

Particularly relevant for our analysis were documents concerning procedural rules and resolutions of the governance processes and documents related to the participating stakeholders, like position papers or constitutional documents. We analyzed the documents by using a code system based on the legitimacy criteria elaborated above.

2.4 Empirical Results

2.4.1 ISO 26000

ISO 26000 was initiated by the International Organization for Standardization (ISO), the world's largest international standard setting organization, which was founded in 1947. The ISO network consists of members from more than 160 countries. After several years of work on ISO 26000 by an international working group on social responsibility (WG SR), the new standard was published in 2010. Representatives from six stakeholder groups were involved in this multi-stakeholder initiative. During the development period from 2005 to 2010 eight meetings of the WG SR were held in different countries all over the world. Additionally, there were deliberations held in so-called national mirror committees in the respective member countries. The German mirror committee was hosted by the main German institution for standardization, the DIN (Deutsches Institut für Normung). Altogether almost 2000 experts from 99 countries participated in the ISO 26000 governance process (Mückenberger and Jastram 2010; Jastram 2012).

ISO 26000 is intended to serve as a guideline for all types of organizations interested in the subject of social responsibility. It is designed as a voluntary standard and not intended for third-party certification.

The following paragraphs will cover a summarized and updated version of the legitimacy analysis of ISO 26000 by Jastram (2012; see also Mückenberger and Jastram 2010). We are using this existing data in combination with new data collected in 2013 on the CSR governance approaches of the European Commission and the German government to allow for comparative and broader results.

2.4.2 Inclusion

I1 *Access rights*
ISO granted formal and egalitarian access rights for affected stakeholder groups in the ISO 26000 standardization process. A two-level stakeholder representation system allowed stakeholder representatives from the six groups – consumers, industry, labor, non-governmental organizations (NGO), government, and Service, Support, Research and Others (SSRO) – to participate in the development of ISO 26000 on the national as well as on the international level.

I2 *Selection criteria*
The selection of the participating stakeholder representatives was made through national mirror committees. Out of the group of national experts a delegation of up to six experts (and six observers), one of each stakeholder group, was sent to the international WG SR meetings. Selection criteria and decision mechanisms

concerning the selection of stakeholder experts on the national level were not transparent in the case of ISO 26000.

I3 *Representation*
The composition of the German national mirror committee fluctuated during the ISO 26000-process and so did the stakeholder representativeness. Some stakeholder groups, especially industry and labor, represent organized associations and are mandated by a definable clientele. However, the deselection possibilities of these stakeholder representatives are highly indirect and unreactive with respect to their behavior within the committee. Some scholars criticize a lack of legitimacy and representativeness of NGOs even though their positive, legitimizing role in the context of global governance is widely acknowledged (e.g. Baur 2006; Curbach 2003; Greven 2000; Habermas 1989, 1998; Hirsch 1999). The representativeness of the group SSRO can be classified as the lowest within the ISO 26000-process, since it comprises individuals or small organizations that are barely organized in an association-like manner.

2.4.3 Transparency

To ensure transparency throughout the ISO 26000 standard-setting process ISO had created a website, which provided all interested parties with basic information about ISO, the standardization process, and about contact details of various reference persons. It further lead to the so-called "Working Area", a database, which provided large parts of all process-relevant documents including general publications about ISO 26000, documents concerning the general procedural rules of ISO and specific procedural rules for the standardization of ISO 26000, correspondence of the WG SR secretariat and the stakeholders, all drafts of the standard including all stakeholder comments, background documents related to the period prior to the ISO 26000-process, agendas, invitations, proceedings of all WS GR meetings, and schedules. Some stakeholder representatives felt that the data volume was almost impossible to cope with, which resulted in a perceived lack of transparency (Jastram 2012). Moreover, the DIN offered a database for experts in the national mirror committee including relevant information concerning the process and meetings in the national context. This national database, however, was not accessible for the general public.

Furthermore, both ISO and DIN took communicative actions in order to inform the public about ISO 26000. ISO established a Task Group Communication which had the mandate to increase the general transparency, support communication with external stakeholders, and to release information material.

2.4.4 Deliberation

D1 *Agenda-setting rights*
At the beginning of each meeting of the German national mirror committee, the agenda was approved by all participating experts. They were given the opportunity to make changes or propose additional points, which were then added accordingly. All stakeholders had effective and equal agenda-setting rights.

D2 *Reasoning opportunities*
In preparation of each meeting, stakeholders within the German mirror committee were asked to submit individual comments to the various drafts of the standard. Participant observations in the national mirror committee showed that a formal documentation of all stakeholder comments was adhered to and minority positions were treated the same as majority comments. Empirical observations as well as expert interviews further showed that the moderation of the process within the German mirror committee was discrimination free and that the stakeholders were principally satisfied with their participation opportunities during their deliberations (Jastram 2012). However, relative participation disadvantages resulted from an unequal distribution of material and immaterial resources. Tamm-Hallström (2008, p. 58) argues that “some stakeholders had more financial and other resources to influence not only the content of the standard but also the shaping of the agenda, organization and procedures of the standard-setting work.” ISO acknowledged this problem and thus established the ISO SR Trust Fund to support stakeholders with limited financial resources.

D3 *Voting rights*
Observations further highlighted that, in the German mirror committee, formal voting rights were guaranteed equally to all stakeholders. This became particularly obvious at the final voting stage, when DIN is formally not allowed to vote in favor of an international standard if an interested group votes unanimously against it (DIN 2007; Falke and Susnjar 2007). Consequently, DIN abstained from the final international voting on the publication of ISO 26000 because the German labor representatives did not support the standard (Jastram 2012). A lot of German stakeholder experts were disappointed about this abstention, yet, it demonstrated, that DIN respected minority votes even under international political pressure for a positive German position.

D4 *Consensuality*
Consensuality is one of ISO’s core guiding principles with regard to standardization (ISO/IEC 2012). Correspondingly, empirical document analyses, observations, and expert interviews confirmed that the ISO 26000-process was aligned consensually both in terms of the formal procedural rules and its actual moderation. ISO as well as DIN define consensus as the absence of reasoned objection (ISO 2008; DIN 2007). However, due to heterogeneous particular interests of the stakeholders and the complexity of the standard, it often seemed very difficult to find a consensus within the given timeframe. Consensuality can therefore also mean that a standard

may not be adopted due to a lack of consensus and sustained resistance of a stakeholder group as described above.

D5 *Disposition*
With regard to the changeability of the rules of the process themselves, the analysis expressed that the activities of ISO and DIN both are based on a complex set of highly formalized rules of conduct, which cannot easily be changed by participating stakeholders. Nevertheless, in the WG SR rule changes could be fostered, to some extent, though the adoption of resolutions. Yet, the ISO 26000-process cannot be considered dispositive with regard to the principal ISO/DIN procedural rules (Jastram 2012).

2.5 The CSR Governance Approach of the European Commission

The Lisbon Strategy (European Parliament 2000) developed in 2000 by the European Council with the strategic goal "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" (European Parliament 2000, para. 5) formed the foundation for first considerations of CSR by the European Commission (European Commission 2004). The European Commission realized that CSR plays an important role in achieving this long-term goal and therefore called upon "companies' corporate sense of social responsibility regarding best practices on lifelong learning, work organization, equal opportunities, social inclusion and sustainable development" (European Parliament 2000, para. 39). The European Commission's CSR approach can be characterized as a soft governance approach following the goal "to raise awareness and stimulate debate on new ways of promoting corporate social responsibility" (European Commission 2001, p. 23).

So far the development process of the CSR governance approach of the European Commission included the publication of several documents on the subject of CSR and the set-up of the Multistakeholder Forum on CSR (CSR EMS Forum) (European Commission 2013b). With the release of the Green Paper "Promoting a European framework for Corporate Social Responsibility", the European Commission (2001) initiated the debate about how the EU could facilitate CSR within its boundaries and worldwide. Through the Green Paper, the Commission invited all interested stakeholders to participate in a consultation process to develop "an overall European framework" (European Commission 2001, p. 6) on CSR.

In the subsequent "Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development" (European Commission 2002), the results of the first consultation phase were published and a strategy for the promotion of CSR by the EU was presented. Based on the Communication, the CSR EMS Forum was founded in 2002, gathering different European stakeholders to discuss CSR developments and related European policy (European Commission 2013b).

In 2004, the CSR EMS Forum published a final report, summarizing the Forum's work and giving recommendations for future developments (European Commission 2004).

After analyzing the Forum's final report and considering other stakeholders' views, the Commission intended to further develop its CSR approach and encourage more companies to get engaged in the field of CSR (European Commission 2006). In its 2006 published Communication the Commission increasingly emphasized the voluntary nature of CSR and "that enterprises are the primary actors in CSR" (European Commission 2006, p. 2), accompanied by the announcement of the formation of an 'European Alliance on CSR', consisting of various European enterprises.

In November 2010, the Commission initiated a public consultation on the disclosure of non-financial information "in order to gather stakeholders' views on ways to improve the disclosure by enterprises of non-financial information" (European Commission 2011a, p. 1).

In the following year, the European Commission published a Communication about a new European strategy concerning CSR, including an action plan and a new CSR definition (European Commission 2011b). In April 2013, the Commission adopted a proposal for a directive regarding non-financial reporting of large European companies, intended to increase transparency of CSR activities (European Commission 2013d).

2.5.1 Inclusion

I1 *Access rights*
The CSR governance approach of the European Commission enables stakeholders to participate at various stages. From the beginning, the European Commission stressed that it was important for all actors to play an active role in the development process of a European CSR framework. The Green Paper invited a wide range of different stakeholders including public authorities, international organizations, businesses, NGOs, social partners, and other interested individuals to participate in the consultation process by disclosing "their views on how to build a partnership for the development of a new framework for the promotion of corporate social responsibility" (European Commission 2001, p. 21). Subsequently the Commission received written responses to the Green Paper from more than 250 interested parties, whereby stakeholders representing business interests accounted for about half of the responses; another large part came from trade unions and civil society organizations. Other respondents included international organizations, governments, European institutions like the European Parliament, academics and individuals (European Commission 2002). Furthermore, the consultation on non-financial reporting from November 2010 to January 2011 involved a wide range of

stakeholders as well, namely: “Member States, organisations and social partners at international, EU and national levels, business and professional federations, individual companies, representatives of the academic community, and European citizens” (European Commission 2011c, p. 3). This implies that during the consultations, all interested stakeholders had, in principle, equal rights to participate.

The CSR EMS Forum, chaired by the European Commission, consisted of EU-level stakeholder representatives from four employers’ organizations, two trade unions, seven civil society organizations, and five other business organizations (European Commission 2004). Furthermore, observers from EU institutions and other European organizations were allowed to attend the meetings. Taking the employers’ and the business organizations together, an overrepresentation of business interests is noticeable within the CSR EMS Forum compared to the interest representation of other stakeholder groups, e.g. trade unions (European Commission 2004).

Overall, the EU governance approach can be rated as rather inclusive, giving a wide range of stakeholders in principle an equal opportunity to participate in the development process.

I2 *Selection criteria*

During the consultation phase following the Green Paper (European Commission 2001) as well as during the consultations 2010–2011, stakeholders had the opportunity to participate in the process on their own initiative. The European Commission virtually gave stakeholders the possibility of self-selection leading to a wide range of participants. However, such opportunities only reach those who actually follow EU governance and therefore know about these consultations.

With regard to the CSR EMS Forum, there is no information about the method of identification and designation of relevant stakeholders.

I3 *Representation*

The industry representatives on the CSR EMS Forum were all members of large European business federations and umbrella organizations like Businesseurope and CSR Europe (European Commission 2003). Businesseurope (2013), for example, is made up of 41 member federations from 35 European countries including the federation of the German industries (BDI - Bundesverband der Deutschen Industrie). As stated above, the intra-associational decision-making structures of employers’ organizations can be described as rather representative-democratic, although the majority of functionaries is usually selected unofficially and unopposed (Schroeder and Silvia 2003). The same also applies to trade unions, which were represented, among others, by the confederation ETUC (European Trade Union Confederation), which, by its own account, represents 60 million members (ETUC 2013). However, as we mentioned above, the scope of those represented, with regard to the behavior of their industry and trade union representatives during the process was limited, since direct (de)selection possibilities did not exist.

Civil society was represented by different organizations with varying thematic priorities. One of the participating stakeholders was Social Platform (2013), which acts on behalf of over 40 NGOs, with highly diverse interests, so, as stated before, NGO representativeness cannot be judged in a generalized way.

2.5.2 Transparency

In the Green Paper, the European Commission (2001) stressed that one of the objectives of the development of a European CSR approach was to increase transparency. The Green Paper on CSR, the two Communications concerning CSR from 2002 and 2006, and their latest action plan from 2011 are freely accessible on the website of the European Commission (2013c). All responses to the Green Paper were published there as well. On the website (European Commission 2013e) interested parties have access to general information about CSR in Europe, about guidelines and press releases, and about contact details of reference persons. However, due to technical modifications, some process-relevant documents are no longer accessible on the website.

Additionally, a website for the CSR EMS Forum (European Commission 2013a) was created to inform interested parties about the members of the Forum, about objectives, general procedural rules, and about meetings including agendas, minutes, participants, and statements of participants concerning the respective topics. The final report of the Multistakeholder Forum was published there as well.

Overall, the CSR governance approach of the European Commission can be considered considerably transparent, since the access to a large number of relevant documents is made possible for interested parties.

2.5.3 Deliberation

D1 *Agenda-setting rights*
The consultation phase opened by the Green Paper and the consultation concerning non-financial reporting enabled all interested stakeholders to communicate their matters of importance and focus areas concerning CSR to the Commission, thus making proposals for the agenda. Since we have not detected any deviating situations in our document analysis, we assume that the participating stakeholders had the opportunity to make equal proposals for the agenda.

D2 *Reasoning opportunities*
All interested stakeholders had equal opportunities to communicate their interests and positions during the consultation phases. The responses were then subsumed and published (European Commission 2002, 2011c). For the Round Table meetings of the CSR EMS Forum, rules for expedient communication were set up, including

the avoidance of "'Right vs. Wrong' debates", "'Name and Shame' and 'Name and Fame' discussions" (European Commission 2003). The documents, however, do not indicate to what extent these rules were effectively complied with during the deliberations.

The Commission reimbursed stakeholders' expenses incurred by participation when necessary, enabling stakeholders with limited financial resources to participate in the meetings of the Multistakeholder Forum (European Commission 2003).

In the literature, however, some criticize the fact that the influence of corporate representatives like CSR Europe or the European Alliance for CSR on the process was greater than the influence of other stakeholder representatives (e.g. Kindermann 2013; Ungericht and Hirt 2010). Overall, we assume that all stakeholders had the chance to contribute justified arguments, questions, and other statements to the discourse, although some organizations might have been more powerful in enabling them to influence the process to their advantage.

D3 *Voting rights*

The European Commission approaches the CSR subject through an ongoing process, constantly integrating new positions and stakeholders. The aim is not necessarily to produce an ultimate result via final votes, but to develop a common European viewpoint through ongoing consultations. Our document analysis showed little evidence on voting within the European CSR approach.

D4 *Consensuality*

From the outset of the process with publication of the Green Paper, consensuality concerning the development of CSR within the EU was a major objective of the European Commission (European Commission 2001). Albeit, due to particular heterogeneous interests within Europe and the given timeframe, it became apparent that consensus-building was not always possible between the various stakeholders (European Commission 2004). Where no agreement was feasible, it was recorded that different views remained (European Commission 2003).

D5 *Disposition*

Information about whether the rules of the process itself can be subject to deliberation were not available to us. As the EU has, in general, very formalized and fixed sets of rules and procedures, we assume the CSR governance rules to be non-dispositive.

2.6 National CSR Strategy of the German Government

In 2008, the German Federal Government announced the development of a National CSR Strategy (Bundesministerium für Arbeit und Soziales 2010a) pursuing firstly, the promotion of CSR by increasing the visibility and the creation of a clear German CSR profile within Germany and internationally and secondly, to contribute to a social and environmental design of globalization (Bundesministerium für Arbeit und Soziales 2009b).

In January 2009, the Federal Ministry of Labour and Social Affairs convened the so-called National CSR Forum to advice the German government. The forum consisted of stakeholders from the political sphere, business, and civil society. In its Recommendation Report, the CSR Forum advised the German government to develop a National Action Plan for CSR, which was adopted by the German government in October 2010 (Bundesministerium für Arbeit und Soziales 2010a, b).

2.6.1 Inclusion

I1 *Access rights*
The German government has, from the beginning on, considered it important that all relevant stakeholders are involved in the development process of a National CSR strategy so the BMAS created the national CSR Forum, which serves as the platform for dialog with relevant stakeholders. The CSR Forum, chaired by the BMAS, consists of 44 stakeholder representatives from businesses, trade unions, NGOs, academia, and the German government. Participation is granted to organizations and groups, not to individuals, which then delegate one member on at least management level to the board of the CSR Forum (Bundesministerium für Arbeit und Soziales 2009a, b, 2012). Among 33 experts eligible to vote, there were 13 business representatives, which constitute a numerical dominance on behalf of business interests in relation to the interests of other stakeholders (Bundesministerium für Arbeit und Soziales 2009b).

The Forum's process rules state that, if necessary, further stakeholders can be involved (Bundesministerium für Arbeit und Soziales 2009b). However, it remains open what the decision relevant criteria are in that case.

In addition to the Forum, a steering committee was set up, which consisted of seven members from the CSR Forum and had the task to prepare the meetings of the Forum and to identify relevant topics. Furthermore, the CSR Forum had the opportunity to create working groups on specific topics, which consisted of members of the Forum (Bundesministerium für Arbeit und Soziales 2010a, b, 2013a).

I2 *Selection criteria*
The selection of the stakeholder representatives for the CSR Forum was made by the BMAS in coordination with other ministries. One selection criterion was the connectivity of the actors within the CSR community. The underlying goal was to ensure the inclusion of the views of a broad range of stakeholders and to enable a wide communication of discussions and results (Bundesministerium für Arbeit und Soziales 2009b).

As there were no formal rules for stakeholder selection, Riess (2011), a member of the CSR Forum, noted that the selection process did not appear reasonable to everyone.

I3 *Representation*
As mentioned above, business forms the numerically largest stakeholder group in the National CSR Forum. This group is composed of both business organizations and individual companies. The business organizations, represented inter alia by the BDI and BDA (the main German employers organization), are most widely mandated by their members as they are organized in an association-like manner. The representativeness of individual companies is clearly lower.

One of the participating trade unions is the German Trade Union Federation (DGB), a leading association representing more than six million members (DGB 2013). The interests of consumers are represented by the Consumer Federation (VZBV). However, interested parties only have an indirect opportunity to elect or deselect the representatives in the CSR Forum through their member associations.

2.6.2 Transparency

The BMAS (Bundesministerium für Arbeit und Soziales 2013b) created a website that brings together information about CSR activities and initiatives of the German government. Interested parties have access to basic information about CSR, the CSR Forum and its members, and other CSR initiatives like the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises. However, the information available is kept quite general in some key subjects. Many of the process-relevant documents like general procedural rules, agendas, and meeting minutes are not accessible for interested parties.

2.6.3 Deliberation

D1 *Agenda-setting rights*
Our analysis did not reveal any indicators that show that the participating stakeholders did not have the opportunity to make equal proposals for the agenda during the development-process of the National CSR Strategy. One stakeholder representative mentioned that they were able to bring in positions relevant to them and also found support for them (Schenk 2010). According to the BMAS, the individual working groups were to agree on common goals within the fields of action, to weigh issues, and to develop instruments and measures for the implementation of the objectives (Bundesministerium für Arbeit und Soziales 2010a).

D2 *Reasoning opportunities*
As mentioned above, it was the task of the CSR Forum and six corresponding working groups to develop positions that served as the basis for the recommendation report concerning a National CSR Strategy (Bundesministerium für Arbeit und Soziales 2010a) Hoofe (2011), state secretary of the BMAS, stressed that the

discussions in the Forum were controversial, occasionally demanding, but always conducted in a friendly and constructive atmosphere. A stakeholder participant stressed that there were tough discussions on key positions, but never a cut and thrust. She further mentioned that the mutual understanding for different perspectives and approaches and the different levels of responsibility grew during the course of the process (Schenk 2010).

Our document analysis does not reveal any indication to doubt that all stakeholders had equal reasoning opportunities within the CSR Forum. Nevertheless, due to the numerically stronger presence of industry representatives, other stakeholders could potentially have felt restricted in their argumentation opportunities.

D3 *Voting rights*
Our document analysis has shown that in the CSR Forum, every stakeholder had the same formal voting rights. Each member was assigned one vote, which devolved upon its representative in the event of absence (Bundesministerium für Arbeit und Soziales 2009b). Members of the German government were excluded from this rule as they are the addressee of the Forum's recommendations, and therefore did not vote (Bundesministerium für Arbeit und Soziales 2012, p. 1). Furthermore, participating organizations with guest status, like the ILO and the OECD, did not receive any voting rights either (Bundesministerium für Arbeit und Soziales 2009b).

D4 *Consensuality*
The formal rules of procedure of the CSR Forum stipulate that decisions shall be taken in consensus. The presidency moderates the dialog and has the opportunity to pool stakeholders' viewpoints where necessary (Bundesministerium für Arbeit und Soziales 2009b). The document analysis suggests that all important decisions, for instance the "Common Understanding of Corporate Social Responsibility (CSR) in Germany" (Bundesministerium für Arbeit und Soziales 2009a) and the recommendation concerning the National CSR Strategy to the government (Bundesministerium für Arbeit und Soziales 2010a), were adopted in consensus. Where no agreement was possible, e.g. concerning the "European Commission's initiative for legislation to regulate CSR reporting obligations for enterprises" (Bundesministerium für Arbeit und Soziales 2012, p. 2), it was recorded and published that different views remained.

D5 *Disposition*
Similar to the former cases, the formal process rules for the development of the recommendations to the German government by the CSR Forum do not indicate any possibility of alteration by the stakeholders (Bundesministerium für Arbeit und Soziales 2009b).

2.7 Comparative Analysis and Recommendations

Comparing the three CSR governance initiatives, we find that all cases have in common that they constitute highly inclusive approaches to CSR governance involving a wide range of stakeholders and providing them with extensive participation rights. This clearly increases the overall democratic level of governance on the national and especially on the transnational level as is decreases the gap between those who govern and those who are being governed. It further increases the level of transparency and accountability in transnational governance.

However, we also found some shortcomings, for instance with regard to the lack of formal and transparent criteria for the selection and composition of the respective stakeholder (groups). Another problem was the varying level of internal representativeness among the stakeholder groups. Moreover, it was noted that business representatives were partially overrepresented, especially in the governance approaches of the European Commission and the German government.

Finally, the unequal distribution of material and immaterial resources, like knowledge and expertise, has partly determined perceived and factual power imbalances among the stakeholders.

A democratic strength of all processes was that they were all aimed at consensus-building among all stakeholders. However, neither of the examined initiatives allowed for the possibility of the participants to influence or make changes to the general rules of the governance procedure.

Overall, all three cases constitute positive examples of new modes of multi-stakeholder governance. The ISO 26000 process stands out with regard to inclusion, balanced representation of stakeholder, and process and document transparency. A very positive element of the governance approach of the European Commission is that it is generally open to comments by all people, even though factually, business representatives are dominating the number of comments.

We conclude our analysis with the following recommendations for the improvement of future multi-stakeholder governance approaches:

(1) *Make stakeholder selection criteria transparent and increase representativeness of stakeholders.* A good starting point for selection criteria are those of the United Nations concerning the eligibility of NGOs for consultative relations with the United Nations (1996). These include requirements such as a "recognized standing within the particular field of its competence", "a democratically adopted constitution", and "democratic and transparent decision-making processes" (United Nations 1996, p. 54).

We further advice to (2) *guarantee an equal balance of stakeholders during deliberations.* Efforts should be made to ensure that none of the stakeholder groups is over-represented to avoid potential power asymmetries. It is crucial that the stakeholder balance is not only formally given but that stakeholders also perceive the composition and participation possibilities as balanced.

Practitioners should continue to (3) *make all documents of the process available to the public.* A high degree of transparency enables interested parties to gather detailed information and to gain a deeper insight into the process, ensuring enlightened opinion-forming. Hence transparency creates the possibility of public control and is a key element of any democratic governance process.

We further recommend to (4) *consider making the rules of engagement more open for changes by the participating stakeholders (disposition).* This might appear difficult to realize and to coordinate in practice, yet, a potential changeability of governance procedures marks an additional core element of an ultimately democratic and autonomous self-regulation process.

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Chapter 3
Maintaining the CSR-Identity of Sustainable Entrepreneurial Firms

The Role of Corporate Governance in Periods of Business Growth

Myrthe Roelofsen, Vincent Blok, and Emiel F.M. Wubben

Abstract This chapter focuses on the maintenance of the CSR-identity of sustainable entrepreneurial firms (SEFs) during periods of business growth. Our aim is to explore to what extent corporate governance mechanisms can be seen as effective mechanisms to maintain the CSR-identity of growing SEFs. To this end, a comprehensive literature review is conducted to obtain conceptual insights, which are subsequently empirically illustrated by a multiple case study of SEFs ($N = 7$). We conclude that the following barriers to business growth might have an impact on the CSR-identity of SEFs: overtrading/uncontrolled growth, control and delegation, decentralization and formation, indirect expression of identity. Furthermore, we conclude that the following mechanisms of corporate governance might prevent or compensate for the dilution of the CSR-identity of SEFs in periods of business growth: strategy, human resource management, organizational culture, formal monitoring, coordination, media involvement and social monitoring. Finally, we provide recommendations for practitioners, based on our results.

3.1 Introduction

Small and medium sized enterprises (SMEs) pay substantial attention to corporate social responsibility (CSR) within their organization and daily business operations. CSR refers to "the firm's consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm" (Davis 1973, p. 312). Whereas traditional firms primarily focus on economic objectives while discounting the social and environmental responsibilities of the firm, an increasing

M. Roelofsen • V. Blok (✉) • E.F.M. Wubben
Management Studies Group, School of Social Sciences, Wageningen University, Hollandseweg 1, 6707 KN Wageningen, The Netherlands
e-mail: vincent.blok@wur.nl

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number of firms primarily contribute to social and environmental purposes by means of economic activities. Such firms are called sustainable entrepreneurial firms (SEFs) (Schaltegger and Wagner 2011). Sustainable entrepreneurship (SE) is an innovative, market-oriented and personality driven form of creating societal and economic value by integrating sustainability performance into the core objectives of the firm, and achieving substantial influence on society and markets (Schaltegger and Wagner 2011). SEFs take CSR as essential for starting the firm, and not merely as an 'add-on' to economic objectives of the firm. These types of firms are typically founded by entrepreneurs who are driven by their personal values regarding social and environmental issues (Choi and Gray 2008) and as a consequence, integrate CSR into the mission statement and core values of the firm. Since the mission and (implicit) core values of the firm reflect the corporate identity of a firm, we can call this the CSR-identity of SEFs. The CSR-identity of SEFs can be seen as of strategic value, since it can help to differentiate the firm within the market (van Koeverden 2012).

When small firms start to grow, the role of the founding entrepreneur changes (Gundry and Welsch 2001). As firms grow the founder can no longer keep direct control over all business operations and fully maintain this responsibility (Mazzarol 2003; van Koeverden 2012). Moreover, as a consequence of business growth, the CSR-identity of SEFs and their supporting business cultures may become diluted (van Koeverden 2012). Growth makes it more difficult for the founding entrepreneur to keep direct control over the implementation of the core values of the firm in daily business practices (Griseri and Seppala 2010). Furthermore, the dilution of the CSR-identity lowers the potential for differentiating the firm within the market. Because sustainable entrepreneurs want to grow their business in order to serve larger markets with sustainable products and services on the one hand (Nazarkina 2012) while on the other hand wanting to prevent the dilution of their CSR-identity, the question is how SEFs can maintain their CSR-identity in periods of business growth.

Corporate governance (CG) can be defined as the system by which firms are directed and controlled (OECD 2005). Although CG originally focussed on the governance between the executives of the firm and the shareholders, modern conceptualizations of CG include social and environmental objectives and/or the involvement of other stakeholders as well (Abor and Adjasi 2007). CG can therefore be seen as a possible instrument to maintain the CSR-identity of the firm during periods of business growth. Different mechanisms of CG can be deployed in order to steer the organization in the realization of both traditional and CSR-related objectives. In this research, we focus on the question how these mechanisms could be deployed in order to maintain and enhance the CSR-identity of SEFs during periods of business growth. It will become clear that strategy, human resources management (HRM), organizational culture, formal monitoring, coordination, media involvement and social monitoring can be considered as mechanisms of CG that can maintain the CSR-identity of SEFs during periods of business growth.

This chapter is organized as follows: Sect. 3.2 presents a comprehensive literature review of SEFs and their CSR-identity, the barriers to business growth that can be encountered and the mechanisms of CG that could be deployed to control the CSR-identity. The methodology of this research is presented in Sect. 3.3, followed by an extensive analysis of the influence of business growth on the CSR-identity and the deployment of CG in order to illustrate how the CSR-identity can be maintained in practice in Sect. 3.4. In Sect. 3.5, we draw conclusions and provide recommendations for sustainable entrepreneurs who face challenges regarding the maintenance of their CSR-identity during periods of business growth.

3.2 Literature Review

To provide insights into how the CSR-identity of SEFs could be maintained by deploying different mechanisms of CG, it is important first to identify the characteristics of SEFs and the components of a CSR-identity. This is followed by a review of the concepts of business growth, based on the venture life-cycle process, and the mechanisms of CG. Based on the insights from the literature review, we will develop a theoretical framework for this research.

3.2.1 Sustainable Entrepreneurship and Sustainable Entrepreneurial Firms

Sustainable entrepreneurship is a relatively new type of entrepreneurship in which challenges regarding sustainability are recognized as business opportunities and function as a driver for strategic renewal, innovation and venturing (Lans et al. 2014). Next to social and economic needs, also vital problems regarding the environment can be addressed through sustainable entrepreneurship (Choi and Gray 2008). In this research, sustainable entrepreneurship is defined as the exploration of profitable business opportunities while contributing to sustainable development in terms of environmentally and socially beneficial initiatives and innovations (Schaltegger and Wagner 2011).

Based on empirical research by Choi and Gray (2008), SEFs can be characterized by their:

- *Idealism;* the origin of the firm is based on the founders' personal values and personal drive to make a small difference in the world regarding environmental or societal issues.
- *Sustainability as differentiation;* the sustainability values of the firm and its associated sustainable business operations are seen as a means to differentiate the firm within the market.

- *The organizational culture;* a strong and established organizational culture, which comprises the artifacts, values and basic assumptions of the firm (Wilson 2001), is emphasized as supportive for the business growth of the firm.
- *Employee well-being;* within this culture, employee well-being is perceived as highly important.

3.2.2 CSR-Identity

CSR is often integrated into the corporate identity or the core values of SEFs (Lauring and Thomsen 2009). Corporate identity can be defined as the shared perceptions of the firm's central, distinctive and enduring qualities by the organizational members (e.g. managers and employees) (Brickson 2007). The corporate identity consists in a "set of meanings by which a company allows itself to be known and through which it allows people to describe, remember and relate to it" (Melewar 2003). These qualities and core values constitute 'what' the firm is and 'who' we are as an organization (Brickson 2007). According to Brickson, the corporate identity provides information about how and why the firm is related to its stakeholders by translating the core values into the business operations. In this way, CSR related business operations of SEFs are embedded in the corporate CSR-identity (Gray and Balmer 1998).

The corporate philosophy and the organizational culture can be seen as two important components of the CSR-identity (Gray and Balmer 1998). The corporate philosophy is the planned and practiced self-presentation of a firm through behaviour, communication and symbolism, both internally and externally (Parum 2006). It explains and substantiates the organizational goals and ethics to the stakeholders of the firm (Melewar and Karaosmanoglu 2006). The corporate philosophy is often expressed by the mission statement of the firm (Gray and Balmer 1998). In start-up firms like SEFs, this corporate philosophy is closely connected with the personal values of the founders, because these values play an important role when starting the firm.

The organizational culture is considered an important component of the CSR-identity of SEFs as well. Organizational culture is reflected in the artifacts, the values and basic assumptions of the firm (Wilson 2001). Artifacts comprise the visible structures and processes that are adapted by the firm. Values can be defined as "a (1) belief (2) pertaining to desirable end states or modes of conduct, that (3) transcends specific situations, (4) guides selection or evaluation of behavior, people, and events, and (5) is ordered by importance relative to other values to form a system of value priorities" (Schwartz 1994, p. 20). These values, which are shared by the employees, are present at a deeper and less visible level and tend to keep stable over time. They influence the behavior and decision-making processes within the firm. Basic assumptions can be understood as unconscious and taken-for-granted beliefs, thoughts and feelings that influence the way in which problems are dealt with and solved in the firm (Baumgartner 2009). These basic assumptions have been confirmed well enough to be considered valid by all employees and are therefore perceived as the correct way to behave and think within the firm. In start-up firms like SEFs, the organizational culture is closely connected with the personal values of the founders, because they are the main source and shaper of the culture of the firm (Irrmann 2002).

3.2.3 Barriers to Business Growth

Organizational growth can be defined as the result of entrepreneurial activities (Davidsson et al. 2007), based on different growth strategies. Entrepreneurs may have different motives to expand their business, such as personal ambition, creating jobs for others and being innovative (Gundry and Welsch 2001). Growth may result in, for instance, a growth in output, export and sales or “an increase in size or improvement in quality as a result of a process of development” (Penrose 1959). In case of SEFs, an important motivation of business growth can be found in the dissemination of the sustainability message of the firm by extending its market reach (Nazarkina 2012). Although several growth strategies can be distinguished (Davidsson et al. 2006; Penrose 1959 in Delmar et al. 2003), in this chapter we focus on organic growth of small and young SEFs. Organic growth can be defined as business growth that is the result of increased sales of existing activities of the firm or of the addition of new activities (Davidsson et al. 2006).

Business growth can be understood as a venture life-cycle process consisting of five growth stages: the inception stage, the survival stage, growth stage, the expansion stage and the maturity stage (Scott and Bruce 1987). During the inception stage, the firm is founded by the entrepreneur and managed through direct supervision, while the focus is on establishing a commercially acceptable product for the market. In case of business growth during the survival stage, the entrepreneur faces new challenges like the need to attract financial resources from formal institutions and the diversification of market channels. In the growth stage and in the expansion stage, the need for more coordination and delegation is needed as well as the formalization of the organizational structure, due to the expansion of the business. In the maturity phase, finally, emphasis is given to a professional management team that is in charge of ensuring the future of the firm (Scott and Bruce 1987).

Scott and Bruce (1987) identified different crises, each related to a stage of the venture life-cycle process. The entrepreneur not only has to deal with the crisis after a growth stage that he or she has to overcome – attracting financial resources from formal institutions for instance – but he or she also has to learn to manage the firm in the new life-cycle stage – learning how to delegate tasks and responsibilities to employees for instance. Based on the defined growth related crises of Scott and Bruce (1987), four barriers to growth can be identified that might be experienced by growing SEFs: (1) barriers related to uncontrolled growth, which is called overtrading; (2) barriers related to the maintenance and delegation of control by the entrepreneur; (3) barriers related to the decentralization and formalization of the organizational structure of the firm; and (4) barriers related to changes in the organizational culture. A growing number of employees will decrease the possibility of forming a homogeneous organizational culture (Koeverden 2012), especially because of possible differences in the level of commitment among newly hired managers and employees.

3.2.4 The Effect of Business Growth on the CSR-Identity of SEFs

During the first stages of the venture life-cycle, the maintenance of the CSR-identity of SEFs is relatively easy. The management of the corporate identity is often integrated into the function of the founding entrepreneur in start-up firms like SEFs. Soft management factors, such as shared values and behavior among employees and management (Homburg et al. 2003), play an important role in the start-up phase of the firm and constitute an informal and family-like culture within the firm (Davidsson et al. 2007). The founding entrepreneur often functions as a role model for the organizational culture, the way of working within the firm and the decision-making processes (Abimbola and Vallaster 2007). The firm could lose this informal, family-like character as a consequence of business growth (Davidsson et al. 2007). The role of the owner-manager changes as we have seen in the previous section and this may lead to a change in the organizational culture of the firm.

There are two main advantages to the maintenance of the CSR-identity of SEFs during periods of business growth. First of all, the CSR-identity enables the SEF to spread the sustainable message to a larger customer base (Nazarkina 2012). Secondly, it helps to maintain the competitive advantage of the firm (Abimbola and Vallaster 2007; Melewar 2003). Also from an internal perspective, the creation and maintenance of a corporate identity provides several advantages. A clear and stable identity enables the development of the right set of internal capabilities and competences (Abimbola and Kocak 2007; Veldhuizen et al. 2013) and provides higher management with a guide to decision-making processes (Camillus 2008). From an external as well as an internal perspective, therefore, it is desirable to preserve the CSR-identity and prevent its dilution. In case the CSR-identity is diluted in favour of short-term economic goals for instance, the sincerity of the CSR-identity of the firm may come to be questioned by its stakeholders (Melewar and Karaosmanoglu 2006).

The maintenance of the CSR-identity during periods of business growth is challenging, since it is increasingly characterized by a sequential, sender-oriented and top-down communication of the CSR-identity by the higher management, while the opportunity to share perceptions and interpretations of the identity by the employees and other stakeholders with the higher management decreases (Lauring and Thomsen 2009). This is for instance due to the increased formal organizational structure and increased decentralization as a result of business growth. In this research, the barriers to business growth will be used as reference points to indicate organizational changes which may have a negative impact on the CSR-identity of SEFs. Based on the literature review, the following proposition is formulated:

(P1) The CSR-identity of a sustainable entrepreneurial firm could dilute as a consequence of business growth, caused by a negative relationship between business growth and the CSR-identity.

3.2.5 Mechanisms of Corporate Governance

In case of business growth, the loss of direct control by the owner-manager can be compensated for by the introduction of mechanisms of CG. CG in SMEs is somewhat different compared with publicly listed and large firms. This is partly caused by the fact that ownership and management of the firm often overlap within SMEs, which could lead to unclear boundaries between formal mechanisms of CG on the one hand and informal governance by the owner-manager in daily practice on the other hand (Abor and Adjasi 2007; Uhlaner et al. 2007). This enables owners and managers to establish informal ways to direct and control the business strategy and the business operations (van den Heuvel 2006). In any case, however, the need for transparency, monitoring and control increases as a consequence of business growth and of the firm's increased accountability to investors, employees and other stakeholders. In this chapter, CG is seen as a system by which the tasks and responsibilities within the firm are divided by both informal as well as formal mechanisms for directing and controlling the business objectives, the strategy and the operations of the firm (cf. Abor and Adjasi 2007; OECD 2005; Uhlaner et al. 2007). Because CSR is integrated into the mission and core values of the firm in case of SEFs, accountability towards the interests and values of stakeholders which are affected by the business operations is integrated into the CG of SEFs as well.

Several mechanisms of CG can be distinguished. A mechanism of CG is defined as an instrument or structure that supports control over the firm in order to protect the interests of specific stakeholders (John and Senbet 1998). One of these interests is the maintenance of the CSR-identity of the firm (Balmer 1998). Five mechanisms of CG that may be able to maintain the CSR-identity of SEFs are described below, namely: strategy, human resource management, the organizational culture, coordination and monitoring.

Strategy as a mechanism of CG is not restricted to the process of strategy development (Korhonen 2007). As a mechanism of CG, it primarily facilitates counselling, giving advice and dialogue among the owner-managers of the SEF, the management and other stakeholders during the process of strategy development and strategy implementation in the business operations (Filatotchev et al. 2006).

This mechanism of CG could function as a steering mechanism in order to achieve CSR-objectives with the corporate strategy (Melewar and Karaosmanoglu 2006) and manage the CSR-identity of the SEF during periods of business growth, because the owner-manager and other stakeholders are involved in the process of strategizing. Furthermore, the CSR-identity provides a guideline in decision making processes and safeguards the alignment of the corporate identity and the business operations during periods of business growth.

Resource management has to be understood as the provision and management of access to (external) resources such as human resources, financial resources, legitimacy, etc. (Filatotchev et al. 2006). Since the growth of a firm is driven by processes of resource accumulation (Foss and Mahnke 2000), the acquisition and management of these resources requires governance mechanisms in order to recognize and act upon opportunities for business growth. In case of small firms like SEFs, the entrepreneur is in charge of this process (Foss and Mahnke 2000). An important part of this role is monitoring the alignment between the attracted resources and the CSR-identity of the firm, for instance in the case of attracting new employees to the firm who are expected to disseminate the CSR-identity of the SEF. If this role is not carried out carefully, a potential risk of indeterminacy or vagueness occurs regarding the CSR-identity of the firm in its interactions with internal and external stakeholders of the firm (Foss and Mahnke 2000). Because we focus on CSR-identity in this research, we limit ourselves to *human* resource management as a CG mechanism. Human resources management as a mechanism of CG covers the formation of a management team and attracting new staff members due to business growth.

O*rganizational culture* can be seen as an informal mechanism of CG through which the CSR-identity, embedded in the core values of the sustainable entrepreneur, is disseminated among other organizational members within the firm. SMEs often rely on informal social controls, based on mutual trust, a shared vision and commitment to the firm by owners and management (Uhlaner et al. 2007). Compared with external hired managers and employees, the owner-manager experiences a stronger personal commitment to the firm and uses his or her personal power and authority to sustain the firm (Del Baldo 2012). This clearly shows the importance of the owner-manager for the establishment of the organizational culture and his or her influence on other members of the organization. The organizational culture of SEFs can be seen as an informal mechanism for disseminating the CSR-identity of the firm, which is embedded in the core values of the owner-manager and among other organizational members within the firm.

Monitoring can be implemented as a mechanism of CG by using codes of conduct, ethical oaths, a set of guidelines, accountability and/or transparency reports (Filatotchev et al. 2006; Blok 2013). While the owner-manager of SMEs is often closely involved in the business operations in the start-up phase (Del Baldo 2012), monitoring provides a mechanism for the frequent sharing of information and knowledge between the owner-manager, managers and employees in periods of business growth. Monitoring can be seen as a function or process of CG that is executed by the owner-manager and the higher management team of the firm in order to maintain the CSR-identity of the firm by means of structural bodies (Uhlaner et al. 2007).

Coordination can be deployed as a CG mechanism in order to steer the firm in a pre-determined direction by bringing together individual actions and locally decentralized learning processes (Foss and Mahnke 2000). The owner-manager can use this CG mechanism to disseminate the CSR-identity throughout the firm. In the start-up phase of the firm, the owner-manager can be seen as the driver of the strategic orientation and direction of the firm and the rules that govern its business operations (Del Baldo 2012). In case of business growth, the need for overall planning and broad resource reallocation requires stricter hierarchical forms of coordination (Foss and Mahnke 2000). Increased coordination facilitates the process of delegation and decentralization at firm level and enables the owner-manager to maintain and control the CSR-identity during periods of business growth (ibid.).

In sum, the loss of direct control by the owner-manager as a consequence of business growth may be compensated for by the introduction of corporate governance mechanisms. Since one of the main interests of the owner-manager of SEFs is to maintain the CSR-identity in periods of business growth, CG could be seen as a mechanism for aligning the CSR-identity and the business operations of the firm during periods of growth and for preventing the dilution of the CSR-identity. Based on the literature, the following proposition is formulated:

(P2) Mechanisms of corporate governance can be deployed to compensate for the loss of direct control by the owner-manager of the CSR-identity during periods of business growth.

3.2.6 Theoretical Framework

In the previous sections, we have defined the concepts of sustainable entrepreneurship, CSR-identity and business growth. Furthermore, we have distinguished four barriers to business growth that can be used as reference points to indicate organizational changes which may have a negative impact on the CSR-identity of SEFs. The literature review on business growth has led to proposition 1: "The CSR-identity of a sustainable entrepreneurial firm could dilute as a consequence of business growth, caused by a negative relationship between business growth and the CSR-identity". Next, we have operationalized the concept of CG by distinguishing five mechanisms of CG. In case of business growth, the loss of direct control over the CSR-identity by the owner-manager can possibly be compensated for by the introduction of CG mechanisms. The literature review on CG has led to proposition 2: "Mechanisms of CG can be deployed to compensate for the loss of direct control by the owner-manager of the CSR-identity during periods of business growth". A schematic presentation of the theoretical framework is provided in Fig. 3.1. The CSR-identity is the endogenous variable which is assumed to be

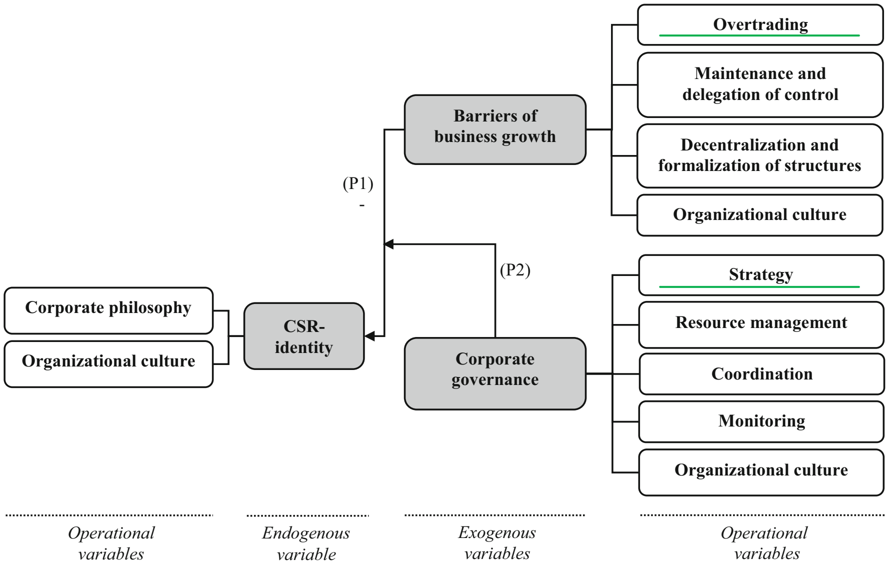

Fig. 3.1 Theoretical framework of the impact of business growth and corporate governance mechanisms on the CSR-identity of sustainable entrepreneurial firms

negatively influenced by business growth (P1). This influence is assumed to be moderated by the deployment of different mechanisms of CG (P2).

By using this theoretical framework to conduct multiple case study research, we illustrate how CG is deployed by SEFs to maintain the CSR-identity during business growth.

3.3 Methodology

In this research a multiple case study methodology is deployed, in which the cases function as an illustrative representation of the way CG mechanisms are used in order to preserve the CSR-identity of SEFS. An in-depth and qualitative research approach is legitimated, since there is a lack of research on the relationship between business growth and the CSR-identity and the impact of CG mechanisms for preserving the CSR-identity. The limited sample of cases (N = 7) allows us to realize in-depth data collection.

The case studies used in this chapter present a relatively diverse group of SEFs in order to obtain insights in their CSR-identity and how they have deployed CG mechanisms during periods of business growth. The cases fulfilled the selection criteria (Table 3.1). We decided to include Triodos Bank in this research; although they are formally not categorized as an SME (they exceed the maximum number of employees and turnover). The main reason is that Triodos Bank is a rapidly growing SEF and meets all other selection criteria.

Table 3.1 Selection criteria for selecting cases

Selection criteria	Willem & Drees	Mywheels	Tony's	Dopper	Van Eigen Erf	Werkhaus	Triodos Bank
Founded by sustainable entrepreneur	✔	✔	✔	✔	✔	✔	✔
Growth stage have been entered	✔	✔	✔	✔	✔	✔	✔
Sustainability-driven purpose	✔	✔	✔	✔	✔	✔	✔
'Successful' SEF	✔	✔	✔	✔[a]	✔	✔	✔
SME	✔	✔	✔	✔	✔	✔	–
Location	NL	NL	NL	NL	NL	DE	NL

[a]Although Dopper is a highly successful and expanding SEF, they recently experienced some drawbacks of their rapid growth on which they work right now. This should be taken into account when interpreting the results of this research

The literature review has been used as a basis to develop a questionnaire. A case study protocol has been developed and used to avoid biased and inconsistent collection of data. Seven semi-structured interviews with selected respondents were held and a secondary data analysis of relevant (firm) documents has been carried out. The interviews were conducted with a time span of 45–60 min each. At each firm, the selected respondent is closely involved in the management of the CSR-identity, for instance the owner-manager (5 cases), the brand manager (1 case) or the head of corporate communications (1 case).

The interviews started with identifying the CSR-identity of each firm. First, interview questions were formulated in order to obtain data regarding the philosophy and the organizational culture of the firm, after which a distinction was made into societal, environmental and economic aspects of the CSR-identity. Then, the respondents were asked which barriers to business growth they encountered and how these barriers influenced the CSR-identity of their firm. In this, a distinction was made between barriers to business growth that had no influence on the CSR-identity of the firm and barriers to business growth with an impact on the CSR-identity. Finally, the deployment of CG mechanisms is discussed in relation to the maintenance of the CSR-identity during periods of business growth. Questions were asked to determine which mechanisms of CG are actively deployed by the firm.

To obtain insights into the relationship between business growth and the CSR-identity on the one hand and into the deployment of CG mechanisms in order to preserve the CSR-identity of the firm on the other hand, a combination of closed and mostly open questions were asked. Closed questions were measured with a 5-point Likert scale (ranging from 1, being 'not important' to 5, being 'highly important') to allow the respondent to indicate the importance of certain issues. Open questions (for instance "How did business growth influence the organizational culture of your firm?") were asked to gather comparable data which could illustrate the different contexts of each case. A case study database is used in order to increase the reliability and repeatability of this case study research.

3.4 Results and Discussion

The presentation of the results of the multiple case studies in the following sub-sections corresponds with the endogenous and exogenous variables of the theoretical framework (Fig. 3.1). While Sect. 3.4.1 focuses on the SEFs and their CSR-identity, Sects. 3.4.2 and 3.4.3 focus on P1 and P2 respectively.

3.4.1 CSR-Identity

The four characteristics of SEFs as defined by Choi and Gray (2008) have all been confirmed by all cases. The CSR-identities of the cases can be compared with regard to their environmental, societal and economic aspects. Although the emphasis on environmental and societal issues differs among the cases, they all actively strive to contribute to the solution of specific environmental and societal issues. Table 3.2 presents the environmental, societal and economical aspects of the CSR-identities of the cases involved in this research.

Since the organizational culture is an important element of the CSR-identity of SEFs, the respondents were asked to name the core values of their firms. The core values which are mentioned by the SEFs did not necessarily refer to CSR directly, but to ‘transparency’ (e.g. Willem & Drees, Triodos), ‘entrepreneurship‘(e.g. Tony’s, Triodos), ‘honesty’ (e.g. Willem & Drees, Dopper) etc. Most of these core values however stimulate behavior that fits or enhances the CSR-identity. Furthermore, the personal values of the owner-managers proved to be important drivers for the establishment of the SEF and a valuable source for defining the CSR-identity of the firm. The personal values of the founders of Willem & Drees are for instance comparable to the core values of the firm, although the core values of the firm are adjusted in order to fit the business objectives of the firm.

3.4.2 Barriers to Business Growth and the Impact of Business Growth on the CSR-Identity of SEFs

The case study sample represents a relatively diverse group of SEFs (see Sect. 3.3). Therefore, the results provide qualitative information about possible barriers to business growth and the possible influence of business growth on the CSR-identity of SEFs. Table 3.3 presents barriers to business growth that have been experienced by the cases. Since not all barriers to growth have directly influenced the

Table 3.2 Environmental, societal and economical aspects of the CSR-identities of SEFs

Firms	Environmental (⌘), societal (♥) and economical (€) aspects
Willem & Drees	⌘ Low distance of transport by realizing short food supply chains
	⌘ Sustainable cultivation methods and maintenance of biodiversity
	♥ Stimulating production of local food; local sales through building long term relationships with stakeholders; connecting farmers with consumers
	€ Realization of entrepreneurship and idealism in the long run by growing into a financial successful and stable organization
Tony's	⌘ Use of environmental friendly packing materials such as uncoated, Forest Stewardship Council (FSC) recycled paper
	⌘ Stimulating environmental friendly production methods at cacao suppliers
	♥ Long term objective is to realize a 100 % slave-free cacao industry
	♥ Fair Trade certified and providing a fully transparent 'bean-to-bar chain'
	€ Prove achievability to be a profitable supplier of 100 % slave-free chocolate
Dopper	⌘ BPA free Dopper bottles (polypropylene and stainless steel)
	⌘ Promoting consumption of (filtered) tap water to decrease the use of single-use plastic
	⌘ A decrease in single-use plastic bottles leads to less plastic ending in the plastic soup
	⌘ Compensation for CO2-emissions
	♥ Donation of 5 % of turnover to realize water projects in Nepal
	€ Through economic success, more people will be able to buy a Dopper through international expansion
Mywheels	⌘ Car-sharing increases consciousness on choosing a means of transport
	⌘ All Mywheels-owned cars are certified with an A-label (energy)
	♥ Striving for convenient neighborhoods, by decreasing the total number of cars
	♥ People are key; car-sharing provides everybody easy access to a car
	€ "We all benefit"; Mywheels is about ideals, not about profit. People, planet and money (instead of profit) are seen as equally important
Werkhaus	⌘ Environmental friendly production materials and methods
	⌘ Use of green power from renewable energy sources
	♥ Contributing to local employment in order to reverse the trend of migration
	♥ Creating a good life-work balance for employees
	€ Financial sustainability to maintain the existence of Werkhaus
Van Eigen Erf	⌘ Low level of CO2 emissions due to short distance transport
	⌘ All 'Van Eigen Erf' products are organically cultivated
	♥ Supporting small-scale farmers
	♥ Providing a platform to lower barriers to collaboration among farmers
	€ The licensees are financially independent
	€ Increasing the market for regional food

(continued)

Table 3.2 (continued)

Firms	Environmental (⌘), societal (♥) and economical (€) aspects
Triodos Bank	⌘ Financing entrepreneurs and enterprises developing innovative ways to combat climate change
	⌘ Monitoring environmental impact through internal environmental policy, environmental management strategy and measuring environmental performance
	♥ Realizing transparency by communicating the use of money that is entrusted to them by depositors and investors
	♥ Financing projects that benefit society
	€ Being profitable because of being sustainable

Table 3.3 Barriers to business growth experienced by the cases

	Willem & Drees	Tony's	Dopper	Van Eigen Erf	Werkhaus	Triodos Bank
Overtrading/ uncontrolled growth	✔	○	✔	✔	○	○
Control and delegation (national)	○	○	✔	○	✔	–
Decentralization and formalization	–	–	✔	✔	–	○
Organizational culture	–	–	○	–	○	–
Indirect expression of identity	✔	✔	○	–	–	–

CSR-identity of the cases or are prevented by the management, the barriers are marked in two different ways. The circle (○) indicates that a firm has experienced a barrier to growth without noticeable consequences for the CSR-identity of the firm. The checkmark (✔) indicates that a firm has experienced barriers to growth that have influenced the CSR-identity of the firm according to the respondents. Mywheels has been excluded from the table, since they have not experienced any barriers to growth due to their stable pace of growth.

Six out of seven firms have encountered periods of overtrading because of a certain form of uncontrolled growth. The founder of Dopper argues for instance that barriers to growth have led to a winding course regarding the management of the identity of the firm:

> *Well, if the focus is not on expressing the mission, it is harder to achieve it. [...] I am a large part of the message of Dopper. And this is what I want it to be, because I see it as my task within the company. But I have been far too busy with internal issues. And that has become visible through marketing and in telling our story, which was neglected the past half a year. Growth has led to a winding course* (Dopper).

Five out of seven firms have encountered barriers to growth regarding control and delegation. The founders of Willem & Drees and Dopper for instance initially kept direct control over the firm:

First, I knew everything, but now I don't know everything anymore. I don't want to. And my employees know this as well (Dopper).

Three out of seven firms have encountered barriers to growth regarding decentralization and formalization. The founder of Dopper for instance experienced this when he had to split the team and doubled the office rooms:

I really think that you could hear so many more things concerning the identity when all employees share the same office room. Separation really has its impact (Dopper)

No case experienced a cultural crisis due to business growth. This could be explained by the fact that six out of seven cases are relatively small in terms of their relatively small number of employees. Although not a cultural crisis, two out of seven firms have experienced barriers regarding changes in their organization culture. At Werkhaus, for instance, the high number of employees has led to an increased anonymity within the firm (although the commitment of employees was still high).

Three out of seven firms experienced another barrier to business growth which was not found in the literature: indirect expression of identity. Due to business growth, Willem & Drees increasingly sell their products via retailers like supermarkets to consumers. Due to this increase in indirect sales, they are no longer the principle actor who is in control over the identity of their products and increasingly dependent on the way their products are presented by retailers for instance. Comparable barriers related to the indirect expression of the CSR-identity of SEFs by retailers were found in case of Tony's and Dopper.

In Table 3.4 an overview is provided of the four identified barriers to business growth – overtrading/uncontrolled growth, control and delegation, decentralization and formation, and indirect expression of identity – and their possible impact on the CSR-identity of SEFs.

Overtrading could lead to both negative and positive consequences for the CSR-identity of SEFs. Negative consequences of business growth can be found in the distraction of managing the CSR-identity, while positive consequences can be found in the use of the CSR-identity as a basis when anticipating these barriers. Firms which have experienced overtrading without any consequences for the CSR-identity of the firm demonstrate awareness of the importance to maintain and manage the CSR-identity and in fact prevented the dilution of the CSR-identity. Barriers regarding the maintenance and delegation of control can have a negative impact on the CSR-identity as well. Keeping direct control over the firm by high involvement of the owner-manager in the business operations will decrease the amount of time he or she needs to maintain and manage the CSR-identity during periods of growth. The founders of Dopper and Willem & Drees maintained direct control during periods of business growth, but Willem & Drees started earlier with the delegation of tasks at the operational level. This might

Table 3.4 Possible impact of barriers to growth on the CSR-identity of SEFs

	Negative (−) / positive (+) influence on CSR-identity	No influence on CSR-identity
Overtrading (uncontrolled growth)	(−) Dopper; founder has been distracted from managing the CSR-identity in order to manage this barrier	Tony's is aware of importance to manage CSR-identity during growth
	(+) W&D; founders decided to more strictly define the CSR-identity	At Triodos Bank the urge to avoid dilution is felt, due to open discussion about the CSR-identity
	(+) Van Eigen Erf; high increase of licensees after the start-up of the firm led to the involvement of a large group (of licensees) during the development of CSR-identity	Werkhaus did increase the in house production capacity and is avoiding outsourcing in order to prevent the dilution of the CSR-identity
Barriers regarding maintenance of control and delegation	(−) Dopper; growth has led to unbounded functions, high work pressure and high involvement of the founder in all business processes. This has decreased his available time to manage the CSR-identity. Direct control has been maintained	Van Eigen Erf; regional expansion could have led to decreasing the strength of the brand name by adding regional names to it. This has not been implemented in practice
	(−) Werkhaus; growth has led to the loss of direct control regarding management of employees, which is an important part of their CSR-identity. When noticed, the founder immediately responded by hiring a friend in order to prevent the further dilution of the CSR-identity	W&D; difficulties regarding delegation are experienced. No influences on CSR-identity are felt because the founder is in control over the decision making process. Direct control is maintained
		Tony's; growth in employees requires professionalization. They experienced difficulties in separating tasks and responsibilities. Therefore, function profiles are adapted regularly
Barriers regarding decentralization and formalization of structures	(−) Dopper; Decentralization has split the team of employees into two different rooms. The sharing of day-to-day information regarding the identity of the firm decreased. The founder experiences this as losing control	Triodos Bank; they experience a continuous movement from centralization towards decentralization and the other way around. Growth in employees requires formalization in organizational structures as well. They experienced barriers because these changes are not implemented organically
	(+) Van Eigen Erf; A transition from decentralization towards centralization has led to a more clearly defined CSR-identity which is embraced in a unified way	

(continued)

Table 3.4 (continued)

	Negative (−) / positive (+) influence on CSR-identity	No influence on CSR-identity
Indirect expression of the CSR-identity	(−) Willem & Drees; Not all retailers might take care of the presentation of the right products in Willem & Drees boxes. They are anticipating reactive by calling when they get notified	Dopper; the founder has accepted that he cannot expect the retailer to spread the CSR-identity with the same dedication as Dopper. Therefore he decided to focus on consumers in order to stimulate them to decide to buy a Dopper before going to a shop. Buying a Dopper is not perceived as an impulsive action
	(−) Tony's; representation of the CSR-identity by retailers is dependent on the drivers of retailers to sell chocolate. The CSR-identity might be underemphasized by some retailers. They anticipated preventively by organizing meetings with retailers	

have contributed to the fact that they experienced less negative consequences of business growth on their CSR-identity.

Barriers regarding decentralization and formalization may have a negative impact on the CSR-identity as well. According to Dopper, decentralization and formalization can have a negatively impact on the CSR-identity of SEFs, since it reduces the opportunity to share information and have contact with each other about the developments within the firm. Finally, negative consequences of the indirect expression of the CSR-identity may have a negative impact on the CSR-identity.

3.4.3 *Deploying Corporate Governance Mechanisms to Prevent the Dilution of the CSR-Identity of SEFs*

The five CG mechanisms we identified in Sect. 3.2.5 are recognized by several cases. All cases deploy at least one of the defined mechanisms of CG which may help to maintain the CSR-identity of their firm. An overview is provided in Table 3.5.

Five out of seven cases have deployed strategy as a mechanism of CG. The results show that the CSR-identity and strategy as CG mechanism are seen as closely connected. Table 3.6 presents relevant quotes to illustrate how strategy is linked to the maintenance of the CSR-identity. The CSR-identity is often used as a stable input for both strategy development and the content of the strategy. This confirms the statement of Camillus (2008) that a clear and stable identity could help the management to test whether strategic decisions are in line with the corporate identity of the firm. Overall, strategy is not specifically deployed to moderate the

Table 3.5 Deployed mechanisms of corporate governance

Mechanisms of CG	Willem & Drees	Tony's	Dopper	Mywheels	Van Eigen Erf	Werkhaus	Triodos Bank	Total
Strategy	✓	✓	✓	✓	✓	–	–	**5**
Human resource management	–	✓	✓	✓	–	–	✓	**4**
Organizational culture	–	✓	✓	✓	✓	✓	✓	**6**
Monitoring	✓	✓	✓	–	✓	–	✓	**5**
Coordination	✓	✓	✓	✓	–	–	✓	**5**

Table 3.6 The deployment of strategy as mechanism of CG in relation to the CSR-identity

Quotes	
Willem & Drees	"You can actually see that the identity serves the strategy. Our mission is to connect people with local food. Our strategy is to realize this by creating transparency and making it more personal."
Tony's	"The limited edition of white chocolate with raspberry and sparkling sugar was highly popular. [. . .] The reason we are not re-introducing it is because white chocolate is made of cacao-butter only. [. . .] We cannot produce 100% slave-free cacao butter. [. . .] We choose to keep following our mission, which is 100% slave-free chocolate."
Dopper	"It goes back and forth all the time. You are talking either from a strategy perspective or from identity perspective [. . .] The Dopper is the identity. And through this identity, strategy is developed."

Table 3.7 The deployment of HRM as a mechanism of CG in relation to the CSR-identity of SEFs

Quotes	
Tony's	"Currently, we are more and more conscious about values and norms and the organizational culture which exists within the firm. [. . .] It should be integrated into procedures instead of basing it on feelings, experience and competences alone. The personality of a person is highly important as well."
Mywheels	"It is really important. You should represent who you are every day. Employees should do this as well, so on family occasions he should be as enthusiastic about the organization as at the office."
Triodos Bank	"Triodos Bank sometimes involves an agency to recruit people for certain functions. And they are really focused on personal values. They are able to think along regarding how to discover during the interview what the new co-worker actually stands for."

risk of dilution of the CSR-identity, but it is rather deployed to steer business activities within the boundaries of the CSR-identity of the firm.

Four out of seven firms are deploying human resource management (HRM) as a more informal mechanism of CG. In Table 3.7, relevant quotes of the respondents are presented in order to show how the cases relate HRM as a mechanism of CG to the maintenance of their CSR-identity: the CSR-identity should be represented and expressed well by employees both inside as well as outside the firm. Business growth leads to an increased awareness of the importance of employees as representatives of the CSR-identity, which should be taken into account when hiring new employees. The results show that firms try to find a balance between assessing the level of professional knowledge, competences and skills of new potential employees on the one hand and the match between the personal values of the new employees and the core values of the firm on the other hand. It is considered important that new employees identify with the CSR-identity of the firm, although this is dependent on the role and function of the employee within the firm. The results imply that HRM is used as an informal mechanism to maintain the CSR-identity of the firm by professionalizing function profiles and the selection

Table 3.8 The deployment of the organizational culture as a mechanism of CG in relation to the CSR-identity

Quotes	
Tony's	"Tony's has started with such a clear vision and goal, which has become the identity of the firm. [. . .] So the culture did match with the identity quite fast."
Dopper	"I think culture is an essential part. [. . .] That's why a lot of dedicated people are working here. They sustain the message and therefore they are becoming part of the identity."
Mywheels	"Culture and identity are one and the same thing for me. [. . .] "Culture should be constantly monitored in order to keep it stable. You should handle it with care."
Werkhaus	"You have to be very authentic I think. Because otherwise, the identity of your company is like a flower or something. You have to live [up to] everything that you are explaining yourself."
Triodos Bank	"Of course some cultural aspects have been changed over time, but the strength is that the core cultural aspects have stayed the same over all those years."

Table 3.9 The deployment of monitoring as a mechanism of CG in relation to the CSR-identity

Quotes	
Tony's	"We have our own code, like I said a road map with three pillars which we have as a firm. Behind each pillar a plan is made until 2020 including which milestones should be reached with concrete action points."
Dopper	"We now have a brandbook which is communicated to several parties." (the brandbook is a set of guidelines to steer how the identity of Dopper is expressed)
Van Eigen Erf	"We have three rules, where Van Eigen Erf stands for, which are published on our website."

of employees in which the level of knowledge, skills and competences and personal affinity with the core values of the firm are balanced (cf. Dentoni et al. 2012).

Six out of seven cases deploy organizational culture as an informal mechanism of CG in order to maintain the CSR-identity. Table 3.8 provides an overview of relevant quotes regarding the organizational culture. The founders of Dopper and Werkhaus consider themselves as role models with regard to the CSR-identity within the organization. This corresponds with the research of Abimbola and Vallaster (2007), who assigned the function of a role model to the founder of the firm. Through the implementation of the socio-cratic circle-organization method, the founder of Mywheels is maintaining the family-like character that is characteristic of small organizations. Overall, it can be concluded that the organizational culture is closely connected to the CSR-identity of the firm. Taking into account the interplay between the organizational culture and the identity of the firm, the culture can be seen as an informal mechanism for maintaining the CSR-identity of the firm.

Five out of seven cases have deployed a certain form of monitoring. Table 3.9 provides an overview of relevant quotes regarding the deployment of monitoring by codes and guidelines. Monitoring is mainly deployed to steer behavior or provide employees with a road map, a set of guidelines, a code or mutual agreements that prescribe the realization of objectives. Besides, these 'tools' are used to

Table 3.10 The deployment of coordination as a mechanism of CG in relation to the CSR-identity

Quotes	
Willem & Drees	"Although we delegate quite a lot of responsibilities, the real strategic decisions or decisions regarding the identity are made by Drees or by me. So if I or Drees really disagree with something, it will just not happen."
Dopper	"The vision on the soft side in terms of the foundation and expressing the message is my responsibility. Business responsibilities are with the business director. This distinction has been made very strictly."

communicate the actual realization of CSR-objectives of the firm externally. Reporting is not commonly used to monitor the CSR-identity, except in case of Tony's and Triodos Bank. At Triodos Bank, each business unit updates four times a year a so called 'support card' in which, amongst others, different criteria related to the CSR-identity are scored and illustrated. This is processed into the different reports of the firm, such as the annual report. Tony's experiences positive consequences of using reporting to openly share their sustainability related business activities. It can be concluded that monitoring is deployed in order to control the alignment of the business operations with the CSR-identity. Furthermore, the results of the monitoring processes can be used to communicate externally how the CSR-objectives are realized by the firm.

Coordination is actively used by five out of seven cases. Table 3.10 provides relevant quotes regarding the deployment of coordination as a mechanism of CG in relation to the CSR-identity. The results imply that centralized firms use coordination in order to make sure that all business activities are in line with the CSR-identity which is maintained by the founder(s). Decentralized firms use coordination in order to realize a more equal division of influence on managing the identity of the firm. Coordination at Triodos Bank differs from the other cases, partly due to the age and size of the organization. Coordination of their CSR-identity is deployed by delegation of responsibilities to business units and departments. In case the founders maintain direct control over the CSR-identity of the firm, the deployment of centralized decision-making processes regarding the CSR-identity is more common. In all other cases, it seems that coordination is primarily deployed by the allowance of others (employees, stakeholders) to have influence on the maintenance and management of the CSR-identity. This positively contributes to forming highly committed employees.

Some cases mentioned also other informal CG mechanisms which may be relevant in maintaining the CSR-identity of SEFs during periods of business growth. Tony's for instance is actively involved in triggering the media to write about their firm. This results in positive media attention which strengthens their CSR-identity. Mywheels is triggering media attention as well through the stimulation of people to share positive experiences and stories on social media. Another CG mechanism is deployed by Van Eigen Erf. They use a form of social monitoring among their licensees.

Because we all know each other, we keep an eye on the activities of each other. [. . .] It is more about the values and not transporting food all over the world (Van Eigen Erf).

Contrary to 'formal' monitoring mechanisms we already described (guidelines, reporting and agreements within the firm), monitoring among licensees is called 'social' monitoring. By deploying mechanisms of social monitoring as in the case of Van Eigen Huis, SEFs are able to prevent the dilution or their CSR-identity.

To conclude, strategy, HRM, organizational culture, formal monitoring, coordination, media involvement and social monitoring are identified as possible CG mechanisms that maintain the CSR-identity of SEFs during periods of business growth.

Conclusions and Recommendations

The aim of this study was to explore to what extent mechanisms of CG can be deployed as effective mechanisms to maintain the CSR-identity of SEFs in periods of business growth. First, the relation between business growth and the CSR-identity of SEFs was investigated.

Not all cases from our sample experienced a dilution of the CSR-identity during periods of business growth. Four out of seven cases have in fact experienced negative effects of business growth on the CSR-identity of the firm. Sometimes, barriers to business growth were even understood as a driver to enhance and secure the CSR-identity. Two cases experienced barriers to business growth without noticeable consequences for the CSR-identity (Triodos & van Eigen Erf). It might be the case that these SEFs anticipated possible negative effects of business growth on the CSR-identity effectively, by deploying mechanisms of CG. Both cases clearly showed to be aware of the importance to manage the CSR-identity during periods of business growth and both cases were actively involved in the prevention of CSR-identity dilution by deploying mechanisms of CG on the one hand and by introducing open discussions about the CSR-identity (Triodos) and avoiding outsourcing (Werkhaus) on the other hand. Because not all cases have experienced a negative impact of business growth on their CSR-identity, the assumed negative relationship between business growth and a dilution of the CSR-identity (P1) is only partly confirmed. In fact, since the management of business growth in general and the management of the CSR-identity in particular is a highly dynamical process, it turns out to be difficult to establish causal relations between barriers to business growth and the CSR-identity of SEFs. Nevertheless, although it is clear that more research is needed in this field, the results of our study clearly show that the CSR-identity of SEFs might be negatively affected as a result of business growth. Since the case study sample represents a relatively diverse group of SEFs and all barriers are mentioned at least by two cases as having a negative impact on the CSR-identity of the firm, we conclude that the following

(continued)

possible barriers to business growth might have an impact on the CSR-identity of SEFs: overtrading/uncontrolled growth, control and delegation, decentralization and formation, and indirect expression of identity.

Secondly, it was investigated how different mechanisms of CG can be deployed to prevent the dilution of the CSR-identity of SEFs. The results show that mechanisms of CG are not or primarily not deployed with the aim of *compensating* for the loss of direct control by the owner-manager over the CSR-identity during periods of business growth (P2), which means that P2 is not confirmed. Nevertheless, although more research is necessary in this field, it can be concluded that SEFs actually deploy several mechanisms of CG to *maintain* the CSR-identity of their firm during periods of business growth. Since the case study sample represents a relatively diverse group of SEFs and all mechanisms of CG for maintaining the CSR-identity are found in at least 4 out of 7 cases, we conclude that the following CG mechanisms can be considered effective mechanisms for maintaining the CSR-identity of SEFs during periods of business growth: Strategy, HRM, organizational culture, formal monitoring and coordination. Although mentioned less often, also media involvement and social monitoring are considered effective mechanisms of CG for maintaining the CSR-identity of SEFs.

Based on the results of our case study, a recommended prioritization of the five mechanisms of CG for practitioners is visualized in Fig. 3.2.

Since the CSR-identity is closely connected with the corporate strategy of the firm and is most often mentioned during the case studies, together with organizational culture, we recommend practitioners to deploy CG

(continued)

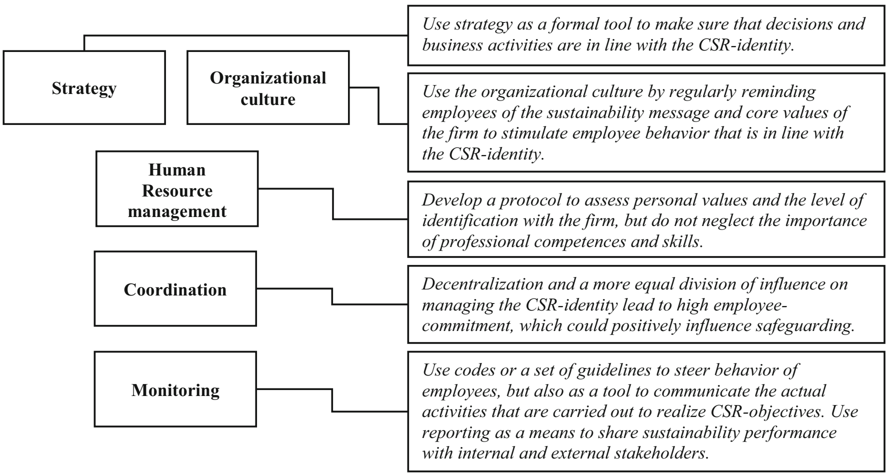

Fig. 3.2 Prioritization of mechanism of corporate governance to maintain the CSR-identity

mechanisms regarding strategy and organizational culture to maintain the CSR-identity during periods of business growth. Since six out of seven SEFs emphasized the importance of the representation of the CSR-identity of SEFs by its managers and employees, it is furthermore recommended to develop a more formal protocol to assess new employees, rather than one merely based on intuition. The transfer of responsibilities regarding the CSR-identity from the owner-manager to other staff members is recommended in case of business growth as well. In case of business growth, the owner-manager has to delegate tasks and responsibilities and to introduce more indirect controls over the firm, like coordination and monitoring. CG mechanisms like coordination and monitoring also have additional advantages. Increased levels of coordination create high commitment by staff members, while increased levels of monitoring by introducing codes or guidelines will enable SEFs to communicate and *market* externally how the CSR-objectives of the SEF are realized.

Since only a limited number of cases were involved in this research, the findings cannot be generalized to include all sustainable entrepreneurial firms. Future research should include more cases from other countries than the Netherlands in order to substantiate the conclusions. Furthermore, more in depth research is needed into the negative *and* positive effects of business growth on the CSR-identity of SEFs and the employment of mechanisms of CG. Especially the causal relation between business growth and the CSR-identity should be taken into account in future research.

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Part II
Corporate Social Responsibility and Ethical Values

Chapter 4
The Lure of Corporate Virtue

Paul Eddy Wilson

> *"Every virtue or excellence both brings into good condition the thing of which it is the excellence and makes the work of that thing be done well"*
>
> – Aristotle

Abstract In this essay I explore the notion that corporations are moral agents that may aspire to virtuosity. If corporations must lose their innocence as natural moral agents do, then they too may enter a moral life cycle. Since loss of innocence may result in a sense of care about one's behavior, one may expect corporations to manifest the affect of care. In my view the 18 corporations that made the Built-to-Last list exemplify how corporations do care about their core ideology. Using Merck and Company, Inc. as an example I discuss one way that ethicists may turn the care of corporations about their mission statement to the advantage of the entire moral community.

For those corporations that qualify as corporate persons I assume that corporate virtuosity is a good that may be publicly recognized, and it may be valuable to corporations. I also assume that corporate virtuosity is a status that is achieved over time through testing and by comparison with their peers. For instance, some corporations do seem to have the virtuosity of being in the top tier of the best places to work. Likewise when some corporations ask their shareholders to vote against a shareholder resolution on ethical conduct, management may argue that the corporation follows its own ethical code of conduct. I want to suggest that when corporations set forth ethical guidelines for behavior in their mission statement they are creating a program for the development of corporate virtuosity. How corporations respond to ethical crises and how they aspire to excellence will determine whether they are making progress toward corporate virtuosity or if not.

4.1 Introduction

Corporate vices are social ills that are blameworthy and should be avoided, and considerable attention has been given to their analysis. In contrast, little attention has been devoted to the notion that corporations could become virtuous. In this

P.E. Wilson (✉)
Department of Religion and Philosophy, Shaw University, Raleigh, NC, USA
e-mail: paulwilson500@gmail.com

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essay I challenge ethical thinkers to find ways to encourage corporations to pursue the ideal of corporate virtue.

In their book, *Built to Last*, James Collins and Jerry Porras examine 18 corporations to determine what makes visionary companies so successful. The authors explode the myth that profitability is the sole aim of successful corporations. They say, "A detailed pair-by-pair analysis showed that the visionary companies have generally been more ideologically driven and less purely profit-driven than the comparison companies in seventeen out of eighteen pairs" (p. 55). Collins and Porras suggest that a close scrutiny of the financials only has led analysts to ignore a key driving force in corporate life – the corporate ideology. Some corporations put their corporate ideology into written form, and I identify that as the corporate mission statement. Regarding corporate ideology Collins and Porras say, "the builders of visionary companies seek alignment in strategies, in tactics, in organization systems, in structure, in incentive systems, in building layout, in job design – in everything" (p. 88).

In this essay I discuss how the corporate mission statement may be instrumentally valuable in directing corporations to pursue morally virtuous behavior. I begin by examining how we are to understand the moral life cycle of corporations. I suggest that morally responsible corporations have the potential for virtuous behavior. I explore why the corporate mission statement is morally valuable for both the corporation and the public. Finally I suggest that ethicists may appeal to the corporate mission statement to foster corporate virtue. For instance, a corporation like Merck and Company, Inc. can be encouraged to pursue the ideal of corporate virtue by appealing to its mission statement.

4.2 The Moral Life Cycle and Corporations

From a moral standpoint there are two types of actors: some actors are morally non-responsible actors, while others are morally responsible actors. I assume morally responsible actors are (1) intentional agents who are sane in the relevant sense and (2) capable of effecting practical consequences in the world (Wilson 1996, pp. 293–302). Non-responsible actors fail to meet the criteria for moral agency; their actions are not morally blameworthy or praiseworthy. Irresponsible moral actors are a token of the type of actors that are morally responsible. Irresponsible moral actors perform morally blameworthy acts, and they may be held morally liable for those acts. Morally responsible actors either refrain from performing blameworthy acts or perform morally praiseworthy acts. That said where do corporations fit into this landscape?

Over two decades ago Peter French argued that some corporations should be recognized as moral persons (1979, pp. 207–215). In particular those corporations that qualify as moral agents are those that can be shown to have a corporate internal decision (CID) structure. When a CID structure is in place the agency of a corporate act is traceable to the CID structure rather than the individual corporate officers in agreement with the action. I shall assume that French is correct that some corporations count as moral persons.

While this identification process allows the moral community to appraise corporate behavior morally, it does not tell how these corporations entered the moral community. In French's view natural moral agents qualify as responsible moral agents only after they have undergone a specific rite of passage, a loss of innocence. In *Responsibility Matters,* French says, "loss of innocence is a prerequisite for membership in the responsible moral community" (p. 29). With the loss of moral virginity one gains a self-reflective moral understanding of his or her behavior. One who acquires this insight recognizes the moral gravity of his or her behavior, and I shall call this the insight of moral gravity. French says,

> Knowledge of good or what one ought morally to do, however, is probably not as important as knowledge of evil or rather, of one's capacity to do and be done evil.... Experiencing evil in the loss of innocence is grasping for the first time the possibility that things might have gone differently, and so seeing what would have been good in the situation, and so seeing yourself as capable of the evil (1992, p. 39).

Since corporations are non-natural moral agents, are they exempt from a loss of innocence? No, they too must lose their moral innocence. In his article, "Corporate Loss of Innocence for the Sake of Accountability", Mitchell Haney maintains that corporations may undergo a formal loss of innocence, but corporations fail in their affective loss of innocence (p. 393). In other words, corporations may be able to grasp the relevant moral notions that they are responsible for untoward behavior. However, Haney thinks that they may not be able to express this loss of innocence, since he believes that they cannot care. He says, "there is nothing that it is like for a corporation to be in a state of a self-reactive attitude: thus, nothing that it is like for a corporation to intrinsically care about the moral value of its actions. In short, humans really can care; corporations cannot" (p. 401). Here I suspect Haney has fallen into the same trap that misleads some ethicists to think that corporations could not be moral agents. Ethicists who endorse a naturalistic bias maintain that corporations cannot act, since they do not have natural body parts to perform actions. That assumption has been shown to be mistaken, since the will of the corporation can be executed effectively by agents of its choosing. Likewise I would maintain that a corporation may suffer remorse over wrongdoing in spite of the fact that it does not shed tears.

On the one hand, I suspect that Haney is mistaken in believing that corporations cannot express care about their loss of innocence, and below I suggest one way that corporations may demonstrate an affect of caring. On the other hand, I suspect Haney is correct that some corporations with CID's may still not qualify as morally responsible actors, since they have not acquired the insight of moral gravity. Haney says, "if a corporation has within its CID nothing more than officers of financial risk management or legal council, which aim to protect the limited interests of financial loss and legal liability, then that corporation has failed to acquire the formal loss of innocence" (p. 399).

French, Haney, and others see corporations as capable of undergoing moral transformation. As natural moral agents develop into full-fledged moral agents so corporations may develop into full-fledged moral agents. From this I infer that corporations have a moral life cycle as do natural moral agents. In other words, when they lose their innocence and acquire a sense of moral gravity they enter into the moral community as responsible moral agents. If they were to lose their capacity for responsibility, they would pass out of the moral community. During their tenure as moral agents they have the opportunity to make moral progress toward virtuosity.

In Haney's view when one loses his or her innocence one acquires the affect of care (p. 393). Haney says, "At bottom, within the non-formal or attitudinal element of losing innocence the morally mature person has undergone some significant and permanent re-arrangement of her moral attitudes or that about which she ultimately cares" (p. 393).

I take this care to manifest itself in self-reactive attitudes. One cares about himself or herself. Haney says,

> Self-reactive attitudes include such things as guilt, remorse, and regret (or such positive attitudes as pride, self-esteem, etc.). How we care and how much we care about our actions becomes amplified such that we find it of increased importance to who we are and what we do to engage in closer scrutiny of the moral value of our actions.
>
> ...within the non-formal or attitudinal element of losing innocence the morally mature person has undergone some significant and permanent re-arrangement of her moral attitudes or that about which she ultimately cares. The result being that she will come to more meticulously scrutinize her actions and be at the ready to impose appropriate self-reactive attitudes (pp. 396–397).

For our purposes one's choices within the moral realm are confined to irresponsible choices and responsible choices. Irresponsible choices are choices to behave in blameworthy ways, and they are careless choices. Responsible choices are choices to behave in morally neutral or morally praiseworthy ways, and they are careful choices.

There are varying degrees of care as an affect. Once one determines not to behave irresponsible it remains open to the agent to determine how he or she shall behave responsibly. While there may be a wide range of variants of responsible behavior those variants share the quality of not being blameworthy. One can invest more or less care in one's moral behavior. Granting that one is capable of taking responsibility for his or her behavior there is a maximal possibility that arises for each moral agent. He or she may choose to act virtuously when he or she invests the maximal amount of care in his or her decisions to act morally. When one surrenders one's moral innocence one acquires knowledge of one's capacity for good, and that includes awareness that there is a wide range of morally good behavior. One can care enough to be minimally good, or one can care so much that he or she chooses to display maximal goodness, that is, virtuosity.

4.3 The Corporate Mission Statement: Something to Care About

For the purpose of compiling a corporate annual report or a Form 10-K report a corporation must make a formal statement of its business, but those are pro forma statements. Since the creation of a corporate mission statement is not mandated by the federal government, the Securities and Exchange Commission (SEC), or like governing bodies, corporations can legally do business without a corporate mission statement. Corporations must identify only what goods or service they offer rather than telling how they practice their business. In comparison the corporate mission statement focuses on qualitative aspects of doing business that are absent from the formal descriptions corporations offer to satisfy creditors and bureaucrats.

Since a mission statement has no tangible worth, it may not be regarded as an asset. I suggest that disregard of the worth of a mission statement is mistaken. Corporate mission statements have an intangible worth just as corporate logos and corporate brands have an intangible worth. So, the corporate mission statement may better be regarded as part of the goodwill or going-concern value of a corporation. In its definition of "going-concern value" *Barron's Dictionary of Finance and Investment Terms* says, "Goodwill is generally understood to represent the value of a well-respected business name, good customer relations, high employee morale, and other such factors expected to translate into greater than normal earning power" (p. 222).

The corporate mission statement makes explicit the core ideology of a company. Not all corporations that have a well defined core ideology have a corporate mission statement, but all corporations with a corporate mission statement have a well defined core ideology. Collins and Porras say, "Like the fundamental ideal of a great nation, church, school, or any other enduring institution, core ideology in a visionary company is a set of basic precepts that plant a fixed stake in the ground: 'This is who we are, this is what we stand for; this is what we're all about'" (p. 55). This core ideology determines how the corporation shall operate and not just what the corporation shall do. In most cases corporations that have a core ideology value things other than mere profitability. If profitability is sacrificed in the pursuit of these values, then that is an indication of the premium a company places on its other values.

In their study of visionary companies Collins and Porras caution that there is no set of core values that is embraced by all visionary companies. So, a company can qualify as a visionary company formally if it has a core ideology that shapes its business practice. Having a mission statement or a core ideology does not guarantee that the business practice of that company will not come into conflict with the interests of other companies or the interests of the moral community. Rather the core ideology acts as an organizing principle to regulate the business practice of the company. Collins and Porras say, "Our research indicates that the *authenticity* of the ideology and the extent to which a company attains consistent alignment with the ideology counts more than the *content* of the ideology" (p. 87). In this instance

Collins and Porras are counting the ability of the corporation to survive in the marketplace and not its ethical track record.

Having a mission statement does not mean that a company cannot change. For some companies like 3M the core ideology has enabled the company to evolve successfully in the marketplace without a loss of identity (pp. 187–188). The mission statement and the core ideology it reflects serve as organizing principles for business practice. Collins and Porras write, "The builders of visionary companies seek alignment in strategies, in tactics, in organization systems, in structure, in incentive systems, in building layout, in job design – in *everything*" (p. 87). This close alignment of practice with the core ideology should not be seen as an attempt to halt progress. Ostensibly a corporation may appear to present a new product or service, but its devotion to a core ideology allows it to maintain its identity over time as the same corporation. Collins and Porras say,

> Like the genetic code in the natural world, which remains fixed while species vary and evolve, core ideology in a visionary company remains unchanged throughout all its mutations. Indeed, it is the very presence of these fixed, building ideals that gives a visionary company something extra that evolving species in the natural world can never have: a purpose and a spirit (p. 188).

I would suggest that the corporate mission statement and the core ideology underlying it are things corporations can care about. A corporation can formally care about its mission statement by aligning its practice with its mission statement. It can affectively care about its mission statement when it takes steps to see that the mission statement is regarded as part of its going-concern value or goodwill value.

Caring about its mission statement is something a corporation may do. In the process it may align itself with some objective standards of excellence. Members of the ethical community who desire to influence corporations for good may support objective standards of excellence, and this support may entice corporations to practice these standards of excellence. However, if moral agents hoping to influence corporate behavior can identify a corporation's ethical aspirations, they may be better able to persuade the corporations to do good.

For some athletes placement in *Guinness' World Records* is the holy grail of athletic achievement, and for others it is the receipt of a gold, silver, or bronze Olympic medal. The athlete who breaks a world record or is adorned with an Olympic medal receives an objective symbol of achievement. Yet, the athlete does not acquire this symbol of achievement by mere happenstance. These symbols are won by the athlete's intentional design.

In the corporate realm lists of distinction provide an objective standard of achievement. Placement within the top tier on the Fortune 500 list of largest U. S. corporations is a significant achievement for a corporation. While this list of distinction capitalizes on marketplace size and profitability, similar lists may focus on social and ethical variables like the best place to work or the practice of environmental sustainability. Compare Wal-mart and Aflac. In May 20, 2013, *Fortune* ranked Wal-mart as the largest U. S corporation, and Aflac placed 118 on the list. In the same issue of *Fortune*, Aflac uses a full page ad to tout its recognition as one of the world's most ethical companies, one of the 100 best companies to work for, and one of the world's most admired companies (p. 25). Aflac's placement on these lists is not attained by happenstance. Corporations that place within the top tier of a most ethical companies list of distinction or a best-place-to-work list of distinction have aspired to the position.

4.4 The Corporate Mission Statement and the Lure to Corporate Virtuosity

Ethicists may find themselves frustrated by their inability to effect positive change in corporate behavior. Responsibility theory supplies them with the linguistic tools to identify correctly corporations as the agents guilty of corporate wrongdoing. Without those tools the mistaken practice of blaming individuals for corporate crime would go unchecked (Wilson 1993, pp. 779–789). However there seem to be few tools available to ethicists to help corporations to act ethically. The corporate mission statement may be the neglected tool that could help ethicists concerned about the prevention of corporate wrongdoing.

Why are corporate mission statements so valuable for business ethics? Corporate mission statements are non-mandatory; hence they are produced autonomously. When corporate mission statements become a matter of public knowledge they can become a voluntary source of corporate goal-setting. The clash between corporate values that are autonomously adopted and heteronomously imposed often surfaces in the corporate proxy statement.

Concerned individuals who hope to have a positive impact upon business ethics may resort to a shareholder resolution. Some socially responsible mutual funds use shareholder resolutions to leverage their influence upon corporate behavior. Citizen's Fund was founded by Sophia Collier as a socially responsible fund. It was acquired by Sentinel Investments in April, 2008. During the tenure of Citizen's Funds the company made use of shareholder motions to promote ethical corporate behavior. An example of its social advocacy is found in Citizens Funds' Annual Report and Supplemental Commentary, 2004. They write, "Citizens and others in the socially responsible investment community support a proposal to require companies to estimate and disclose the value of stock options (p. 3)." It was the practice of Citizens Funds to create shareholder resolutions intended to influence corporations to behave ethically.

If one were to survey the proxy statements of the Built-to-Last companies, one would find numerous shareholder proposals that aim to modify corporate behavior. Likewise it is not uncommon to find management recommending that the shareholders vote against such proposals. When management reasons that they already comply with a code of behavior that is as rigid as that proposed by the shareholders, the management is asserting that it believes the corporation should follow autonomously adopted guidelines for doing business and not heteronomously adopted guidelines for doing business. Since the corporate mission statement expresses the core ideology of the corporation, it epitomizes those self-imposed values that the corporation says it is willing to honor and uphold in practice. Rather than directing shareholders to make shareholder proposals for the purpose of shaping corporate behavior ethicists might do well to get corporations to translate their core ideology into a corporate mission statement. Once it is formalized shareholders and members of the ethical community can then explore the practical implications of a mission statement for good.

When a corporation has a mission statement the ethical community can make use of the statement to hold the company accountable for violating its own standards. That after-the-fact method can serve as a powerful deterrent to shape future behavior, and it can be effective in achieving a sense of retributive justice. However, if ethicists endeavor to achieve a broader sense of justice such as fairness, they may want to direct corporations periodically to revisit their mission statement and see how their behavior succeeds or fails in embodying the values latent in its mission statement.

Here I can only sketch how corporations might endeavor to make use of their corporate mission statement to aim to achieve a sense of corporate virtue. I assume that corporate virtue is an excellence of character in the Aristotelian sense of the mean between the vices of excess and defect (p. 958). Internally a corporation may decide to raise the bar on its desirability as a workplace. That would require that the corporation set quantifiable safety and environmental standards for employees and endeavor to achieve or exceed those standards. Externally a corporation may decide to offer products or services that shall sustain and improve the lifestyle of its customers while lowering costs.

Not all Built-to-Last corporations with mission statements would be likely to pursue corporate virtue. For instance, big tobacco producer Philip Morris may know its core ideology, but as it engages in business it may not autonomously embrace a concern for the health and welfare of its customers. For that reason it is not likely that a corporation like Philip Morris would voluntarily enter a program that aims to achieve a sense of corporate virtue. For other Built-to-Last companies like Merck and Company, Inc., the prospects seem much brighter.

4.5 Avoiding Vice and Pursuing Virtue in the Case of Merck and Company, Inc.

Included in the 2005 Proxy Statement for Merck and Company, Inc. is Shareholder Proposal 5: “Stockholder Proposal Concerning Elimination of Animal-Based Test Methods” (p. 41). This stockholder proposal urges that Merck abandon all animal testing without qualification. The proposal offers as its justification several empirically documented studies that suggest animal testing is both unnecessary and painful for the animals. The proposal requests that the Board “commit specifically to using only non-animal methods for assessing skin corrosions, irritation, absorption, phototoxicity and pyrogenicity." It comes as no surprise that management rejected such a proposal. They maintain, "the development of new medicines is dependent on animal testing for safety and efficacy. The proposal as stated is not scientifically valid or practicable at this time if we are to assure the safety of our medicines and vaccines" (p. 43).

While this shareholder resolution is well intended, it aims to shape corporate behavior heteronomously. Within the company's reply one discovers Merck has autonomously adopted certain standards as it relates to the ethical treatment of animals. For instance, the company reports that it was awarded the 2004 Bennett J. Cohen Animal Stewardship Award from the American Association for Laboratory Animal Science (p. 42). This exchange exemplifies how heteronomous standards of behavior may fail to motivate companies to change their behavior, when they can defend their way of doing business as generally acceptable behavior.

Does that mean that ethicists can do nothing but act as watchdogs to prevent future incidents of corporate vice? I think not. The possibility is still open for ethicists to develop a program to challenge corporations to engage in an ethically proactive program of behavior. That must grow out of an understanding of (1) how the corporate mission statement expresses those values that the company is autonomously committed to pursue and (2) how ethicists can call for corporations to abide by their core values or improve upon their core values. Consider an ethically motivated act of Merck and Company, Inc.

On September 30, 2004, Merck announced that it would voluntarily withdraw Vioxx from the market. Vioxx is a COX-2 non-steroidal pain reliever made by Merck to treat arthritis. With FDA approval this product was placed on the market in May, 1999. According to Donna Young within a year of its market release there were early warning reports that the product was creating an adverse drug reaction (ADR) in a negligible percent of the population (p. 1336). How much weight is to be placed on early warning reports? To reply management must weigh the pros of pulling a product off the market versus the cons of depriving some individuals of a working medicine. The product remained on the market almost five years. During that time the Food and Drug Administration online website reports that several individuals filed lawsuits against the manufacturer for adverse effects like cardiovascular accidents and gastrointestinal bleeding. Corporate officers maintain that the product could have remained on the market, had it received new labeling. In his 2005 annual report to shareholders Merck CEO Raymond V. Gilmartin said,

> While Merck made the decision to voluntarily withdraw Vioxx from the market, we believed that it would have been possible to continue to market Vioxx with labeling that would incorporate the data from the APPROVe study. We concluded, however, that based on the science available at the time, a voluntary withdrawal was the responsible course of action, given the availability of alternative therapies and questions raised by the data.

Voluntarily removing Vioxx from the market was a responsible action, but it was an action that was needlessly delayed. At least part of the trouble stems from the fact that the FDA had early warning information available by 2002 and failed to communicate it to the public in a manner that would enable consumers to make informed decisions in light of the known risks (p. 1333). To the families of litigants who suffered from the side effects of Vioxx Merck appears to have acted irresponsibly, when it decided to keep Vioxx on the market for three additional years. Since Merck had FDA approval for the marketing of Vioxx, Merck was legally warranted in continuing to market the drug providing that it issued a sufficient disclaimer about its side effects.

Could the corporate mission statement have helped Merck chart a policy of early intervention to avoid this debacle? I think so. In its "Mission Statement", Merck lists first the following value: "Our business is preserving and improving human life." In Merck's second value we find the following claim: "In discharging our responsibilities, we do not take professional or ethical shortcuts." In the end Merck made the right move voluntarily to remove the product from the market. At that point management ceased to rely upon external approval to justify its marketing of the product. Had Merck come to terms with the early warning information when it surfaced, the outcome would have been better for the consumers and the shareholders. This is a case where the core ideology helped the company save face, but if the company had been committed to the pursuit of corporate virtue it would have been more responsive to the early warning information. In other words, had the company withdrawn the product as early as 2002, its action could have been viewed as the action of a company endeavoring to act virtuously rather than a company endeavoring to save face before a scandal erupted.

The reactive course of action taken by Merck was responsible, but it was not virtuous. It was a course of action that was consistent with the values of the company, but the decision to halt access to the product appears to have come at a time when the company was at risk of facing an impending class action suit. In other words, the decision to pull Vioxx was responsible, but its timing appears to have been reactive and not proactive. Virtuous persons and companies are not just reactive; rather they are proactive in their pursuit of responsible behavior.

In September, 2005, a reporter for *Newsweek,* Jennifer Barrett, asked the question, "Can Merck Survive Vioxx?" (p. 42). Clearly the answer is, Yes. My follow-up question is: How has Merck survived? Given its pipeline of drugs and its market share, I suppose Merck could easily navigate the cost of lawsuits stemming from its marketing of Vioxx. A closer look at the company suggests that it may care about its mistake. In the intervening years Merck has taken on a new CEO, Kenneth C. Frazier; and the company has made some significant acquisitions that would allow the company to reposition itself in the industry. Putting those considerations aside there are some indications that Merck aims to remain true to its mission statement, and those indications are good news for consumers and ethicists. I cite two proactive steps it took in the last year that may point to its concern to fulfill its mission statement.

On the one hand, Merck seems to have taken a more cautionary approach to the marketability of some promising drugs in its pipeline. In its Form 10-K filed on February 28, 2013, one finds Merck using a more cautionary policy for the release of some drugs. A drug to reduce cardio-vascular events, HPS2-THRIVE, did not come up to the expected standards during the Phrase III testing, and Merck reports it chose not to seek regulatory approval for the drug (p. 2). That is a proactive step forward. On the other hand, Merck has chosen to continue to engage in some socially beneficial activities by providing life enhancing drugs to at-risk individuals in economically challenged societies. In his April, 2013, letter to shareholders Kenneth C. Frazier reports that Merck is celebrating a twenty-fifth anniversary of the MECTIZAN Donation Program. In this program the drug Mectizan is made available in Africa, Latin America, and Yemen, to individuals at risk for river blindness at no cost. I suppose a 25 year history of donations represents a virtuous plan of action, and Merck's ongoing commitment to the program should give ethicists as well as at-risk individuals cause to celebrate.

So, if ethicists desire to employ mission statements to spur corporations to act virtuously, how could the unpacking of a corporate mission statement occur? I assume that a corporate mission statement evolves through a give-and-take process just as curriculum changes at a university require a give-and-take exchange. A polished mission statement is not the first iteration of a corporation's intentions that is nuanced with buzzwords of the hour. If the mission statement is a social product that is hammered out by officers who are stakeholders in the corporation, then the production of the statement requires self-reflection and decision making. The mission statement is a formal distillation of the process, and it assumes that certain self-imposed boundaries and restrictions may govern the behavior of the corporation. In other words, the mission statement of a corporation may entail its levels of risk tolerance and risk aversion. To be true to its values a drug manufacturer may not be able to market some products and an insurer may not be able to underwrite certain policies. Recall the insurer Aflac. Aflac's choice to be ranked as one of the world's most ethical companies would preclude the possibility that it would indemnify certain clients. When the company chose to be labeled as an ethical company, it decided to forego some potential profits due the risks involved. If a member of the ethical community wishes to persuade a corporation like Aflac to become a morally virtuous corporation, he or she may need to investigate whether the corporation is remaining true to its original commitments or if not. A change in the company's willingness to underwrite certain high risk individuals or concerns may represent a departure from its original mission.

Conclusion

Philosophers have several practical outlets for their concern that corporations behave ethically. They may sit on the sidelines and act as ethical detectives who morally appraise corporate wrongdoing after the fact. They may become activists who picket against corporate policies or boycott corporate products. They may act as insiders to create shareholder resolutions for the purpose of changing corporate policy. They may also act as philosophers do when they unpack the ethical implications of corporate mission statements. Above I

(continued)

have suggested that the corporate mission statement is one place to start the unpacking process with the hope that it will call corporations to higher standards of ethical behavior. Saving face while avoiding additional harm is a good thing to do, but being diligent to insure that harm is minimized from the outset is a better act by far. If a philosopher or ethicist had helped Merck unpack the ethical implications of its mission statement as early as 2002, then the company could have found a moral reason to pull its product from the market before a significant number of individuals were placed at risk by using the drug. If the company had acted in this way, it would have been actively pursuing corporate virtue rather than simply avoiding corporate vice in September, 2004, before it was too late.

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Chapter 5
Social Audits and Global Clothing Supply Chains: Some Observations

Muhammad Azizul Islam

Abstract This study provides some preliminary insight in relation to the use of social audits by the global clothing and retail companies that source garment products from developing nations. In the era of globalisation, companies based in developed nations have transferred their production locations to many parts of the developing nations. At the same time, there are widespread global stakeholder concerns about the use of child labour, inadequate health and safety standards and poor working conditions at many of these production locations. Social audits appear to be a tool used by companies to monitor working conditions and to ensure that manufacturing takes place in a humane working environment. The study finds that companies use social auditing in order to maintain their legitimacy within the wider community.

5.1 Introduction

This study provides a preliminary review of how and why global retail companies use social audits when they source garment products from developing nations. As global retail companies have moved their production locations from developed countries to developing nations (World Bank 2007; WTO 2004; Shelton and Wachter 2005), there has been an enormous build up of pressure on these companies to rectify the inhumane working conditions which are apparent in supply factories. Companies are now responding in a number of ways to these international concerns over social conditions. This study focuses on social audits, as a response by global clothing retailers, to wider community concerns regarding inhumane working conditions within clothing supply chains.

This chapter provides some introductory information about the use of social audits by companies within the global clothing sector. Social audits appear to be a tool for companies to monitor working conditions and to ensure that products are made in a humane environment. Using legitimacy theory, the chapter shows that the

M.A. Islam (✉)
School of Accountancy, Queensland University of Technology, Brisbane, Australia
e-mail: azizul.islam@qut.edu.au

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way social auditing is conducted by global retail companies is consistent with the expectations of the broader community. In other words, the use of social audits is a way in which companies can maintain legitimacy within the wider community.

5.2 Global Concerns and Social Issues in Supply Chains

Many global companies have moved their production locations from developed countries to developing nations (World Bank 2007; WTO 2004; Shelton and Wachter 2005). While the shift in production location does not hurt developed economies, but rather is of benefit to them (Mandel 2007), there is enormous community pressure from the developed world associated with suppliers' frequent use of inhumane working conditions. Major issues of concern are discussed next.

One of the predominant issues to be addressed is human trafficking. Despite increasing international concerns, human trafficking is a very sad reality (UN 2008). Children (especially girls) are the most susceptible to the forced labour outcomes of human trafficking (ILO 2005; World Bank 2009; UN 2008). Globally, millions of children have become victims of human trafficking, and have been bonded into forced labour and slavery (World Bank 2009; UN 2008). International estimates show that 30–50 % of all trafficking victims are children less than 18 years of age (World Bank 2009). Adult women and men are also victims of human trafficking (UN 2008). According to the United Nations Office on Drugs and Crime (UNODC) Global Report on Trafficking in Persons and the United States Department of State Trafficking in Persons (TIP) Report 2009 (based on data gathered from 155 countries in 2007 and 2008), the majority of trafficked victims are women and children from developing countries, including many African and Asian nations (World Bank 2009). It is challenging to differentiate victims trafficked for forced, child or slave labour from migrant labourers (World Bank 2009). The victims frequently work in unidentified locations, such as agricultural fields in rural areas, mining camps, factories, sweatshops and in private houses (World Bank 2009).

The use of child labour is a major concern for many stakeholder groups, including investors, NGOs, media and consumers. Whether child labour is being used in the clothing sector, coffee production sector, or mining sector, investors across the globe express great concern about this practice. To investors, the use of child labour is simply unacceptable, regardless of the type of work or industry involved. Using children as labourers in any part of the supply chain constitutes a serious reputational risk for major global retail companies (Share 2011).

Child labour use in overseas factories has historically been of concern within the developed nations (particularly the USA). The extensive use of child labour in garment factories in developing countries such as Bangladesh became a prominent international issue after US Senator Harkin introduced a bill in 1992 in the US Congress known as the Child Labor Deterrence Act (Custers 1997). The bill called for a ban on the importing of goods produced in factories where children under the age of 15 years were employed (US Department of Labor 1994; Jenkins et al. 2002). The bill created panic among Bangladeshi clothing factory owners and the immediate outcome in many factories was that a large number of employees were dismissed (Custers 1997). The Child Labor Deterrence Act was used from the very beginning by both the US Embassy and by the Asian American Free Labor Institute (AAFLI) to put pressure on the garment industry, and each of the succeeding restorations instigated not only dispute but also renewed stress for the garment manufacturers in developing countries including Bangladesh (Nielsen 2005). Senator Harkin was also responsible for amendments to the bill in the US Congress in the late 1990s and early 2000s.

Another issue of concern in global supply chains is workers' health and safety. A number of intergovernmental organisations (IGOs) including the International Labor Organisation (ILO) and the World Health Organisation (WHO) have expressed their condemnation of apparent workplace health and safety breaches within the supply chains of global companies. Significant levels of risk are created for global companies if they do not take remedial measures to guarantee that workplaces within their supply chains are safe and comply with national and international standards. If inadequate health and safety measures result in unsafe workplaces and frequent workplace accidents, stakeholders directly accuse global companies of unsatisfactory discipline within the supply chain. As a result, these companies may be perceived to be complicit in health and safety abuses by their suppliers and may suffer damage to their reputation by association (http://human-rights.unglobalcompact.org/). In 2010 the ILO estimated that globally, 2.3 million people die every year from work-related accidents and diseases, and a further 337 million workers a year are involved in accidents at work (ILO 2010). While IGOs such as the ILO report the unsatisfactory results of corporate activities, the media also frequently showcases examples of inadequate health and safety standards with workplaces. Recent reports in news media such as the BBC have included stories about careless safety standards and poor wiring causing numerous deadly factory fires in the clothing sector every year in Bangladesh (BBC 2010).

Unfortunately, the clothing manufacturing sector is notorious for fires that cause injury and death. Between 1990 and 1997, 50 garment factories in Bangladesh were reportedly affected by fire; 87 workers died and about 1,000 were injured (Zaman 2001). In November 2000 a fire in a garment factory in Bangladesh killed 800 workers; many were crushed to death as they tried to escape the building through the stairwell, only to find the fire escape doors were locked (Parr and Dhanarajan 2002). This relatively recent development of commonly occurring fire accidents and deaths is frequently discussed by NGOs and the media. For example, according to the Netherlands-based international NGO Clean Clothes, factory fires left over 500 workers dead in Bangladesh over the period December 2000 to June 2005 (Source: http://www.cleanclothes.org). In April 2005, the Spectrum factory in Bangladesh collapsed due to a fire killing 64 workers and injuring 84 (CCC 2010). The Clean Clothes Campaign (CCC) also reports that at least 172 workers were killed between 2005 and 2010 (CCC 2010). On November 24, 2012, a fire broke out at Tazreen Fashions, which is located in Nischintapur, in Ashulia, Dhaka, Bangladesh. More than 1,200 workers were employed by the factory, almost 95 % of whom were females. The fire killed at least 112 workers and injured more than 300 people. Perhaps most devastating was the incident that occurred on April 24, 2013. On this day, the Rana Plaza factory in Bangladesh collapsed, killing at least 1,132 garment workers, and injuring more than 2,500 – a tragedy in a modern, civilized world.

The provision of insufficient living wages also creates great concern for the international community and provokes labour unrest. Article 7 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) requires acknowledgment that wages must be sufficient to afford workers with a decent living[1] for themselves and their families (ICESCR 1966). The ILO Convention No. 131 on Minimum Wages necessitates signatory member states to implement minimum wage mechanisms at a national level (ILO 1970). Despite the existence of such instruments in a large number of countries, 'minimum wages' do not essentially by themselves provide for a decent living as debatably conceived in the ICESCR – nor are they always up to date or enforced effectively (http://human-rights.unglobalcompact.org). So a company might be operating within the bounds of national law by paying a minimum wage but not respecting the rights of its workers to receive a living wage defined in terms of a decent living for themselves and their families (http://human-rights.unglobalcompact.org/). Given the difference in working contexts and economic circumstances around the world, there is a discrete lack of agreement between business, governments, trade unions and other labour organisations as to what the payment of a 'living wage' actually means, how it should be measured, and how it should be applied, either generally or for any specific economy. This can be most thought-provoking when considering organisations operating in, or acquiring products from, jurisdictions where there are no known industry standards or minimum wage levels to use as benchmarks (http://human-rights.unglobalcompact.org/).

In academic works, there is an increasing focus on the roles of NGOs, the media and consumers to employ force on global companies operating in or sourcing products from developing countries. Table 5.1 provides a summary of academic works that document the direct social pressures exerted on some of the major global clothing and sports retail companies.

Today, the social pressures summarised in Table 5.1 have serious implications for global companies. During the 1990s, it could generally be observed that managers in global companies did not take responsibility for working conditions that existed in supply factories in developing nations (Blowfield 2005). Clearly the situation in contemporary business practice is different. Now, the survival of a company depends on how it responds to social pressures. Since the late 1990s, global clothing and retail companies have become aware that simply avoiding bad press or side-stepping an issue is not enough to cast them in a positive light. Rather, it has now become common practice for companies to adopt socially responsible

[1] A right to adequate food, clothing, and housing.

Table 5.1 Direct social pressures and pressure groups

Reference	Examples of direct social pressures exerted on some of the major global retail companies
Landrum (2001, p. 57)	Nike and Reebok are the earliest (during the 1990s) active players to engage in poor labour practices in their overseas production
Spar (1998)	Kathie Lee, Nike, and Reebok were repeatedly exposed to media criticism over the exploitation of workers in their supply companies in developing countries
De Tienne and Lewis (2005, p. 361)	In 1996 news media such as *The New York Times* criticised Nike for building its wealth and products with the 'slave' labour of young Asian women. The news created a nationwide stir among consumers, activists and international corporations. Soon afterwards, Nike found itself in a sweltering spotlight, with several nonprofit groups' studies hitting the newsreels
Hughes et al. (2007, p. 497)	News media focussed on exploitation in the global production of clothing with reference to UK fashion retailers and supermarkets. Supermarkets targeted in these campaigns included the leading four corporations of Tesco, Sainsbury, Safeway (since the take-over by Morrisons) and Asda (since the take-over by Wal-Mart). High street retailers targeted included Marks and Spencer, Next, Debenhams and the Aracadia brands of Topshop, Top Man, Dorothy Perkins, Burton, Miss Selfridge, Evans and Wallis
Hughes et al. (2007, p. 500); Islam and McPhail (2011)	As in the UK, there was an explosion in the US media of exposés on labour conditions in global supply chains during the mid to late 1990s. Articles on the subject appeared frequently in newspapers such as *The New York Times* and *The Wall Street Journal*, as well as popular magazines. Retailers and brand manufacturers operating in the apparel and toy sectors were the main targets of criticism, including Gap Inc., Nike, Wal-Mart, Target, Sears and Nordstrom
Haltsonen et al. (2007, pp. 51–52); Islam and Deegan (2010)	It seems that stakeholder pressure experienced by H&M has mostly taken the form of customer demonstrations and media criticisms. Most often, the pressure has been related to alleged exploitation of workers in less developed countries

policies, in response to broader global community pressure to address issues such as child labour, forced labour, minimum wages and workplace safety. Prior research has revealed that many global companies are now seeking to demonstrate their socially responsible practices to such an extent that no damage to their reputation (in any of the countries in which they operate) is possible. These efforts to implement high standards of social responsibility, in turn, seem to now be directly influencing the operating practices of manufacturers and suppliers in developing countries.

5.3 The Meaning of Social Audits

Social audits are one way by which companies can achieve particular social standards associated with employees, the environment and society. Social audits are voluntary and help companies develop and implement fair practice programs that are transparent across supply chains. It can be undertaken with the aim of establishing whether an organisation is complying with its own (or other recognised) principles and standards (Gray 2000). It is a tool by which an organisation can plan, manage and measure social responsibility activities and monitor both internal and external consequences of these activities. Carroll and Beiler (1975) defined social audits as an attempt to measure, monitor and evaluate the organisation's non-financial performance with respect to its social policies and objectives (Carroll and Beiler 1975). As they state:

> social audits derive from the assumption that economic performance is being monitored and appraised elsewhere (in financial audit) by the firm. Social audits delve into what may be termed contemporary social issues such as minority employment and relations, environmental protection, community relations, consumerism issues, etc. (p. 597).

According to Medawar (1976) social audits refer to the complete examination of corporate activities as they affect employees, consumers, local communities and other interested parties. Harte and Owen, (1987) refer to social audits that examine specific social issues or events. Elkington (1997) argues that social audits are used to evaluate performance in relation to society's requirements and expectations. In a similar way, Owen et al. (2000) define social audits as the process by which a company determines its impacts on society and measures and reports the same to the wider community. Despite various differences in perspectives, many researchers – such as those referred to above – believe social audits should be conducted with the assumption that organisations have a social responsibility to the wider community.

Gray (2000) argues that social audits can provide an essential starting point upon which later developments in (social) disclosure can be built. Gray (2000) also distinguishes social audits from assurance by asserting that while assurance refers to the independent statement of a social account or social disclosure, social audits refer to a personal 'pulse-taking' exercise by an organisation, the output of which may or may not lead to the publication of a social account (Gray 2000).

Based on the works of Hunter and Urminsky (2003), it can be said that a social audit is used to evaluate the working conditions existing in a facility or supply chain of a company. This process may take from a few hours to a few days, and involves a number of steps. Three general processes are involved in the social audit. These include document review, the site inspection and interviews with workers, management and third-party stakeholders (Hunter and Urminsky 2003). Other prominent global companies follow five steps which comprise an opening meeting with high level managers, floor visits, document reviews, and interviews with workers, and a closing meeting with senior managers.

Gray (2000) argues that there can be two different categories or types of social audits. The first type is conducted for management's internal control purposes and for evaluating risk, managing stakeholders, image management, public relations, seeking out economic gains and efficiencies, publicising that the organisation is living by its values, and/or for maintaining legitimacy. By contrast, the second type of social audits might be performed for accountability, democratic, and sustainability purposes with the aim of benefiting society through the pursuit of an organisation's objectives. When taking the second approach to social audits, attention would be given to stakeholders' rights to information, balancing power with responsibility, empowering stakeholders and democracy, or owning up to eco-justice and ecological footprint failures.

Many global companies have a dedicated social compliance team which prepares the information required for internal or external auditors (Merk and Zeldenrust 2005). Other companies employ external or third party auditing firms to undertake the company's social audit and to monitor compliance to the code of conduct or other recognised regulations (Merk and Zeldenrust 2005). An internal auditor engages in monitoring of corporate social actions and reports on them to assist with internal decision making. On the other hand, an external auditor will prepare a public audit statement about the outcomes of the auditing process.

5.4 Social Audits, Social Standards and Corporate Responses

While social audits is a method by which companies can demonstrate that they are meeting particular social standards, this section discusses how those standards can dictate what social elements are to be audited. In other words, the social standards of the wider community provide significant direction to the way social audits are conducted. With the transfer of production from developed to developing countries, many global NGOs, international organisations and MNCs themselves have drafted requirements for particular social standards in their codes of conduct. A growing number of international agencies are also defining their standards for organisations operating in or sourcing products from developing countries. Of all the standards developed so far, SA8000 has set the global benchmark for social accountability, and appears to be the most widely accepted. This standard was developed by Social Accountability International (SAI), a non-governmental, multi-stakeholder organisation, whose mission is to advance the human rights of workers around the globe. Originally established under the umbrella of the Council on Economic Priorities (CEP) in October 1997, SAI now considers that companies' codes of conduct need to be carefully based on international norms, and independently verified for compliance. SAI works with many groups including The Business Social Compliance Initiative (BSCI), Cotton Made in Africa (CmiA), the ISEAL Alliance, The International Textile Garment and Leather Workers Federation (ITGLWF), Joint Initiative on Corporate Accountability and Workers Rights (Jo-In), Private Voluntary Organization (PVO) Standards, Global Reporting Initiative (GRI), The International Organization for Standardization (ISO), and Transparency International, to advance the human rights of workers by promoting ethical working conditions, labour rights, corporate social responsibility and social dialogue. SAI accredits qualified auditing organisations to certify compliance to SA8000. Over 1.2 million workers are employed in over 2,100 SA8000 certified facilities in 60 countries (http://www.sa-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=472).

A summary of SA8000 Standard elements follows:

1. **Child Labor**: No workers under the age of 15; remediation of any child found to be working.
2. **Forced Labor:** No forced labor, including prison or debt bondage labor; no lodging of deposits or identity papers by employers or outside recruiters.
3. **Health and Safety**: Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water.
4. **Freedom of Association and Right to Collective Bargaining**: Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining.
5. **Discrimination**: No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment.
6. **Discipline**: No corporal punishment, mental or physical coercion or verbal abuse.
7. **Working Hours**: Comply with the applicable law but, in any event, no more than 48 hours per week with at least 1 day off for every 7 day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement.
8. **Compensation**: Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions.
9. **Management Systems**: Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

Interestingly many global corporations sourcing products from a developing country incorporate human rights standards into their own practices (Islam and McPhail 2011) which are the same or similar to the SA8000 standards summarised above. In addition, almost all multinational corporations which have produced codes of conduct have done so in a manner akin to SA8000 (Islam and McPhail 2011). Where multinational companies sourcing products from developing countries have adopted their own code of conduct, it is either based on SA8000 or standards produced by SAI's partner organisations such as BSCI, GRI or ISO—which in turn are all based on the ILO's human rights standards (see Islam and

McPhail 2011). For example, Lindex,[2] a Finnish multinational clothing company (Lindex is owned by the Finnish retailing company Stockmann) adopted the BSCI code of conduct which is based on the UN Declaration of Human Rights, the UN Convention on the Rights of the Child and the ILO conventions dealing with working conditions and rights in working life. Its code of conduct deals with the following areas: freedom of association and the right to collective bargaining; a ban on discrimination; salaries and remuneration; working hours; working environment; health and safety; a ban on child labour; a ban on forced labour; environmental issues; management practices and documentation.

While the above codes of conduct, and associated social standards, are used by many global clothing retail companies when conducting social audits, social audit outcomes are often publicly disclosed in reporting media such as annual reports and individual social reports. An example is the Lindex 2009 CSR report, which states:

> Since 2004, Lindex has been part of the Business Social Compliance Initiative (BSCI[3]), which transcends sector boundaries and involves collaboration between over 450 companies, mainly European, which currently use a joint Code of Conduct and factory audit system. All audits are reported in a joint database where it is possible to follow developments at the different factories. During 2009, Lindex conducted a total of 274 audits. Of these, 192 were initial audits, i.e. the first audit at a supplier, and 82 where re-audits. 199 were conducted by Lindex's own auditors and 75 were conducted by external companies. In a factory audit, an assessment is made in 13 different areas and each area is assigned a score of 0, 1, 2 or n/a depending on how well the requirements have been met. When each part of the Code has been given a score (0-2 or n/a) a final assessment of the factory is made. During 2009, 24 factories were on the Stop List. Infringements include incomplete or contradictory documents which result in it not being possible to verify the demand for a minimum wage or where a supplier has used factories which have not been audited and approved by Lindex for certain parts of its production. During 2009, a total of 157 suppliers and factories took part in training activities initiated by Lindex and BSCI.

[2] After Lindex was transferred to the ownership of Stockmann in 2007, the Lindex purchasing offices in China, Hong Kong, India, Bangladesh, Pakistan and Turkey took on the role of purchasing offices serving all divisions of the Stockmann Group (*Stockmann's Annual Report 2009).* In 2009, Lindex worked steadfastly for the promotion of sustainable development. These efforts were noted in Bangladesh, for example, where the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) gave an award to the company towards the end of the year: a prize for its outstanding achievements in Bangladesh in 2009, particularly in the areas of environmental and corporate social responsibility (*Stockmann's Annual Report 2009).* According to a survey conducted by the Amnesty Business Group among the 150 largest companies in Sweden on the way they handle human rights, Lindex came seventh in 2007 (Lindex, Corporate Social Responsibility Report 2007).

[3] BSCI audits are performed by the same authorised certification institutions that perform SA8000 audits, which means that a company can opt to upgrade to SA8000 certification. An audit conducted by an external independent auditor guarantees the transparency and reliability of the system. More information is available about the operation of the BSCI on its own website, at www.bsci-eu.org (Stockmann Group's Sustainability Report 2009, p. 11).

5.5 Social Audits as a Legitimating Strategy

Why social audits are now being used by global retail companies can be explained by considering legitimacy theory. According to legitimacy theory, the continued existence of an organisation is established both by market strength and the fulfillment of social expectations. Hence, an understanding of the broader concerns of the public, as articulated in community expectations, becomes an essential prerequisite for an organisation's survival. Legitimacy theory is based on the assumption that an organisation will maintain its social status by responding to society's requirements. This postulation has been supported by some early studies such as those of Shocker and Sethi (1974), Guthrie and Parker (1989) and Suchman (1995).

According to Lindblom (1994), legitimacy is a form or status which exists when an organisation's value system is congruent with the value system of the larger social system of which the organisation is a part (p. 2). Legitimacy can also be characterised as both an element of the perspective on exchange and a by-product of exchange; thus legitimacy is not something that can be traded among organisations (Hybels 1995). The term legitimacy specifically refers to the approval given by society in a certain context, as distinguished from 'legitimation' which rests upon an organisation's legitimate actions. Pfeffer and Salancik (2003) argue that legitimacy is similar to any resource that an organisation must acquire from its environment. Legitimacy theory directly relies upon the notion of the 'social contract' (Mathews 1993; Shocker and Sethi 1974; Guthrie and Parker 1989; Deegan 2002). This means that an organisation will gain approval to carry out various socially desirable activities in return for endorsement of its rewards and ultimate survival. As Mathews (1993, p. 26) states:

> The social contract would exist between corporations (usually limited companies) and individual members of society. Society (as a collection of individuals) provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organisations draw on community resources and output both goods and services and waste products to the general environment. The organisation has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society.

In social accounting literature, many researchers concur that social reporting can be employed by an organisation to maintain or attain legitimacy. An increasing number of empirical studies have sought to link legitimacy theory to corporate social reporting policies and found that corporate reporting via annual reports takes place as a response to legitimacy threats (see for example Patten 1992; Deegan et al. 2000). Deegan (2002) provides a comprehensive overview of legitimacy theory and describes a variety of motivations for managers to report social and environmental information. Deegan's (2002) overview of prior literature has particularly found that corporate annual reporting disclosure is a tool for maintaining legitimacy. The overview also suggests that the greater the chance of unfavourable shifts in community expectations, the greater will be the need to attempt to influence the process through corporate social disclosure. This notion appears equally applicable in the context of social auditing.

The way social audits are performed by global retail companies seems to conform to the expectations of the broader community. It is beneficial for companies to perform regular or annual audits. This is because infrequent auditing provides the opportunity for unmonitored and uncontrolled deterioration in working conditions which will then negatively influence broader community perceptions (Egels-Zandén and Wahlqvist 2007). If the wider public withdraws their support for a company because of exposure of poor working conditions, the survival of the company will be threatened. From an accountability perspective, social audits provide a framework for companies to plan their supply chain, improve health and safety practices, and signal absolute rejection of child and forced labour; while from the legitimacy theory perspective, it achieves two goals – social acceptance and the enhancement of reputations for financial profitability. With the rise in concern about the social costs of inhumane manufacturing practices, it is important for all organisations within the supply chain to implement a procedure for managing risks related to social compliance. The consequences of being found liable for unethical and unlawful practices in a supply chain are extensive, and include at the very least poor financial results and a tarnished brand reputation and ultimately a crisis in legitimacy (Business Social Compliance Initiative, BSCI 2013).

While legitimacy theory posits that organizations conform to the expectations of the community in which they operate, it may have positive as well as negative implication. For example, within the Bangladeshi clothing industry, when media highlights of massive child labour employment in the early and mid-1990s within the sector attracted huge legitimacy threats from the global community, consequently the industry had to take corrective actions and use social audits to monitor those actions. Such actions led the overall improvement in the working conditions in Bangladesh. The positive implication here is that legitimacy crisis created a real change within the clothing industry in Bangladesh. At the same time the negative implication is here, the industry waited to see the crisis first and then consequently in order to survive they had to take corrective actions. Legitimacy theory is here perceived as a notion of minimizing legitimacy crisis rather than ensuring accountability to the wider community. Perhaps we, the researchers are more inclined to exploring ‘symbolic legitimacy’ than ‘substantive legitimacy’. There is a room for further research on ‘substantive legitimacy’.

Conclusion

This chapter provides some preliminary understanding of the use of social audits by companies within the global clothing sector. Using legitimacy theory, the chapter highlights that the way social audits are undertaken by global clothing retail companies is consistent with the expectations of the

(continued)

broader community. However, the issue deserves concentrated research attention.

As social audits are a voluntary activity, possibly sometimes used only as a legitimation tool by global clothing retail companies, one can be skeptical about whether such audits can make a real change in the working conditions that are evident within clothing supply chains. Without appropriate regulation or enforcement of social auditing standards, the accountability and obligations of global companies to improve working conditions remains negligible. There have been some regulatory attempts to discipline the social conduct of MNCs. One example is the introduction of The California Transparency in Supply Chains Act of 2010 (SB 657) on January 1, 2012. This law requires large retailers and manufacturers that do business in the State of California, and that have gross worldwide sales of $100 million dollars or more, to clearly disclose the efforts they have made to eradicate slavery and human trafficking from their supply chains. One element of the act relates to conducting social audits. Global retail companies are responding to this act by adopting social audits as a part of their business practice.

Despite the recent introduction of some regulations, such as the Californian act mentioned above, the author cannot be sure that the adoption of social auditing practices by MNCs actually results in real, positive changes in the working conditions in factories in supply chains within the developing nations. The issue deserves more research attention.

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Chapter 6
Employee Volunteering as an Element of Corporate Social Responsibility: The Evidence from Polish Listed Companies

Maria Aluchna

Abstract The concept of CSR is implemented into business practice with the use of different operational and strategic schemes such as environmental protection actions, education and information initiatives, social dialogue programs. The interest in CSR and employees' engagement in management pictures the shift in the role of companies in society and economy. It also represents significant changes in perception of companies' dedication to their social performance, stakeholder policy and social dialogue. Employee volunteering is an essential important component of CSR and an important theme in management studies as well as in corporate activities. The paper delivers the review of the literature on employee volunteering and discusses its programs in companies as a component of CSR pointing out standards and recommendations for their implementation. The paper also provides results of the qualitative research on employee volunteering activities undertaken by the 30 largest public listed companies in Poland addressing the issues of employee participation in management and governance. It discusses the employee volunteering policy and programs adopted by listed companies referring them to the post-socialist and post transition reality of Poland.

6.1 Introduction

Severe economic, social and environmental challenges contribute to the growing demand in both theoretical and empirical studies on corporate social responsibility (CSR). The concept of CSR is implemented into business practice with the use of different operational and strategic schemes such as environmental protection actions, education and information initiatives, social dialogue programs. The employee volunteering is an essential important component of CSR and an important theme in management studies as well as in corporate activities. The interest in

M. Aluchna (✉)
Warsaw School of Economics, Warszawa, Poland
e-mail: maria.aluchna@sgh.waw.pl

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CSR and employees' engagement in management pictures the shift in the role of companies in society and economy. It also represents significant changes in perception of companies' dedication to their social performance, stakeholder policy and social dialogue. The clearly formulated expectations of well structured and powered stakeholders which are able to exert impact on companies remain the main driver for the change. As employee volunteering appears to be an integral element of corporate social responsibility programs it perceives employees as internal stakeholders and the influential corporate force. Thus the role and importance of employees in the process of management and governance is expected to increase. The volunteering programs empower employees making them an important stakeholder in company's external communication system and social dialogue. Employee volunteering becomes also a crucial prerequisite for the internalization of CSR principles into companies operations driven by the change in corporate culture and leadership. The internalization of CSR principles are followed by the adaptations of mission, corporate goals and strategies adopted. The practice and literature review on employee volunteering delivers a list of standards and recommendations for its practical implementation.

Despite the growing popularity of corporate volunteering amongst companies, its empirical evidence remains scarce. Still little is known on its place and role in the CSR system, the programs scope and directions as well as implications for the development of social responsibility and impact on social performance of companies (de Gilder et al. 2005; Peterson 2004a). The paper delivers the review of the literature on employee volunteering and discusses its programs in companies as a component of CSR pointing out standards and recommendations for their implementation. The paper attempts to fill in the gap providing results of the qualitative research on employee volunteering activities undertaken by the 30 largest public listed companies in Poland addressing the issues of employee participation in management and governance. The paper intends to present the employee volunteering policy and programs adopted by listed companies and to refer these practices to the post-socialist and post transition reality of Poland. Tracking the general characteristics of the sample companies the paper aims to identify any differences in corporate volunteering programs adopted amongst 30 largest Polish listed companies. Moreover, it attempts to answer the question whether certain variables can be seen as incentives or hindrances for implementation of employee volunteering in companies. Therefore the paper contributes to the state of knowledge of CSR in several dimensions. First of all, the paper it delivers the analysis on the largest Polish public listed companies with the reference to their characteristics comprising the ownership structure, size, sector of operation and the overall social performance. Second, it addresses the question how the organizational context refers to companies' decision on the involvement in corporate volunteering programs. And third, the paper provides some insights on corporate social responsibility and employee volunteering programs in the post social and post transition reality.

The paper is organized as follows – the first section presents theoretical framework on corporate social responsibility discussing the role and place of employee volunteering in the CSR context. The second section addresses the issue of standards and practice of employee volunteering identifying the most commonly adopted guidelines for implementation, evaluation and reporting. The short overview of the characteristics of the Polish society with respect to the potential for CSR activities is delivered in the third section which also outlines the research methodology and obtained results. It also provides the discussion of the collected empirical evidence and refers the results to the findings of the previous research. The conclusion section summarizes the analysis.

6.2 Corporate Social Responsibility and Corporate Volunteering

6.2.1 The Concept of Corporate Social Responsibility

Corporate social responsibility experiences the growing practical and academic interest and belongs to the most dynamically developing themes in management studies. The concept is broad addressing many internal and external aspects of a company functioning (Warhurst 2011) and referring to the institutional and regulatory frameworks. The evolution and the role of the corporate social responsibility concept relate also to the shift in management and economic literature addressing the questions of the changes in line with the development of societies. The academic interest and popularity amongst companies in corporate social responsibility are driven by the understanding for the need to change the business's role in society, its reaction to stakeholder expectations and the way it addresses social, economic and environmental challenges. Hence, CSR is a response to social expectations and current business environment challenges related to the globalization process, climate change, risk of corruption and workers abuse and the need for reporting. It should be incorporated in the company strategy as the result of the notion that business has to respond to changing societal expectations (Idemudia 2011). The main tasks of CSR relate to providing for accountability and transparency as well as assuring responsibility and sustainability (Hollender and Fenichell 2004; Crowther and Jatana 2005b). Corporate social responsibility defined as a concept "whereby companies integrate social and environmental concerns on their business operations and in their interaction with their stakeholders on a voluntary basis" (COM 2002; Neal 2008; Crowther and Jatana 2005a; Prieto-Carron et al. 2006) to achieve long term sustainable growth and development is often viewed as a new paradigm for the system of authority and decision making (Benn and Dunphy 2007). According to Carroll (1979) "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent".

It is crucial to emphasize the voluntary approach of companies to the incorporation of social aspects and stakeholder expectations which include all entities and individuals who are influenced or may impact the company and comprises shareholders, employees, suppliers, customers, local communities and management (Freeman 2005). The development of CSR is also related to the emergence of related concepts and ideas such as corporate citizenship and sustainable development which provide consistency amongst various dimensions of company operation. Hence, the integration of corporate social responsibility, strategic management and corporate governance to provide for fulfilling interests of various stakeholders is observed (Gill 2008; Jamali et al. 2008).

6.2.2 *Employee Volunteering as the Element of CSR Policy*

Employee volunteering (known also as corporate volunteering) is not a recent phenomenon but has a long history (Basil et al. 2009). It constitutes an integral component of strategic corporate social responsibility and is viewed as a global phenomenon engaging small and medium companies as well as large global corporations. The data from the US economy suggests that volunteering programs are adopted by nine out of ten firms (Tuffrey 1997 as quoted in Peloza and Hassay 2006) and over two-thirds of U.S. firms provide time off for employee volunteerism (Wild 1995 as quoted by Peloza and Hassay 2006). Employee volunteering reveals growing interest in Canada (Basil et al. 2009), New Zealand (Lee and Higgins 2001) as well in Europe where the leaders in terms of employee involvement include Holland (57 %), Denmark (43 %) and Finland (39 %) (CSRinfo 2011; Herzig 2004). The concept of employee volunteering aims at encouraging employees to participate in various CSR activities and includes them into management and governance system. Its programs are viewed as a "way for staff to participate in the expression of the CSR values espoused by their employer giving them the opportunity to connect in a more meaningful way with these values" (Volunteering Australia 2006). It represents the activity performed outside of work and results from the individual's decision to donate time to non-profit activities (de Gilder et al. 2005). Corporate volunteering assumes that employees engage in socially beneficial activities on company time, while being paid by the company.

Employee volunteering is understood as a collaborative effort between the company and its employees to internalize and implement principles of corporate social responsibility and sustainability. It also demonstrates the attitude of responsibility, transparency and accountability to the public. Corporate volunteering may also be viewed as a tool for empowering employees and regaining the value by labor as an asset for business operation which was heavily lowered in the post capitalism stage of economic development (Drucker 1993 as quoted in Birch and Jonker 2006). More importantly, the adoption of corporate volunteering programs constitutes the highest stage of stakeholder involvement which is developed through the following steps (Foster and Jonker 2006):

- Management of stakeholders characterized by manipulation, non-participation and operational focus level of decision where neither stakeholder communication nor stakeholder engagement exist,
- Management for stakeholders characterized by information, consultation and placation and operational and instrumental level of decision where stakeholder communication is strategic and stakeholder engagement calculated,
- Management with stakeholders characterized by partnership and participation and instrumental and strategic level of decision where stakeholder communication is carried out in the form of a dialogue and stakeholder engagement is transactive.

Thus, the development of employee volunteering in scope and size should result in strengthening the position and importance of employees in the management of the company. Employees then participate in the decision process and become the strategic stakeholder. Hence, employee volunteering serves as a tool for achieving social goals, encourages social dialogue with stakeholders and develops work based partnerships while its characteristics and fundamental assumptions create the so called "win-win" situation, (Herzig 2004). Employee volunteering contributes also to the development of social capital (Muthuri et al. 2009; Haski-Leventhal et al. 2009). Therefore rising "engagement with local communities is becoming an increasingly important need as globalization has increased the size and reach of many corporations and diminished corporations' ties to local communities" (Lee and Higgins 2001).

The volunteering programs may differ in terms of scope, length, company's policy as well employees' attitude towards these initiatives. The analyses of corporate volunteering distinguish three forms including (Peloza and Hassay 2006):

- Extra-organizational volunteerism with no employee involvement,
- Inter-organizational volunteerism characterized by passive support of employee decision to volunteer,
- Intra-organizational volunteerism based on proactive development of strategic volunteer opportunities for its employees.

The volunteering programs are numerous in types which differ on a variety of dimensions (Peterson 2004a) and may range from helping poor families or handicapped members of the society, education projects to charities and occasional activities (e.g. Christmas programs). Companies may encourage employees to complete volunteering initiatives during their working hours or beyond the time they are supposed to devote to the organization. Employees may also demonstrate various attitudes towards the company policy focusing on non core business activities. The corporate volunteering is heavily incorporated into companies' strategies and remains the integral part not only of the CSR policy but of the company's operation on the market (Benjamin 2001). Employee volunteering reveals – similarly to other CSR related activities – a wide range of both internal and external positive effects. The internal effects improve employee motivation and contribute to the company's value chain by enhancing employee morale, while the external effects refer to the company reputation and social performance (Basil et al. 2009; Peloza and Hassay 2006; Peterson 2004a, b). The development of employee volunteering indicates the potential for improvement of the internal efficiency and organization such as the emergence of new ideals and approaches to problem solving and forming alliance with corporate partners (Feagans 2007). Moreover, employee volunteering assures for enhancement of human resource management linked to the corporate culture, employee satisfaction and loyalty and motivation. Additionally, corporate volunteering assures for positive results for local communities and other stakeholders influenced by these initiatives (Allen 2003). Addressing the potential benefits of adoption of the employee volunteering program requires identification of possible risks and challenges associated with the implementation of these initiatives in companies. The risks refer to (Durbin et al. 2007):

- The emergence of the phenomenon called window dressing when the implementation of the program is not supported on the ground level,
- The potential inability of the company to control its employees while working within the volunteering program,
- Litigation resulting from two sources: (1) injuries and accidents of the employees as well as (2) the improper or unaccepted behavior of the employees,
- Inability to accommodate everyone's needs due to different characteristics, preferences and expectations of company employees,
- Miscommunication referring to misunderstanding of the needs and expectations of both the company and the beneficiaries of the program.

6.3 Employee Volunteering Standards and Practice

The recent growth in the popularity of employee volunteering programs observed amongst companies does not seem to be correlated with the increase in research and studies on this topic. The research conducted so far are undoubtedly insufficient and does not answer many questions and concerns on practice of employee volunteering. The majority of studies on employee remains descriptive not providing assessment and measurement of the impact of the programs adopted (McBride and Sherraden 2009). As demonstrated in the conceptual model by Sherraden et al. (2008) the program's effectiveness depends on a set of organizational and social variables such as on volunteer attributes (demographic variables such as education, gender, age etc.) and individual capacity (volunteering capacity denoted by knowledge and skills, motivation and efforts), as well as program attributes (such as type of organization, mission and goals, size of organization, recruitment policy) and institutional capacity (including service activity, length and continuity of service, group or individual placement, direction of service and reciprocity, cross-cultural contact and immersion). The adoption of such methodology allows for measuring the impact of undertaken activities upon different groups of stakeholders (Vian et al. 2007). The review of the literature and corporate materials presented below is focused on the identification of the standards and recommendations for the practical implementation of the employee volunteering programs.

The standards of employee volunteering aim to establish a benchmark, encourage greater corporate community involvement, improve the efficiency and popularity of these initiatives, and facilitate the use of better practices as well as to improve communication on programs (World Volunteer Web 2006b). The standards refer mostly to implementation standards, evaluation standards as and the reporting standards. The implementation standards describe the formal and organizational requirements addressed towards the company and present a set to recommendations and best practice for the effective adoption of the programs. The documents prepared by The World Volunteer Web (2006a) or Volunteer Canada (2012) serve as examples of implementation standards. The evaluation standards identify criteria which form the basis for efficiency of the implemented employee volunteer program with the reference to the performance and with the use of selected metrics. The evaluation standards are also the criteria for awards for companies with outstanding performance as formulated by the document prepared by "Points of Light" Institute. And finally, the reporting standards prepared by Corporate Community Volunteer Professional within Corporate Community Involvement Summit indicate the measures used to provide information of the characteristics of volunteers and initiatives conducted.

The World Volunteer Web was founded by the United Nations Volunteers (UNV) program in partnership with the organizations such as CIVICUS: World Alliance for Citizen Participation, Inter-American Development Bank (IDB), International Association for Volunteer Effort (IAVE), International Federation of Red Cross and Red Crescent Societies (IFRC), Merrill Associates, Millennium Campaign, OneWorld.net, Portal do Voluntário. It currently includes 20,000 members. The World Volunteer Web "supports the volunteer community by serving as a global clearinghouse for information and resources linked to volunteerism that can be used for campaigning, advocacy and networking". The standards formulated by the World Volunteer Web are presented in Table 6.1.

As example of evaluation standards of employee volunteering programs is provided by "Points of Light" which functions as the platform for cooperation between a number of well known and globally operating companies (e.g. AT&T, PWC, Hewlett-Packard, Home Depot, Wells Fargo, UPS, Morgan Stanley, Kraft, Lexis Nexis). These standards are heavily based on the financial metrics such as employee volunteering programs budget in total and in percentage of total, community involvement budget, utilization metrics such as employee volunteering programs participation rate, company paid service utilization rates and valuation of volunteer hours and impact metrics such as straight return on investment (ROI) and social return on investment (SROI). To measure performance the following metrics should be tracked and reported annually (Points of Light 2005):

Table 6.1 Employee volunteering standards formulated by the World Volunteer Web

Standard I: strategy
Companies need to develop a thoughtful strategy, one which reflects the values and beliefs of the company with respect to philanthropy, in general, and volunteerism, in particular. The strategy should incorporate a mission statement, policies and guidelines which: address why the company encourages, promotes and supports volunteerism; provide direction in terms of goals and objectives; align with existing community relations/involvement strategies; and incorporate business objectives, employee interests and community needs.
Standard II: infrastructure
Companies need to set the scope and parameters within which their programs will operate by establishing a clearly defined program structure and developing processes and procedures to guide their volunteer programs. Similarly, companies also need to assign an appropriate number of personnel and allocate sufficient funds to effectively support, manage and run their programs.
Standard III: communication
Companies need to develop communications strategies, leverage appropriate communications tools and deliver pertinent information and messages to key internal and external audiences aimed at generating awareness, elevating interest and driving participation.
Standard IV: leadership
Companies need to encourage a high level of senior management buy-in and support for volunteerism, as well as participation in community and board service activities. Senior management buy-in legitimizes the value of the program, secures needed resources such as funding and personnel, and motivates employees and managers to volunteer.
Standard V: education and training
Companies need to educate both employees and management alike on: the importance of volunteering; why the company encourages and supports volunteerism; related guidelines, policies and programs; and the benefits they, their communities and the company enjoy. Similarly, companies also need to train employees and management on: how to volunteer/get involved; plan and organize events and activities; recruit fellow co-workers; and serve on nonprofit boards.
Standard VI: recognition
Companies – their management especially – in an effort to recruit and retain volunteers, as well as bolster employee pride and morale, need to recognize employees for their commitment of time, talent and energy – formally and informally – as often as possible.
Standard VII: employee engagement
Companies need not only actively recruit employees to volunteer, but create a corporate culture that makes employees want to get involved, by: incorporating employees' needs and interests; making it easy for employees to get involved; providing employees with a variety of events and activities to participate in; allowing employees to volunteer during the workday; and soliciting employee feedback.
Standard VIII: effective partnerships
Companies need to establish effective partnerships with the "right" nonprofit organizations, those which have the knowledge, experience and capacity to successfully: plan and organize events and activities; coordinate and manage volunteer participation; recognize employee and corporate support; and utilize corporate and community resources in a responsible manner. Additionally, companies should look to establish effective partnerships with nonprofit organizations that fit with their corporate cultures/values, and ones that can meet specific needs related to individual volunteers, groups projects, signature programs and/or annual corporate events.

(continued)

Table 6.1 (continued)

Standard IX: evaluation and measurement
Companies need to consistently and accurately track employee engagement, both formally and informally, as well as measure and evaluate process and outcome data. Companies also need to solicit feedback from employees, management and nonprofit partners.

Source: World Volunteer Web (2006b). Standards for corporate volunteering programme released, http://www.worldvolunteerweb.org/news-views/news/doc/standards-for-corporate-volunteering.html

1. Number of EVP Partner Organizations
   1.1. Total
   1.2. By Type (i.e. community serving organization or volunteer action center partner organization)
2. Number of Volunteers
   2.1. Total
   2.2. By Type (i.e. traditional employee volunteers, skills-based employee volunteers [excludes pro bono volunteers], guest volunteers, employee volunteer leaders)
   2.3. By Demographic Categories (i.e., gender, age group, ethnicity, employment status, job title, years with the company, work setting, and work location)
3. Number of Volunteer Activities
   3.1. Total
   3.2. By Type (i.e. education, health and human services, civics, arts and culture, and environment)
4. Number of Volunteer Hours
   4.1. Total
   4.2. By Volunteer Type (i.e. traditional employee volunteers, skills-based employee volunteers [excludes pro bono volunteers], guest volunteers, employee volunteer leaders)
   4.3. By Volunteer Activity Type (i.e. Education, Health and human services, Civic, Arts and culture, Environment)
5. Volunteer Frequency
   5.1. Average For All Volunteers
   5.2. Average By Volunteer Type (i.e. traditional employee volunteers, skills-based employee volunteers [excludes pro bono volunteers], guest volunteers, employee volunteer leaders)
6. EVP Participation Rates
   6.1. Proportion of total number of employees and total employee full-time equivalency (FTE)

   6.2. Proportion of all volunteers in traditional volunteer role, skills-based volunteer role, and employee volunteer leader roles

7. Company-Paid Service Utilization Rates
   7.1. Proportion of total volunteer hours from company paid/sponsored and non-company paid/sponsored events
   7.2. Proportion of total volunteer hours occurring on company time and occurring off company time
   7.3. Proportion of company-donated leave utilized
8. Valuation of Volunteer Hours
   8.1. Total
   8.2. Dollar Value of Traditional Employee Volunteer Hours, Skills-based Volunteer Hours, Volunteer Guest Hours, and Volunteer Leader Hours
9. Dollar Rate of Straight Return on Investment (ROI)
10. Dollar Rate of Social Return on Investment (SROI)

The guidelines prepared by Corporate Community Volunteer Professional serve as an example of the reporting standards of employee volunteering programs. These guidelines were formulated by Corporate Community Volunteer Professional within Corporate Community Involvement Summit which includes companies teamed up under the "Points of Light" Institute additionally joined by AOL, Charles Schwab Foundation, Citigroup, Deloitte, Entrepreneurs Foundation, Franklin Templeton Companies. The reporting standards of employee volunteering programs are presented in Table 6.2.

6.4 Employee Volunteering in Poland

6.4.1 General Characteristics of CSR and Employee Volunteering in Poland

The development of corporate social responsibility and employee volunteering in Poland experiences the national and regional specificity related to post socialist and post transition legacy, the emergence of capitalist economy and the legislative requirements imposed within process of the accession to the European Union. Hence, the shift from state to private decision making, liberal macroeconomic policy, the shift from the orientation on labor and employees' role to the orientation towards capital and investor dominance and emergence of modern consumption pattern exert significant impact upon social system and corporate practices. As sociologists note Polish society is characterized by severe passive approach to political and social problems (low trust, low participation rates in parliamentary elections etc.), while consumer purchasing behavior is driven more by price than

Table 6.2 The reporting standards of employee volunteering programs

Volunteer activities
A volunteer activity must benefit a not-for-profit organization and include at least one employee volunteer
A volunteer activity and the hours associated with it are reported if it is company supported volunteer activities are reported by employee volunteers or others through the employee volunteer program
Employee volunteers
An employee volunteer is an individual employee who participates in at least one volunteer activity in a 12-month period
An employee is defined as a person on the company's payroll
Volunteer hours
Hours are reported as whole numbers volunteer hours are reported for each individual employee volunteer
Volunteer hours are reported by employee volunteers or others through the employee volunteer program
Dollar value of volunteer hours
Total number of volunteer hours multiplied by the industry standard value of a volunteer hour as set by independent sector
Not-for-profit organizations
Organizations must serve the public good, examples of such organizations are schools, hospitals, NGOs, etc.
Organizations are counted once in a 12-month period if they host a volunteer activity
Total employees
Total number of employees on the company's global payroll at year-end

Source: Corporate Community Involvement Summit (2006). Corporate Volunteer Reporting Standards v. 2.0, http://efcsr.org/documents/resources/employee-volunteerism/Volunteer-Reporting-Standards.pdf

the social and environmental performance (Czapiński and Panek 2009; Aluchna 2010). Yet, the development of CSR supported by large corporations and individual initiatives provide frameworks for socially responsible activities accompanied by the EU regulations and tools strengthening emergence of the civil society. All these aspects affect the social interest and engagement in volunteering programs both on national as well as on corporate levels. The post socialist legacy shifted the decision role from workers class and employees to the hands to investors and management. Therefore, the employee volunteering program are perceive rather as a contribution to the society and are not meant to become a tools for increase the role of employees in management and governance.

The studies on employee volunteering in Poland are very limited. The findings on employee volunteering remain coherent with the observation on the social attitude, involvement levers and main constrains noted in the case of corporate social responsibility. The report on employee volunteering in Poland indicates that (CSRInfo 2011):

- 6 % of Poles were involved in volunteer activities in 2010 and 11 % in 2011,
- 60 % of Poles do praise volunteering as valuable and interesting activity as opposed to 20 % Poles who perceive volunteering as an unimportant activity,
- Volunteering is not significantly rooted in the social and corporate spheres,
- Corporate volunteering appears to be most popular CSR activity in the case of companies which are owned by foreign investors and operate as subsidiaries (e.g. Procter & Gamble, RWE, Tchibo, Glaxo Smith Kline, Coca Cola, IBM, Danone),
- Corporate volunteering adopt the following patterns:
  - Companies grant dedicated funds to groups of employees,
  - Employees are quite independent in choosing the area they indent to work on,
  - The most popular themes of volunteering projects include education and supporting youth, health care and reconstruction after natural disasters,
  - The number of employees engaged in volunteering programs remains low not excising 20 % of the staff,
  - The employee motivation and involvement appears to be low at the early stage of implementing the program and rises along with the proceeding with the project.

As indicated in the survey results the employee volunteering is not a popular program within CSR activities covering from 6 % to 20 % of the staff. Interestingly, it proves to be of growing interests and emerging policies in the case of larger companies, often subsidiaries of global corporations. These companies identify a wide set of opportunities and benefits of employee volunteering such as better social perception, improved relations with local communities, increasing employee morale (Zamościńska 2011). The low interest and weak participation of Poles in volunteering programs is correlated with the discussed social passivity and the dominance of the economic aspects in the life of an individual. The low income levels, the struggle to catch up with the Western standards as well as the awareness of the increasing competition belong to the main hindrances for development of the employee volunteering in Poland (Centrum Wolontariatu 2008). However, the other reasons behind weak popularity of employee volunteering are rooted in the lack of understanding of the goals and motives as well as the lack of knowledge on the implementation and policies.

6.4.2 Employee Volunteering in the Largest Listed Companies in Poland: The Description of the Research

The main goal of the research is to identify and analyze employee volunteering practices in undertaken by the 30 largest Polish listed companies with the reference to scope and types of implemented programs. The reason behind building the sample of 30 largest companies listed on the Warsaw Stock Exchange lies in three essential aspects. First, the listed companies are subject to strict transparency standards and thus the access to data is easier. The listed companies disclosed their strategies and financial performance in the form of annual report and often report on their CSR performance in the form of an additional document. They also often present their CSR activities on their corporate websites and reveal high awareness of the role of CSR. Second, the largest listed companies play an important role in the Polish economy. And third, the largest companies are believed to have the most advanced CSR and employee volunteering programs serving as role models for smaller firms. Their leading CSR programs produce sufficient empirical material for the analysis. The largest companies are also believed to provide for stronger coherence of business mission, vision, corporate goals and strategy which is supposed to address the expectations of both shareholders and stakeholders. However, taking into account the characteristics of the Polish society and the relative shallow understanding of CSR it is expected that corporate volunteering programs:

- Will not be undertaken by the majority of the sample companies,
- Will be limited in scope and size in those of the sample companies which implement them,
- Will not lead to the increase of role and importance of employees in management and governance.

The research sample covered the 30 largest Polish public listed companies in terms of market capitalization at the end of 2011. It included companies originating from different sectors and characterized by various shareholder structure (as represented by the stake of the dominant/largest shareholder) and employee participation in governance (as represented by number of employees in the supervisory board). The breakdown of the research sample is presented in Table 6.3.

As shown in Table 6.3 the research sample companies differ significantly with regard to the size, industry they operate in and shareholder structure. The research sample of 30 largest listed companies encompasses large enterprises such as PGE, PKO BP, PZU and companies of 160 times smaller market capitalization such as Swiecie, Kredyt Bank and Bank BPH. The sample companies operate in various industries such as banking, insurance, gas, oil, energy, copper and coal mining, telecommunication, media, software, beverages, pulp and paper, apparel and retail. They also reveal significant differences in terms of their origin and shareholder structure. The largest companies in the sample (PGE, PZU, PKO BP) are still controlled by the state. Some of them will be privatized over time, while the other will remain partially state owned since they are regarded as the companies of strategic, national importance. The second group of listed companies such as TP, Zywiec, Swiecie, Handlowy, BZWBK represents companies which were privatized in the process of case by case sale to the strategic, mostly foreign investors. The strategic investors play the crucial role in the governance and management usually possessing a controlling or majority stake in ownership. Finally, the companies such as TVN, Synthos, Getinoble, Eurocash were founded after 1990 and are usually controlled by private investors/founders. The analysis of these companies reveals that their dominant shareholder/founder often adopt pyramidal structures

Table 6.3 30 largest Polish public listed companies – the research sample

Company	Market capitalization	Industry	Main shareholder	Employees participation on board
PKOBP	9,090	Banking	State 41 %	None
PGE	8,763	Energy	State 62 %	2 employees on board
PEKAO	8,388	Banking	Unicredito Italiano 59.28 %	NA/none
PZU	6,041	Insurance	State 35 %	Limited data
PGNIG	5,450	Gas	State 73.5 %	3 employees on board
TPSA	5,210	Telecommunication	France Telecom 49.8 %	NA/none
KGHM	5,008	Copper mining	State 32 %	3 employees on board
BZWBK	3,739	Banking	Banco Santander Bank 94 %	NA/none
PKN Orlen	3,283	Oil	State 27.5 %	1 employee on the board
BRE	2,345	Banking	Commerzbank 70 %	NA/none
ING BSK	2,315	Banking	ING 75 %	NA/none
JSW	2,270	Coal mining	State 56 %	4 employees on board
Tauron PE	2,123	Energy	State 54 %	No employees on board
Handlowy	2,009	Banking	Citibank 75 %	NA/none
Enea	1,799	Energy	State 51 %	3 employees on board
Synthos	1,318		M. Solowow via FTF Galleon S.A. and Barocapital Investment – 62 %	NA/none
Zywiec	1,198	Beverage	Brau Union AG 62 %	NA/none
Getin	1,168	Financial sector	L. Czarnecki directly and via LC Corp BV 50.4 %	NA/none
Cyfraplus	1,065	Media	Z. Solorz-Zak via Pola Investments Ltd and Sensor Overseas Ltd. 51.5 %	NA/none
Millenium	1,044	Banking	Millennium bcp 65.5 %	NA/none
Eurocash	885	Retail	Luis Amaral directly and via Politra B.V. 51 %	NA/none
Asseco Poland	852	Software	A. Goral – 10 %	NA/none
LPP	811	Apparel	M. Piechocki 27.5 %, J. Lubianiec 27.5 %	NA/none
TVN	802	Media	ITI (54 %)	NA/none
Bogdanka	800	Coal mining	OFE Aviva BZWBK 15 %	NA/none

(continued)

Table 6.3 (continued)

Company	Market capitalization	Industry	Main shareholder	Employees participation on board
Getinoble	786	Banking	L. Czarnecki directly and via LC Corp BV 50.4 %	NA/none
Lotos	685	Oil	State (53 %)	No employees on board
Mondi Swiecie	657	Pulp and paper	Framondi B.V. 66 %	NA/none
Kredyt Bank	603	Banking	KBC Bank NV 80 %	NA/none
Bank BPH	550	Banking	GE investments Poland 84 %	NA/none

Source: own compilation based on the corporate websites, WSE statistics http://www.gpw.pl/pub/statystyki_roczne/2011_GPW.pdf and RESPECT index statistics http://www.gpw.pl/portfele_indeksow#RESPECT

which assure them with full control in management and governance. It is also important to mention that regardless of the origin and the shareholder structure the majority of sample companies reveal significant ownership concentration what is one the most characteristic feature of Polish companies. The last column in Table 6.1 depicts the general information on the empowerment of employees. It use the number of the employee representative present on the supervisory board (as Poland follows the dualistic governance structure) as the indicator for the role of employees in the company. According to the Polish law companies in which the State Treasury has a stake should welcome employee representation on the supervisory board. Such regulation link with the strong employee participation during socialism although as it was mentioned above today the role of employees and the power trade unions in management and governance are significantly lower as compared to the practice of 1970s or 1980s of twentieth century. Such changes are observed in literally all industries although as depicted in privatization and corporate governance studies the Polish transition and privatization followed the stakeholder model and incorporate the expectations of employees into the reform agenda (Lavelle 2004). As data show the practice on employee representation on board is not common. Surprisingly, even some companies characterized by the state ownership do not follow the rule of employee participation in governance. Traditionally, the greater presence on employee representative on board is noted in the 'heavy' industry such as energy, gas, coal mining.

6.4.3 *Research Results and Discussion*

The analysis focuses on the identification of CSR policy adopted in each of the 30 largest Polish companies with the particular attention devoted to the programs of employee volunteering. Additionally, the research is to detect whether the corporate volunteering programs are able to empower employees and to introduce them into the governance system of the analyzed companies. The collected data is presented in Table 6.4. It shows the main directions of CSR activities undertaken by the sample companies, the existence of the employee volunteering programs with the examples of thereof. The last column delivers some additional information on CSR performance of the sample companies taking into account the CSR ranking published in Poland. Thus, the last column informs whether the company was included in such ranking receiving any evaluation (FOB 2010). Additionally, the last column indicates whether the company is or is not are included in the RESPECT Index which is the CSR/sustainability index operating on the Warsaw Stock Exchange and covering socially responsible companies.[1] Companies covered by the RESPECT Index are evaluated twice a year by an independent audit what makes the composition of the index dynamic and changing over editions.

As presented in Table 6.4 almost all sample companies are aware of the importance of CSR initiatives, incorporate its principles into their business strategies, are involved in many CSR actions and attempt to report on their practices. Almost all sample companies have CSR sections on their corporate websites giving information about on the role and place of CSR in business strategy, the main goals and activities conducted. The largest of the analyzed companies established foundations specializing in placing their CSR policies into practice, deliver detailed reports on their websites and perceive CSR as an essential part of their business strategy. Moreover, the largest companies and companies operating in the problematic sectors (gas extraction, copper mining) actively cooperate with NGOs and conduct social dialogue or stakeholder consultations. The collected evidence suggests that the sample companies pursue CSR activities in areas such as education, supporting local communities, social policy (support for poor, handicapped, orphans), national heritage and support for the health care (sponsoring healing process/flight against cancer, sponsoring medical equipment for hospitals). Some of them however view CSR in a very shallow way as they involvement focuses predominantly on charities and providing money for a given group of people. The dynamic analysis over several years reveals that the largest companies adopt a more proactive approach of delivering solutions to social problems. The biggest laggard is Eurocash. As shown in Table 6.4 no CSR site was observed also in the case of Getin and Cyfrowy Polsat. These two companies however are affiliated firms operating in largest business groups and are controlled by their founders who set up dedicated foundations and adopt leading CSR policies.

The collected evidence reveals very disappointing results with respect to the employee volunteering programs as 17 out of 30 sample companies do not conduct or do not inform about such initiatives. The absence of corporate volunteering

[1] The list of the RESPECT Index at http://www.odpowiedzialni.gpw.pl/

Table 6.4 CSR and employee volunteering practice in the sample companies

Firm	CSR activities	Corporate volunteering program	Examples of corporate volunteering	Evaluation of CSR performance
PKOBP	Sponsoring sport initiative	The bank identifies many advantages of corporate volunteering via PKO BP foundation, via local, individual or strategic programs	Noble Parcel in cooperation with NGO Spring Association – preparing parcels for Christmas for poor families	None
PGE	Education, social dialogue, environmental protection programs	None/no information	None	Included in the RESPECT index, one subsidiary included in CSR ranking
PEKAO (Kanton foundation)	Sport, children, environmental protection and arts programs,	None/no information	None	None
PZU (PZU foundation)	Programs on education, driving safety, rescuing telecommunication center, health (anti depression program), arts	None/no information	None	Included in the RESPECT index
PGNIG (Łukasiewicz foundation)	Activities focused on sustainable development/environmental protection, social dialogue, support for local communities, culture, national heritage	None/no information	None	Included in the RESPECT index, included in CSR ranking – recognition for environmental protection
TPSA (Orange foundation)	Education through internet, Schools without violence, Call Mom programs, health care programs	Employees may apply for funds to pursue their project or join any CSR activity in the company	TP for children – playing Santa Clause, revitalization of class rooms for internet use, 500 employees, 11,000 h	Included in the RESPECT index, included in CSR ranking – recognition for market approach and working environment (employee volunteer program)
KGHM (Polish Copper foundation)	Activities focused on sustainable development/environmental, social dialogue, support for local communities, health care and medical equipment, education, protection of national heritage	None/no information	None	Included in the RESPECT index

(continued)

Table 6.4 (continued)

Firm	CSR activities	Corporate volunteering program	Examples of corporate volunteering	Evaluation of CSR performance
BZWBK	Programs on education in finance, support for social initiatives (helping the poor, children), creating mother friendly work place	Employees may join the foundation for Children Smiles	Restoration of social places, kids homes	Included in CSR ranking – recognition for working environment (motherhood policy), society
PKN Orlen	REACH scheme, employee volunteer program, programs on local community, sustainability grants, education, national heritage, culture, sport, social campaigns	Employees as individuals/groups or with their families may join the programs in the company or donate requested goods/products	Supporting children from poor families, providing school preps packages and restoring school equipment	Included in the RESPECT index, included in CSR ranking – recognition for environmental protection
BRE (BRE Bank foundation)	Programs on education, health care help, support for social help, support for art, national heritage	Employees may apply for funds to pursue their projects within the foundation "Let's do something good"	Projects accepted focus on education, social support, support for art and protecting national heritage	Included in CSR ranking – recognition for market approach
ING BSK	Activity according to Human Rights Declaration and Global compact, programs on education, HR, ethical conduct, support for poor, environmental protection	Employees may join initiatives directed at certain local community (Good Idea program) and initiatives directed at certain social partner	Good Idea – 560 employees, 39 actions for hospitals, schools and kindergartens; 100 employees, 16 actions for social partners, occasional action – 260 employees, 12 initiative	Included in the y RESPECT index, included in CSR ranking – recognition for working environment (adaptation)
JSW (MinersFamilies foundation)	Environmental protection, support for local communities, HR, sport	None/no information	None	None

Tauron PE	Environmental protection, support for orphans, mountain emergency service	None/no information	None	None
Handlowy (Kronenberg foundation)	National heritage, education, environmental protection, support for local communities	Employees may join different initiatives listed by the bank, volunteer management system (insurance, day off, financial support for the partner if employee spends more than 50 h)	2012: Animal shelters, care for older people, education (894 employees plus 715 relatives and friends, 7,000 h, 125 projects); 34 off site tours for local communities, 3,600 employees; Santa Clause assistant, competition for student proposals	Included in the RESPECT index, included in CSR ranking – recognition for environmental protection and society
Enea	Social/stakeholder dialogue, environmental protection, sustainable development	Employees may join structured initiatives	Education for children on use of electricity, premedical help instruction program	None
Synthos	None/no information	None/no information	None	None
Zywiec	Education, environmental protection, HR, local community support	Employees may apply for funds to pursue their projects which are co-financed by the company	National heritage, education and social help, cultural development, restoration of social centers 2010–2020 projects, 240 employees	Included in CSR ranking
Getin	None/no information	None/no information	None	None
Cyfrowy Polsat	None/no information	None/no information	None	None
Millenium	Education, social dialogue, environmental protection, sustainable development, cultural and national heritage	Employees may join bank's initiatives	Cultural development initiatives for mentally handicapped	Included in the RESPECT index, included in CSR ranking
Eurocash	None/no information	None/no information	None	None
Asseco Poland	Sponsoring	None/no information	None	None
LPP	None/no information	None/no information	None	None

(continued)

Table 6.4 (continued)

Firm	CSR activities	Corporate volunteering program	Examples of corporate volunteering	Evaluation of CSR performance
TVN (TVN foundation)	Support for health care, equipment for hospitals	Limited information	Involving media celebrities to funds raising	None
Bogdanka	Social/stakeholder dialogue, HR, environmental protection, sustainable development, national heritage, sport sponsoring	None/no information	None/no information	None
Getinoble (L. Czarnecki foundation)	Support for poor, very talented and abandoned children (SOS), cooperation with UNICEF	None/no information	None/no information	None
Lotos	Sustainable development, environmental protection, social dialogue, charities, cooperation with NGOs, Global compact	None/no information	None/no information	Included in the RESPECT index, included in CSR ranking
Swiecie	Social dialogue, sustainable development, HR	None/no information	None/no information	Included in the RESPECT index
Kredyt Bank	Supporting local communities, environmental protection, education	Employees may apply for funds to pursue their project	Projects on supporting local communities, education	Included in the RESPECT index, included in CSR ranking
Bank BPH	Education, charities, HR, promoting healthy life style, sustainable development	Employees may propose projects or participate in bank coordinated projects	Education for poor children, rehabilitation, restoration of children sections in hospitals, collecting school prep materials, promoting medulla donation, environmental projects	Included in CSR ranking

Source: own compilation based on the corporate websites programs limits automatically the power of the employees as stakeholders. Interestingly, there is no clear relationship between the company characteristics and the popularity of corporate volunteering program. Neither the company origin nor the employee presence on the supervisory board influences the frequency of the adoption of employee volunteering policy. There are also no supporting effects of the frequency of adoption of the employee volunteering program in the case of companies which are included in the RESPECT Index, the CSR/sustainability index on the Warsaw Stock Exchange. There are however very interesting and promising examples of companies which pursue active and well organized employee volunteering schemes – the best examples were depicted in the case of Handlowy, TP, BZWBK, INGBSK, PKN Orlen, Zywiec, Bank BPH. These companies are also very much aware of the positive impact of employee volunteering in the company.[2] They policy assumes that employees may join any of the volunteering program offered by the company or may apply for funds to realize their own initiative. The data presented in Table 6.4 shows that employee volunteering schemes target mostly education programs, environmental protection actions, support for local communities poor or disable and reconstruction after natural disasters. Additionally, the employee volunteering experiences seasonality in interest with the Easter or Christmas specially dedicated initiatives. The observation of the employee volunteering leaders may suggest that the industry of operation and the dominant shareholder are the driving force to implement these programs in company. As shown in Table 6.4 banks tend to adopt employee volunteering schemes more often than other companies. This may be linked to the expectation of the social responsibility of banks and their crucial role for the economic development. Additionally, companies controlled by foreign strategic investors are more willing to introduce employee volunteering into their policies. Such link may be interpreted as the positive impact of the strategic investor who usually tends to be the global player on the market experienced in CSR and aware of the importance of employee volunteering for company development and reputation. Moreover, these companies are often local subsidiaries of large global corporations which adopt the CSR policy and volunteering programs across all their portfolio companies.

The final remark should refer to the role of employees in governance or the change of the position in the company via the participation in employee volunteering program. Although the employee volunteering program does not show a link to the presence of employees on board, the analysis of the sample companies indicate that the greater company's activity in CSR and the greater popularity of corporate volunteering translate into better working conditions. Companies truly dedicated to employee volunteering and CSR do perceive their workers as an essential asset and important stakeholder. They formulate standards for professional development, career paths and the support for families in case of an

[2] https://www.fundacjapkobp.pl/wolontariat/wolontariat-pracowniczy/

accident. It is however highly questionable whether the employee volunteering programs would lead to employee empowerment and participation in management and governance. Taking into account the post social legacy and the attitude ‘we have already done it and it did not work’ any major changes towards increase the role and position of companies are not expected in future. In companies who do implement employee volunteering the projects most often address issues of education, environmental protection, support for local communities poor or disable and reconstruction after natural disasters.

Conclusion

Employee volunteering understood as a collaborative effort between the company and its employees becomes an essential important component of corporate social responsibility enjoying currently the growing interests and importance both in academic studies and corporate practice. Since it is a way for employees to participate in the expression of the CSR values it is also viewed a tool to internalize and implement principles of responsibility and sustainability into corporate cultures. Employee volunteering offers a lot of benefits and advantages to the company providing a sound environment for the development of social capital. It also contributes to the enhancement of stakeholder management and social dialogue. And finally, the employees’ participation in the structured and tailored program increases their importance and role for the company and may lead to empowerment of employees and their engagement in management and governance. The undoubted benefits and positives of employee volunteering face significant constrains in the case of the post socialist and post transition reality of Polish companies. As denoted by earlier studies under the conditions of the weak state and the passive and self centered society the promotion and active approach to CSR and employee volunteering is undertaken by companies. The analysis of CSR and employee volunteering practices of 30 largest companies listed on the Warsaw Stock Exchange reveals that the vast majority of sample companies integrate CSR activities into their operations, while less than the half (13) of companies conduct employee volunteering programs. Banks and companies privatized to and controlled by foreign strategic investors who are currently local subsidiaries within large global corporations are amongst those mostly likely to adopt employee volunteering. The research shows also that the greater company’s activity in CSR and the greater popularity of corporate volunteering translate into better working conditions. Taking into account the post social legacy it is highly questionable whether the employee volunteering programs would lead to employee empowerment. Thus no major changes in the direction of increased employee participation in management and governance are expected in future.

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Chapter 7
Multinational Corporations in Developing Countries: Bringers of Working Standards or Modern Slaveholders

Matthias S. Fifka and Anna Frangen-Zeitinger

Abstract The socio-economic role of multinational corporations (MNCs) in developing countries is heavily disputed. One the one side, they are regarded as agents of change that are able to generate economic and social benefits for the local population especially through the provision of employment. On the other side, however, the employment provided is often considered to be a modern form of slavery due to poor working conditions and below-living wages.

In our paper we discuss whether MNCs are bringers of working standards that lead to improved working conditions or if they are modern slaveholders. For this purpose, we first discuss the relationship between MNCs and working standards, particularly with regard to organizational factors that influence the application of standards. Afterwards, we describe existing standards and their weaknesses. In the fourth part, we then turn to empirical studies which have examined to what degree working standards are actually implemented, before we end with a short conclusion and an outlook. We find that the application of standards is rather mixed among MNCs and that they are far from being significant bringers of change, despite particular efforts that are being made.

7.1 Introduction

In the presence of globally valid, accepted and enforced working standards, a discussion of multinational corporations' (MNCs) treatment of working standards would be of minor relevance, as MNCs would hardly have room in the interpretation and application of the standards under such binding conditions, assuming that they would be reluctant to breaking the law. However, in the absence of globally

M.S. Fifka (✉)
University Erlangen-Nuernberg, Erlangen, Germany
e-mail: matthias.fifka@fau.de

A. Frangen-Zeitinger
Cologne Business School, Cologne, Germany

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recognized standards and the lacking enforcement of existing standards in many parts of the world that are of increasing economic importance due to globalization, the role of MNCs as major actors in these regions with regard to working standards is a vital issue for understanding the impact of globalization.

In this context, De George (2010) draws a comparison between the international expansion of MNCs in developing countries and what Lenin described as the final step of capitalism, where social welfare in a capitalist country is achieved on the expense of the workers' wellbeing in the country's colonies. Following this argument, MNCs would have to be seen as proxies that ensure economic wealth in industrialized countries by exploiting developing ones. In the home countries of the MNCs, ethical working standards are secured extensively through the respective social and political frameworks. In developing countries, however, the process of establishing such a framework is difficult because the necessary socio-political institutions and processes are missing.

Thus, the question arises if institutional systems can and should be the only determinants of working standards, or if MNCs have an obligation and a motivation to promote and enhance working standards in business environments where sufficient regulation and enforcement do not exist. From this perspective, they would contribute to socio-economic development. Inevitably connected is the question on what MNCs are currently doing with regard to working standards: Is the status quo dominated by generally unethical MNCs that strive for the lowest working standards possible and strategically search for locations with low governmental regulation, or by socially responsible MNCs that regard well-developed working standards as generally applicable and acceptable paradigms that should be universally practiced?

To address these questions, our analysis takes the following steps. The second chapter examines different approaches to the interpretation of working standards, the intentions and entry modes of MNCs into developing countries and the expected corresponding effects on labour standards. The third chapter undertakes an analysis of current standards and the weaknesses inherent to them. To exceed this theoretical level, the following chapter will examine the question on the impact of MNCs on working conditions in developing countries from an empirical perspective. Both, the theoretical as well as the empirical considerations, will serve to develop a conclusion and an outlook on the relation between MNCs and working standards.

7.2 Multinational Corporations and Working Standards

As with any standard, the interpretation of working standards varies widely, especially when the standard is of voluntary nature or when it only provides broad principles. Moreover, as briefly pointed out, a lacking enforcement of legally binding standards will also influence the seriousness with which a standard is approached. Finally, the question on the obligation of the extent of implementation arises: Is a MNC only responsible for adhering to standards within its organization or does it have an obligation to promote or even enforce standards in its supply chain? These issues will be addressed in the following chapter.

7.2.1 Approaches to Interpreting Working Standards

Due to globalization, the entrance into foreign markets has become a frequent scenario for many companies that operate on an international level and invest abroad. When doing so, they are confronted with the local working standards and the question whether to exceed them, follow them, or even neglect them, especially when they are not enforced. In the case of developing countries, where standards are usually lower than in the home countries of the investing MNCs, the question leaves a black-or-white answer: One the one side, the MNC can decide for the paradigm of "when in Rome, do as the Romans do" (Donaldson 2003, p. 115) and adopt the approach of cultural relativism, which means that due to cultural differences it simply adopts local rules and norms of behaviour. One the other side, it can apply the standards of its home country and treat it as a universally applicable standard in the sense of an absolutist approach. This approach assumes that one single set of standards should universally determine ethical behaviour, independently of the location, the people or the situation. This one "standard-for-all" approach might, however, also be regarded as ethical imperialism, since the MNC assumes that its standards are applicable everywhere with no regard to specific cultural characteristics.

The mere acceptance of local working standards – independently of whether they comply with basic human rights or not – is often promoted with reference to the social welfare argument. This argument relies on the theory of perfect market conditions that automatically result in the best possible increase of social welfare for all parties involved, according to economic theory. Among economists, this position that employment – regardless of the conditions – is economically beneficial is widespread (Arnold and Hartman 2005). The core assumption is that growth, even if it happens in the form of sweatshops, will not only have a positive effect on economic development, but also lead to social progress and an improvement of social welfare, and thus improve working conditions in the long run. In the context of our analysis, this position would support the mere compliance with local working regulations and practices, even if these do not meet western standards on basic human and labour rights. Thus, acting like a "modern slaveholder", as we called it metaphorically in the title of our chapter, would have to be considered a contribution to the economic and social progress in developing countries.

However, as initially indicated, this argument is based on economic theory and theory is always based on a set of assumptions that need to hold for a certain expected outcome. Whereas for developed countries the theory might be mostly applicable, for developing countries it is not, because the preconditions to assume the existence of a perfect market do not hold at all. Workers are confronted with information asymmetries that limit their choices often to either badly paid work or no work at all. Furthermore, force and coercion violate the assumption of entering into contracts voluntarily. In addition to that, child labour cannot be considered the result of a rational decision, as children cannot be considered to make such choices. Moreover, in reality, they usually do not have a choice at all. Already these examples reveal that significant market failures in developing countries exist and perfect market conditions cannot be assumed. Market failure in turn can be seen to justify the promotion of working standards that are based on generally accepted human rights.

Certainly, at this point it could be questioned what exactly constitutes basic human rights and if their pursuit is favourable under all conditions. Such questioning would mostly be a rearticulation of ethical relativism and the argument that employment – as long as it is paid[1] – is favourable for economic and social progress in the long run. A counter-argument based on economic grounds is quite difficult. If we refer to opportunity costs, the alternative to employment under bad conditions often is no employment, as pointed out above. One might well point to future social and economic benefits that can be achieved, if children, e.g., receive an education instead of having to work, but these are hard to quantify.

Inevitably, the argument for adopting working standards based on certain human rights principles is moral in nature, although economic reasons for doing so can be found for businesses as well as for the societies concerned, as we shall discuss below. The moral argument that there is at least a minimum standard with regard to working conditions which should be applied regardless of time and place is absolutist in nature and, thus, represents a so-called "hypernorm". Hypernorms involve, for instance, a healthy and safe working environment, a maximum number of working hours, specific treatment of child labour, and a minimum age for work. Furthermore, the freedom to choose without any external force, the basic right to organize amongst the workforce, and the idea that the salary should at least equal a living wage are also considered as hypernorms (Arnold and Hartman 2005).

However, these areas only broadly cover the many facets that characterize working conditions in different environments. Standards might fall short of necessities in particular situations and their application might be difficult, e.g., when national law stands against the content of standards. A simple example is the non-discrimination of people according to gender and ethnicity articulated by many standards, but how can these be applied in countries where women are not allowed to work at all because of legal requirements? Thus, MNCs are often confronted with a grey zone within which they must position themselves. When doing so, in order to find a solution, they can consider three elementary aspects: human rights and values, local particularities and the situational context (Donaldson 2003). Despite the favourability of relying on an internationally accepted standard, setting one's own standard in foreign subsidiaries and for suppliers might become a necessity (Arnold and Hartman 2005).

[1] It must be pointed out here that our metaphor of the "modern slaveholder" is not applicable under a strict interpretation of the term, as slaveholding usually implies that no wage is being paid. This is not the case for MNCs, even if they employ people under poor conditions. We use the metaphor to describe poor working conditions and the benefit of the employer achieved on the expense of the working ones.

7.2.2 The Impact of Socio-economic Environments and Investment Motives on Working Standards

Labour migration because of different working conditions has a long history. Already in the eighteenth and nineteenth century, there was widespread emigration from Europe, which had labour in abundance, to the United States, where labour was scarce and wages thus were comparatively high. Despite the underlying economic logic, such movements also depend on the political frameworks of the countries concerned that have to allow for emigration and immigration, respectively. Labour mobility inevitably is a product of economic and political conditions. The non-existence of the necessary political framework – often industrialized nations are protecting their labour markets against immigration from developing countries, e.g., while the latter are making emigration difficult in order not to lose workforce – has led to an interesting development. While in former times, labour went to where companies offering employment were located, today, companies go to where labour can be found and costs for it are low. In the globalized world, in the sphere of unqualified or low-qualified labour, business mobility has largely replaced labour mobility. This is an essential reason for why MNCs have spread their subsidiaries and operations across the globe.

As pointed out, a central motivation for business is to profit from reduced labour costs. In the market economies of industrialised countries, labour costs are comparatively high due to competition for employees, but also due to legal frameworks that set minimum wages or allow for collective bargaining. In developing countries, these preconditions are hardly found. There is neither a strong competition for low-skilled labour, since it is available in abundance, nor is the labour side organized in a way that would allow for efficient collective bargaining. Finally, civil society and the media are underdeveloped in third-world countries, so that there is only little pressure through civic organizations or journalists to force MNCs into an adoption of higher standards.

Thus, there is a significant imbalance in the distribution of market power amongst the actors. The cost pressure that results from increasing international competition thus drives MNCs, which are flexible with regard to the location of production, to countries where low-skilled labour is easily available, labour organization is weak, and the respective legal framework is underdeveloped (Graham and Woods 2006). Their market power allows MNCs to transfer the cost burden onto the workers by either long hours or low wages (Blowfield and Murray 2011).

The weakness of government and the imbalance of power between state actors and MNCs also become obvious with regard to taxation. A major motivation for businesses to invest abroad is reducing taxes. Because developing countries are dependent on foreign direct investment (FDI) for creating employment and providing technology, their governments are often inclined to offer low tax rates or significant tax exemptions in order to attract MNCs. MNCs might even use their bargaining power to ask for low tax rates when negotiating with governments on potential FDI. Reduced tax revenue in turn leaves governments of developing countries with less money to invest in social security systems, infrastructure, or other programmes aimed at social and economic progress. Initiatives of that kind, however, could have positive influences on working conditions and working standards in the long run (Blowfield and Murray 2011). Therefore, MNCs that negotiate for tax reductions or tax exemptions in exchange for the provision of FDI can harm the country's progress through limiting state financially.

Nevertheless, MNCs themselves can also act as promoters of higher working standards, especially if they do not operate exclusively under the paradigm of short-term cost and tax minimization. Many companies expand their operations and establish foreign subsidiaries in developing countries not only to profit from cheap labour, but also to gain access to growing consumer markets and to benefit from their immature stage. This intention involves a long-term strategic action made by the company. It is interested in further economic progress of the country due to the expected positive effects of a higher buying power of the consumers. Thus, FDI is likely to be accompanied by investments into living wages, training, and development of local employees as well as efforts to minimize the staff turnover rate. Consequently, if foreign market entry is motivated by the attractiveness of the consumer market, enhancements in working standards are likely to be observed through proactive MNC action (Mosley and Uno 2007). From this development perspective, MNCs have a sound motivation to act as "bringers of standards".

Overall, MNCs pursue very different intentions in the global arena. Some are resource-seeking, while others may be efficiency-seeking or market-seeking. The motivation itself can have a considerable influence on the development of working standards. Whereas efficiency-seeking corporations follow the cost-reduction paradigm and may only insignificantly promote working standards, resource- and market-seeking MNCs are likely to have a greater interest in the development or application of working standards (Mosley and Uno 2007). In that context, the idea of inclusive business could make a valuable contribution. The aim of company that practices inclusive business is to contribute to poverty reduction by including low income communities into its company's value chain, without giving up its profit-orientation. There are numerous approaches to inclusive business, the most prominent being Prahalad's "Bottom of the Pyramid", which sees the poor as a market. Though they have only low purchasing power, they are large in number (Prahalad and Hart 2002). However, employing local people can also be a pillar of inclusive business. Through the inclusion of locals, companies can develop a better understanding of local markets and generate goodwill in the local community. It was noted that realizing that local employees can make a valuable contribution to the business, will most likely lead to an improvement of working conditions (Gradl and Knobloch 2010; Greenwood 1991).

Regardless of the motivation of MNCs, the socio-economic environments in developing countries must be judged as poor in general for leading to the adoption of international standards or the development of national ones, as described above. Actors such as unions, civil society, and government are too weak or driven by self-interest leading to corruption and embezzlement, so that there is no fertile soil for developing or enforcing working standards, although actual working conditions would require it.

7.3 The Influence of Entry Modes on Working Standards

For a long time, the extent of ownership was regarded as the major determinant for whether and in how far MNCs were seen to be responsible for setting working standards. If majority ownership was established through FDI, MNCs were held accountable for low and unethical working standards, at least by the public and consumers in western countries. However, since the beginning of the 1990s, public attention has shifted towards poor working conditions in developing countries that were seen as a consequence of mere trade relationships in which retailers or wholesalers from industrialised countries were involved. This provided the starting point for a shift in the discussion on the responsibility for the adoption of working standards (Kline 2010).

The differentiation between a company trading with a developing country, as a low level of internationalization, and one that owns a firm there, as a high level, is well justified for the simple reason that in the latter case the company acts as employer and thus has a legal responsibility for the local people employed. In the former case, the company "only" does business with a local employer and is not legally responsible for the workforce employed there. Let us consider this case of a trade relationship further.

As just pointed out, from a legal point of view, any responsibility for the local workforce would have to be assigned to the local authorities and employers in the respective host countries. Nevertheless, they often lack the political and economic incentives to introduce or to improve working standards, or they lack the power and resources to do so. With regard to an economic motivation, host country governments are afraid of possible competitive disadvantages, if they were to increase the standards and impose additional costs on their local companies that in turn had to pass these on to international customers through higher prices. From the point of view of the trade partner as an international customer, these higher prices in turn would be the economic argument against stricter working standards. Due to a non-existent legal responsibility, missing geographical proximity in most cases, and a lack of local market knowledge, the international community and governments of developed countries as well were careful to hold companies involved in such trade relationships responsible for the improvement of working standards in the past. Even large corporations with extensive trade relations were not identified as potential initiators of change (Kline 2010).

However, the further analysis of trade relationships between MNCs and local enterprises situated in developing countries revealed a great dependency of the latter on the former. Furthermore, MNCs were already exercising a certain scope of pressure and control with regard to the product quality they were demanding. In this regard, they expected the same standard to be delivered by the supplier in the host country than by a comparable supplier in the home country. This diagnosis resulted in the recognition of the MNCs' ability to exert pressure on their suppliers to lift working standards and ensure ethical treatment. Communicated by the press, the societies of industrialised economies started to develop expectations that MNCs with relationships to suppliers in developing countries of any kind, independently of their ownership structures, were a capable party to initiate, promote, and accomplish improved working conditions in these countries. Whether because of the reputational risks or because of a true corporate conviction of a moral nature, or both, MNCs started to include their supplier relationships in their codes of conduct and often made compliance with certain minimum working standards a precondition for trade relationships (Kline 2010).

This new set of customer expectations in industrialized countries has put pressure directly on MNCs and indirectly on their suppliers from developing countries to improve working standards. In the case the latter are not fulfilling the demands placed upon them by MNCs, MNCs are left with two possibilities. The first option is to terminate the business relationship. This might be seen as putting pressure on the local supplier for improving conditions in order not to lose business. However, this approach will only lead to the implementation of working standards, if no other customers that are willing to buy the goods or services produced under the existent poor conditions can be found. Since this case is rather unlikely, as a widespread orchestrated effort would be necessary to ensure it, the impact of this approach would be rather limited.

The second option consists of MNCs continuously cooperating with their suppliers, even in case they do not yet fulfil the required standard. Guidance and support in implementing standards to reach the requirements demanded by them are provided by MNCs. This might be connected to higher costs on the side of the MNC and to forgo some part of the profit, but it can lead to the establishment of a sustainable relationship (Kline 2010). Pursuing this second approach makes MNCs "bringers of change" with regard to working standards.

Overall, it can be stated that FDI leading to ownership of a firm in a host country places more responsibility on MNCs to implement working standards than a mere trade relationship since there is also a legal responsibility for the local employees. Even if legal requirements are absent or not enforced, the responsibility can be considered to be higher, because ownership allows more influence than being a customer.

However, the role of companies that are "only" trade partners, especially MNCs as large buyers, in enforcing the implementation of working standards in developing countries is not to be underestimated. They can use their market power for putting pressure on the suppliers in the developing countries to improve conditions by making acceptable conditions a prerequisite for doing business. Nevertheless, when demanding such standards, they also have the obligation to support the local suppliers in meeting them in order to ensure a sustainable business relationship.

7.4 Global Working Standards

After having elaborated on macro and micro economic factors that shape the establishment and application of working standards, we shall now turn to the examination of existing standards and their shortcomings.

7.4.1 Existing Working Standards

Working standards are mostly designed to define a minimum level for an ethically acceptable working environment. Many are developed in an international multilateral processes in order to create a globally applicability. This approach, as discussed above, is based on the assumption that universal norms can be developed and applied. Accordingly, MNCs are assumed to be doing good when they integrate a set of hypernorms into their decision-making processes (Cullen and Parboteeah 2013).

Despite this communality, working standards can be very different with regard to development and design. Some working standards are part of broader frameworks that also address other issues such as corruption or environmental protection, whereas others address work related issues in specific. Another characteristic that allows for a differentiation is the establishment process. Standards can be developed by multiple stakeholders – e.g. companies, unions, governmental and NGO representatives – that get together in order to jointly develop the contents of the standard, but they can also be developed by one group only, often industry associations, or even by a single company. Standards developed by industry associations are often designed specifically for a particular industry, such as chemical or mining, where specific requirements are necessary due to the unique work environment. Other standards may seek to cover various industries. Finally, some standards do not involve any monitoring or control and are based on "self-evaluation", while others are connected to external verification.

In the following we provide some examples for different types of standards, though this presents only a small selection of the multitude of standards that exist.

An example for a broad standard developed by multiple stakeholders is the United Nations Global Compact, initially proposed in 1999. It covers four elementary areas of interest: Human rights, labour conditions, environmental protection, and corruption. The code does not only require the participating companies to adhere to the code's principles, but also to engage in their future promotion among third parties. Compliance with the Global Compact is not subject to any external monitoring, but depends on self-control and the implicit hope that an interested public will act as a "watchdog". The only requirement in that regard is the regular publication of a report on the progress made in implementing the principles. These principles are designed in a manner so that they can be applied by companies of all industries and sizes, and even non-profit organizations such as

NGOs or universities. However, this intended universality creates an application problem, because having companies from diverse sectors comply with one and the same code "will (and does) not work" (Kolk and Van Tulder 2006, p. 799).

Many codes that address labour issues in particular have been developed by the International Labour Organization (ILO), which is a unit of the United Nations. Some of its standards are conventions, which means they are international treaties signed by countries and are legally binding. This shows that the signatory must not always be an organization, but can also be a country that agrees to enforce the respective principles in its jurisdiction. Other ILO standards only come in the form of recommendations that do not have a binding character. Until today, eight conventions that the ILO regards as fundamental have been developed, aside from a multitude of others. Conventions and recommendations alike are developed in a multi-stakeholder process, like in the case of the Global Compact.

In comparison, the "Caux Principles", which cover a wide range of issues, working standards being only one, were formulated exclusively by senior executives from American, European, and Japanese companies that sought a unification of common values and ideas. These best practice principles, which are neither binding nor can they be enforced, are published regularly for different types of organizations.

Apart from such working standards, many MNCs establish their own codes of conduct and integrate contents of existing standards into them. It is estimated that over 90 % of the Fortune 500 enterprises adhere to some code of conduct with regard to employees. Approximately 70 % have formulated their own vision and a set of corporate values (Donaldson 2003). Especially when operating in developing countries, these MNCs face the challenge of also upholding the code in countries with weak legal systems and low labour protection in order not to violate their own rules (Cullen and Parboteeah 2013). Companies have increasingly been seeking to uphold working standards because they have noticed the positive effects in terms of increased labour productivity, a better company reputation, and higher employee morale (Arnold and Hartman 2005).

As diverse as the existing working standards are, as diverse are their shortcomings and the problems in integrating and potentially enforcing the standards. These shortcomings shall be discussed now.

7.5 Shortcomings of Current Standards

One of the major deficits of the current system of internationally developed codes is the lack of enforcement through legislation, control, and punishment mechanisms. The acceptance of the majority of codes is voluntary, compliance is not monitored, and non-compliance in turn mostly remains not punished (De George 2010). Many governments do not yet accept a vital role in the standardization process, consisting of formulation, endorsement, certification, supervision, and enforcement (Horrigan 2010). Especially developing countries lack the resources for establishing control mechanisms and assuming the role of an enforcer. In many cases, a high level of corruption influences not only the ability, but also the willingness to act accordingly (Donaldson 2003).

Typical working standards involve the wage level, equal pay between men and women, child labour issues, forced labour, labour trafficking, and extensive overtime. However, the majority of universal working standards, which are especially relevant for developing countries since a national legal framework does not exist or is not enforced, neglect topics like childcare, maternity leave, and care of the elderly (Blowfield and Murray 2011). While these issues are covered in most industrialized countries by the law, they do not receive any coverage – neither legally nor through standards – in the third world at all.

As mentioned, working standards are not only developed by governmental agencies or stakeholders of business, but also by businesses themselves. Obviously, the mere formulation and communication of a code of conduct does not guarantee its compliance. Many companies stop to pay attention to their code after its establishment. Hence, the lack of enforcement and effective application is also a solid problem, especially in the case of MNCs, because their manifold operations are hard to oversee. Therefore, most NGOs and other stakeholders promote the development of binding global standards to ensure a minimum of protection in combination with voluntary company codes to ensure effectiveness and compliance (Kline 2010).

Despite the difficulty of monitoring, the adherence to codes in the case of MNCs is driven by the fact that it is especially them that are subject to media and public scrutiny due to their power and influence. It is no coincidence that many MNCs started to introduce codes of conduct as a response to the sweatshop scandals in the 1990s uncovered by NGOs and the media. Nevertheless, the fact that the media and the public often exert the control function results in "ad-hoc, case-by-case" (Kline 2010, p. 262) responses by the companies, as they only try to solve the respective situation. A deeper strategic integration of the codes, however, cannot be observed. In this case, MNCs only react to external claims, but do not proactively search for improvement. The mere reaction inevitably only addresses a particular issue, which became publicly known, but there is a high chance that many other work-related problems remain unaddressed.

Another problem is related to an assumption that we have made so far. Up to now, we have assumed that MNCs have their origin in industrialized countries where workers are extensively protected. Thus, the countries represent global best-practice examples in terms of labour standards. However, a growing challenge stems from the fact that FDI increasingly comes from non-OECD nations, such as Russia or China (Mosley and Uno 2007). Since the respective corporations have not been confronted with working standards in their home countries, it is unlikely that they will act as "bringers of change", because they are not accustomed to standards they can "export".

A further shortfall exists with regard to the introduction of working standards in developing countries which results from pressure that MNCs are putting on their suppliers. As discussed previously, this can be quite effective, especially when the

MNCs provide the necessary support. However, it is likely that the effect remains confined to the suppliers and does not spread to other companies that do not have any business relationship with MNCs or only with MNCs that do not care (Harrison and Scorse 2006).

A widespread introduction across all businesses could only be achieved through legislative measures and their enforcement by national governments. However, aside from being weak, many national governments in developing countries are reluctant to introduce stricter standards because they fear to lose competitive advantage to other developing countries in the contest for FDI. Low labour costs, after all, are one of the few things they have to offer. Nevertheless, as a recent study shows, this psychological barrier to stricter standards is unjustified, since many MNCs prefer to invest in countries where labour standard violations are low. The reasons are twofold. First, there is the fear of reputational damages if unethical working conditions are uncovered. Second, the realization that cost savings can only be realized through low labour standards creates moral conflicts (Busse et al. 2011).

The last problem which we would like to discuss is the so-called “conflict of relative development”. Working standards in developing countries on the one side and in developed countries on the other are substantially different due to the disparity in economic development. In general, working conditions can be said to improve with a country’s economic progress. Thus, the disparity decreases with economic development of third-world countries, and MNCs through FDI can contribute to this development. However, conflicts of standards that arise due to cultural differences are often deeply rooted in the people’s minds and thus are hard to address. Regarding them as unethical usually stems from taking a universalistic perspective that often is essentially build on western belief systems. Due to underlying differences in cultural values and norms, such conflicts can hardly be resolved globally. In many Muslim countries, for instance, women are excluded from corporate management positions as a matter of religious belief. Even if economic prosperity rises in these countries, the gender inequality is not expected to be diluted, at least not in the short to mid-term (Donaldson 2003).

As discussed, many different types of organizations seek to develop and spread working standards, which eventually are very diverse in nature. Their implementation and enforcement are bound to a great variety of problems with regard to contents, perspectives, and incentives of the actors involved. As a universally applicable standard that covers all industrial areas, national particularities, and situational contexts does not yet exist and will most likely not be developed, MNCs still need to assess which standard to follow or what to explicitly take into account on a case-by-case-basis.

7.6 The Impact of MNCs on Working Conditions: An Empirical Perspective

Just as diverse as the standards and the problems related to them are, as diverse are the empirical findings on whether the activity of MNCs in developing countries contributes to an improvement of working standards there or leads to the continuation of poor or even worsening standards; in short, it remains open whether they are "bringers of change" in a positive sense or "modern slaveholders".

According to a meta-analysis by Brown et al. (2004), there is a large body of empirical evidence indicating that the presence of MNCs in developing countries positively influences working conditions and wage levels, also through the establishment of working standards. In addition to that, the authors find that some MNCs actively support the establishment of labour organizations and democratic institutions. That in turn contributes to the development of a sense for labour rights amongst the workers.

The development resulting from a positive correlation between MNC activity, mostly in the form of FDI inflows, and the progress made with regard to working standards is often referred to as a "climb to the top". It can be achieved in three ways. First of all, MNCs can directly exert pressure on the host country's government to develop, implement, and enforce regulations to promote labour standards. Second, MNCs transmit, by establishing a foreign subsidiary, their understanding of labour standards to the new facility. And finally, as foreign direct investment is usually made with a long-term perspective, the corporation might assign greater priority to the labour quality to support the planned relationship (Mosley and Uno 2007). Thus, the "climb to the top" goes in line with the assumption that MNCs are the bringers of working standards in Developing countries.

However, there is also empirical evidence for the opposite development (Mosley and Uno 2007), which is often called the "the race to the bottom". This development is grounded on the increasing interest of developed economies to trade with developing countries. As pointed out above, governments in developing countries may seek to increase the attractiveness of their country as a trade partner and a place for investment in the competition with other countries. The respective policies can result in lowered working standards and low labour costs. Moreover, once the MNC has decided for one developing country as a strategic trade partner or location, the government still has to make sure that the trade relationship is maintained. Consequently, the government will not impose any labour regulations after the MNCs have entered into the relationship in order not to risk an "exit ex post facto" (Mosley and Uno 2007, p. 926).

Overall, it can be said that the introduction of working standards and the improvement of labour conditions strongly depends on the initiative that MNCs take and the responsibility they assume. However, initiative in these cases often is not intrinsically and proactive in nature, but the result of pressure on MNCs exercised by stakeholders. Media and NGOs have increasingly targeted corporate labour practices since the end of the Cold War that lead to a liberalization of the world economy and the opening up of many markets that were formerly closed. Corporate "slaveholders" have been pulled into the public spotlight and have been punished for their behaviour through demonstrations and boycotts. After suffering from a damaged reputation, many companies have to respond to the pressure in order not to lose customers. To illustrate this mechanism, we shall now examine the widely recognized case of Nike.

Dubious labour practices were firstly detected in Nike's supply chain by NGOs in the middle of the 1990s. After the scandal widened, Nike reacted and the company's CEO Phil Knight addressed the National Press Club in 1998 in a widely received speech, which can be seen as a watershed with regard to the company's global supplier relationships. Knight pointed out six key initiatives that were to be initiated in response to the lax labour standards in the host countries of the suppliers: for the footwear industry, Nike set a minimum age of 18 to be achieved as the target goal. For light-manufacturing workers, it was set to 16 years (Arnold and Hartman 2005). In addition to that, the company developed air quality standards for its footwear production facilities that were based on requirements made by the U.S. Occupational Safety and Health Administration. Nike also invested into academic research in order to determine the effects of missing air quality. With regard to education, the company developed middle and high school programs for footwear factory workers and their families. Another target was the expansion of the micro-enterprise loan programs in countries of South-East-Asia, where Nike maintained manufacturing operations, in order to support entrepreneurship (Arnold and Hartman 2005). Lastly, Nike invested into internal monitoring mechanisms and integrated non-governmental organizations as well as the public to increase transparency, improve governance and thus to regain the trust of their stakeholders.

Overall, in order to integrate CSR issues into the strategic decision-making processes, Nike established a Corporate Responsibility Committee on the board level (Arnold and Hartman 2005). In sum, these initiatives constitute a holistic concept, as Nike involved key stakeholders, acquired the necessary expertise, and invested the financial resources needed to implement the measures. More importantly, the company realized the necessity to extend the corporate understanding of labour standards, not only to its foreign subsidiaries, but also to its supplier network.

Conclusion and Outlook

As our analysis has shown, the development, introduction, and enforcement of labour standards is a complex undertaking, which is influenced by many factors: socio-economic environments, investment motives, entry modes, and the goals and possibilities of the actors involved. MNCs, home and host country governments, international associations, NGOs, and the workers themselves all have an impact.

(continued)

Despite the involvement of various actors, MNCs take a crucial role in the process of introducing working standards in developing countries, since they are a very powerful player in this constellation. From this "Machiavellian" perspective, they usually are in a position to positively influence working conditions and promote working standards – either in their own affiliates or in their supplier network.

The degree to which they have filled this position and acted as "bringers of change" up to now cannot clearly be determined, as empirical results are mixed. There are indications that MNCs increasingly address the issue of working conditions, but the list of companies that have recently been confronted with scandals in this area is long: adidas, H&M, Wal-Mart, Apple and amazon are among the many that could be mentioned. Thus, despite presumable progress, it can be stated that the introduction and enforcement of working standards has not yet reached an acceptable level on a wider scale. However, there are two strong arguments for why MNCs should address this issue and improve working standards.

From an ethical perspective, they should assume the responsibility to ensure that the people working for them and for their suppliers can do so under acceptable conditions which are in line with basic standards. Even if one denies an ethical responsibility because of cultural relativism, there is a strong economic argument that can be brought forward for the promotion of working standards. Due to the vigilance of the media and NGOs, there is a high risk of unfair labour practices being uncovered and made public, which results in a damaged reputation and retaliation by the customers.

The implementation of working standards that improve working conditions can lead to a win-win-win situation. It can protect *companies* from reputational damages, increase labour satisfaction and thus loyalty and productivity when own employees are concerned, lead to sustainable relationships with suppliers, and foster the socio-economic environment in which business is done. For the *individual employees*, it can mean a protection from unfair labour practices, improved mental and physical conditions, and create higher income. For *societies* as a whole, it can improve socio-economic conditions, and advance public issues such as income, health and education. Therefore, fair working conditions can be a key element in the economic and social development process of countries.

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Chapter 8
CSR Standards and Corporate Ethical Virtues: A Normative Inquiry into the Way Corporations Integrate Stakeholder Expectations

Mihaela Constantinescu and Muel Kaptein

Abstract With the growing concern of both corporations and their stakeholders towards social responsibility reporting, CSR standards and guidelines have become a common point of reference for practitioners, regulating bodies and scholars alike. However, research in the business ethics field seems to have given less attention to the way ethical concepts and models relate to such CSR standards.

The paper evaluates the principles of three most prominent CSR standards and guidelines – Global Reporting Initiative, United Nations Global Compact, and ISO26000 – through the lens of the Corporate Ethical Virtues Model (Kaptein M, Ethics management: Auditing and developing the ethical content of organizations. Springer, Dordrecht, 1998; Kaptein M, Eur Manag J 17:625–634, 1999; Kaptein M, J Org Behav 29(7):923–947, 2008; Kaptein M, Hum Relat 64(6):843–869, 2011). Namely, it inquires how the principles and reporting criteria pertaining to these CSR standards help corporations embed seven ethical virtues which represent organizational conditions for ethical conduct: clarity, consistency, achievability, supportability, visibility, discussability and sanctionability. The paper concludes that cross-reporting using multiple standards is the key for corporations to achieve the organisational virtues advanced by the Corporate Ethical Virtues Model and in this way to effectively integrate stakeholder expectations within the corporate framework.

M. Constantinescu (✉)
Research Center in Applied Ethics (CCEA), University of Bucharest, Bucharest, Romania
e-mail: mihaela.constantinescu@etica-aplicata.ro

M. Kaptein
Rotterdam School of Management, Erasmus University Rotterdam, Rotterdam, The Netherlands
e-mail: mkaptein@rsm.nl

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8.1 Introduction

With the growing concern of both corporations and their stakeholders towards social responsibility reporting, CSR standards and guidelines have become a common point of reference for practitioners, regulating bodies and scholars alike. Such guidelines support corporations in setting goals, measuring performance and managing change, like the Global Reporting Initiative (GRI), and encourage them to integrate corporate performance in relation to society into overall evaluations of corporate performance, like the ISO 26000. They are generally aimed at assisting corporations to contribute to sustainable development by providing a common framework for the implementation and disclosure of sustainability principles and practices, such as the United Nations Global Compact (UNGC). All these CSR standards and guidelines ask corporations to take into account and respond to stakeholder demands and expectations related to corporate activity.

But do the reporting principles and criteria advanced by these standards indeed contribute to embedding stakeholder concerns into corporate operations? To answer this question, we posit that we need to make a step behind and look into those corporate aspects which are responsible for the overall corporate performance, including sustainability, and which exert a strong influence on the way corporations relate to stakeholder expectations. One such dimension concerns the ethical culture or the informal corporate practices (Kaptein M, Wempe J, The balanced company: A theory of corporate integrity. Oxford University Press, Oxford, 2002), which have a direct impact on the way individuals act within the corporate context (Treviño LK, Brown M, Acad Manage Exec 18:69–81, 2004). Corporations are responsible for designing these practices, which further "enable, constrain and shape individual action" (Crawford N, J Polit Philos 15:196, 2007) and therefore influence the way stakeholder expectations are integrated within corporate performance.

In setting a comprehensive framework for corporations to organize their operations and use specific instruments to evaluate and report on their sustainability performance, CSR standards and guidelines, such as UNGC, ISO26000 and GRI, generally make direct reference to corporate ethical performance. However, no research has yet been conducted in view of analysing the connection between different dimensions of the ethical culture and CSR reporting guidelines on corporate ethical performance. This type of research would highlight those aspects of the corporate culture which are less embedded in reporting guidelines and would create room for further improvements of CSR standards.

We engage in such research by first discussing the relevance and implications of business ethics findings concerning the corporate context, ethical culture and the 'dirty hands' dimension of the ethical content (Kaptein M, Wempe J, The balanced company: A theory of corporate integrity. Oxford University Press, Oxford, 2002). We highlight the seven ethical virtues which represent dimensions of the ethical culture, according to the Corporate Ethical Virtues (CEV) Model (Kaptein M, Ethics management: Auditing and developing the ethical content of organizations. Springer, Dordrecht, 1998; Kaptein M, Eur Manag J 17:625–634, 1999; Kaptein M, J Org Behav 29(7):923–947, 2008; Kaptein M, Hum Relat 64(6):843–869, 2011): clarity, consistency, achievability, supportability, visibility, discussability and sanctionability. Then we move on to analysing the extent to which CSR standards and guidelines embed these virtues, where we discuss the relationship between standards and ethical virtues from a normative perspective and highlight that corporations should consider cross-reporting in view of better integrating stakeholder expectations. We end with implications and suggestions for future research in business ethics and CSR.

8.2 Corporate Context, Ethical Content and the 'Dirty Hands' Dimension

In view of analysing the CSR standards in connection with the corporate ethical virtues, we discuss below several findings from research in business ethics concerning the corporate context, ethical culture and dirty hands dimension of the corporate ethical content.

8.2.1 The Corporate Context

Research from the business ethics field highlights the important role that the corporate context plays in generating (un)ethical behaviour in the workplace, acknowledging that the main driver for conduct lies in the corporate context (Davis and Frederick 1984). As a result, business ethics research became less interested in the "personal characteristics of individual transgressors" (Kaptein 2011: 844) and more focused on "the characteristics of the organizational context within which unethical behaviour occurs" (Idem). With this transition from the 'bad apples' to the 'bad barrels' approach (Treviño and Youngblood 1990), the corporate context was perceived as an active element in the decision-making process, for it may either stimulate or constrain employees to act morally or immorally (Kaptein and Wempe 2002). The context is important in generating the responsibility that individuals assume as related to their role within the corporate context, for it is the corporate structures that define such roles and their responsibilities (Solomon 1992).

The corporate context is built-up by corporate practices which include the tasks, responsibilities and procedures (the corporate structure or formal dimension), as well as the expectations, norms and values (the corporate culture or informal dimension) that "are *actually* expressed in the actions of organizational members" (Kaptein and Wempe 2002: 146–149). While the former includes the ethics program (Ferrell et al. 1998) with instruments and measures such as codes of ethics, training sessions, whistleblowing policies and monitoring systems (Treviño and

Weaver 2003), the latter includes the ethical culture and climate as the most ethically relevant components.

Both the formal and informal dimensions of the corporate context are relevant when discussing corporate ethics, but the corporate ethical culture has recently received more attention from scholars in the field of business ethics (Kaptein 2011; Treviño and Brown 2004). It is considered a key component of the corporate context, directly linked to ethical behaviour (Casey et al. 2001; Sims and Brinkmann 2003), which it actually stimulates (Treviño and Weaver 2003). We understand the corporate ethical culture as referring to the perceived conditions in the corporate context that stimulate employees to behave ethically (Heugens et al. 2006; Kaptein 2009, 2011).

8.2.2 The 'Dirty Hands' Dimension of the Corporate Ethical Content

By analysing those conditions of the corporate context which either stimulate or impede the ethical or unethical conduct of employees, we are able to evaluate the moral content of a corporation (Kaptein 1998). The corporate ethical content is further defined by Kaptein (1998: 58) as referring to the way "the actual corporate context stimulates and facilitates employees to realize the justified and fundamental expectations of stakeholders and to balance conflicting expectations in a responsible way". Therefore, evaluating the ethical content of a corporation involves the evaluation of the corporate conditions which are able to determine an adequate balancing of the conflicting interests of stakeholders (Idem).

The conflicting demands that a corporation must satisfy as related to stakeholder expectations are highlighted through the 'dirty hands' dimension of the corporate context (Kaptein and Wempe 2002). On the one hand, the corporation must satisfy the overall rights and interests for all of its stakeholders, without leaving any of them aside. On the other hand, in order to integrate the concerns of its collective stakeholders, the corporation needs to satisfy their rights and interests in a minimum manner. As a result, the dirty hands dimension points to the dilemma faced by corporations to satisfy the legitimate expectations and interests of all of its stakeholders, even when they are mutually conflicting or go against corporate interests (Idem).

To answer this corporate dilemma, specific components of the corporate context may be developed so as to influence the degree to which employees are stimulated to balance the interests of stakeholders against those of the corporation (Kaptein 1998). Therefore, a proper resolution for the 'dirty hands' dilemma would involve a corporate effort to find and develop those characteristics of the corporate context that help to avoid an unjustified infringement of stakeholder interests. Such corporate characteristics were developed through the Corporate Ethical Virtues Model (Kaptein 1998, 1999, 2008, 2011; Kaptein and Wempe 2002).

8.2.3 The Corporate Ethical Virtues Model

Based on those factors of the ethical context which influence substantively the way stakeholder expectations are embedded, corporate moral characteristics may be delineated so as to make possible an ethical evaluation of the corporate content (Kaptein 1998). Kaptein terms such corporate moral characteristics as "virtues" or "qualities" and positions them as desirable: "when a corporation achieves these qualities completely, one can label it as an ethical corporation" (Kaptein 1998, p. 58). Therefore, the extent to which a corporation integrates these virtues represents the extent to which we can consider a corporation to be ethical (Kaptein 2002). Embedded in the corporate structure and culture, the corporate ethical virtues (or qualities) support employees in responding to the dirty hands dilemma. They do this by promoting those contextual formal and informal stimuli which are necessary for an adequate balancing of stakeholder interests and demands.

The model of Corporate Ethical Virtues developed and tested by Kaptein (1998, 2011) identifies seven virtues which are interpreted as corporate conditions for ethical conduct and reflect the capacity of an organization to stimulate the ethical conduct of employees. These virtues are: clarity, consistency, achievability, supportability, visibility, discussability and sanctionability. They represent dimensions of the ethical culture that a corporation should strive for and aim to achieve: "the greater the level of embeddedness of these dimensions, the higher the ethical quality of the organizational culture and the less likely it is that unethical behaviour would occur" (Kaptein 2008).

While CSR standards are basically aimed at stimulating corporations to report on the way stakeholder expectations are handled, scholars have yet neglected to research whether business ethics developments have relevant implications for the way such standards are designed. It is precisely this gap in the existing research that we aim to fill, by linking the CEV model and its implications for the dirty hands corporate dilemma, with the CSR standards and guidelines, and by further evaluating the degree to which the latter help corporations integrate stakeholder concerns.

8.3 Embedding the Corporate Virtues into CSR Standards

We now turn to exploring the way CSR principles help corporations embed the seven virtues from the CEV Model and thus become able to respond to the dirty hands dilemma. We do this by analysing each of the seven virtues and see how they are endorsed by three CSR standards and guidelines: UNGC, GRI and ISO26000.

Our option for these specific standards is based on the international recognition that they have received as frameworks for CSR reporting. The CSR strategy issued by the European Commission in 2011 specifically encourages corporations to adhere by 2014 to a core set of CSR guidelines and principles, among which UNGC and ISO26000 are mentioned. With over 10,000 corporate participants and other stakeholders from more than 130 countries, UNGC represents the largest voluntary corporate responsibility initiative in the world (UNGC and GRI 2013). A survey conducted by ISO in 2012 shows that more than 60 countries worldwide have adopted ISO 26000 as a national standard, while over 20 countries plan to adopt it (Soderberg 2012). GRI is the leading standard in sustainability reporting (UNGC and GRI 2013), with more than 4,000 organisations across the world – including 80 % of the world's 250 largest corporations (Ligteringen 2013) – reporting their sustainability performance and impacts according to GRI guidelines.

8.3.1 Research Method

The research method used for evaluating the way the three CSR standards and guidelines embed the ethical virtues is content-based. In discussing the way the standards embed the seven ethical virtues from the CEV Model, we evaluate the extent to which each standard explicitly sets reporting guidelines that correspond to the description of the ethical virtues. In this regard, our research takes into account CSR principles and reporting topics of the standards, including topics concerning the implementation process that corporations might follow in view of CSR reporting.

First, in the case of UNGC, reference is made to the guidelines for Communication on Progress (COP) at the advanced level of corporate reporting (UNGC 2012), which is a public disclosure to stakeholders made by corporations concerning the progress achieved in implementing the ten principles of the UN Global Compact. It also includes 24 Advanced Criteria (AC) for reporting, with correlated input for best practice. These criteria correspond to areas covering the ten principles and, additionally, areas such as Strategy, Government and Engagement, UN Goals and Issues, Value Chain Implementation and Transparency and Verification.

Second, in the case of GRI, reference is made to the latest revision concerning the sustainability reporting guidelines, namely, GRI.4 (GRI 2013), which contains several changes in comparison to the previous editions of GRI.3, such as a new standard disclosure on ethics and integrity and new sub-sections within the standard disclosure on Governance. In discussing the way GRI.4 embeds the seven virtues, we refer to principles concerning content and quality, as well as to general and specific standard disclosures.

Finally, the research refers to the ISO26000 voluntary standard published by ISO in 2010. When discussing the way this standard reflects the seven ethical virtues, we take into account both the CSR principles and the seven core subjects it contains.

8.3.2 From the Corporate Ethical Virtues Model to CSR Standards

We discuss below each of the seven virtues depicted by the CEV Model in relation to UNGC, ISO26000, and GRI.4 guidelines. For each CSR standard we indicate the specific sections that embed the virtue under discussion and state how this contributes to answering the dirty hands corporate dilemma.

8.3.2.1 Clarity

Clarity is the first virtue of the CEV Model and concerns the extent to which the corporation's moral expectations from its employees are expressed accurate, concrete, comprehensive, and understandable (Kaptein and Wempe 2002; Kaptein 2011). Vagueness and ambiguity of moral expectations constitute a main source of unethical conduct within organizations (Tyler and Blader 2005). Applied to the dirty hands dimension, the virtue of clarity refers to the way in which employees are aware about the responsibilities that the corporation recognizes towards its stakeholders (Kaptein and Wempe 2002), by being able to identify the stakeholder categories, together with their interests and expectations (Kaptein 1998). Ideally, this corporate quality involves that the expectations of corporate stakeholders are clear for the employees.

The corporate virtue of clarity is reflected in GRI.4 by both the principle of stakeholder inclusiveness, which specifies that the corporation should identify its stakeholders and explain how it responds to their reasonable expectations and interests, and the standard disclosure on stakeholder engagement (G4-24 through G4-27), which asks corporations to report on the stakeholder groups engaged, criteria for their selection, as well as the approach adopted by the corporation towards concerns raised by stakeholders.

In what concerns ISO 26000, two principles are directly linked with clarity. On the one hand, the 4.4 principle of ethical behaviour highlights that corporations need to assume a commitment to address stakeholders' interests and need to define and communicate the standards of ethical behaviour expected from its employees. On the other hand, the 4.5 principle of respect for stakeholder interests specifies that corporations need to identify, take into account and respond to the interests of their stakeholders.

UNGC embeds the virtue of clarity through all of its ten principles, inasmuch as the consistent implementation of these principles involves a process of engagement with all key stakeholders and incorporating stakeholder input into corporate strategy and decision-making. For instance, the need to internally raise awareness through communication and training for management and employees concerning the four topic areas of UNGC is mentioned by AC-6/10/14/18, as well as AC-21 corresponding to Value-chain implementation. The AC-9 corresponding to labour principles specifically mentions that corporations need to provide written policies that clearly state employee rights and responsibilities. AC-5 corresponding to Human Rights mentions as best practice that a public policy on this topic is available and communicated internally and externally to all personnel, business partners and other relevant parties. At the same time, AC-3 corresponding to Strategy, Governance and Engagement area specifically states the need to identify and engage stakeholder groups.

8.3.2.2 Consistency

Consistency refers to the way in which corporate moral expectations regarding employee behaviour are coherent, univocal and compatible (Kaptein and Wempe 2002). As managers and supervisors are true role models within corporations (Brown et al. 2005; Schein 1985) and employees often imitate their ethical or unethical behaviour (Brown and Treviño 2006; Mayer et al. 2009; Schminke et al. 2005), ethical standards are undermined when superiors communicate contradictory or inconsistent messages to followers (Kaptein 2011). The value of consistency therefore suggests that managers need to constantly and continually follow the ethical norms and display the desired behaviour that the organisation sets out, or else employees receive inconsistent signals. As related to the dirty hands dimension, the virtue of consistency ideally means that referents make the necessary effort to satisfy stakeholder expectations (Kaptein and Wempe 2002).

Consistency is covered by GRI.4 through the standard disclosure on governance G4-42, highlighting that the governance body (committee or board) and senior executives set the tone for the organisation in terms of values, policies and strategy and therefore their role in developing the latter must be monitored. The focus on the conduct of top management is completed with disclosure G4-44 concerning the way corporations evaluate the governance body's performance and actions taken as a result of such evaluation. Moreover, G4-DMA asks corporations to pay attention to mechanisms for evaluating the effectiveness of the management approach and related adjustments.

Next, ISO 26000 endorses consistency through core subject 6.6 fair operating practices, which concerns the ethical conduct of a corporation in dealing with other parties and which highlights the need to ensure that leadership sets an example for anti-corruption and provides commitment and encouragement for implementation of the anti-corruption policies.

Finally, UNGC partly covers the virtue of consistency through its AC-18 corresponding to anti-corruption principles, highlighting the responsibility and accountability of management to implement anti-corruption policies. However, as UNGC does not explicitly and completely endorse consistency by, for instance, asking that managers set an example in terms of personal conduct and leadership, we consider that it does not truly embed this corporate virtue.

8.3.2.3 Achievability

Achievability is the corporate virtue which acknowledges that moral expectations set out by corporations must be in line with the capability of employees to live up to them (Kaptein and Wempe 2002; Kaptein 2011). It concerns the degree to which corporations enable employees to meet such expectations (Kaptein and Wempe 2002) by providing sufficient time, budgets, equipment, information, and authority to fulfil their ethical responsibilities (Kaptein 2011). Employees are less inclined to pay attention to ethical standards when under great time pressure (Treviño 1986); therefore the corporation is responsible for creating the proper context in which individual action takes place. In connection to the dirty hands dimension, the virtue of achievability means that the corporation "refrains from creating unrealistically high expectations on the part of external stakeholders and leaving them to employees to fulfil" (Kaptein and Wempe 2002: 253). Ideally, this virtue translates into the practice of creating stakeholder expectations that can be satisfied.

GRI.4 embeds achievability through specific standard disclosures on labour practices G4-LA9 through 11, pointing to employee training, skill management programs and career development. Moreover, through G4-LA12 and 13 concerning diversity, equal opportunity and remuneration, the guideline provides an input pointing to other types of resources through which the corporations should enable employees to fulfil stakeholder expectations. At the same time, the G4-37 standard disclosure on governance highlights the importance of there being a consultation between stakeholders and the governance body on most important topics, which can further create room to setting achievable goals and expectations.

As far as ISO 26000 is concerned, achievability is partly endorsed through core subject 6.4 on labour practices referring to policies and practices related to work performed for the corporation, which specifies that corporations should support the employees through access to skills development and training. However, core subject 6.2 organisational governance of the ISO 26000 standard asks corporations to use financial, natural and human resources efficiently, which suggests a potential conflict with the virtue of achievability. Namely, a maximally efficient use of corporate resources involves that employees fill all of their time productively, which may in the end generate time pressure and thus create room for unethical conduct for the sake of meeting desired targets. Given this aspect, together with the fact that the standard provides neither an explicit additional input on the way corporations should provide sufficient resources for employees to meet stakeholder expectations, nor a reference to means by which companies set achievable stakeholder expectations, we consider that ISO 26000 does not sufficiently embed the virtue of achievability.

UNGC principles embed overall the virtue of achievability, as corporations need to pay special attention to the allocation of resources and employee training in view of implementing the demands raised by each principle. For instance, AC-6 corresponding to Human Rights Principles mentions internal decision-making, budget and oversight for effective responses to corporate impacts on human rights.

Moreover, AC-3 corresponding to Strategy and Governance mentions as best practices regular stakeholder consultations in the four key areas of UNGC (human rights, labour, environment and anticorruption), which, similarly to the case of GRI.4, can further create room to setting achievable goals and expectations.

8.3.2.4 Supportability

Supportability concerns the extent to which employees are encouraged to recognize and realize the legitimate expectations and interests of stakeholders (Kaptein 1998; Kaptein and Wempe 2002). It refers to the commitment of managers and employees to behave ethically (Kaptein 2008), and the extent to which the corporation fosters or hinders such commitment. Because a corporate culture characterized by demotivation, mistrust, and dissatisfaction can generate unethical behaviour, commitment is thought to be desirable (Boye and Jones 1997; Deutsch Salamon and Robinson 2008; Greenberg 1997; Skarlicki et al. 1999). Employees who feel that they do not receive a fair and proper treatment within the corporation might try to balance their dissatisfaction by deliberately causing harm to the corporation (Idem). As related to the dirty hands dimension, the virtue of supportability is ideally embedded when the corporation fosters support for satisfying stakeholder interests (Kaptein and Wempe 2002).

Supportability is partly embedded by GRI.4 through the G4-56 standard disclosure on ethics an integrity, asking corporations to describe corporate values, principles and norms of behaviour. However, in lack of more robust principles and disclosures explicitly aimed at creating an ethical culture that could further create room for employee commitment, we consider the GRI.4 to cover insufficiently the virtue of supportability.

ISO 26000 reflects the virtue of supportability through the core subject 6.2 on organisational governance, specifying that corporate decision-making processes and structures should create and nurture an environment in which principles such as respect for ethical behaviour are practiced. At the same time, core subject 6.4 on labour practices acknowledges that meaningful work contributes to human development and secure employment improves the standards of living, asking corporations to ensure equal opportunities and to eliminate discrimination, as well as unfair, exploitative or abusive labour practices.

The UNGC embeds the virtue of supportability through its Labour Principles, as AC-12 specifies that corporations need to make efforts to eliminate forced labour and discrimination and abolish child labour. Moreover, AC-18 corresponding to the Anti-Corruption Principle emphasises the need for Human Resources procedures that support the anti-corruption commitment or policy, including communication to and training for all employees.

8.3.2.5 Visibility

Visibility is the corporate virtue pertaining to the degree to which employee unethical behaviour and its consequences are manifest to those who can take a stance (Kaptein and Wempe 2002; Kaptein 2008). It may be read either in terms of vertical visibility, when it relates to top-down or bottom-up awareness of unethical behaviour, or in terms of horizontal visibility, when it relates to awareness of unethical behaviour among colleagues of the same hierarchical position. In relation to the dirty hands dimension, the virtue of visibility suggests ensuring “a bridgeable distance between employees and stakeholders” (Kaptein and Wempe 2002: 254) and is ideally embedded when there is visibility of the consequences the way stakeholder expectations are satisfied (Idem).

Visibility is covered by GRI.4 through the principle of stakeholder inclusiveness, which draws attention on the way the corporation handles reasonable stakeholder expectations and interests, but also through G4-27 disclosure on stakeholder engagement, which highlights the same idea concerning the way corporations respond to stakeholder issues. Additionally, standard disclosures G4-53 and on governance and G4-58 on ethics and integrity highlight that corporations need to pay attention to the way stakeholder views are taken into account, including remuneration and integrity.

The ISO 26000 standard integrates the virtue of visibility through the 4.3 principle of transparency, asking corporations to pay attention to the manner in which decisions are made, implemented and reviewed, including the definition of the roles, responsibilities, accountabilities and authorities across the different functions in the organization. In addition to this, the 4.4 principle of ethical behaviour states that corporations should establish mechanisms and controls in order to monitor ethical behaviour, while core subject 6.2 on organisational governance asks corporations to keep track of the implementation of decisions.

Principles of UNGC endorse overall the virtue of visibility by setting means to disclose the way corporations deal with incidents of violation of principles. Namely, AC-8 corresponding to Human Rights principles, AC-12 corresponding to Labour principles, AC-16 corresponding to Environment and AC-20 corresponding to Anti-Corruption principles mention as best practice the disclosure of main incidents involving the company. Moreover, AC-3 for reporting on progress corresponding to Strategy, Governance and Engagement states the need to incorporate stakeholder input into corporate strategy and follow the outcome of stakeholder involvement. To that end, the COP specifically recommends transparency about which stakeholder groups the company has engaged and the outcomes of stakeholder involvement.

8.3.2.6 Discussibility

Discussibility concerns the openness to discuss ethical dilemmas, as it is perceived by employees (Kaptein 2011). When employees can openly talk about ethics, unethical behaviour is less frequent (Treviño et al. 1999). On the contrary, when the corporate culture allows for little discussion and debate, unethical behaviour is more present (Kaptein 1998). In relation to the dirty hands dimension, this virtue is ideally translated into open discussions regarding the way dilemmas, problems and criticism over the way stakeholder expectations are satisfied (Kaptein and Wempe 2002).

Discussability is embedded by GRI.4 through the standard disclosure on governance G4-49 and G4-50 concerning the process of communicating critical concerns to the governance body, as well as through the standard disclosure on ethics and integrity G4-56 through G4-58, which stresses the need to implement mechanisms for both seeking advice and reporting on violations of integrity.

UNGC endorses overall the virtue of discussability through its guidelines concerning the implementation of the ten principles, specifying that corporations need to establish communication channels and follow-up mechanisms for reporting concerns or seeking advice. Namely, AC-7 corresponding to Human rights points to internal and external feedback, including affected stakeholders, while AC-10 corresponding to Labour principles, AC-14 corresponding to Environment principles and AC-18 corresponding to Anti-Corruption mention as best practices the existence of grievance mechanisms, communication channels and follow-up mechanisms for reporting concerns or seeking advice.

ISO 26000 also embeds discussability through its 4.4 principle of ethical behaviour, asking corporations to establish mechanisms that facilitate the reporting of unethical behaviour without fear of reprisal. Moreover, core subject 6.2 organisational governance encourages the effective participation of all levels of employees in the corporate decision making process on issues of social responsibility, while core subject 6.6 fair operating practices mentions that corporations should encourage its employees, partners, representatives and suppliers to report violations of corporate policies by adopting mechanisms that enable reporting without fear of reprisal.

8.3.2.7 Sanctionability

Sanctionability concerns the extent to which employees are likely to "be punished for irresponsible conduct and rewarded for responsible behaviour" (Kaptein and Wempe 2002: 256), either in a formal or informal way. While sanctioning of unethical behaviour reinforces the ethical standards within the corporation (Treviño et al. 1999) and leads to avoidance (Luthans and Kreitner 1991), research also suggests that the more ethical behaviour is rewarded, the less people behave unethically (Román and Munuera 2005). Related to the dirty hands dimension, this virtue is ideally embedded when "staff is sanctioned if stakeholder expectations are deliberately ignored" (Kaptein and Wempe 2002: 255).

Sanctionability is embedded by GRI.4 through the standard disclosure on governance G4-44 and G4-51 through G4-53 concerning the process of evaluating the governance body and performance criteria, together with actions undertaken and means to integrate stakeholder views in determining remuneration.

All of the ten UNGP embed overall the virtue of sanctionability, by asking corporations to report on the way they handle incidents and abuses of the principles, as well as investigations, legal cases, rulings, fines applied. More specifically, the requirement that corporations implement a process to deal with incidents is mentioned by AC-7 corresponding to Human Rights principles, AC-11 corresponding to Labour principles, AC-15 corresponding to Environmental principles and AC-19 corresponding Anti-Corruption principles.

ISO 26000 covers the virtue of sanctionability through its 4.2 principle of accountability, which imposes an obligation both on the management to be answerable to the controlling interests of the corporation, and on the corporation to be answerable for the impact of its decisions towards stakeholders. Moreover, core subject 6.2 on organisational governance specifies that corporations should determine accountability for the results of corporate decisions and activities, either positive or negative, and to periodically review and evaluate the corporate governance processes. In the same stance, core subject 6.6 on fair operating practices highlights that corporations must bring violations of the criminal law to the attention of the relevant law enforcement authorities, but also to provide employee incentives for progress made in eradicating bribery and corruption.

8.4 Integrating Stakeholder Expectations

How do the CSR principles pertaining to the three standards help corporations embed the seven ethical virtues proposed by the CEV Model and in this way stimulate employees to balance the interests of stakeholders against those of the corporation and respond to the dirty hands dilemma? We answer this question by first analysing the extent to which each CSR standard embeds the virtues discussed in the previous section, together with their relevance, and then we discuss from a normative perspective the way ethical virtues enable corporations to integrate stakeholder expectations.

8.4.1 Level of Embedding the Virtues

Research findings discussed in the previous section show that the ethical virtues are generally well reflected by the three CSR standards. However, the level of embeddedness is different and the means to reflect the virtues differ. We explain below main relations revealed by our research and summarize the findings in Fig. 8.1.

The extent to which the three CSR standards and guidelines embed each of the seven virtues is depicted in the figure below, where black means an insufficient

Corporate virtue	GRI 4	UNGC	ISO26000
CLARITY	• Principle of stakeholder inclusiveness • Disclosure on stakeholder engagement G4-24 through G4-27	• Overall the 10 principles through AC-5/6/9/10/14/18/ • Value-chain implementation: AC-21 • Strategy, Governance and Engagement: AC-3	• Principle of ethical behaviour • Principle of respect for stakeholder interests
CONSISTENCY	• Disclosure on governance G4-42 and G4-44 • Disclosure on management approach G4-DMA		• Core subject: Fair operating practices
ACHIEVABILITY	• Disclosure on governance G4-37 • Disclosure on labour G4-LA9 through 13	• Human Rights: AC-6 • Strategy, Governance and Engagement: AC-3	
SUPPORTABILITY		• Labour principles: AC-12 • Anti-Corruption: AC-18	• Core subject: Organisational governance • Core subject: Labour practices
VISIBILITY	• Principle of stakeholder inclusiveness • Disclosure on stakeholder engagement G4-27 • Disclosure on governance G4-53 • Disclosure on ethics and integrity G4-58	• Overall the 10 principles through: AC-8/12/16/20 • Strategy, Governance and Engagement: AC-3	• Principle of transparency • Principle of ethical behaviour • Core subject: Organisational governance
DISCUSSABILITY	• Disclosure on governance G4-49 and G4-50 • Disclosure on ethics and integrity G4-56 through G4-58	• Overall the 10 principles through: AC-7/10/14/18	• Principle of ethical behaviour • Core subject: Organisational governance • Core subject: Fair operating practices
SANCTIONABILITY	• Disclosure on governance G4-44 and G4-51 through 53	• Overall the 10 principles through: AC-7; AC-11; AC-15; AC-19	• Principle of Accountability • Core subject: Organisational governance • Core subject: Fair operating practices

Table colouring:

black = insufficient level of virtue embeddedness

dark grey = low level of embeddedness

light grey = medium level of embeddedness

white = high level of embeddedness

Fig. 8.1 Level of embedding the corporate ethical virtues by CSR standards level of virtue embeddedness, dark grey means a low level of embeddedness, light grey signifies a medium level of embeddedness, and white depicts a high level of embeddedness – the darker the cell, the lower the level of embeddedness. In setting these levels, we have taken into account the number of different sections from the CSR standards which endorse each specific virtue. Where only one such section (or, in the case of UNGC, where overall the Ten Principles) endorsed the virtues, we considered it to be a low level; for cases where two different sections endorsed the virtues, we evaluated as a medium level; finally, in cases where three or more sections were concerned with the virtues, we considered it to be a high level of embeddedness. Where a black cell is present, we considered that the CSR standard provided insufficient input in order to embed the ethical virtue under evaluation.

The resulting evaluation indicates that each of the three standards embeds the seven ethical virtues in a different degree, with some virtues (consistency, achievability and supportability) being insufficiently covered. Although the colouring in the figure might slightly suggest a hierarchy in terms of the overall level of virtue embeddedness, with the ISO 26000 standard embedding the ethical virtues to the largest extent, followed by GRI.4 and, last, the UNGC, it is difficult to make such a clear-cut delineation. While some standards provide a better level of embeddedness to several virtues, the others compensate by better embedding remaining virtues. We describe below in more detail the way each standard covers the virtues of the CEV Model.

The ISO 26000 standard embeds six out of the seven virtues identified by Kaptein (1998) and does this in a straightforward way, through both principles of social responsibility and core subjects of reporting. Besides the principle of ethical behaviour, core subject 6.2 on organizational governance proves to be most relevant from the point of view of integrating the corporate ethical qualities. It is not random, as organisational governance is developed in ISO 26000 with a dual status, as "both a core subject on which organizations should act and a means of increasing organizational ability to implement socially responsible behaviour with respect to the other core subjects" (ISO 26000 2010). The standard falls short of embedding the virtue of achievability, which means that less emphasis is put on setting reasonable stakeholder expectations and on providing the necessary means for employees to achieve them. Instead, the standard places high importance on virtues of visibility, discussability and sanctionability, which suggest a focus on corporate transparency, internal communication and compliance.

The ethical virtues are embedded by GRI.4 through both principles of content and quality and standard disclosure topics. With the introduction of several standard disclosure sections on governance and ethics and integrity in G4, in addition to the sections existing in the previous editions of G3, the standard is able to include six out of the seven virtues identified by Kaptein. The standard disclosure on governance covers most of the virtues, while the principle of stakeholder inclusiveness and the standard disclosure on stakeholder engagement also cover the virtues to a fairly large extent. The virtue of supportability lacks sufficient endorsement in GRI.4, which means that the guideline provides very little input for corporations to create ethical cultures that enable employees to be committed and furthermore fulfil stakeholder expectations. In turn, the guideline emphasizes the virtue of visibility, which deals with the way corporations are transparent with the way stakeholder needs are dealt.

While ISO26000 and GRI provide a more specific link to the corporate virtues, UNGC covers the virtues in a more diffuse way. Most virtues are reflected overall through all of the ten principles, thus suggesting a less applied approach. The explanation is that the UNGC reporting principles are formulated less specific and the framework provided is more general than it is the case with GRI or ISO26000. However, the Advanced Criteria of the COP provide more explicit details concerning corporate reporting and best practices of the UNGC principles. Among the seven corporate virtues developed by Kaptein, UNGC embeds consistency insufficiently, indicating that it is less focused on the way corporations urge managers to set a personal example through role-modelling. Instead, the virtue of clarity is well reflected, pointing to the fact that UNGC stimulates corporations to be aware of stakeholder expectations and to make them explicit for employees.

8.4.2 Relevance of Embedded Virtues and Cross-Reporting

The discussion above concerning the extent to which the CSR standards embed the seven virtues of the CEV Model leads to the following two questions. First, what is the relation between CSR standards and corporate ethical virtues from a normative perspective? Second, how do the CSR standards integrate stakeholder concerns over ethical matters? We will address these questions in the current section of the paper.

To begin with, let us determine which virtues from the CEV Model are most and least embedded by the three CSR standards and guidelines analysed in the previous section. On the one hand, the ethical virtue of visibility is most embedded by the three standards, followed by clarity, as the largest number of principles, core subjects or disclosure sections were identified to embed these virtues. While GRI.4 is most centred on the virtue of visibility, ISO 26000 best embeds visibility, discussability and sanctionability, and UNGC emphasizes clarity. On the other hand, the virtue of consistency, followed by achievability and supportability are least embedded, each of them being insufficiently covered by one of the standards.

Next, let us consider which ethical virtues are most representative for stimulating ethical behaviour and inhibiting unethical behaviour in the workplace according to the CEV Model and subsequent developments. In this respect, Kaptein (2011) found that clarity of ethical standards and visibility of unethical behaviour are less significantly related to unethical behaviour in the workplace. Instead, consistency of management conduct, the possibility to achieve stakeholders' expectations, the support that the corporation offers to its employees, the openness to discuss ethical matters and the adequate sanctioning of unethical behaviour appear to exert an important influence on the ethical behaviour in the corporate context (Idem).

In contrast, the virtues which are most embedded by the three CSR standards and guidelines taken together are clarity and visibility, while consistency, achievability and supportability are the least embedded.

Two main consequences may be drawn. On the one hand, corporations aiming for a status of integrity should consider cross-reporting, namely, reporting based on several standards, including section-link among them. Using direct multiple-reference to at least two or three CSR standards improves the quality of corporate reporting and makes it possible to embed all of the seven virtues from the CEV Model to a better extent, while at the same time ensuring a 360° perspective over corporate activity. At the same time, cross-reporting helps corporations focus better on a broader array of issues and place more importance on multiple topics over which they will finally report. Through cross-reporting, corporations are closer to achieving the organisational virtues advanced by the CEV Model and in this way are more able to effectively integrate stakeholder concerns within the corporate framework.

On the other hand, further developments of CSR guidelines and standards should consider putting more emphasis on the way corporations embed the five ethical virtues of the CEV Model which are most influent in creating an ethical corporate culture, by stimulating the ethical behaviour of employees. Moreover, initiatives to correlate different CSR standards, similar to the ones which currently link UNGC and GRI (UNGC and GRI 2013) and ISO26000 and GRI (GRI 2011), should be able to assist corporations in view of cross-reporting. Integrated reporting (IR) is already promoted by the International Integrated Reporting Committee as a means to integrate environmental, social and ethical corporate performance with corporate strategy, governance and financial performance. This supports the idea of connecting various CSR standards when accounting for corporate performance towards stakeholders.

8.4.3 Virtues and Stakeholder Expectations

Are the virtues from CEV Model a necessary point of reference in relation to the CSR guidelines and standards in view of integrating stakeholder expectations and responding to the dirty hands dilemma? As long as we speak of corporate performances and as long as these performances are significantly influenced by the corporate culture in which employees work, we believe the answer to this question is yes. As both managers and employees face different ethical issues in a corporate context than they do in other social settings (Crane and Matten 2010; DeGeorge 1999; Donaldson and Dunfee 1999; Kaptein 2008; Velasquez 2002), it is important to provide them with the appropriate guidelines to deal with such issues. Empirical research conducted by Kaptein (1998) supports this idea, as it found that in lack of a clear normative framework to which employees have to refer, the doors to unethical behaviour are opened. We further explore three normative points that sustain the need to relate the ethical virtues and CSR standards in order to integrate stakeholder expectations.

First, while CSR standards are rather substantive, in that they provide guidance on the way corporations should implement specific measures to reach the desired results, corporate virtues are procedural, for they pertain to setting the general context in which specific action takes place. In order to speak of corporate integrity we need to have them both. On the one hand, virtues provide the general framework and set the desirable goals that an organisation should pursue. On the other hand, reporting guidelines provide specific content-related criteria that corporations should meet in their daily operations so as to successfully integrate stakeholder concerns.

Second, virtues provide the input for corporate action, while guidelines work towards generating corporate output. Corporate ethical virtues are general drivers that set corporate intentions. They function as a basis that gives the rationale for corporate action. Furthermore, guidelines and standards generate corporate results in terms of conduct. In this respect, corporate ethical virtues are necessary to translate guidelines into conduct and any CSR or sustainability reporting initiative should acknowledge this relationship. It is not enough to set reporting criteria, as they only point to the specific requirements that corporations must meet; offering the tools and drivers to achieve those results is equally important.

Third, virtues are oriented from the corporate culture towards the corporate structure, as on the one hand they pertain to the corporate informal dimension, and on the other hand they exert a direct influence on corporate formal practices. In turn, guidelines are oriented from the corporate structure towards the corporate culture, as they set the formal framework which inevitably has an echo in the corporate informal practices. Virtues and guidelines complement each other and represent the halves of the same whole – corporate integrity. In order to demonstrate such integrity, corporations should approach the matter holistically, by truly engaging in a thorough development of the corporate context in the direction of maximizing the ethical virtues.

As a result, in order to adequately integrate stakeholder concerns and evaluate corporate performance, one should look into those specific corporate virtues which contribute to creating an ethical culture, and see the degree to which employees are stimulated by the corporate context to balance the interests of stakeholders against those of the corporation (Kaptein 1998). Corporations embedding the seven virtues of the CEV Model have more chances to succeed in integrating stakeholder concerns. Therefore, corporations should acknowledge that the relation between the corporate culture and structure and employee behaviour is bi-directional: the corporate context stimulates individual conduct and, in turn, individual conduct builds the corporate context (Kaptein and Wempe 2002). In the same vein, the integrity of the people working within corporations determines the integrity of the corporation per se, and vice versa (Solomon 1992).

Conclusion

Our paper showed that corporations need to take into account multiple dimensions of the ethical culture if they aim at integrating stakeholder expectations. By embedding the seven ethical virtues of the CEV Model (Kaptein 1998, 1999, 2008, 2011), corporations are able to better respond to the challenges raised by the dirty hands dilemma and thus to balance conflicting stakeholder interests in an ethical manner. Research findings revealed that each of the three CSR standards and guidelines falls short of embedding respectively one of the seven ethical virtues. Namely, ISO26000 embeds the virtue of achievability insufficiently; GRI does not embed supportability, while UNGC does not cover consistency in a satisfactory manner. Moreover, the three CSR standards embed to the largest extent the virtues of visibility and clarity, while consistency, achievability and supportability are the least embedded.

Implications and Suggestions for Future Research in Business Ethics and CSR

One main implication for business ethics research is that our paper extends the applications of the CEV Model, which previously focused only on the ethical context of the corporate settings. Our research shows that the model has direct correlations with CSR guidelines and principles and is able to provide normative input for research on CSR. This validates the CEV Model from a practical perspective and opens the possibility for further adjustments in view of proving its relevance in interdisciplinary research.

An important implication for research on social responsibility concerns the need to refer to business ethics conceptual developments, such as the CEV Model, in order to improve the normative research on CSR. By highlighting the role of the ethical virtues in creating a culture of integrity within corporations, our paper draws attention on specific areas that conceptual research on CSR should take into account when setting the guidelines for corporate action in view of sustainable development. As the ISO26000, GRI and UNGC only partly reflect the ethical virtues of the CEV Model, future normative research could point to means of better embedding such ethical virtues, especially those that each standard reflects insufficiently.

Improving the CSR Standards

Based on findings revealed by our research, several suggestions in view of improving the CSR standards through a better endorsement of the ethical virtues may be highlighted.

One suggestion to improve the UNGC guidelines would be to include a more in-depth description of the reporting topics in relation to the Advanced Criteria and best practices of the COP Comprehensive Guide. The UNGC

(continued)

should significantly better embed the virtue of consistency, which is currently poorly reflected, and should put more emphasis on the virtues of discussability and sanctionability, which are reflected at a low level.

As for GRI.4, the guidelines in the Implementation Manual could also include main lines that corporations might follow so as to be able to meet the reporting requirements for the general and specific disclosures. In this way, corporations would be able to better manage their corporate practices so as to reach desired goals on which they could finally report. The GRI.4 guidelines should significantly better embed the virtue of supportability which it currently embeds insufficiently, and should better endorse the virtue of sanctionability, currently reflected at a low level.

Furthermore, the ISO26000 standard could be improved by detailing the reporting topics more thoroughly, so that corporations have an overall picture of the outcomes on which they should report specifically. The standard should significantly better embed the virtue of achievability, which it currently promotes unsatisfactorily, and could focus more on embedding the virtue of consistency, which it currently reflects at a low level.

Besides the extent to which the CSR standards embed the virtues of the CEV Model, a special attention must be paid to the implementation process. The way the standards are implemented also influences the extent to which corporations integrate the ethical virtues in their culture. For instance, when a corporation adopts the GRI.4 guidelines that embed to a large extent the virtue of visibility, management should bear in mind that the more they invest in communication and transparency, the better will the virtue of visibility be endorsed.

To conclude, corporations aiming for a status of integrity should become aware of the role that the corporate culture and its seven dimensions of corporate virtues play in view of integrating and balancing stakeholder expectations. Ignoring these virtues leads to a lack of commitment towards corporate stakeholders. As our research showed, reporting based on a single CSR standard is unable to embed all seven corporate virtues of the CEV Model to a sufficient extent. As a result, corporations should focus on evaluating their performance from a 360° perspective, through cross-reporting, by using tools provided by multiple standards.

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Part III
Reporting Corporate Social Responsibility

Chapter 9
Is It Time for Integrated Reporting in Small and Medium-Sized Enterprises? Reflections on an Italian Experience

Mara Del Baldo

Abstract In recent decades, several contributions have addressed the debate on the diffusion of the integrated reporting approach. Why would a company decide to combine its financial, social and environmental performance into a single report? Does the integrated report represent the best tool of accountability and the best solution? If so, why and for which companies? Studies and empirical research in this area have been mainly addressed to large enterprises, neglecting the integrated reporting of small and medium-sized business (SMEs) and the factors that may facilitate the adoption and its effectiveness.

Departing from these premises, the work focuses on the relationship between financial reporting and social, environmental and sustainability reporting both through a literature review and the empirical analysis, relative to a case-study and based on the action research methodology, which has been recently developed in the context of social and environmental research, through the direct involvement with the company under investigation.

The paper aims to fill the aforementioned gap and to offer lines of reflection on the benefits capable of being derived from the adoption of integrated reporting (greater clarity about relationships and commitments, deeper engagement with all stakeholders, better decisions with economic, social and environmental merit and lower reputational risks) and their relationship with specific SMEs' attributes. The empirical analysis – referred to an Italian SME, not listed, which is among the first to have introduced the global report- allows us to identify the benefits of integrated reporting and verifying how these stem from the orientation to sustainability and to the level of responsibility of the entrepreneur. The findings of the study suggest that when an authentic commitment to social responsibility, sustainability and transparent disclosure exists, the integrated report improves corporate disclosure and acts as a driver for stakeholders' dialogue and stakeholders' commitment.

M. Del Baldo (✉)
School of Economics, Department of Economics, Society and Politics, University of Urbino "Carlo Bo", Via Saffi, 42, Urbino, PU 61029, Italy
e-mail: mara.delbaldo@uniurb.it

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9.1 Introduction

Today, more and more companies are publishing corporate social responsibility or sustainability reports to supplement their annual report. However, the problem of how to integrate the financial reporting with the non financial reporting has not yet been solved. The presence of different frameworks for financial reporting (IAS-international accounting standards- and IFRS – international financial reporting standards- principles), as well as the presence of several standards for non financial reporting (GRI-Global Reporting Initiative, PwC Value Reporting Initiative), makes the process of integration difficult. In recent decades, several contributions have addressed the issue of the relationship between financial and non financial reporting and focused the limits (transparency, incompleteness, redundancy) of these different approaches and communication tools. At the same time there is increasing speculation that integrated reporting constitutes the preferred solution.

Studies and empirical research in this area have, however, mainly focused on large enterprises, neglecting the integrated reporting of small and medium-sized enterprises (SMEs) and the factors that may facilitate its adoption and effectiveness.

Departing from these premises, the work addresses the issue of the relationship between financial reporting and social, environmental and sustainability reporting both through a literature review and the empirical analysis focused on a case-study and based on the action research methodology, which has been recently developed in the context of social and environmental research, through the direct involvement with the company under investigation.

Why does a company decide to combine financial, social and environmental performance into a single report? Does the so called "integrated report" represent the best tools of accountability and the best solution for reporting? If so, why and for which companies should this apply? Is this only a problem for large, global firms or does it involve SMEs?

The study winds itself around these questions with the aim of contributing to filling the afore-mentioned gap and to offer lines of reflection on the benefits deriving from the adoption of the integrated report (e.g., greater clarity about relationships and commitments, deeper engagement with all stakeholders, better decisions with economic, social and environmental merit and lower reputational risks) and their relationship with specific attributes of SMEs. The empirical analysis – referred to an Italian SME, not listed, which is among the first to have introduced the global report- allows us to identify the benefits of integrated reporting and verify how these stem from the orientation to sustainability, transparency and to the level of responsibility of the entrepreneur, showing that when an authentic commitment to social responsibility and sustainability and transparent disclosure exists, the integrated report improves corporate disclosure and transparency and acts as a driver for stakeholders dialogue and stakeholders commitment.

The research design develops through a deductive and inductive approach. The deductive approach is based on an analysis of the literature regarding financial and non financial reporting and on integrated reporting, and is aimed at describing the theoretical framework (Sects. 9.2, 9.3, 9.4 and 9.5). The inductive method is based on the analysis of a research case focused on an Italian small-sized enterprise and, specifically, on the motivations for adopting the integrated report, the process of implementation, the standard used, as well as the benefits, the criticality and aspects of improvement (Sect. 9.6). A discussion follows regarding aspects which have emerged and concluding reflections (Sect. 9.7).

9.2 Financial Reporting and Its Limitations

In recent years awareness has increased about the difficulty traditional systems of financial reporting have in thoroughly representing the complexity which typifies companies (Andriessen and Tissen 2001; Lev 2001, 2004; Pike et al. 2001), as well as justifying the stock value attributed to them (Andriessen 2002) and supporting the judgment of stakeholders regarding their performances (Elkington 1997; Kaptein and Wempe 2002).

The growing inadequacy of traditional systems of financial reporting in answering increasingly structured requests for information has been revealed in: a loss of trust in the reliability of information presented in the financial report; too much of a focus on economic performance; and an insufficient consideration of financial, operational, strategic and reputational risks (Slywotzky and Drzik 2005; Fombrun and Gardberg 2000; Rayner 2003). Enron and WorlCom in the USA, HiH, Ansett, and Harris Scarfe in Australia, and Swissair and Parmalat in Europe, are just some examples which demonstrate the failure of international standards (IAS and IFRS) in ensuring the reliability of information contained in the financial report (Satava et al. 2006). In traditional systems of financial reporting weak points seem to remain despite the tightening of regulations. Furthermore there has been an intensification in the efforts of national and international organizations made in improving the quality of information contained in the financial report (Archambault and Archambault 2005). In particular, the IFRS practice statement on management commentary uses KPIs (key performance indicators) to best represent the system of the company's risks and resources and to visualize intangible resources.

Against such a gradual loss of informational power, there has been a rising demand in information requested by investors (Wasly and Shuang Wu 2006) and an increase in the interests of managers to make available a system of information necessary for guiding increasingly complex organizations (Mendoza and Bescos 2001).

The need to observe and account for the effects generated by corporate management on the globality of performance, sustained by the stakeholders view, has stimulated the managers' interests in extending the range of observation to the perspective of the triple bottom line (Elkington 1997; Clarkson 1995; Davemport 2000). Only the monitoring of performances in a broad sense allows the measurement and management of corporate sustainability (Funk 2003; Kiernam 2001;

Wheeler et al. 2003). The financial reporting represents a limited response in this sense, as it does not allow for a complete vision of economic, financial, social and environmental performance and is therefore considered an insufficient tool for guiding corporate and stakeholder decisions (Jensen 2001; Reynold, et al. 2006; Winn 2001). Furthermore it is limited in expressing judgment on resources which determine prospects of future performance (Barney et al. 2001) and on intangible resources (Aaker 1989).

Over the past decade companies have been facing growing pressures to address social and environmental issues (Young and Marais 2012; Arvidsson 2010; Basu and Palazzo 2008; Kolk 2008; Kolk and Pinkse 2010) and to take into account the conformance to economic, social and ethical expectations from diverse stakeholders groups (Freeman et al. 2010) as well as their impact on society (Lee 2011). Civil society's awareness of the need for CSR (corporate social responsibility) has rapidly increased in the last years. CSR can be broadly defined as the extent to which firms have integrated on a voluntary basis social and environmental concerns into their ongoing operations and interactions with stakeholders (Godoz-Diez et al. 2011; Uhlaner et al. 2004). In other terms, CSR is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary bases" (EC 2001).

There are many different ideas, concepts and practical techniques that have been developed under the umbrella of CSR research, including corporate social performance (Carrol 1979; Wood 1991); corporate social responsiveness (Ackerman 1973); corporate citizenship (Waddock 2004); corporate governance (Jones 1980; Freeman and Evan 1990); corporate accountability (Zadek et al. 1997; Gray et al. 1996); sustainability and triple bottom line (Elkington 1994) and corporate social entrepreneurship (Austin et al. 2006). The Brundtland Report explains "Sustainable development is one that meets the needs of the present without compromising the ability of future generations to meet their own needs" (UNWCED, 1987: 43). Freeman et al. (2010) note that "Each of these diverse efforts share the common aim: the attempt to broaden the oblations of firms to include more than financial considerations" (Freeman et al. 2010: 235). Such a broad theme has in the past decade attracted the attention of researchers from diverse disciplines, as well as policy makers and economic operators (Garriga and Melé 2004).

According to companies' strategy of transparency, information can be the basis for corporate sustainability reporting (Cisi and Bechis 2007). The concepts of CSR and sustainability are linked with the transparency toward stakeholders. Recently, there has been a substantial increase in corporate awareness of environmental and social performance and a concomitant desire to publicly report such results (Murphy 2005). This derives from a variety of reasons: to comply with regulations; to reduce the cost of future compliance; to comply with industry environmental codes; and to improve the relations with the stakeholders. Moreover, reasons of social and environmental reporting are related to expected improvements in competitive advantage, in a company's legitimacy and reputation and are connected to a sense of social responsibility and desire to adhere to societal standards (Morhardt et al. 2002). As a result, companies, and especially multinational corporations, are increasingly adopting CSR and sustainability reporting practices (Conley and Williams 2005; Cooper and Owen 2007). A recent KMPG survey has revealed that, in 2011, 95 % of the 250 largest global companies now report on their CSR activities.

Even if accurate financial information remains extremely important, it is becoming a less and less complete story in a knowledge economy where an increasing percentage of a company's intangible assets are not shown and included in the balance sheet. On the one hand, increasingly more managers, analysts and investors are directing their attention toward KPIs to make projections about future financial performance. On the other hand, environmental and social metrics have become more important to investors. "At the same time that the complexity of financial reporting has increased, the need for non financial information has increased" (Eccles and Krzus 2010: 79).

Both these tendencies – the need to recognize and assess the economic and financial performance – as well as the willingness to include the repercussion of corporate activity within the profile of ethical, social and environmental performance, and therefore the responsible conduct of companies and their leaning toward responsibility, explain the increasing need for new tools and methods of accounting (social reports, environmental reports, sustainability reports, codes of conduct and ethical codes, intellectual capital reports).

Different frameworks have been proposed on how to use non financial information to supplement financial reporting. Among the models reviewed in the ICAEW report Institute of Chartered Accountants in England and Wales ICAEW (2003) – in which report 11 proposed business reporting models were included – the most widespread are: the Balanced Scorecard (Kaplan and Norton 1996); the sustainability report guidelines developed by the GRI (G3, G4) (GRI 2006). and the Value-Reporting Framework developed by PwC (2009). The first one was developed mainly for internal management and reporting purposes, although it is relevant for external reporting as well. The GRI and PwC began their work in the late 1990s. The goal of GRI was to produce a reporting framework for providing stakeholders with relevant information on a company's economic, social and environmental performances. In contrast, the PwC Value Reporting Initiative (the so called Corporate Reporting) was focused on identifying information in which analyst, investors, and chief financial officers were interested in making investment decisions that went beyond the required financial information. Attention has been paid to ESG (environmental, social and governance) factors and to industry-specific frameworks, KPIs, and associated XBRL (extensible business reporting language), developed on the basis of global surveys of analysts, investors, and executives of different industries (Di Piazza and Eccles 2002; Eccles and Krzus 2010).

The response companies have shown to the loss of the informative power of traditional annual reports has been through the development of the aforementioned complementary systems of reporting. These provide management with the opportunity to make available information which is of use in assessing the effectiveness and efficiency of the company with regards to areas of performance not considered in the financial report as well as to add a voluntary communication tool in the disclosure practices of the company.

Initially the need to make available information essential for responsible management capable of contributing to the creation of corporate value favored the start of complementary accountability systems in the form of environmental and social reports. Subsequently these two documents came together to form a single statement seeking a homogenous vision of economic-financial, environmental and social results (Higgins 2002) and played a part in the development of sustainability reports. The complementary informational systems are included in both sustainability and intellectual reporting. The former system accounts for the company's sustainability over time and represents in a linked form economic, social and environmental performance. The latter system aims at offering a representation of intangible resources available to the company (Pedrini 2007). The intangibles are the main value drivers (Edvinsson 1997) and are referred to the concept of intellectual capital (IC) which embraces human, organizational and relational capital (IFAC 1998; WICI – Work Intellectual Capital Initiative[1]) (Sveiby 1997a; Nahapiet and Ghoshal 1998; Adler and Kwon 2002).

9.3 Non Financial Information

Non financial information comprises three main categories: intangible assets (intellectual capital and other intangibles); key performance indicators, and environmental, social and governance (ESG) parameters (Perrini 2006; ICGN 2008). Non financial information are strictly related to accountability intended as the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible (Gray et al. 1996: 38). Accordingly, companies can adopt sustainability or social reporting.

On the one hand sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance toward a goal of sustainable development (KPMG 2008). Sustainability reporting is driven by a growing recognition that sustainability related issues can materially affect a company's performance, demands from various stakeholder groups for increased levels of transparency and disclosure, the need for companies, and, more generally, for the business community, to appropriately respond to issues of sustainable development (socio environmental, socio-economic and eco-efficiency performances).

On the other hand, the term Social & Environmental Accounting and Reporting (SEAR or SER) is widely used to refer to corporate accounting and self-reporting processes through which quantitative and qualitative information about social and environmental effects are accounted and disclosed (Gray et al. 1995a, b, 1996;

[1] www.worldwici.com; www.wici-global.com

Hibbit 2004; Contrafatto 2011). Since the mid-1970s there has been a significant increase in the number of academic researchers embracing social and environmental issues, in the level of consideration being given by governmental institutions (i.e., the EU and UN) and professional (accounting) bodies, and, indeed, in the amount of organizations producing different kinds of social and environmental reports (Mathews 1997; Bebbington 2001; Gray 2002; Deegan 2002; Rusconi 2006; Thomson 2007; Bebbington et al. 2009; Contrafatto 2011).

Various legislative initiatives have been undertaken in the last years by the European Union (i.e., the EU Modernization Directive 2003/51/EC). Furthermore, a few regulatory and legislative requirements, although unsystematic, have recently been passed in several EU countries in order to regulate organizations' activities for accounting and reporting social and environmental impacts (KPMG International Survey of Corporate Social Responsibility Reporting 2005). Of the various empirical studies carried out, a research done in the year 2008 (Fossati et al. 2009) on a sample of 349 listed Italian companies revealed the classification of public documents to be very varied: the following appear in descending order: Corporate Responsibility Report, Sustainable Development Report, Corporate Social Responsibility Report, other classifications (Activity and Sustainable Development, Sustainable Value Report, Environmental and social Report) and Sustainability Report.

A proliferation of competing sustainability-related frameworks, principles, codes and management systems has arisen. Beyond the GRI guidelines, the list includes: the AccountAbility (AA) 1000 for managing and reporting and reporting sustainability performance; Social Accountability (SA) 8000 for managing labor practices; International Standards Organization (ISO) 26000 on sustainability management (Castka and Balzarova 2008). Among the regulatory principles we can mention: the SEC's MD&A disclosure rules; the UK's Enhanced Business Review Requirements; the EU's Modernization Directive 2003 to include non financial key performances indicators in the annual reports; and the Australia's National Greenhouse and Energy Reporting requirements.[2]

In the scientific field, a vast literature has developed several strands of research (Contrafatto 2011) including: (1) those studies which have examined mainly motives and drivers for the initiation and/or sustainment of social and sustainability reporting (Buhr 2002; O'Dwyer 2002; Spence 2007; Belal and Owen 2007; Bebbington et al. 2009; Farneti and Guthrie 2009); (2) research exploring the contextual and internal factors (including managerial attitudes) which influence the nature and extent of social and environmental reporting and might contribute or limit change in organizations (Adams 1999, 2002; Adams and McNicholas 2007; Bebbington et al. 2009); (3) studies which have focused on its and to stimulate some kind of organizational change in practices, structures, performance and/or values

[2] Models of reporting are attributable to due categories of standards: performance-oriented standards (which define the minimum standards required for a social responsible approach, i.e. OECD and Global Compact) and process-oriented standard and guidelines which recommend procedures and elements to define the process of social reporting and stakeholders engagement (i.e., GRI and Accountability 1000).

(Gray et al. 1995c; Larrinaga-Gonzàlez and Bebbington 2001; Larrinaga-Gonzàlez et al. 2001; Adams and McNicholas 2007; Dey 2007; Albelda-Perez et al. 2007); and (4) studies which have specifically analysed the managerial perceptions and views about social, sustainability and environmental reporting and related practices (Belal and Owen 2007; Farneti and Guthrie 2009).

In the last years, this body of literature, has begun to question the perspective of integrated accountability, which is briefly explained in the following paragraph.

9.4 Integrated Reporting

"One Report doesn't mean only one report. It simply means that there should be one report that integrates the company's key financial and non financial information (. . .). One report has two meanings: the first and narrow meaning is a single document, either in paper or electronically forms (. . .) The second and broader meaning is reporting financial and non financial information" (Eccles and Krzus 2010: 10–11).

While no single, agreed-upon definition of integrated report exists yet, below are some representative samples.

According to the Integrated Reporting Committee of South Africa "An integrated report tells the overall story of the organization. It is a report to stakeholders on the strategy, performance and activities of the organization in a manner that allows stakeholders to assess the ability of the organization to create and sustain value over the short, medium, and long term, which is based on financial social, economic and environmental systems and on the quality of its relationships with stakeholders"[3]. In other words, it is a report on the value story of the company and on the drivers of its value.

According to the International Integrated Reporting Committee (IIRC 2011) "Integrated reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, integrated reporting (IR) can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing".

Integrated reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value. An integrated report should be an organization's primary reporting vehicle.

[3] Integrated Reporting Committee (IRC) – South Africa. http://www.sustainability.sa.org; www.saica.co.za

Many companies voluntarily produce integrated reports in various format, but few jurisdictions mandate this type of reporting (Deloitte 2011). Among the number of initiatives developed by governmental and nongovernmental groups the IIRC holds the promise of increased collaboration, convergence and conformance among the emerging frameworks of standards in the new perspective of integrating reporting.

Even if only one country has mandated comprehensive, fully integrated reprint to date (South Africa), other countries (Denmark, Sweden and the UK) have adopted reporting requirements to various extents, expecting companies therefore to disclose with complete transparency non financial information. Nevertheless, “despite the lack of widespread mandatory reporting on ESG issues, the integrated reporting movement continues to gain momentum” (Deloitte 2011: 6). In contrast to intangible assets and KPIs separate ESC or CSR reports are being issued by an increasing number of companies in different countries for the period 1992–2008. A 2007/2008 survey by KPMG and SustainAbility of more than 2,000 business people, NGO members, labor leaders, investors, consultants, academics, provides conclusive evidence that broad public opinion across different stakeholders strongly supports the idea of “one report”: 70 % of respondent agreed with the statement “Future sustainability reporting should be integrated with the annual report” (Eccles and Krzus 2010: 167; Eccles and Serafeim 2011; Krzus 2011).

Since the 1990s instruments for measuring the companies’ intangible resources have developed (Carrol and Tansey 2000; Sullivan and Sullivan 2000; Zambon and Marzo 2007) as well as systems which on the one hand tend to attribute a monetary value to the intangible resources of a company based both on financial quantitative methods (founded on market values and time-discounting of cash flows generated by intangible reources - Lev and Zarowin 1997), and non financial ones (Roos and Roos 1997; Lev 2001; Edvinsson 1997; IFAC 1998). Such paths have however highlighted numerous elements of convergence between sustainability and intangibles reports as well as between financial and non financial reporting (Molteni 2004; Pedrini 2007; Eccles et al. 1999; Eccles and Krzus 2010: 10). However, there are still many difficulties tied to the lack of homogeneity in the standards of drafting the two documents.

On the one hand, the hypothesis of a single integrated report is supported by the existence of elements which pool together experiences of sustainability reporting and intellectual capital reporting. A first element is that for both the methodology envisages the use of non financial quantitative indicators. A second element concerns the attention divided between the management of human capital and the management of relational capital which find space both in sustainability and intangibles reports.

On the other hand, the complete observation of performance in terms of tangible and intangible resources and stakeholder management is essential to verify the strategic approach to responsibility and sustainability and to create “holistic” value (economic, social and environmental value). A system of integrated reporting does indeed offer an informational heritage far superior to the one provided by the separate drafting of the two reporting systems as it allows a simultaneous monitoring of the results of stakeholder management activities and the performance obtained by a management of tangible and intangible resources. It also allows for an understanding of the relationships between them.

Different empirical researches reveal that there is growing commitment to integration between the financial and sustainability report and that a gradual integration between sustainability report and intellectual capital report is already happening.

The first trend is confirmed both by the use of a model for calculating distributed and created added value (a model which enables the use of information in the financial report to indirectly measure the level of satisfaction of stakeholders' economic expectations and to understand the level of distributional equity on the part of the company) and by the publication of the two documents in a single moment using a single channel of communication.

With regards to the second trend, the process of integration between sustainability and intangibles reporting manifests itself in the introduction of a synthesis of results obtained relative to intangible resources in the financial report.

The frequency with which such processes of convergence have been observed reveals that there is a level of descriptive and strategic integration which is gradually developing. The main factors which favor integration are the attempt to manage the company in the perspective of the bottom line and the willingness to respond to corporate responsibility as a dimension of the strategy.

Firstly, attention to the triple bottom line is revealed as a factor capable of stimulating the development of integrated reporting systems, corroborating the hypothesis of a greater benefit in observing performance in an extended (holistic) way through a combined accountability of economic, financial, social, environmental and ethnic performance, which allows for a homogenous vision of the company and a complete judgment of corporate competitiveness.

Secondly, companies have a greater tendency to develop a system of integrated reporting in which the undertaking of responsibility is a dimension of the strategy and in which the activities of stakeholders' engagement (detailed in the sustainability reports) are considered essential in order to generate competitive advantages and to integrate the results of intangible resources management within the sustainability reports.

Thirdly, the tendency toward a system of integrated reporting is stronger in companies in which responsibility is a dimension of the strategy.

In fourth place, a feature which joins the companies committed to the development of systems of integrated reporting is the attempt to predominantly use narrative (qualitative) indicators compared to quantitative types.

Finally, companies are exploring integration and interpreting the development of an integrated accountability system as an opportunity to understand whether the practices of responsibility are contributing to the development of intangible resources.

9.5 Integrated Reporting in SMEs

In the vast literature on these issues (non financial reporting and integrated reporting), very few studies have been addressed to SMEs. Only recently, some contributions have provides insights regarding the current trend toward sustainability reporting, the status of global sustainability and integrated reporting guidelines, and explored opportunities that arise for small and mid-sized entities considering an integrated reporting approach. Among these, James (2013) states that integrated reporting may provide significant benefits for SMEs and may, in the long-run, enhance a company's economic success. Integrated report is not only a new chance for giant entities – i.e. Microsoft, Hewlett-Packard, Volkswagen – but is also relevant for SMEs since these are the growth engine of economies all over the world: they create jobs and new products, spur innovation, they are essential to a competitive and effective market, they are critical for poverty reduction and play a particularly important role in developing countries.

The principles of integrated reporting are applicable regardless of size. SMEs are likely to have a greater degree of integrated thinking and connectivity due to their flexibility, lower organizational complexity and the richness of interpersonal relationships. Although the integrated report is primarily aimed at investors, it is of benefit to other stakeholders significantly affected by the company's activities, products and services and entities/individuals whose actions affect the entity's ability to successfully implement its strategies.

Through integrated reporting, SMEs will enhance strategies, understand how strategy is affected by environmental, social, financial, and economic issues. They also enhance risk management, explore new and innovative opportunities in their products, services, processes, and markets, and improve strategic decision-making and performances (James 2013). Finally, through integrated reporting, SMEs can increase reputation among stakeholders, gain trust from funders, lower cost of capital, become more competitive in the market place, enhance brand value, improve customer support, and experience better employee loyalty, as the following case demonstrates.

9.6 Case Study. BoxMarche and Its Integrated Report: The Global Report

9.6.1 Research Object and Methodology

As stated in the introduction, the aim of this empirical section is to offer lines of reflection on the benefits (greater clarity about relationships and commitments, deeper engagement with all stakeholders, better decisions with economic, social and environmental merit, lower reputational risks) deriving from the adoption of integrated report and their relationship with specific attributes of SMEs.

The study was developed using a qualitative approach and a methodology based on a single case-study (which constitutes an explorative and exemplary case) (Yin 1994; Eisenhardt 1989; Eisenhardt and Graebner 2007). The fieldwork approach facilitates the involvement of the researchers in the actual activities of the companies with a view to studying the processes and the organizational practices of social and sustainability reporting (Adams 2002). This methodology consists of identifying the internal factors[4] that, together with the corporate characteristics and the general contextual factors, explain the complexity of the social and sustainability reporting and, in addition to influencing its nature and extent, impact the company's social engagement profile and the system of governance. Furthermore, the case method constitutes a valuable instrument for utilizing the results to attain cognitive aims and normative substance, indicating best practices and suggesting criteria for further action (Craig 2003).

With specific regard to the methodologies and approaches used in this field, we adopted an action research approach (Adams and McNicholas 2007) to undertake the empirical study in order to investigate, among others, factors that might impact (hinder or inhibit) the development of integrated report and its potential to produce effects on the organizational context and to act as a catalyst for change in organizations' performances and practices. The action research approach uses interviews as a primary means to gather data and information. In addition, other research methods (such as observations, visits and meeting participations, documents analysis and questionnaires) are largely adopted to supplement and enrich the information and data gathered through interviews.

With reference to the research questions at the base of this study, BoxMarche was selected for its excellence relative to the CSR and sustainability orientation which is characterized by a plurality of attributes. First, we mention the presence of a philosophy of governance and a socially oriented management shared by the leaders of the firm (the entrepreneurial family and the managing director) which is diffuse throughout the entire organization and is reflected in its mission and its governance. Second, it should be underlined the adoption of processes of social and environmental certification and CSR and sustainability-oriented strategies. Finally, BoxMarche stands out for the adoption of CSR tools of communication and accountability (e.g., the regular publication of social reports and of integrated reports) and for the recognitions/awards received for its robust and authentic activities of social responsibility and the sensibility to the diffusion of best practices of CSR in the local and extra-local context in which it is found.

The research was developed across a multi-year period, beginning in 2009 and continuing today and was based on information acquired during several in-depth semi-structured interviews with entrepreneurs, managers, and different

[4] Among the internal factors we can cite the organizational structures, internal micro-processes, attitudes, points of view and perceptions. The corporate characteristics are related to size, sector and age of the business, while the general contextual factors include economic, political and cultural factors.

stakeholders, on direct observation during visits to company; and on the analysis of documentary sources (social reports, global reports, statement of values, as well as information posted on the company's internet sites). The scope of this triangulated approach was to make use of different advantages and strengths offered by the various method of data collection. Direct observations in the firms offered the possibility of comparing the results of the interviews with the reality inside the business. In addition, a participant observation approach has been used, involving the entrepreneur, the managers and their collaborators in laboratories, conferences and seminars that set the stage for the informational and interview phases.

9.6.2 Company's Profile

BoxMarche Spa is a company based in the small town of Corinaldo in the Marches region (Central Italy), and is a typical example of the Italian socio-economic system based on SMEs and a historical craftsmen tradition (Fuà 1988). It is a regional leader in the design and execution of packaging for the foodservice housewares, small electronics, and cosmetic-pharmaceutical sectors. The firm was set up in 1969 through the initiative of the Baldassarri family, predominantly given to agriculture; people who came from the land, from solid principles – workers of few words: "One's word is his bond" is a recurrent expression in the farmer's world, where behaving with integrity and virtue means adhering to principles of goodness and responsibility.

In 40 years of history the company has grown and by the end of the year 2011 it had reached a total turnover of over 10 million euro providing work to 50 employees. During its history BoxMarche has always followed the principles that "competition is that of ideas and of relationships", basing on innovations in "technology, processes, products and relationships".

9.6.2.1 Mission

The mission of BoxMarche is to be an excellent company, of solid principles (Table 9.1), which works to enrich all of its stakeholders: customers, providers, employees, partners, the territory and the outside community.

BoxMarche distinguishes itself for its holistic approach to CSR and sustainability and is characterized by the following attributes (Del Baldo 2010, 2012):

- presence of a framework of ethically connoted values, and values shared by the leaders of the firm (entrepreneurial proprietor/family, managing director) and diffuse throughout the organization;
- adoption of strategies of social responsibility with an adhesion to CSR codes;
- adoption of processes of social and environmental certification;

Table 9.1 BoxMarche's values and culture

1. Foster collaboration with clients offering high-value products and services through innovation and excellence
2. Partnerships
3. Centrality of the firm (which is considered an instrument to overcome individual interests and conflicts)
4. Organization improvement (continuous research of best practices, flexibility and skills development)
5. Respect for the Individual (valuing the dignity of employees, encouraging personal growth through continual training, believing in the capacity of others and respect for their work)
6. Environment and territory (become a reference point for all businesses in the region with respect to the environment, committing itself to sustainable development and going beyond the standards, instilling a relationship of trust and transparency concerning the firm's activities among the local community and public institutions)
6. Quality (operating with excellence)
8. Value of capital (optimizing economic-financial results and raise the principle value of the firm: human, relational and structural capital)
9. Constant improvement (a culture of constant improvement throughout all levels and all contexts of the organization).

Source: BoxMarche Global Report 2011: 25

- regular publication of social, environmental and intangible resource reports and, more recently, of integrated report;
- fulfillment of ample and significant initiatives of social responsibility both on the local, national and international level;
- recognitions/awards received for different CSR and sustainability-oriented projects; sensibility to the diffusion of best practices of CSR in the local and extra-local context in which they are found.

Social responsibility and sustainability orientation are not considered merely an opportunity for raising the firm's visibility and reputation, but above all as drivers which actively contribute to the construction of a better socio-economic environment, with a rich return on its tangible (economic and financial performance) and intangible profile. BoxMarche exemplifies a strategic and structured approach to CSR and sustainability and align business values, purpose and strategy with the social and economic needs of stakeholders, while embedding responsible and ethical business policies and practices throughout the company. Responsibility and sustainability are experienced as a "way of doing business". Key attributes at the basis of social commitment and engagement of BoxMarche are the following: a strong system of shared values; an orientation toward CSR and sustainability strongly desired by the owner-management team, whose own genuine values and behaviors influence such orientation; the presence of a vision and a system of values constantly reinforced through the company's culture and continuously communicated within/beyond the organization, through relations with stakeholders. Accordingly, the decision-making process is based on collaboration, sharing and transparency and on a relational approach centered on trust. Moreover, BoxMarche is characterized by a strong embeddedness to its socio-economic environment, historically characterized by a solid rural tradition, typical expression of the Marchegian culture, the cohesion to stakeholders and the affiliation in local, national, international networks aimed at promoting CSR and sustainability standards and actions. Consequently, the fronts of engagement and the forms of communication of CSR and sustainability are systematic and creative and manifest themselves in a variety of forms. The following provides a brief "picture" of several projects produced by BoxMarche and a list of some of the awards obtained by this company for its excellence in CSR (Table 9.2). With the project "The passion for improving activities for a responsible business model" BoxMarche participated in the third edition of the "Sodalitas Social Award"[5] and in 2005 came in first place in the SME category. A second concrete example of stakeholders engagement pertains to the Italian Prize for the Social Responsibility of Businesses given to 24 Italian companies in 2005, and awarded to BoxMarche for being "a solid reality that donates 15 % of its earnings in corporate giving, and pays close attention to the environment, research and development, and society." The third example relates to the Balance Oscar 2007 (Milan, Stock Exchange), in which BoxMarche won the first prize for the category of SMEs, thanks to the 2006 Global Report (integrated report), centered on the innovation of the "3Ps": Products, Processes and People (Table 9.2).

9.6.3 Governance

Its governance is characterized by the presence of an open family-owned economic subject: shareholders and managers are not formed exclusively by members of the entrepreneurial family, but also by external subjects not tied to kinship bonds. The words of BoxMarche's Managing Director and General Manager (Tonino Dominici) reveal his high esteem for the values inherited from the founding family's culture and tradition. Entrepreneurial and managerial leadership is based on transparency, sharing of strategies and responsibility, and dialogue.

The Global Report ("Identity and Sustainability" section) dedicates ample space to describe the composition of the shareholders, the roles of the partners in governing the company and caring for the minority, and to the activities of investor relations. "*We provide constant updates on the management of the company to our shareholders, who are an important part of our company; we have therefore provided, in addition to the annual balance sheet and budget as required by law, the illustration and audit of the triennial plans and budgets, and monthly meetings with our associates to elaborate strategies and communicate how the company is going*" (T. Dominici, 11 May 2012). The diverse categories of stakeholders enjoy

[5] The Sodalitas Social Award honors businesses that operate in Italy who are distinguished for implementing projects with high value and social content.

Table 9.2 BoxMarche's certifications, awards, CSR and sustainability-oriented tools and projects

1996	ISO Certification of Quality 9002
1999	Participation in the Quality Awards Italy
2001	ISO Certification of Quality 9001
2001	Honorable mention, regional Quality Awards Italy
2001	Certification of the Production Site according to ISO norm 14000 – environmental certification of the production site
2002	ISO Certification 9001: Vision 2000
2003	Special Mention, environmentally-friendly planning – Ecoprize
2003	Quality Award Italy for SMEs
2003/ 2004	OHSAS Certification 18000 – management system of health and security in the workplace
	Certification SA8000:2001 – management system for socially responsible management
2004	Publication of the Social Balance award, 2003
2005	Winner, Sodalitas Social Award for the category "SMEs"
2005	CSR in Pole Position – Boxmarche is among the 30 Italian firms selected by the Italian Ministry of Work and Social Policies, and by Confindustria to be honored for best practices of social responsibility-CSR
2005	National Award for Social Responsibility in Business
2005	Recognition of benevolence, City of Corinaldo
2006	Official Selection at the II° European MarketPlace on CSR- Skills and Competence Building; it won the title of best practice: "People Care-Skills Passport Project".
2006	Publication of the first Global Report
2006	Nomination, Oscar di Bilancio 2006 (Milan, FERPI)
2006	Registration according to Regulation CE 761/01 (EMAS)
2006	Adoption of the European Roadmap on CSR
2006	Confindustria Awards for Excellence, "Business champion of the valorization of the territory"
2006	Multi-stakeholder Panel (multi-stakeholder counterpart for the Italian CSR Forum)
2006	Forum "Intangible Capital": a strategic factor for innovative businesses
2007	Winner, Oscar di Bilancio 2007 in the category SMEs (Milan Stock Exchange, FERPI)
2007	International Award ECMA, Pro Carton Award, Confectionery category
2007	"Work Value" Prize for the Marches Region
2008	Award ECMA PRO CARTON – Shelf Ready & Display Packaging – All Other Non-Food
2010	Award ECMA PRO CARTON – Most Innovative Packaging

2012 Award ECMA PRO CARTON - Most innovative Carton
2012 and 2013: Finalist, "Oscar di Bilancio" Prize.
Source: Our elaboration of BoxMarche global report, 2011

numerous collective initiatives, from the annual presentation of the social balance/ global report to the bimonthly report, to the creation of virtual communities (such as Internet forums).

9.6.4 Accountability

The idea of social report (adopted for the first time in 2003) was born "*from the need to show the population the values of a business and the necessity of transparency for the stakeholders*" (T. Dominici, Managing Director). From the social report, BoxMarche was added to the third edition of the global report in 2008, which represents an example of integrated report both published and distributed among stakeholders and available on the Internet company site. This report comprises in a unique document the asset and liability statement and the income statement (financial reporting), the sustainability and environmental reports and – since 2006 – the analysis of intellectual capital (the reporting statement for firm's intangibles assets – intellectual capital report). BoxMarche's global report represents an instrument of accountability or, rather, an integrated system of CSR and sustainability, which instates (and, at the same time, is the fruit of) an authentic dialogue and engagement process with stakeholders born from the authentic desire to make business activities transparent, responsible and sustainable. Such a document is a "constitutive element" of the business philosophy and is part of a system of management called "quality-security-environment-social responsibility". The global report of BoxMarche is a concrete sign of a process of involvement and communication, of stakeholder relationships, engagement and reporting.

> *We maintain that the Global Report is the most adept instrument for spreading the value of maintaining our values, that which drives us to move forward with enthusiasm and love toward all that we do. It's a form of communication that unites numbers, images and words, and which allows us to share with every stakeholder our particular realit*y. (S. Pierfederici, Letter from the President, Global Report 2007)

The global report is an expression of a precise communicative strategy. It places itself alongside other instruments of communication and dialogue adopted by the company, based both on direct and personal relations (multi-stakeholders forums at local and national level, conventions, open houses) and on indirect relations (websites, corporate newsletters, company's magazine, sector's trade magazines). It represents the synthesis of BoxMarche's value creation process in which the economic, social, environmental and ethical performance of the company is presented in an integrated way. BoxMarche's integrated report is a "document" which emits strong entrepreneurial passions, a sense of belonging and a sincere desire for self-representation. A notable aspect is the excellence achieved in the communication of BoxMarche's strategy and in actively incorporating interlocutors, sustained by the desire to provide tangible evidence of best practices and to spread out the ethical matrices of the firm into its surrounding territory through multiple channels. With the global report BoxMarche, although small, was able to insert itself fully into the national context among businesses that are better obtain and communicate their own socio-economic and environmental performances.

> *We here at BoxMarche like to communicate. We see relationships everywhere, everywhere there's the possibility to pick out, from another part of the line, someone who shares our*

> *respect and our recognition*. (T. Dominici, Letter from the Managing Director, Global Report 2007)
>
> *Our Global Report is not only a report of numbers, but also of values. It permits our stakeholders to have a dependable idea of how the business fulfills that sort of delegation that civil society has conferred to produce a better world for all goods, services and human relationships*.(. . .) *First CSR, which is a fact of "faith", then good governance, which is its outcome*. (T. Dominici, 6 July 2012)

The national and international standards utilized as referenced are represented by the GBS (2001) and by the GRI guidelines, as well as those promoted by the project Q-RES for the quality of the ethical-social responsibility of the firm[6] and by the Italian Ministry's Project CSR-SC (2003). A panel at a multi-stakeholder forum was also held to compare the results they achieved and the proposals for improving. BoxMarche's CSR-SC framework thus rests upon the adoption of 98 qualitative-quantitative indicators, all developed in a 3-year trend along four principal directives: structural capital, human capital, relational capital, clients and market.

The process of accounting, reporting and accountability is looked after by an internal coordinator and by a working team formed by the managers of the principal functions and areas of the company, which operates in close collaboration with external consultants who come from the professional and academic world. Currently they are in the midst of diverse initiatives aimed at improvement: forecasting further indicators, introducing the detailed budget, analyzing the competitors' assessments (sector benchmarking) and enhancing the solvency of clients and of providers. Another element of innovation is the section "Value Chain" introduced in the 2007 version of the global report, which, in an additional section (called "Together with us") gives visibility to the providers of BoxMarche and offers them the possibility to talk about their experiences with the firm and the outcomes.

As previously mentioned, BoxMarche's integrated report includes the economic and financial report, the social and environmental report and the intellectual capital report. It is structured in five macro-sections, which comply with the suggestions of external consultants, the relationship with the board of statuary auditors, and the minute of the shareholders' meeting.

The first section describes the company's identity and presents synthesized data concerning the principle results achieved (highlights). It contains references to the firm's vision and its values, to its mission, to governance, and to business strategies. Letters from the Managing Director and the President of the Board are also featured. The second section contains the asset and liability statement, the profit and loss account, and a supplementary note. The third outlines the administrative relations (directors' reports/annual statement – complete with financial accounting, cost analysis, research and development initiatives) included in the sections of sustainability and analysis of intellectual capital and intangible assets.

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[6] The Q-RES Project was created by the Centre for Ethics, Law & Economics (CELE) in collaboration with associations, businesses and non-profit organizations; http://nt-notes.liuc.it/ricerca/cele.nsf

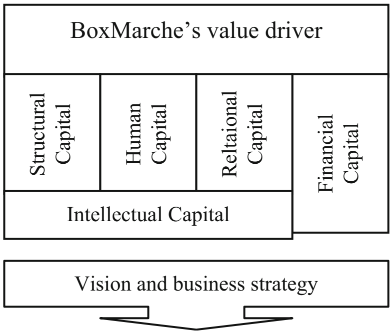

Fig. 9.1 BoxMarche's model for the creation of shared value

The fourth section (sustainability section) is articulated in the following parts: the creation and distribution of added value, the social relations/social report (distinguished through the categories of: personnel, shareholders, financial community, clients, competitors, providers, financial partners, the State, local organizations and Public Administration, community and territory, environment); research and development, events and awards, and proposals for improvement.

The analysis of intellectual capital (fifth section) is based on a descriptive approach and on the use of qualitative and quantitative indicators. The main references are represented by models such as the balanced-scorecard (Kaplan and Norton 1992), the intangible asset monitor (Sveiby 1997a) and the value chain scoreboard (Lev 2001). BoxMarche groups together the indicators into homogenous classes, referring to three categories:

– Structural capital: the analysis proposes to translate into indicators the drivers of values of the firm (Fig. 9.1): "tension" to innovation, research for new solutions, problem solving capacity, efficacy and efficiency of production processes, production flexibility, quality and efficacy of the work, focus on long-term growth over short-term profit, and attention to security.
– Human capital: the analysis integrates information about the staff supplied in the social report section and gives prominence to collaborators' competencies and to the company's commitment to spreading and developing competences and know-how. Human capital is measured through indices of potential and result. These reflect both the company's point of view and that of the collaborators (indices of satisfaction and of leadership quality with reference to managers and the managing director) obtained by the results of surveys completed in anonymity.
– Relational capital: the analysis focuses attention on the capacity of the firm to develop relationships with external interlocutors, with particular attention to clients, for assessing the coherence of the firm with respect to its vision statement and to its business strategy, and to minimize the risk of informational redundancy. The information integrates the data contained in the client section of the social report. The analysis is expressed through qualitative and quantitative indicators relative to the quality of relations (i.e., customer satisfaction,

customer loyalty, the percentage of turnover coming from new clients and degree of disagreement with clients, etc.).

9.7 Discussion

The case provides many causes for reflection, and two aspects in particular should be considered with references to the research questions posited at the base of the study.

First, BoxMarche is without a shadow of a doubt a proactive and "transparent" business, which denotes an evolved socio-economic-environmental commitment and which for its origin has tried to raise awareness of the context in which it is found and to "convert to CSR and sustainability orientation all whom it meets" through multiple relationships that the course of activity brings with it (Del Baldo 2013, 2014).

The second aspect pertains to the efficacy of how the company communicates its stakeholder commitment, its orientation toward a socially responsible management and the development of the intangible capital or, in other words, its values. Specifically, under the profile of communicating CSR, one can underscore the "discovery" of communication as an element that enriches the fundamental ethical energy. BoxMarche's form of communication aims to be thick with coherent messages based on values, on human processes, on dynamism. BoxMarche's integrated report signifies its capacity for disclosure, which is rare – if not unique – among SMEs, and notable for being based on innovative reporting that pivots on the integration of informative qualitative and quantitative content that includes sustainability assessments and intangible assets. BoxMarche believe that an ongoing dialogue, supported through the integrated reporting, rather than an end-of-year conversation only based on the presentation of the financial reporting, better addresses its stakeholders needs and the way to "give voice" to its own way of doing business. The result is greater transparency about the company's performance and how it has been achieved, and greater internal and external social cohesion. The disclosure that enables stakeholders to evaluate BoxMarche's CSR performance is strictly connected to its capability "to weave the threads" of authentic relationships with its various stakeholders, based on the sharing of authentic values that the company is able to communicate and transfer out. Accordingly, the authenticity and integrity of its "way of doing and being" makes possible a full disclosure and a truly effective social and environmental reporting and performance (Norman and MacDonald 2004), even related to "incommensurable values".

The origins of the motivations which supported the choice to produce the integrated report (shifting from the social balance, adopted in the early years) is mainly internal. The entrepreneurs, sharing this choice with managers and the responsible of different company functions promoted this choice and in a second step they shared the same choice with external stakeholders (customers, providers, banks, investors, and community). We can assert that the choice is authentic, and not attributable to a "mimetic" or normative processes (due to the imitation of competitors or to legal obligations), nor to a fashion (DiMaggio and Powell 1991). The values that have guided the choice are mainly of two kinds: transparency and the willingness to communicate in a consistent and complete way the economic, financial, ethical, social and environmental value produced through the management of corporate activities.

In BoxMarche the choice of integrated reporting is developed through a shared path and a systematic process which has marked the period of adopting quality environmental and social certifications as well as the adoption of the social report in 2003 and more recently the integrated report in 2006 and continues today. The administration and finance departments were directly involved and supported by external consultants but all the operational and strategic choices were shared and were the result of informative meetings among collaborators. Since its inception, the process of improvement has been gradual. Improvements in the forms and instruments of accountability (for example, the enrichment of indicators in the intangible capital section) are the result of a process of review developed internally and externally (comparing itself to the choices made in other companies and between the managers of differing corporate roles).

The benefits generated by the choice have been numerous (and include the awards obtained for the quality of the integrated reporting) and in particular have affected the reinforcement of corporate culture and the process of stakeholder engagement/stakeholders dialogue.

The criticisms which have emerged have not been signaled out by the managers interviewed, nor by corporate operators or stakeholders interviewed (clients, banks and suppliers), with the exception of some comments related to informational abundance (the report is over 200 pages long and enriched by significant graphs and figures).

Finally, as it has emerged from the analysis and been revealed from the interviews, integrated reporting is not seen as an end, but an important driver to increase the reputation and credibility of the company, the multiple relations with stakeholders and to improve the corporate climate. Undoubtedly this represents for BoxMarche, by nature tends to excel, an intermediary step, a path from which, as the Managing Director asserts "*we will not turn back because this is our faith*".

Concluding Remarks

The aim of the analysis, both on the empirical and theoretical perspective, was to contribute to formulate the hypothesis (which has to be verified in the future of the research, through in-deep qualitative study as well as through a quantitative-based study focused on the diffusion of the integrated report in SMEs) that integrated reporting represents a real and effective choice not only for large and public companies, where is mainly demanded by investors, but also for SMEs where it appears as an authentic choice, supported by the willingness of entrepreneurs to ask and give account for their activity.

(continued)

As the analysis of the case demonstrates, the integrated reporting can be appreciated as a path of transparency and synthesis of a tendency toward responsibility and holistic development. This path flows naturally into the homogenous representation of corporate performances when (and if) it is the result of an authentic choice and therefore not of "green washing" or "window dressing".

Under the deductive profile, the study reveals that the question of "integrated reporting" arises, especially for large companies. The tendency toward a "conceptual company", that is to say a knowledge-based company, speeds up the "coming age of integrated reporting". This kind of reporting represents the most suitable tool, compared to other financial and non financial reports, to explain in a transparent and complete way the company's capacity to create value over time and allow stakeholders to have a whole vision which explains the "value creation history" of the company. However, this is not only true and valuable for large companies. As some recently contributions have revealed, and in line with the reflections which have emerged in this explorative study, the integrated reporting is also an effective choice for SMEs and a possible "journey" which can be accomplished through an evolving process and different phases (planning the integrated reporting process; engaging with stakeholders, and identifying the report content). Thereby creating a dialogue between the various kinds of reporting as Eccles and Krzus state (2010), sustainable strategies require integrated reporting.

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Chapter 10
CSR Reporting Seen from an Ethical Perspective: An Empirical Investigation

Claus Strue Frederiksen and Morten Ebbe Juul Nielsen

Abstract The objective of this chapter is to determine whether the current practice within CSR reporting provides relevant information that enables stakeholders to evaluate the CSR commitment of companies. In order to address this issue, we have conducted an empirical investigation examining the CSR reports of some of the world's largest companies. Based on the data, we argue that CSR reporting does not enable stakeholders to evaluate the CSR commitment of companies. The main problem is that companies do not present or defend sufficiently clear baselines, i.e. stakeholders are mostly kept in the dark when it comes to the level of a company's social and environmental obligations. In addition, the variety of different values, e.g., marginal groups in the workforce, and reducing CO_2 emissions, makes CSR reports very hard to evaluate. The lack of a common CSR currency means that we need guidelines on how to compare the different values.

10.1 Introduction

In a 1990 survey, none of the 250 largest companies in America were found to publish social and environmental reports on an annual basis (Hess 2001). However, in recent years, CSR reporting has moved from a reserve of the idealistic few to the mainstream; and, unlike the 1990s, the vast majority of large companies now publish annual reports on their CSR commitment. The question is whether these reports provide relevant information enabling stakeholders to evaluate a company's CSR commitment. The objective of this chapter is to answer that question.

The results of our investigation indicate that CSR reporting does not enable stakeholders to evaluate CSR performance – at least, not seen from an ethical perspective. According to our analysis, the main problem with the current practice

C.S. Frederiksen (✉)
University of Copenhagen, Karen Blixens Vej 4, 2300 Copenhagen S, Denmark
e-mail: clausf@hum.ku.dk

M.E.J. Nielsen
Institute for Food and Resource Economics, and Philosophy, University of Copenhagen, Karen Blixens Vej 4, 2300 Copenhagen S, Denmark

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of CSR reporting is that companies do not present or refer to any clear and justified (or, at least, explained) social or environmental *baseline*. The reader is kept in the dark when it comes to what should count as *enough* regarding the social and environmental performance of companies. That is, it is unclear to what degree companies actually care about the environment and engage in social projects. Also, companies do not present or refer to any method for comparing and evaluating the many different social and environmental variables referred to in their CSR reports, which makes it hard for the reader to get a clear overview of the company's CSR performance. For example, how are we to compare projects reducing the use of scarce resources with initiatives promoting cultural diversity in the workforce? Moreover, the many case stories meant to demonstrate how companies engage in CSR rarely provide relevant information regarding the overall picture, and much relevant data are generally left out of the otherwise very extensive CSR reports. The constructive part of this paper is primarily to pinpoint the current problems and future challenges of CSR reporting and not to come up with concrete solutions to these problems. It is our hope, however, that inspiration for such solutions, which we not only welcome but find absolutely necessary, will be found in our research.

In addition to this introduction and some concluding remarks at the end, this chapter consists of four main components. First, we present four hypotheses that all originate from our basic question: whether CSR reports enable stakeholders to evaluate the CSR commitment of companies. Second, we present the companies included in our investigation. Third, we present an overview of our findings. Finally, we evaluate and discuss the four hypotheses.

10.2 Hypotheses

We find (as argued in Chap. 12 of this book) that one cardinal and three different ordinal approaches are relevant in relation to our investigation and on that basis we arrive at the following four hypotheses:

(H1) The current practice of CSR reporting does not enable stakeholders to evaluate the CSR performance of companies.

(H2) The current practice of CSR reporting does not enable stakeholders to evaluate whether a company's CSR performance is better (or worse) compared to last year.

(H3) The current practice of CSR reporting does not enable stakeholders to compare the CSR performance of companies across different sectors.

(H4) The current practice of CSR reporting does not enable stakeholders to compare the CSR performance of companies within the same sector.

10.3 The Companies

The companies in this study were chosen primarily because they represent some of the world's largest and most influential companies. Using Forbes' "The World's Biggest Public Companies" list (based on the company's ranking for sales, profit, assets and market value) as a point of departure, we chose the three biggest companies from three different industries (Forbes 2012). Going through the massive list of different industries, we decided to rule out industries in which the biggest company within the industry was not among the 50 biggest companies in the world. This ruled out many industries – for instance, the beverage industry, since Anheuser-Busch InBev, which was the largest beverage company (followed by Coca-Cola and PepsiCo), was only the 76th-largest company in the world. With that criterion in mind, we randomly picked the following industry sectors and the three largest companies within these sectors (the numbers represent the company's ranking on "The World's Biggest Public Companies" list)

1. Computer Hardware: (22) Apple, (67) Hewlett-Packard and (173) Dell.
2. Food Processing: (40) Nestlé, (107) Unilever and (116) Kraft Foods.
3. Oil and Gas Operations: (1) Exxon Mobil, (4) Royal Dutch Shell and (7) PetroChina.

Several things are important to note. First, we used the CSR reports published in 2013 (for the 2012 fiscal year) from all of the companies except Kraft Foods, which was not able to present a report for 2012 by our deadline (which we had set as 1 July 2013). The report from Kraft Foods used in this study is, thus, from 2012 (for the 2011 fiscal year). Second, even though many of the reports are not titled as CSR reports (see reference list), they all concern a variety of traditional CSR-related issues, including workers' health and safety and environmental impact. That said, it is worth noticing that Apple does not publish anything like a single, comprehensive CSR report. The company does, however, publish two annual reports on CSR-related issues: namely, a report concerning their environmental footprint and a report concerning supplier responsibility. We have included both of these reports in this study. Finally, the reports differed greatly in terms of magnitude: e.g., Nestlé's report was 286 pages long; whereas Kraft Foods' report was only 12 pages long. In sum, the nine reports amounted to 828 pages.

10.4 Overview of Findings

We used our evaluation framework (presented in Chap. 12) to code the data. In short, the evaluation framework consists of the following four categories: (1) upholding absolute constraints against certain harmful actions, (2) minimizing negative impact, (3) contributing positively to society and (4) commitments and partnerships. We will begin by presenting an overview of the nature of the information presented in current CSR reports that is captured by the first higher-order category, i.e., upholding constraints against certain harmful actions. Three things are worth noticing. First, all of the companies seem to support absolute constraints against certain harmful actions. Most of the companies are very clear in this regard and explicitly mention a variety of actions they regard as totally prohibited. For instance, Apple states that "[o]ur approach to underage labor is clear: We don't tolerate it, and we're working to eradicate it from our industry" (Apple 2013b, p. 17). However, some companies (in our sample, Dell and Unilever) do not explicitly mention that they regard certain actions as absolutely prohibited. They do, however, mention that they respect and support human rights, which seems to be in accordance with the view that some actions, e.g., the use of forced labour, are absolutely prohibited (Dell 2013, p. 47; Unilever 2013, p. 47). Second, most actions that the companies believe to be absolutely morally unacceptable are human rights violations, i.e., the absolute constraints condemned by the Universal Declaration of Human Rights and the principles presented in the UN Global Compact. In fact, all of the companies, except Kraft Foods, explicitly refer to the importance of respecting human rights (Apple 2013b, p. 28; Dell 2013, p. 47; ExxonMobil 2013, p. 13; Hewlett-Packard 2013, p. 73; Nestlé 2013, p. 3; PetroChina 2013, p. 60; Shell 2013, p. 40; Unilever 2013, p. 47). Third, this category does not take up much space in the companies' CSR reports. As mentioned above, some companies do not even spell out their policy or actions in this regard but simply refer to their support of human rights principles. This last point might seem surprising at first; however, since respecting constraints against harmful actions is generally not something you can write long stories about, it is perhaps not that strange. It does not, for example, make much sense for a company to present case stories about the times it did *not* use forced labour or discriminate on the basis of religious beliefs last year. In short, the companies simply state their policy – e.g., they do not accept the use of child labour – and declare that they perform a number of audits to make sure that suppliers act accordingly.

In relation to the second higher-order category, i.e., minimizing negative impact, two things are especially worth noticing. First, the companies present a lot of data that is captured by this category – e.g., about the prudent use of scarce resources or steps taken to reduce pollution, their policies and ideas on how to minimize their own negative impact, actions they take, and the progress they have made (or, sometimes, setbacks they have suffered) and so on. Second, in relation to minimizing negative impact, CSR reports focus mainly on four areas: (a) Workers' health and safety, e.g., taking steps to ensure a safe work environment at the company's facilities and across the supply chain, (b) the use of scarce life-essential resources, including reducing the use of fresh water, (c) sourcing and/or production of raw materials, e.g., buying raw materials from certified producers and non-conflict areas and (d) pollution, including reducing their carbon footprint and the production of hazardous waste (Apple 2013a, b; Dell 2013; ExxonMobil 2013; Hewlett-Packard 2013; Kraft Foods 2012; Nestlé 2013; PetroChina 2013; Shell 2013; Unilever 2013).

Note that, even though these areas of CSR reporting are sometimes very sector-specific (e.g., oil and gas companies focus a lot on minimizing work-related incidents that may harm their employees; computer hardware companies focus more on how much energy their products use; and food production companies focus a lot on responsible sourcing), they are not *wholly* sector-specific. Companies from all sectors focus on water consumption, the amount of waste they produce, CO_2 emissions and how they can minimize their (potential) negative impact on workers (whether we are talking about their own employees or the employees of suppliers).

In relation to the third higher-order category, i.e., contributing positively to society, our findings suggest that companies focus on a wide variety of different areas. However, the following six areas illustrate the nature of the companies' CSR reporting within this category: (a) Job creation (often with a focus on hiring local people). For example, PetroChina states that the company has a principle of local hiring and that, in 2012, local employees accounted for 94 % of their overseas workforce (PetroChina 2013, p. 27). (b) Tax-payments. For example, Shell states that the company believes in greater transparency in tax payments to governments. In this regard, Shell reports that, in 2012, it paid $21 billion in corporate taxes and provides the reader with a link that breaks the payments down by country (Shell 2013, p. 31). (c) Engaging in or donating money or products to social projects (often, projects that are somehow related to the company's core business). For example, Nestlé focuses on fighting malnutrition by, among other things, fortifying their products with essential vitamins and minerals. Nestlé reports that this policy resulted in over 150 billion micronutrient-fortified servings in 2012 (Nestlé 2013, p. 12). (d) Promoting diversity. For example, Hewlett-Packard has a supplier diversity program that aims to give other companies, including minority-owned companies, a fair chance of becoming part of the Hewlett-Packard supply chain (Hewlett-Packard 2013, p. 99). (e) Securing access to their product (most of the companies involved in our study emphasize that human beings should have access to their (or a similar kind of) product in order to be able to live a decent life). For example, Dell claims that access to technology should be considered as a basic human right (Dell 2013, p. 84). It is worth noticing that the content in some of these areas is sector-specific. For example, oil and gas companies tend to focus on road safety projects; whereas food production companies focus more on informing people (especially vulnerable groups) about nutrition. Not all companies report on all the areas. In particular, the category concerning tax payments is disregarded by a large number of companies (Apple, Dell, Kraft Foods, Nestlé and Unilever do not report on tax payments).

In relation to the fourth higher-order category, i.e., the one about commitments and partnerships, three issues are especially noteworthy. First, all the companies refer to company guidelines in accordance with which employees (and, often, also suppliers) are expected to act (Apple 2013b, p. 4; Dell 2013, p. 98; ExxonMobil 2013, p. 54; Hewlett-Packard 2013, p. 46; Kraft Foods 2012, p. 6; Nestlé 2013, p. 239; PetroChina 2013, p. 15; Shell 2013, p. 6; Unilever 2013, p. 49). Second, the companies support a variety of international CSR-related standards. Some of the most popular are ISO 14001 (Hewlett-Packard 2013, p. 37; Nestlé 2013, p. 19; PetroChina 2013, p. 63), the UN Global Compact (Hewlett-Packard 2013, p. 73; Nestlé 2013, p. 3; PetroChina 2013, p. 60; Shell 2013, p. 3) and the principles of the International Labor Organization (ExxonMobil 2013, p. 54; Hewlett-Packard 2013, p. 116; Nestlé 2013, p. 215; Shell 2013, p. 34). Third, when it comes to working with partners, some companies mention many different partners. For example, Nestlé (2013, pp. 36–38) mentions that it is working with, among others, the International Federation of the Red Cross, the Red Crescent Societies, the International Diabetes Federation, the Danish Institute for Human Rights, the Fair Labor Association and The Forest Trust; whereas other companies – for instance, PetroChina (2013) – do not specify any of their working partners.

On the basis of these overall findings (which, of course, only provides an overview of the large amount of data collected for this study), we now turn to consider our four hypotheses.

10.5 Evaluating the Hypotheses

10.5.1 Evaluating H1

In evaluating H1, i.e., the claim that the current practice within CSR reporting does not enable stakeholders to evaluate the CSR performance of companies, we will use our moral framework, which consists of the three first higher order categories mentioned above (for further information see Chap. 12) as a point of departure, meaning that the first question to ask is whether the current practice in CSR reporting enables stakeholders to evaluate whether companies are respecting certain absolute constraints against doing harm (our focus will be on respecting human rights, e.g., refraining from using forced labour). As mentioned, most of the companies explicitly report that they (aim to) respect certain negative rights – primarily, those included in human rights declarations or the principles presented in the UN Global Compact. The next steps are to look at the data concerning actions and results and see whether they deviate from the policy statements. Nothing in the data presented by the companies indicates that they tolerate human rights violations. Many of the companies report that they have procedures in place to prevent human rights violations, including codes of conduct and the regular auditing of suppliers. For example, Apple states:

> The Apple Supplier Code of Conduct is based on standards created by the International Labor Organization, the United Nations, and the Electronic Industry Citizenship Coalition (EICC). To make sure suppliers adhere to the Code, we have an aggressive compliance-monitoring program that includes Apple-led factory audits and corrective action plans, and confirmation that these plans have been carried out. (Apple 2013b, p. 8)

Among the results of these audits, Apple found that 21 % of its suppliers did not act in accordance with Apple's code with respect to discrimination (Apple 2013b, p. 29). About this, Apple states:

> 34 facilities required pregnancy testing and 25 facilities conducted medical testing such as Hepatitis B tests. We classified these practices as discrimination—even if permissible under local laws. At our direction, the suppliers have stopped discriminatory screenings for medical conditions or pregnancy. We also required them to establish clear policies and procedures to prevent recurrence. (Apple 2013b, p. 29)

Other companies report similar findings. That is, they refer to their codes of conduct and often to the audits they perform in that regard (Dell 2013, p. 14; ExxonMobil 2013, p. 47; Hewlett-Packard 2013, p. 15; Kraft Foods 2012, p. 6; Nestlé 2013, p. 119; PetroChina 2013, p. 62; Shell 2013, p. 35; Unilever 2013, p. 49). Like Apple, some of the companies also present data with regard to compliance with their codes of conduct (Dell 2013, p. 53; Hewlett-Packard 2013, p. 88; Nestlé 2013, p. 222; Shell 2013, p. 37). The data presented by (most of) the companies in relation to certain constraints against doing harm seem to enable us to evaluate their CSR commitment in this regard. The reason for this is that (a) the policy is clear (e.g., we do not tolerate discrimination), (b) the policy seems acceptable, i.e., no further explanation or justification seems needed (e.g., it does not seem the least controversial to claim that discrimination is unacceptable), (c) actions are specified (e.g., we performed audits in order to see whether our suppliers discriminate) and (d) results are presented (e.g., x number of suppliers did discriminate; as a result, we did y).

However, when it comes to the question of minimizing negative impact, the data presented by the companies are much more difficult to evaluate. As mentioned above, the companies use a lot of space in their CSR reports on this topic; however, one important piece of information is often missing – namely, what the relevant baselines are. When it comes to the category of absolute constraints, the baseline is reasonably clear and justified. However, the relevant baselines in the category of minimizing negative impact are often unclear and not justified (or, even, explained). For instance, it is unclear how many tons of CO_2 or waste it is acceptable for a given company to produce – and companies do not endeavour to put forward any such baselines themselves, leaving the reader in the dark with respect to the relevant baseline we should use when evaluating a negative impact. Moreover, how many work-related injuries are acceptable? Or how much water can a given company use before it can be said to have used too much? In some areas in this category, the companies present what – at least, at first sight – appear to be clear baselines. For instance, Shell states:

> Our goal is to have zero fatalities and no leaks or other incidents that harm our employees, contractors or neighbours, or put our facilities and the environment at risk. In 2012, we continued to record low injury rates. However, any injury or incident, no matter how small, serves as a reminder of the need to avoid complacency. (Shell 2013, p. 7)

However, on further reflection, the goal to have zero incidents in which employees are harmed does not seem clear. The problem is that it is unclear what it means to call something a goal. Does it mean that Shell would *prefer* zero work-related injuries, or does it mean that Shell does not *accept* any work-related injuries? Since being in the oil and gas business seems to involve that you accept (some) work-related injuries, Shell would have to shut down its operations if it is not willing to accept any injuries. The question, then, is how many injuries are acceptable and, more importantly, at what price? The goal to have zero injuries does not say anything about that, which means that it is unclear what the baseline is. In most of the cases, the baselines are completely unclear: for example, none of the companies suggests how much waste it is acceptable for them to produce. It is also important to notice that not only should baselines be included, the companies should also justify (or, at least, try to explain) *why* specific baselines are reasonable. The point is that, generally, moral agents cannot just present a baseline (e.g., it is morally acceptable for me to use x amount of water) and claim to be acting in a morally acceptable way as long as they live in accordance with that baseline (we elaborate on this point further in Chap. 12). We are not hereby claiming that all baselines need to be explicitly justified (or explained). As mentioned above, the baselines for upholding certain absolute constraints (e.g., we do not tolerate discrimination) seem so uncontroversial that they can be accepted without further ado. What we are saying is that not all baselines are like that and, hence, need to be justified (or, at least, explained) and that this is the case with most of the baselines in this category (i.e., minimizing negative impact). The reason for this is that we cannot, without further ado, determine what amount of waste, for instance, it is acceptable for a company to produce. Companies should, therefore, justify (or, at least, explain) how much waste, CO_2, etc. it is acceptable for them to produce or emit; however, as noted, none of them do that. This leads us to conclude that, when it comes to the category of minimizing negative impact, the current practice within CSR reporting does not seem to enable stakeholders to evaluate a company's CSR performance. The problem is that, for the most part, relevant baselines are (a) unclear and (b) not explained or justified. Here, some might object and say that companies actually do (at least, sometimes) refer to clear and reasonable (i.e., justified) baselines – namely, when they say that they aim to respect local and international legislation and different CSR standards and guidelines. Even though some of these laws and standards/guidelines have to do with absolute constraints against harmful actions (e.g., companies should not use forced labour), a lot of them actually concern minimizing a company's negative impact (e.g., in relation to workers' safety and the use of natural resources and pollution). To take just a few examples: Nestlé states: "We are guided by international norms and principles on labour and in particular the ILO [International Labour Organization] Eight Core Conventions on Fundamental Rights" (Nestlé 2013, p. 250). Dell states: "In FY12, we continued to work closely with the Forest Stewardship Council (FSC). . .. We exceeded our stated goal of sourcing 25 percent of our catalog fiber from FSC-certified sources" (Dell 2013, p. 24). As mentioned above, such commitments do seem to say something about a company's CSR commitment and might even function as a reasonable baseline (in our view, clear guidelines presented by respected international organizations and NGOs can, in some cases, be used as a baseline by companies without any further justification or explanation). However, two problems come to mind. First, such commitments do not cover every aspect of the minimizing harm category. For instance, CO_2 emission, water consumption and waste production are not covered by any clear standard or guideline (even local and international laws do not seem fully to capture these aspects – e.g., laws do not ordinarily specify how much non-renewal energy companies are allowed to consume). Second, it is often unclear when a company is doing enough in relation to these standards – e.g., how should we evaluate the fact that Dell has exceeded its stated goal of sourcing 25 % of their catalogue fibre from FSC-certified sources?

In sum, references to compliance with laws and guidelines do not enable us to evaluate whether companies are living up to their responsibility regarding minimizing harm. Therefore, the conclusion above stands: when it comes to the category of minimizing negative impact, the current practice within CSR reporting does not enable stakeholders to evaluate CSR performance because, for the most part, the relevant baselines are unclear, unexplained and lack any form of explicit justification.

In relation to the final aspect of our moral framework, i.e., positive contributions to society, three questions need to be settled before we are able to evaluate a company's CSR commitment. First, we need to know what they are doing – in what way are they contributing positively to society? Second, we need to know how much they are doing – how many resources are they using? Finally, what is the relevant baseline – when is it reasonable to say that a company is doing its part, is doing good or might even be considered to be a moral saint?

With respect to the first question, companies are eager to tell how they contribute positively to society. Companies normally present their overall policy (i.e., what they want to do) and then they present a great number of case stories illustrating what they have done (e.g., they have assisted a specific community to gain access to clean water). As mentioned above, the companies contribute in a number of ways, including by promoting diversity and by supporting a variety of different social projects. Thus, the companies seem to answer the first question about what they are doing.

However, in relation to the second question concerning how *much* they are doing, some of the companies are much less informative. Roughly speaking, we can distinguish three ways of approaching this issue. First, some companies present different kinds of numbers for different issues. For example, with respect to supporting social projects, Dell (2013, p. 79) states that they donate 1 % of pre-tax profit to charity (it is not clear, however, precisely how these "social" resources are spent). Second, the companies present case stories that include references to the resources spent on that specific project. For example Nestlé (2013, pp. 35–36) mentions that, in the aftermath of the Hurricane Sandy, it raised a total of $72,204. The problem with these kinds of case stories is that, even though they demonstrate that the company is contributing positively to society, they do not provide (or even help to provide) an overview of the company's activities in the area. Imagine a multinational food production company with a billion dollars in revenue reporting in its financial statement that it sold ice cream in some particular town for $20,000 this fiscal year. Such a story would indeed say *something* about the company's financial activity, but it would hardly count as relevant in the big picture: one could not assess the financial performance of the company based on this single piece of information. Third, the companies present case stories with no reference to the resources spent on that specific project. For example, Unilever (2013, p. 16) mentions that, through their Dove brand, they are "helping millions of young people to improve their self-esteem through educational programmes." Such stories, even though they indicate some kind of commitment, are more or less useless when it comes to evaluating a company's positive contribution to society.

In sum, much of the data presented by the companies does not help us to evaluate the scale (or impact) of their positive contribution to society. In particular, the numerous case stories seem irrelevant. Even though some companies provide some useful information e.g. how much they donate to social projects or how much pay in tax, none of them provide anything that seems like an exhaustive overview.

When it comes to the third and final question in this category, i.e., the one concerning relevant baselines, none of the companies presents and defends clear baselines. This might not seem very surprising since it seems hard, if not impossible, to determine when a company is contributing enough to society. As mentioned above, philosophers (and others who debate ethics) widely disagree when it comes to positive duties. To expect that a company will able to present and defend a clear baseline in this regard, therefore, seems a bit over the top. However, without such a baseline, it becomes difficult to evaluate a company's positive contribution to society.

All in all, we conclude that H1 is plausible since the current practice within CSR reporting does not enable stakeholders to evaluate a company's CSR reports seen from an ethical perspective. Several things are missing in this regard. First, companies do not present and defend any clear baselines on minimizing their negative impact. Second, when it comes to making a positive contribution to society, many companies simply present (more or less) irrelevant case stories, and those who do present some relevant data fail to provide a comprehensive overview of how these resources are spent and what the relevant baselines are. We now turn to H2.

10.5.2 Evaluating H2

In light of this, we might believe that, even though we are not capable of evaluating a company's CSR commitment on the basis of a single report, we are nevertheless able to evaluate whether a company's CSR performance is better or worse than last year. It seems, at first sight, reasonable to suggest that, if we compare this year's data with the data from the previous year, we can conclude whether a company did better or worse this year than it did last year. Did it, for example, reduce its CO_2 emissions compared to last year? If it did, then it seems to have done better this year than last year. The problem with this kind of argument is that, even though we are able to compare specific data presented this year with the same specific data presented last year, we are not necessarily able to compare one set of data with another set of data. To take an example: three employees lost their lives working for Shell in 2012; whereas only one fatal accident was recorded among its employees in 2011 (Shell 2013, p. 37). On the basis of this data, we might say that Shell did worse in 2012 than in 2011. However, Shell's social investments were $24 million higher in 2012 than in 2011, which would lead us to conclude that, in this regard, Shell did better in 2012 than in 2011 (Shell 2013, p. 37). The question is whether we are able to balance them (and the rest of the data) and reach a conclusion as to whether Shell is doing better this year than in previous years. Notice, too, that the large number of case stories also complicates the matter since it is hard (if not impossible) to compare different case stories. For example, how are we to compare this year's story about helping poor people in Tibet with last year's story about saving whales in the Atlantic Ocean?

Shell does not suggest any way to compare the different data, leaving it to the reader to judge for him- or herself. Nor do any of the other companies, for that matter. However, to criticize companies for not suggesting how the different social and environmental data should be compared might seem to set the bar too high. However, without clear guidelines on how to compare the different values, stakeholders are only able to make a subjective assessment based more on personal feeling than substantial arguments (see Chap. 12 for further discussion). Such purely subjective evaluations are not what we are looking for – if they were, almost any kind of CSR reporting would do the trick since we can (almost) always make a purely subjective judgment between two sets of data. So, we need a way to be able to compare the various values that companies present in their CSR reports. In sum, we conclude that H2 is confirmed. We will now turn to evaluate H3.

10.5.3 Evaluating H3

In evaluating H3 (i.e., claim that the current practice of CSR reporting does not enable stakeholders to compare the CSR performance of companies from different sectors), we quickly learn that the comparability problem mentioned above in relation to comparing a company's CSR performance this year with last year's performance constitutes an even bigger problem when it comes to comparing the CSR performance of companies from different sectors. Two things seem especially problematic. First, the CSR reports of companies from different sectors focus on different issues. Naturally, some issues overlap, especially when it comes to respecting certain absolute constraints against doing harm, including respecting human rights, but also within the areas of minimizing negative impact (e.g., reducing CO_2 emission) and contributing positively to society (e.g., assisting victims of natural disasters). However, the main issues, understood as those that are included in the companies' vision and take up a lot of space in their reports, are very often sector-specific. For example, food production companies focus on the nutrition value of their product; whereas oil and gas companies focus on clean (or sustainable) energy. How do we compare the data on such different issues? The second problem is that, even if companies from different sectors agreed to focus more on the same issues – which would also be problematic since it actually make good sense for them to focus, at least to some extent, on their specific line of business and the social and environmental challenges produced by that, this would not allow us to compare the companies from two different sectors since some cross-sector comparisons seem unfair – e.g., it does not seem fair to say that Shell is not taking the issue of workers' health and safety as seriously as Dell because Shell's employees are more likely to get hurt at work than Dell's employee, since it is hard to make oil rigs as safe as a hardware assembly line. Trying to harmonize data would, thus, not solve the problem since the different characteristics of the companies are relevant for evaluating their moral status, including their CSR commitment. However, this seems to constitute a serious problem when it comes to a cross-sector evaluation of CSR commitment, since comparing data on different issues seems a lot like comparing apples and oranges.

Now, some might suggest that we can solve both of these problems by focusing on whether companies – even though they are from different sectors and, therefore, focus on different issues – are upholding their commitments when it comes to respecting certain constraints against doing harm, minimizing their negative impact and contributing positively to society. We might even construct some kind of scorecard on these different ethical aspects and, then, compare the score from different companies. The problem is, however, as mentioned above, that the companies have not presented, much less defended, any clear baselines as to when they have fulfilled the goal of minimizing their negative impact or to what degree they are obligated to make a positive contribution to society. As mentioned, the category regarding absolute constraints seems pretty clear since it seems reasonable to use basic human rights, including the right to be free from slavery, as a baseline. Nevertheless, such baselines are needed before we can begin to construct CSR scorecards. We realize that different ranking systems exist within the field of CSR; however, in our view, none of these ranking systems are based on clear baselines regarding the ethical responsibility of companies to minimize their negative impact or contribute positively to society. Instead, many of these ranking systems focus on the financial aspect of CSR, i.e., the financial risks and opportunities of CSR. For instance, the Dow Jones Sustainability Index, which is probably the most famous index in the field, explicitly states that it is concerned with long-term shareholder value (S&P Dow Jones Indices & RobecoSam Sustainability Investing, 2013, p. 7). Notice, too, that CSR guidelines, including GRI Sustainability Guidelines, do not present any relevant baselines and do not enable stakeholders to evaluate the CSR performances of companies. We, therefore, conclude that we should accept H3. We will now turn to the final hypothesis, H4.

10.5.4 Evaluating H4

In evaluating H4 (i.e., the claim that the current practice of CSR reporting does not enable stakeholders to compare the CSR performance from companies from the same sector), we discovered that comparing CSR reports from same-sector companies is not fully possible basically due to the same reasons that make cross-sector evaluation impossible. First, even though same-sector companies focus more on the same issues than cross-sector companies, the reports are still so different that we are unable to compare the data. First, all the case stories on different projects and programmes are almost impossible to compare. For example, it seems almost impossible to compare Apple's story about the innovative cooling system at its Maiden data centre with Dell's "plant a tree" programme (Apple 2013a, p. 11; Dell 2013, p. 34). However, even if we disregard the stories about different projects and programmes, which take up most of the space in the CSR reports, and focus instead on performance data, some of this data is still incomparable even when we look at same-sector reports. To give an example, the three food production companies used in this study all focus on reducing salt in their products; however, amazingly enough, they manage to present three different kinds of performance data with respect to salt reduction – Nestlé (2013, p. 12) presents two results: namely, that, in 2012, 90 % of the company's children's products (in sales value) met the Nestlé Nutritional Foundation sodium criterion and that, in 2011, the company's culinary and breakfast cereal recipes contained 12,500 t less salt than in 2005. Unilever (2013, p. 20) also presents two results: namely, that, by volume in 2012, more than 50 % of its food portfolio and 80 % of its food and refreshment portfolio met salt levels equivalent to 5 g per day. Kraft Foods (2012, p. 3) also presents two results: namely, that, since 2010, it has removed more than 6,125 metric tons of salt from nearly 1,000 North American products and that the company is back on track to reduce sodium an average of 10 % by the end of 2012. How are we to compare this information? Clearly, the data presented by Unilever seems the most relevant; however, we cannot on that basis conclude that Unilever performs *better* than the other companies. We can only conclude that Unilever presents the most relevant data (which is, of course, to be commended). Second, even though same-sector companies are more alike than cross-sector companies, they are still very different in relation to size, revenue, profitability, operation area and even product portfolio. And, since such factors seem to be morally relevant, we face problems even when we compare synchronized data. To take a simple example: in 2012, Apple used 1.4 million cubic meters of water; Dell used 2.6 million cubic meters; whereas HP used 8.5 million cubic meters. This does not mean that we can conclude that Apple is almost twice as good as Dell and almost six times better than HP in this regard (Apple 2013a, p. 11; Dell 2013, p. 5; Hewlett-Packard 2013, p. 63). Many factors including the number of employees, product output and price, are relevant. Once we include the fact that that Apple has 50,250 employees, Dell 109,400 employees and HP 331,800 employees, the differences in water consumption seem to equal out (Apple 2013; Dell 2013, p. 8; Hewlett-Packard 2013, p. 9) – at least, until further data can be mined. Now, in this case, we were able to synchronize the data even further and obtain a more relevant result: namely, that the three computer hardware companies use almost the same amount of water per employee. However, most cases are not that easy. For instance, in 2012, Nestlé used 2.9 m^3 of water per ton of production; whereas Unilever used 2.2 m^3 per ton of production (Nestlé 2013, p. 18; Unilever 2013, p. 8). One cannot conclude on basis of these numbers that Unilever did better than Nestlé in this regard since they are not producing the same kind of products. And, unlike the previous case, we are not able to synchronize the data further since we simply have no idea how to determine whether Nestlé's portfolio is "naturally more water demanding" than Unilever's.

On the basis of the above, we can conclude that same-sector comparison on the basis of the current practice of CSR reporting is not possible, which means that we should accept H4.

Conclusion

We conclude that we should accept H1, H2, H3 and H4. This means that the value of CSR reporting is highly questionable – at least, seen from an ethical perspective. The reason for this two-fold. First, the CSR reports present much irrelevant data (e.g., case stories) that are almost impossible to use in an overall evaluation of and/or comparison with previous years or other companies. As an extension of this, the current practice of CSR reporting is also characterized by cherry-picking data, meaning that some companies do not provide near all of the relevant data. As mentioned above, some companies do not present data on how much they spent in total on social projects or how much they paid in taxes. Second, the relevant ethical baselines are unclear and lack justification (or are, at least, unexplained). As mentioned above, it is only with regard to the absolute constraints category that the baseline is reasonably clear and justified; whereas the baselines for both the minimizing negative impact and the positive contribution categories are unclear and lack justification (or are unexplained).

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Chapter 11
Development of Sustainability Reporting Frameworks: The Case of Australia

Nigel Finch

Abstract The aim of this chapter is to explore the literature regarding sustainability and extended reporting frameworks, to catalogue various typologies of reporting frameworks, to investigate the motivation by organisations to adopt such frameworks, and to identify the extent of their use in Australia.

We start by defining corporate social responsibility (CSR) and sustainability and provide a brief overview of the historical development of the concepts of sustainability. Central to this is understanding stakeholders and their importance as a motivator for organisations to adopt sustainability reporting frameworks.

We find that traditional accounting frameworks are an inadequate reflection of a business as they focus solely on economic performance. We outline the background to the development of alternative reporting frameworks proposed in sustainability academic literature that encompass both economic and social performance. We identify and catalogue 11 reporting and social accounting guidelines, and focus on the development of one particular framework, the Global Reporting Initiative (GRI). We conclude that such guidelines provide for a more complete picture of total business welfare.

We find the main motivating factor for adopting sustainability disclosure frameworks is to communicate with company stakeholders the performance of management in achieving long-run corporate benefits, such as improved financial performance, increased competitive advantage, profit maximisation, and the long-term success of the firm.

11.1 Introduction

This chapter has six key sections. Section 11.1 starts by defining *corporate social responsibility* (*CSR*) and *sustainability* and adopting the view that these terms have similar meanings and are often used interchangeably to mean the same thing.

N. Finch (✉)
The University of Sydney Business School, Sydney, Australia
e-mail: nigel.finch@sydney.edu.au

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Section 11.2 outlines a brief overview of the historical development of the concepts of sustainability, which will lead into an analysis of the five major frameworks covered in the literature: (1) agency view; (2) corporate social performance view; (3) resource-based view; (4) supply and demand view; and (5) the stakeholder view, which is the dominant view.

Section 11.3 looks at understanding stakeholders and their importance in sustainability, provides some observations about sustainability frameworks, and importantly the motivations of companies for increased disclosure with their stakeholders.

Section 11.4 briefly outlines the background to the development of reporting frameworks and catalogues several alternative reporting and social accounting guidelines, which have been developed to facilitate sustainability disclosure.

Section 11.5 focuses on the development of one particular framework, the Global Reporting Initiative (GRI).

Finally, we conclude by summarising the findings of this chapter.

11.2 Corporate Social Responsibility and Sustainability

Corporate Social Responsibility (CSR) is defined as operating a business on a reliable, sustainable and desirable basis that respects ethical values, people, communities and the environment (Anderson 1989). The focus on this definition suggests a short-run view focusing the attention of the company on current issues.

There are four constituent components (RepuTex 2003) that together influence an organisation's ability to be socially responsible: (1) environmental impact; (2) corporate governance; (3) social impact; and (4) workplace practices.

Consistent with the definition that has been adopted in this chapter, the terms CSR and sustainability are used interchangeably to mean the same thing (e.g. Caswell 2004). This is because CSR is a sub-set of sustainability (see Fig. 11.1 below).

For any organisation to be sustainable in the long term, it firstly needs to be financially self-sufficient, meaning that a company maintains solvency and generates a return that equals or exceeds its cost of capital. Once this primary need for financial capital has been met, the organisation then needs to be socially responsible. This is achieved by ensuring that its governance and workplace practices and its environmental and social impact are self-monitoring and conform to society's expectations and ethical values. Only then can a company achieve sustainability in the long term.

In Section 2 below, we will look at the historical development of these concepts and provide a review of the literature.

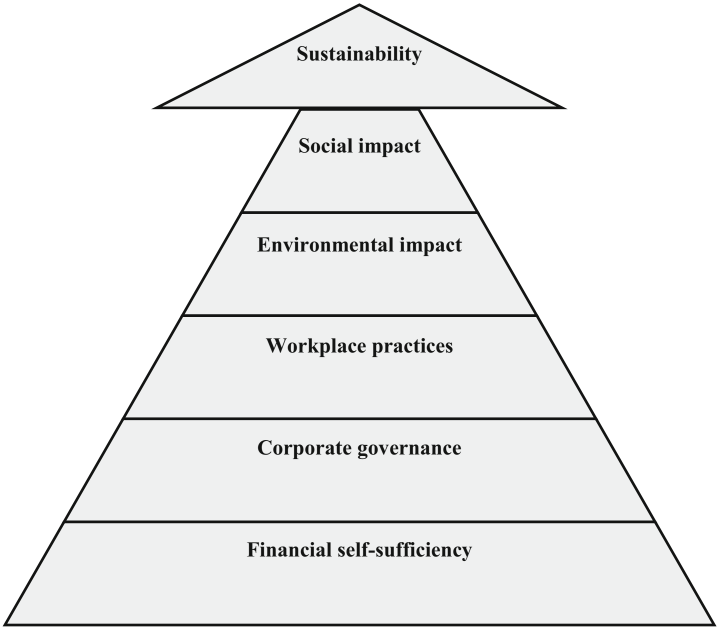

Fig. 11.1 The relationship between corporate social responsibility and sustainability

11.3 Historical Development of Sustainability

The concept of social responsibility, or social responsiveness, is an evolving concept (Mays Report 2003, p. 12) and means different things to different stakeholders (Arlow and Gannon 1982). However, the concept of social responsibility has been with us since the beginning of mankind (Anderson 1989).

A comprehensive approach to Western contemporary social responsibility came in 1953 with the publication of Howard R Bowen's book, *Social Responsibilities of the Businessman*. Here, Bowen described the social responsibility of the businessman as "the obligation of businessmen to pursue policies, to make those decisions, or to follow those lines of action that are desirable in terms of objectives and values in our society" (Bowen 1953, p. 6).

The CED (1971) used the term "social contract" to define the relationship between business and society with business's major obligation being the provision of goods and services for the benefit of society.

A significant amount of research has been undertaken over the past decades in understanding the nature of and motives for corporate social responsibility (e.g. Anderson 1989; Arlow and Gannon 1982; Carroll 1979; Clarkson 1995; McWilliams and Siegel 2001; Pava and Krausz 1996; Waddock and Graves 1997; Wood 1991) Increasingly, the importance placed on corporate social responsibility by investors, analysts, commentators and academics has grown, indicating a shift in attitudes.

This shift in attitude started with the agency view, which is the first framework identified in the literature. The next framework in the literature is the corporate social performance (CSP) view, followed by the resource-based view (RBV), the supply and demand view, and finally the stakeholder view is identified.

11.3.1 The Agency View

Initially, the idea that a corporation was using shareholders' funds to engage in social projects was criticised (Gelb and Strawser 2001, p. 3).

Freidman (1962, 1970) is generally credited with the "agency view" of the corporation and its responsibility to society. Freidman, recipient of the 1976 Nobel Memorial Prize for economic science, proposed that engaging in CSR is symptomatic of an agency problem or a conflict between the interests of managers and shareholders. Freidman argues that managers use CSR as a means to further their own social, political or career agendas at the expense of shareholders (McWilliams and Siegel 2001, p. 118).

According to Freidman's agency view, the business entity is accountable only to its shareholders and its sole social responsibility is to maximise the value of the firm (Gelb and Stawser 2001, p. 3). To paraphrase from *Capitalism and Freedom* (Freidman 1962, pp. 133–135):

> The view has been gaining widespread acceptance that corporate officials and labour leaders have a 'social responsibility' that goes beyond serving the interest of their stockholders and their members . . . few trends could 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 stockholders as possible. This is a fundamentally subversive doctrine. . .the claim that business should contribute to the support of charitable activities. . .is an inappropriate use of corporate funds in a free enterprise society.

The agency view started to lose favour in the literature as the corporate social performance view gained attention in the 1980s.

11.3.2 The Corporate Social Performance (CSP) View

Early research by Preston (1978) and Carroll (1979) outlined a "corporate social performance" (CSP) framework, which includes the philosophy of social responsiveness, the social issues involved, and the social and economic responsibilities. Waddock and Graves (1997) empirically tested the CSP model and reported a positive association between CSP and financial performance (McWilliams and Siegel 2001, p. 118). Researchers such as Pava and Krausz (1996) hypothesised that, according to the agency view, greater levels of CSR would lead to reduced levels of financial performance. Their findings persistently showed the opposite: that firms perceived as socially responsible performed as well as or better than their counterparts that do not engage in costly social activities. The authors concluded that "sometimes a conscious pursuit of corporate social responsibility goals causes better financial performance" (Pava and Krausz 1996, p. 333).

Building upon Preston & Carroll's framework, another view, the resource-based view (RBV) argues that CSP not only improves financial performance but it also adds a competitive advantage to the firm.

11.3.3 Resource-Based View (RBV)

Another framework has been developed by Russo and Fouts (1997). They examined CSR from a "resource-based view" (RBV) of the firm perspective. Using this framework, they argue that CSP (especially environmental performance) can constitute a competitive advantage, especially in high-growth industries.

Using the RBV framework as a foundation, the next framework, the supply and demand view, introduced the notion of optimising sustainability investment.

11.3.4 Supply and Demand View

McWilliams and Siegel (2001) developed a 'supply and demand' framework and proposed that there is a level of CSR investment that maximises profit, while also satisfying stakeholder demand for CSR. While focusing on the level of CSR investment is seen as important to maximise profits, the literature favours stakeholders as the primary focus.

11.3.5 Stakeholder View

A widely used framework for examining CSR is the "stakeholder" perspective. Developed by Freeman (1984), the stakeholder theory asserts that firms have relationships with many constituent groups and that these stakeholders both affect and are affected by the actions of the firm. Freeman (1984) argued that systematic attention to stakeholder interest is critical to firm success and management must pursue actions that are optimal for a broad class of stakeholders, rather than those that serve only to maximise shareholder interests (Gelb and Strawser 2001, p. 3).

11.4 Understanding Stakeholders

Freeman (1984, p. 46) defines a stakeholder as "*…any group or individual who can affect or is affected by the achievements of an organisation's objectives*". This definition is still widely acknowledged as the landmark position in stakeholder theory (Wood 1991; Clarkson 1995; Vos 2003). The distinction between those who "can affect" (i.e. the involved) and those who "are affected" (i.e. the affected) is considered crucial in understanding and defining stakeholders. The involved have the possibility to directly influence the actions of the firm, while the affected do not have any influence over the actions of the firm.

From the firm's perspective, stakeholder identification is not easily solved, because it comprises, at least, a modelling and a normative issue (Vos 2003, p. 141). The modelling issue refers to identification issues for management, such as "who are our stakeholders?" and "to what extent can we distinguish between stakeholders and non-stakeholders?". The normative issue refers to managerial implication, such as "what stakeholders will we take into account?" or "to what stakeholders are we willing to listen?" Vos (2003) argues that to identify stakeholders, both the modelling and the normative issue need to be resolved.

Mitchell et al. (1997) stresses the importance of risk in identifying stakeholders and points out that without risk, there is no *stake* (a stake in this sense is something that can be lost). As such, a stakeholder is a risk-bearer and from this perspective, the distinction can be made between voluntary and involuntary stakeholders. Voluntary stakeholders bear some form of risk as a result of having invested some form of capital (human or financial) or something of value in the firm. Involuntary stakeholders are placed at risk as a result of the firm's activities (Mitchell et al. 1997).

The dominance of the shareholder among all stakeholders is consistent with Freidman's (1962, 1970) agency view, which largely is seen as untenable in the context of CSR. There is no denying that shareholders deserve their special position as voluntary stakeholders because of the property rights they enjoy with the organisation, and the fiduciary duty (which is based on trust) between management and the shareholders. However, the organisation should acknowledge that it also owes both a fiduciary duty and a moral obligation to all non-shareholder stakeholders (including involuntary stakeholders) where the freedom and well-being of stakeholders are affected by the organisation's activities (Goodpaster 1998).

Donaldson and Preston (1995) refined the stakeholder paradigm by arguing that three aspects of this theory – normative, empirical and instrumental – are "mutually supportive". Jones and Wicks (1999) propose combining the instrumental (social science) and normative (ethics) components of stakeholder theory to arrive at a normative theory that describes how managers can create morally sound approaches to business and make them work (Jones and Wicks 1999, p. 206). For more recent developments in stakeholder theory, see Gelb and Strawser (2001).

To a certain extent, the management of CSR has become stakeholder management (Donaldson and Preston 1995). In dealing with stakeholder identification and management, there are two generally accepted positions: the firm-centred or instrumental perspective; and the system-centred or social responsibility framework (Vos 2003, p. 144).

The firm-centred or instrumental perspective (Vos 2003) is where the organisation identifies all its stakeholders for firm-centred purposes, such as economic prosperity, risk management, economic dependency, brand and image building. In general, these are the "involved" stakeholders who can potentially affect the organisation's achievements.

Using stakeholder theory as a dominant paradigm, CSR may be defined as "*the obligation to a specific system of stakeholders to carry out actions that appear to further some social good, beyond the interest of the firm and that which is required by law to do*" (Vos 2003; McWilliams and Siegel 2001).

CSR means going beyond obeying the law; merely abiding by the law does not necessarily constitute a CSR activity. Some examples of CSR actions include "going beyond legal requirements in adopting progressive human resource management programs, developing non-animal testing procedures, recycling, abating pollution, supporting local businesses, and embodying products with social attributes or characteristics such as product or process innovation" (McWilliams and Siegel 2001, p. 117).

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman 1962, 1970), and instead embracing stakeholders (Freeman 1984) and sustainability concepts (Perrini and Tencati 2006) in their business practice.

This has been motivated by a belief that adopting sustainability practices in the long run will lead to the improved financial performance of the firm (McWilliams and Siegel 2001; Pava and Krausz 1996), increased competitive advantage (Russo and Fouts 1997), profit maximisation (McWilliams and Siegel 2001) and the long-term success of the firm (Freeman 1984).

To achieve these goals, companies need to demonstrate to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability. To facilitate this, companies have adopted different reporting and disclosure frameworks to help them communicate with their stakeholders. This will be the focus of the next sections.

11.5 The Introduction of Alternative Reporting Frameworks

Traditional accounting has long been criticised for providing an incomplete account of business. It fails to present the dynamics of business-value-creating activities and how politico-socio factors may affect or be affected by business-value-creating-activities (Tilt 2010). This is evidenced by increasing research in intellectual capital reporting (ICR) and corporate social responsibility reporting (CSR) and the introduction of different disclosure frameworks.

Table 11.1 Alternative reporting frameworks (Source: ICAEW 2010, p. 9)

1	The Balanced Scorecard
	The Balanced Scorecard: Translating Strategy into Action (1996; based on a 1992 article) – Professor Robert S. Kaplan and David P. Norton
2	The Jenkins Report
	Improving Business Reporting – A Customer Focus (1994) – American Institute of Certified Public Accountants
3	Tomorrow's Company
	Tomorrow's Company: The Role of Business in a Changing World (1995) – Royal Society of Arts and *Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report* (1998) – Centre for Tomorrow's Company
4	The 21st Century Annual Report
	The 21st Century Annual Report/Prototype plc (1998) and *Performance Reporting in the Digital Age* (1998) – both ICAEW
5	The Inevitable Change
	Business Reporting: The Inevitable Change? (1999) – ICAS
6	Inside Out
	Inside Out: Reporting on Shareholder Value (1999) – ICAEW
7	Value Dynamics
	Cracking the Value Code: How Successful Businesses are Creating Wealth in the New Economy (2000) – Arthur Andersen
8	GRI
	Sustainability Reporting Guidelines (2000; revised 2002) – Global Reporting Initiative
9	The Brookings Institution
	Unseen Wealth: Report of the Brookings Task Force on Understanding Intangible Sources of Value (2001) and Professor Baruch Lev's *Intangibles: Management, Measurement, and Reporting* (2001) – both Brookings Institution
10	ValueReporting
	The ValueReporting Revolution: Moving Beyond the Earnings Game (2001) and *Building Public Trust: The Future of Corporate Reporting* (2002) – both PricewaterhouseCoopers
11	The Hermes Principles
	The Hermes Principles: What Shareholders Expect of Public Companies – and What Companies Should Expect of Their Investors (2002) – Hermes Pensions Management Limited

From the perspective of the CSR research, the traditional financial accounting framework is too narrow (Guthrie and Parker 1993). The business income concept needs to be expanded (Bedford 1965) because economic performance is not an index of total welfare (Bedford 1965; Pigou 1938). Since business activities have both economic and social impacts (Estes 1976), businesses must meet societal expectations of both profit generation and contributions to the quality of life in general. This is also consistent with the concept of social contract of the legitimacy theory (CED 1971).

A plethora of alternative reporting methods have been proposed in the sustainability literature (see Table 11.1 below), however, there is no universally accepted framework.

The idea to combine extended reporting frameworks with the traditional financial accounting framework has recently attracted a great deal of attention. One example of this synergy is the triple bottom line reporting approach (TBL).

TBL, a term coined by Elkington (1997), focuses corporations "*not just on the economic value they add, but also on the environmental and social value they add – and destroy*". The idea is rooted in the concept and goal of sustainable development, which is defined as "development that meets the needs of the present world without compromising the ability of future generations to meet their own needs" (WCED 1987). However, the problem underlies as to how environmental and social value should be quantified. There are various options that corporations can follow in quantifying non-economic values and these are: monetising all the values, calculating TBL values in terms of an index or leaving the sustainability measure to stand alone and be entirely subjective (Slaper and Hall 2011).

As Deegan (1999) indicated, "*for an organisation or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability), it must minimise (or ideally eliminate) its negative environmental impact, and it must act in conformity with society's expectations*". That is, it is inadequate to measure and present only economic performance, which is the focus of the intellectual capital (IC) research. To be sustained in the long run, organisations must strive to achieve better performance across the three dimensions of TBL.

An alternative is the codification of guidelines such as the Global Reporting Initiative 2002 guidelines, which is an initiative that is heading towards a common and acceptable reporting framework aiming to combine the reporting of financial, environmental and social performance within the same format (Guthrie and Yongvanich 2006). In addition, as stated in GRI (2002), the initiative has enjoyed the active support and engagement of representatives of key constituencies, and in the GRI's view, its guidelines provide the most updated consensus on a reporting framework at this point.

11.6 Triple Bottom Line and Development of the Global Reporting Initiative

The publication of *Cannibals With Forks* (Elkington 1997) focused the business community on the links between environmental, economic and social concerns that had been highlighted previously in the Brundtland Report (WCED 1987). Elkington coined the term triple bottom line and has convinced many leading companies to embrace sustainability using his triple bottom line theory. The Global Reporting Initiative (GRI) builds upon the foundations of triple bottom line to provide a framework for reporting and social accounting (Brown et al. 2009b). The GRI is now used voluntarily by 5,968 organisations worldwide, and this includes large listed Australian companies such as ANZ, Westpac and BHP Billiton (GRI 2014).

The Coalition for Environmentally Responsible Economies originally launched the GRI in 1997. The GRI is a voluntary set of guidelines for reporting on the economic, environmental and social aspects of an organisation's activities.

The GRI was established with the goal of enhancing the quality, rigour and utility of sustainability reporting. The initiative has enjoyed the active support and engagement of representatives from business, non-government organisations, accounting bodies, investor organisations and trade unions (Brown et al. 2009a). Together, these different constituencies have worked to build a consensus around a set of reporting guidelines with the objective of obtaining worldwide acceptance (Fowler 2002).

The sustainability reporting guidelines are a framework for reporting on economic, environmental and social performance. They (a) outline reporting principles and content to help prepare organisation-level sustainability reports; (b) help organisations gain a balanced picture of their economic, environmental and social performance; (c) promote comparability of sustainability reports; (d) support benchmarking and assessment of sustainability performance; and (e) serve as a key tool in the overall process of stakeholders' engagement (Adams and McNicholas 2007).

Sometimes referred to as triple bottom line reporting, the term sustainability reporting is used throughout the GRI guidelines.

The guidelines can be used simply as an informal reference document to assist organisations in developing a framework and indicators for measurement and reporting in an environmental fashion. Alternatively, the organisation may choose to adopt them and prepare their report 'in accordance' with the guidelines.

The GRI recognises the complexity of implementing a sustainability reporting program and the need for many organisations to build their reporting capacity in an incremental fashion. Such organisations may choose not to prepare a complete GRI-based report in their initial effort (Guthrie and Farneti 2009). Instead, they may choose a step-by-step approach to adopting the guidelines over a period of time (Daub 2007).

Increasingly, these voluntary guidelines are being adopted by companies worldwide, providing a common framework for sustainability reporting. This increasing trend with global companies can also be seen in the increased application of GRI among Australian organisations, with more than 270 companies in Oceania now adopting this voluntary disclosure framework (GRI 2014).

11.7 Summary of Sustainability Reporting Frameworks

There has been growing concern in academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW 2004, p. 6). In attempting to satisfy this deficiency in traditional reporting, several alternative sustainability reporting frameworks have been developed, however there is no universally accepted framework that allows universal comparison of sustainability performance. In the absence of legislative prescription, organisations have been adopting these disclosure frameworks on a voluntary basis only. One of the frameworks that is being adopted globally, as well as in Australia, is the Global Reporting Initiative (GRI)

Conclusion

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman 1962, 1970), and instead embracing stakeholders (Freeman 1984) and sustainability concepts in their business practice.

With a new-found focus on disclosure to stakeholders, there has been growing concern in the academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW 2004, p. 6).

In attempting to satisfy this deficiency in traditional reporting, several alternative sustainability reporting frameworks have been developed, but there is no universally accepted framework that allows universal comparison of sustainability performance.

In the absence of legislative prescription, organisations have been adopting these disclosure frameworks on a voluntary basis only to help them communicate with their stakeholders. One of the frameworks that is being adopted globally, as well as in Australia, is the Global Reporting Initiative (GRI). Currently, 38 Australian organisations have adopted GRI reporting. These leading companies are demonstrating to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability.

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Chapter 12
An Evaluation Framework for CSR Reporting

Claus Strue Frederiksen and Morten Ebbe Juul Nielsen

Abstract The objective of this chapter is to present a framework for evaluating the quality of CSR reports. The evaluation framework is based on three lines of argument. First we argue that CSR reporting ideally ought to enable the stakeholders to evaluate a company's CSR commitment in four different ways, including cross-sector comparison. Second, we argue that CSR concerns – or ought to concern – the ethical responsibilities of companies, implying that CSR reports should be evaluated on the basis of their ability to provide a fair and reasonably transparent sketch of the ethical behaviour of a given company. Third, we argue in favour of a specific normative framework for evaluating the current practice of CSR reporting. Finally, we use the normative framework to sketch the contours of a framework for evaluating the quality of CSR reports.

12.1 Introduction

In our view, the purpose of CSR reporting is to provide an overview of the CSR commitment of the company. We realize that some might find this to be a bold statement since a lot of CSR reporting seems more like marketing than a serious attempt to provide useful information about social and environmental performance and impact. However, our claim does not require that companies really are interested in providing an adequate overview of their CSR commitment. We claim that they *ought* to provide an adequate summary of their CSR commitment and impact. And just as it seems reasonable to claim that financial reports ought – at least, ideally – to enable stakeholders to evaluate the financial performance of companies, we find it reasonable to claim that CSR reports ought to enable stakeholders to evaluate companies' social and environmental performance. The objective of this

C.S. Frederiksen (✉)
University of Copenhagen, Karen Blixens Vej 4, 2300 Copenhagen S, Denmark
e-mail: clausf@hum.ku.dk

M.E.J. Nielsen
Institute for Food and Resource Economics, and Philosophy, University of Copenhagen, Karen Blixens Vej 4, 2300 Copenhagen S, Denmark

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chapter is to develop a framework for evaluating the quality of CSR reports. In this regard it is important to notice the difference between the quality of a CSR report and the CSR performance of the company. The quality of the report is judged on the basis of whether (or to what degree) it enables the stakeholders to evaluate the CSR performance of the company. The CSR performance, on the other hand, concerns the level of the company's CSR engagement, i.e. the degree to which the company is living up to its social responsibilities. In this chapter we focus solely on how stakeholders, on the basis of CSR reports, can evaluate companies' CSR performance, meaning we focus on the quality of CSR reporting.

In addition to this brief introduction and some concluding remarks at the end, this chapter consists of four main components. First we present four different ways of evaluating CSR reporting. In this regards we argue that companies' CSR reports ought, at least ideally, to enable the stakeholders to evaluate companies' CSR commitment in these four different ways. Second, we argue that CSR concerns – or *ought* to concern – the ethical responsibilities of companies, implying that the quality of a CSR report relates to whether or not it enables stakeholders to evaluate the actual level of ethical responsibility of a company. (Accordingly, one might have a lousy CSR policy with little or no ethical commitment yet produce a very good CSR report – and vice versa.). At bottom, CSR is an ethical project, or so we maintain. Third, we present our ethical framework, which is based on some of the most fundamental and widely-accepted claims about ethics. Finally, we use the normative framework to develop and present the contours of a framework for evaluating the quality of CSR reports.

12.2 Four Ways of Evaluating CSR Reporting

When one reflects on how to evaluate the quality of CSR reporting, one soon realizes that the question is somehow ambiguous. First of all, one has to decide on the kind of perspective, e.g., an ethical or strategic (market-driven) one, by which the reports should be evaluated (see discussion below). Second, it becomes clear that there are two very different strategies available for the evaluation of CSR reports. A *cardinal* approach means evaluating CSR reports according to some fixed and external standard. This would entail – if a cardinal approach is feasible to begin with – evaluating the quality of a report without reference to the CSR performance of any *other* company. Think of cardinal approaches as thermometers and temperatures: loosely speaking, one does not need to know what the temperature of some other place to know that it is, say, 200 °C in your oven. According to this approach a CSR reports should thus, on its own, enable stakeholders to evaluate the CSR performance a company. An *ordinal* approach, on the other hand, is characterized by some comparative definition – say, a "more than" or "worse than" notion, e.g., by comparing the CSR performance of two or more companies. In this regard the following three ordinal approaches are relevant. First, CSR reporting should enable stakeholders to evaluate whether a company's CSR performance is better (or worse) compared to some previous year. Second, CSR reporting should enable stakeholders to compare the CSR performance of companies within the same sector. Third, CSR reporting should enable stakeholders to compare the CSR performance of companies across different sectors. We find that both the cardinal and the three different ordinal approaches, at least ideally, are necessary when evaluating the quality of CSR reporting. We need something approaching the cardinal measure because it is not always very illuminating to know that a company is, e.g., the third best in its sector. It might be a sector characterized by a very poor effort as concerns CSR. Think again of a thermometer: it is not very useful to know that it is hotter in your oven than outside: you want to know, at least roughly, what the temperature is in the oven. However, for heuristic purposes at least, it is also relevant to know something about the *relative* effort and commitment of companies CSR engagement: whether or not a company is improving or not over time; where a company is relative to similar companies; and where a company is relative to all other companies.

12.3 CSR Reporting: The Primacy of the Ethical Perspective

In our view, CSR concerns the *ethical* responsibilities and engagement of companies regarding social and environmental issues. Now, we realize that some might find this stance a bit naïve. However, there are a number of reasons why it is reasonable to suggest that CSR concerns the ethical responsibilities of companies. First of all, even though CSR is a contested concept, some particularly influential conceptualizations – including Carroll's pyramid and the three concentric circles presented by the Committee for Economic Development – refer to the ethical responsibilities of companies in defining CSR (Lutz 2013). Second, a recent study demonstrates that, when asked to justify their CSR policies, companies mainly refer to ethical arguments (Frederiksen 2010). Third, a study done by Danish researchers concludes that the primary driver for CSR is based on ethical and not financial considerations (Arlbjørn et al. 2008). Finally, companies themselves refer to their ethical responsibilities in their CSR reports. In our sample (in Chap. 9 we present an empirical investigation that includes nine of the world's largest and most influential companies), all of the companies refer implicitly or explicitly to their ethical responsibility (Apple 2013), p. 16; Dell 2013, p. 1; ExxonMobil 2013, p. 47; Hewlett-Packard 2013, p. 5; Kraft Foods 2012, p. 8; Nestlé 2013, p. 3; PetroChina 2013, p. 52; Royal Dutch Shell 2013, p. 12; Unilever, 2013, p. 3). For instance, Dell (2013, p. 1) states that "[w]e strive to be a global leader in every aspect of our business and to do so with the utmost integrity and ethics." Another example is Kraft Foods (2012, p. 8), which states that "we have structures, policies and processes to help promote the ethical and efficient governance of our company." It is important to notice that, even though some companies claim that it is good for business to act ethically, meaning that the original driver for CSR might actually be to maximize profit, this does not, of course, change the fact that CSR has to do with ethical responsibilities. On that basis, we find it reasonable to claim that CSR, in fact, concerns ethical responsibilities in relation to social and environmental issues and that CSR reporting should reflect this. The question now is *what* kind of ethical responsibilities companies have. We will discuss this question in the next section in which we also present an ethical framework that can be used to try to evaluate CSR performance.

12.4 Ethical Framework

Few (if any) deny that one ought to act in accordance with some ethical norms. This might almost be a tautology, since ethics concerns how one ought to act. Ethical controversies, thus, do not revolve around whether one ought to act ethically but, rather, on what actions should count as ethically defensible in the first place. This question is, of course, the subject of great controversy. Philosophers (and others) have engaged in serious discussions about the content of ethics for more than 2,000 years without reaching an agreement. However, in order to evaluate whether the current practice of CSR reporting enables stakeholders to evaluate the CSR performance, it is necessary to employ some ethical framework. We have chosen to base our ethical framework on two of the most widely accepted claims about ethics – namely:

1. Moral agents should, all else being equal, avoid doing harm (the *constraint claim*).
2. Contributing positively to the lives of other people (or other sentient beings or the environment) is, all else being equal, a good thing (the *contribution claim*).

These claims (we shall argue) are supported by all the major ethical theories, including deontological theories, theories of rights (e.g., liberal egalitarianism and libertarianism), consequentialism (e.g., utilitarianism) and virtue ethics.

All major ethical theories support the constraint claim, albeit in sometimes quite different ways. Disagreements between different ethical theories only emerge when we begin to consider cases in which everything else is not held equal, e.g., when harming someone might be necessary in order to promote the greater good. In this regard, several things are worth noticing in relation to CSR and CSR reporting. First, even though supporters of different moral theories differ about what the basic moral factors are, they often reach the same result in practice when it comes to the moral status of harmful actions, as famously noted by Parfit (2011). This can be illustrated by an example involving two conflicting moral theories, libertarianism and utilitarianism. Both utilitarians and libertarians do not (in general) accept the use of forced labour by companies but for different reasons. Utilitarians are opposed to the use of forced labour because it does not generally maximize the total sum of well-being, whereas libertarians are opposed to forced labour because it violates persons' rights. Second, even though, in theory, most utilitarians accept the possibility of special circumstances that mandate the use of forced labour, most utilitarians (including act-utilitarians) would still recommend that, in practice, forced labour should not be used. The reason for this is that many act-utilitarians believe that moral agents, including companies, should not adopt the utilitarian doctrine, i.e., maximizing the total sum of well-being, as a *decision-making procedure*. The problem with using utilitarianism as a decision-making procedure is, among other things, that constant calculation is counterproductive and that moral agents are prone to be biased in relation to the impact on their own well-being vs. the well-being of others (for a more elaborate discussion on this sort of utilitarian decision-making procedure, see Frederiksen 2012; Frederiksen and Nielsen 2013). The point is that, even though moral theories differ in regards to the ultimate foundation for ethics and some of them even claim that (in theory) it is a contingent matter whether companies should refrain from harmful actions, most of their supporters would, in practice, reach the same result: namely, that companies should refrain from doing certain forms of harm, e.g., using forced labour. Few, if any, prominent utilitarians advocate that companies should *in general* consider committing harmful actions to promote the total sum of well-being. Third, even though disagreement exists about which actions should be categorized as harmful (and, thus, should be actions from which companies should refrain), few scholars seem to deny that core issues such as human rights violations and massive pollution, i.e., dumping hazardous waste into the local sea, should not be categorized as harmful. That said, it is also worth noticing that none of the prominent and influential ethical theories implies that companies should avoid having any negative impact whatsoever on their surroundings. Such a stance would imply that almost all business operations should be considered morally unacceptable since most companies produce some amount of non-recycled waste and use some amount on non-renewable energy (at least, for transporting goods). Like the rest of us who also use non-renewable energy and produce waste, companies should not cease to exist but, rather, try to minimize their negative impact. In sum, even if the foundation of the two theories in question – utilitarianism and a libertarian theory of rights – differ sharply from each other, they rather easily converge on the same conclusion in practice. Of course, this might not be the case for all normative theories in all respects; however, we continue with the premise that this is in fact the case in most relevant situations. The constraint claim is supported by all plausible ethical points of view.

All major theories also support the contribution claim, i.e., they accept that, all other things being equal, contributing positively to the lives of others is a good thing. However, there is disagreement when we begin debating whether moral agents have a moral *duty* to contribute positively to the lives of others. The debate focuses mainly on whether we have a moral obligation to assist people in need and (if such a duty exists) *which* needy people we are obligated to help and to what degree we ought to help, meaning how great a sacrifice we are obligated to make. However, even though some scholars (e.g., those of a libertarian persuasion) believe that companies that respect negative rights are living up to their moral obligation, most of them would probably approve if a company also contributed positively to society, e.g., by assisting people in need (such a company might be referred to as a moral saint, since it does more good deeds than it is morally obligated to do). We realize that some libertarians, inspired by Friedman's (1962) famous defence of (almost) unrestricted capitalism, might argue that a company's only obligation is to generate wealth and that it should refrain from contributing positively to society by engaging in CSR projects (unless they have a good business case). Notice, however, that this position does not imply that companies should not contribute positively to society, but it does entail scepticism about whether this should be done by engaging in CSR or whether focusing solely on maximizing profit is actually the best way a company can contribute positively to society. We will disregard this discussion in what follows and just assume that a company's positive contributions, including CSR related contributions, are generally good, morally speaking.

In sum, we rely on the following moral framework:

1. Companies should avoid committing harmful actions – which results in the following two categories: (a) companies should respect certain absolute constraints against doing harm and (b) companies should minimize their negative impact on society and the environment.
2. Companies that contribute positively to society (understood broadly as "people and planet") are, all other things being equal, doing more good than companies that do not make such contributions.

These categories seem to capture most of the (ethically relevant) content in current CSR reporting since companies do focus a lot on refraining from harmful actions, minimizing their negative impact, and contributing positively to society. In the following, we shall describe how this moral framework is incorporated into our development of our evaluation framework.

12.5 The Evaluation Framework

Our framework for evaluating CSR reporting is based on our moral framework. However, in the process of developing the framework we also included empirical data regarding the current practice of CSR reporting. As point of departure we used a template organisation style (Crabtree and Miller 1999; King 2004). Roughly, the process consisted of three different steps. First, we began by creating an initial template, using the moral framework outlined above to create three initial higher-order categories: namely, (1) upholding absolute constraints against certain harmful actions, (2) minimizing negative impact and (3) contributing positively to society.

Second, after closer scrutiny of the current practice of CSR reporting (for further details about the empirical data see Chap. 9), we added four sub-categories to our initial template: namely, "state of the world", "policy", "action" and "result". "State of the world" referred to the characteristics of the companies and their perception of the social and environmental challenges of the world. "Policy" referred to the companies' goals and intentions for CSR. "Actions" referred to the CSR-related actions performed by the companies. "Results" referred to the consequences of the companies' CSR-related actions. These sub-categories were chosen because, in order to evaluate moral agents (including companies), it is helpful to know something about their characteristics and their perception of the world, their moral outlook (policy), what they are doing and the implications of their actions. For example, imagine that, in its CSR report, a company makes many ambitious policy statements, but the report only includes a few insubstantial examples of actions taken to fulfil these goals and no reported results. This method of reporting might be considered unacceptable, since it seems reasonable to expect companies to report fully on all the sub-categories mentioned above, as this is a necessary condition for evaluating their *overall* CSR commitment. In sum, we do not only need to know what the intentions of the moral agent are but also *who* she is (her abilities), what she actually *did* and what the *consequences* of her actions were. By pairing these sub-categories with our moral framework, we created an initial foundation for evaluating and comparing the moral status of companies (see evaluation schema below).

Third, during our analysis of the current practice of CSR reporting (see Chap. 9 for further info) one additional category emerged, resulting in the fourth higher-order category: (4) commitments and partnerships. The main reason for this additional category was that the CSR reports often include the company's commitments to national and international legislation, various CSR standards and voluntary partnerships with NGOs. This reporting trend seems to be an additional opportunity for us (and other stakeholders) to evaluate and compare the CSR commitment of companies since we can compare the moral status of these commitments and partnerships. We ended up with the following coding-schema (Table 12.1):

The evaluation schema does not – by itself – enable us to evaluate companies' CSR performance. One important item, namely the relevant baselines, needs to be included before we can evaluate companies' CSR performance. Roughly, baselines concern the goal. For instance, financial reports ordinarily include, not just whether the company made money the previous year, but also how large a surplus (or deficit) it aimed at and whether it reached its goal. The same kind of goals should be included in the CSR reports, i.e. the social en environmental goals should be clear and also whether the company reached these goals. Moreover, the goals should also be ethically informed – companies cannot just choose any goal they like, at least not if they want to be a social and environmental responsible company. Something similar is the case for financial goals. Companies cannot just state any financial goal they feel like, since clearly unreasonable goals would upset the shareholders, e.g. if the shareholders of a given company have (justified) reasons to expect a $100 million profit it would be unacceptable if the company's goal was to make just a dollar in surplus. We realize that it is difficult, if not impossible, to say precisely what a company's financial goal should be, i.e. what it is reasonable to

Table 12.1 CSR evaluation schema

	Refrain from doing harm	Minimize negative impact	Contribute to society	Commitments and partnerships
State of the world	E.g., the use of forced labour is not common in our sector	E.g., climate change threatens our existence	E.g., 10 million children die every year from poverty	E.g., states and companies need to work together to solve the threat from climate change
Policy	E.g., we will not use forced labour	E.g., we intend to minimize our CO_2 emissions	E.g., we aim to have a positive effect on our local community	E.g., we support the ten principles of UN Global Compact
Actions	E.g., we have done X to prevent the use of forced labour within our sector	E.g., this year, we have spent X amount of money on CO_2-reducing projects	E.g., this year, we have spent X amount of money on supporting schools in X	E.g., we work with Earthwatch to manage environ-mental challenges
Results	E.g., among our sup-pliers, we have recorded X violations of our policy on not using forced labour	E.g., this year, we have pro-duced X tons of non-hazardous waste	E.g., this year, we have ensured that X number of chil-dren are getting an education	E.g., together with X, we have provided clean water for X number of people

expect. That said, most companies tries, and many successfully, to present reasonable and justified goals regarding their financial dispositions and results. We claim that companies ought to do the same in relation to CSR, i.e. they should present and (if necessary) defend clear social and environmental baselines. This seems to present three (tough) challenges: first, what kind of social and environmental challenges should companies focus on, e.g., should they focus on reducing CO_2, include marginalized groups in the workforce, etc.? Second, what level of social and environmental performance can reasonably be expected of companies, i.e. how hard should they try to reduce CO_2, include marginalized groups in the workforce, etc.? Third, how are we to compare the different social and environmental variables expected to be included in CSR reports, i.e. how are we to compare projects reducing CO_2 with initiatives to include marginalized groups in the workforce? These are hard questions. However, we believe that companies (or others) have to deal with them in order to make CSR reporting valuable for the stakeholders.

However, some might claim that we are still setting the bar too high, especially in relation to the question of comparing different social and environmental values. In this regard it is not reasonable to expect companies to present a way to compare the different data and present something like a single CSR bottom line? As Pava (2007) notes, not even financial statements are able to summarize a company's financial performance with a single objective bottom line. When investors read financial statements, they cannot just focus on the company's net income. They have to take different information about different elements of the company's performance into account. We acknowledge that financial statements consist of a variety of relevant data that cannot necessarily be summarized as a single bottom line and that financial analysts might disagree on whether a company is doing better or worse (financially) this year than it was last year. However, if deep disagreement is widespread among financial experts (due to a general lack of agreement on how to evaluate financial statements), then that seems to constitute a serious problem for the current practice of financial reporting. On the other hand, if the disagreement is not that serious, i.e., most people agree on what data is important, then it seems likely that, even though disagreement may occur in specific cases or even at the margins of competing accounts of financial performance, financial experts are not *simply* stating their personal opinion if they conclude on the basis of financial statements that a company is doing financially better this year than last year. They seem to have, at least, some sufficiently sound data on which to build their analyses. Likewise, we are not assuming that companies should be able to present a single CSR bottom line or that CSR reporting should be more "objective" (understood as free from disagreement) than financial reporting. As Norman and MacDonald (2004) argue, CSR reporting (in their view especially CSR reporting based on the triple bottom line approach) faces at least one major challenge that financial reporting does not – namely, that no common CSR currency exists. According to Norman and MacDonald (2004), we should not even try to establish such a currency since the different values involved in CSR reporting are incommensurable, meaning that we are not able to weigh them against each other. Notice that, even though some prominent philosophers, including Griffin (2000), argue that there are no genuine cases of incommensurability and others, including Sen (2004), claim incommensurability (if it in fact exists) has no significant implications on our ability to choose between different values, the fact remains that the lack of a common CSR currency still amounts to a huge problem when it comes to evaluating and comparing companies' overall CSR commitment. Moreover, the fact that some values seems comparable (e.g., an increase in fatal accidents by 25 employees seems far worse than an increase in water consumption by 25 l) does not undermine the fact that some values are very hard (if not impossible) to compare. Without clear guidelines on how to compare the different values, stakeholders are only able to make a subjective assessment based more on personal feeling than substantial arguments. Such purely subjective evaluations are not what we are looking for – if they were, almost any kind of CSR reporting would do the trick since we can (almost) always make a purely subjective judgment between two sets of data. So, we need a way to be able to compare the various values that companies present in their CSR reports.

Notice, we are not claiming that the issues regarding baselines can be completely solved. However, companies (as well as scholars within the field of CSR) should, at least, try to come up with a (maybe not perfect) reasonable solution to these issues, since the alternative seems to leave us without prober CSR reporting, i.e. CSR reporting that enables the stakeholder to evaluate companies CSR performance.

Having noted some of the (tough) challenges that our framework reveals, we now turn to some of the issues where we believe the framework presented could strengthen analysis of the current practice of CSR reporting – and, hopefully, inform how CSR reports are done in the future. First of all, systemizing the claims made by CSR reports by companies allows one better to make comparisons, both between different companies and between the CSR-commitments of a company between different years. We of course cannot claim that one gets the full picture. However, one is probably in a much better position to see which pieces are missing from the picture when one has tried to canvass the CSR policy of a given company. And, arguably, knowing about which issues that are not addressed is as important as knowing which are.

Moreover, it is not unreasonable to expect that companies that predominantly (or exclusively) focus on the constraint claim (roughly: on their negative duties) has a less ambitious CSR policy than companies with more emphasis on the contribution claim (i.e., companies that actively try to promote the good.) Naturally, this is highly contingent on the specific circumstances of a given company (see Nielsen and Frederiksen 2015); and much hinges on how one construes the negative duty/ positive contribution distinction (e.g., is it *harming persons' rights* if a major company does not leave an important water supply intact, or is it rather failing to *contribute positively*?) This does not get us near any cardinal measure of the level of CSR-commitment of a given company, though it does seem obvious that one could use the level of positive contribution from a company as a rough and ready indicator of its overall CSR-commitment, at least if its positive duties are reasonably well executed. The framework suggested should be helpful in teasing out whether a company veer towards a mainly "constrain-respecting" and less ambitious CSR-policy, or whether the company is indeed prepared to go the extra mile. This, of course, rests on the premise that the CSR reporting gives an at least minimally adequate picture of the CSR policies of the company.

This brings us to a final point: one could hope that if scholars, business analysts, media and other stakeholders began to put CSR reports under closer scrutiny, then not only CSR reporting, but also actual CSR *policies* would begin to be more ambitious (and transparent) forms. Maybe our modest attempt to provide a formula can help towards that.

Conclusion

Above we have presented an evaluation framework for evaluating the quality of CSR reporting. The framework is based on three lines of arguments. First we argued that CSR reporting ideally ought to enable the stakeholders to evaluate a company's CSR commitment in four different ways, including year-to-year comparison and cross-sector comparison. Second, we argued that CSR ought to concern the ethical responsibilities of companies. Third, we argued in favour of a specific normative framework (which was based on some widely accepted claims about ethics) for evaluating the current practice of CSR reporting. Finally, we use the normative framework to sketch the contours of a framework for evaluating the quality of CSR reports. The

(continued)

framework included four higher order categories, which we believe are all essential for evaluation the quality of CSR reporting. The higher order categories are: (1) upholding absolute constraints against certain harmful actions, (2) minimizing negative impact, (3) contributing positively to society and (4) commitments and partnerships.

In relation to our framework we pointed at some (tough) challenges concerning baselines. Now, due to some of the problems mentioned above (especially, the comparability problem), it might not be possible to completely solve the problem of baselines. However, the companies (as well as scholars within the field of CSR) should, at least, try to put forward and defend such ethically-founded baselines since the alternatives seem to be either more of the same or the end of social reporting. In our view, neither of these alternatives seems attractive. Moreover, much higher levels of transparency – covering, more or less, all of the companies' activities – are needed to compare the CSR performance of different companies properly. Some might object that this makes CSR reporting redundant, all things considered: since no single company can afford to lay bare all its relevant data, no company will do so. However, making (much) more transparency a legal requirement will put all firms in the same boat, and there will be no relative loss of competitive edge. Hence, perhaps, the main conclusion here is that states and international organisations of all kinds ought to increase the pressure for more transparency.

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Part IV
Instrumental Corporate Social Responsibility

Chapter 13
Shareholder Rights and Zero-Sum CSR: Strategies for Reconciliation

Ned Dobos

Abstract CSR involves the management of a corporation using the resources of that corporation to promote the welfare of non-shareholders (disadvantaged members of the community, the global poor, animals, future generations, etc.). In some cases CSR is used as a tactic to augment the competitive strength of a firm. We can call this "instrumental CSR" or "shared-value CSR". This is where promoting non-shareholder welfare is seen as the best way of maximising shareholder value in the long term. In other cases, however, promoting the welfare of non-shareholders may be expected to compromise the economic interests of shareholders to some extent; one group benefits *at the expense of* the other. Call this "zero-sum" CSR. If we accept the so-called principle of shareholder primacy, Zero-Sum CSR appears morally problematic. This principle says that shareholders have a unique and privileged moral status in the corporation. More specifically, it says that shareholders, in virtue of their special relationship with management, are entitled to have the corporation governed in a way that is aimed at maximising their economic interests. My aim is to carefully distinguish three argumentative strategies for reconciling Zero-Sum CSR with the moral rights of shareholders.

13.1 Introduction

There is no unanimously accepted definition of Corporate Social Responsibility (CSR). For my purposes, I will use the term loosely to describe any activity undertaken by the management of a corporation, using the resources of that corporation, which is aimed at promoting the welfare of non-shareholders (disadvantaged members of the community, the global poor, animals, future generations, etc.). In some cases CSR is used as a tactic to augment the competitive strength of a firm. We can call this "instrumental CSR" or "shared-value CSR" (Porter and Kramer 2006). This is where promoting non-shareholder welfare is seen as the

N. Dobos (✉)
School of Humanities and Social Sciences, University of New South Wales, Canberra, Australia
e-mail: n.dobos@adfa.edu.au

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best way to maximise shareholder value in the long term. For instance, CSR might be used to generate goodwill and reputational capital as a means of attracting customers and investors. In other cases, however, promoting the welfare of non-shareholders may be expected to compromise the economic interests of shareholders to some extent; one group benefits *at the expense of* the other. Call this "zero-sum" CSR.

If we accept the so-called principle of shareholder primacy ("primacy principle" for short), Zero-Sum CSR appears morally problematic. This principle says that shareholders have a unique and privileged moral status in the corporation (Smith 1998). More specifically, it says that shareholders, in virtue of their special relationship with management, are entitled to have the corporation governed in a way that is aimed at maximising their economic interests. Of course this is not to say that management is free to pursue profit *by any means necessary*. Clearly they may not commit murder, inflict bodily harm, engage in fraud, steal, embezzle, enslave and so on. Non-shareholders must not be harmed or unjustly interfered with in the pursuit of shareholder value. Within these boundaries, however, the primacy principle tells us that shareholders can rightfully demand that management concentrate exclusively on delivering optimal returns on their investment. Thus, insofar as zero-sum CSR involves a deviation from this objective, it infringes upon the legitimate moral claims of shareholders.

For our purposes it will be helpful to restate the primacy principle in common philosophical parlance. Let us begin by drawing two simple distinctions. The first is between *negative* and *positive* rights. Negative rights are so called because what they demand – the duties they impose – are duties of *omission*; duties to *refrain from* various behaviours. If I have a negative right to X, others have a duty to refrain from depriving me of X. By contrast, if I have a *positive* right to X, it means that someone else has a duty to actively provide me with X. Positive rights impose duties of action rather than omission; the duty bearer must *do something*, such as render assistance or confer benefits (Wenar 2011). The second distinction is that between *derived* and *natural* rights. A natural right is a right that one has independently of special relationships, prior transactions, and so on. These are rights that we enjoy simply in virtue of our humanity, so to speak (Smith 2009, p. 101). *Derived* rights, on the other hand, are precisely those which are grounded in our own voluntary undertakings and in our special relationships – with family members, compatriots, colleagues, creditors, employees, and so on.

Essentially, the principle of shareholder primacy says that:

1. Shareholders have a *derived positive* right against the management of their corporation. That is, shareholders have a right to be actively benefited or to have their interests advanced – indeed maximised – by management (positive), and this is due to their unique relationship with management (derived)

   And

2. Non-shareholders have no such derived positive right against the management of any corporation.

But

3. Everyone has *natural negative* rights against corporate managers. That is, both shareholders and non-shareholders have an equal right not to be unjustifiably harmed or interfered with; not to be physically injured, wrongfully dispossessed of their property, etc.

According to the primacy principle, then, managerial decisions are rights-consistent only if they are geared towards maximising profit (thus fulfilling the derived positive rights enjoyed only by shareholders), without unjustly harming anybody (thus fulfilling the negative rights of non-shareholders). On the face of it this seems to leave no room for zero-sum CSR, insofar as that involves actively promoting the welfare of non-shareholders by sacrificing shareholder value. My aim in this paper is to carefully distinguish three argumentative strategies for reconciling Zero-Sum CSR with the rights of shareholders. The first involves rejecting premise 1, above. The second challenges premise 2. The third, hitherto largely neglected strategy, says that premise 3 is arbitrarily narrow; that there are circumstances under which a corporation fails to honour the *natural positive* rights of non-shareholders by failing to actively promote their welfare, and that in these circumstances Zero-Sum CSR is consistent with the rights of shareholders *even if* we concede premises 1 and 2.

13.2 The Principle of Shareholder Primacy

According to the primacy principle, shareholders – and *only* shareholders – can rightfully demand that management strive to promote their interests. This right is grounded in, or derived from, the special relationship that binds shareholders and managers. So what is the nature of this relationship?

The most common answer is that shareholders are the owners of the corporation, and that management is merely an agent appointed to serve their interests. Friedman writes:

> In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible... (Friedman 1970)

Whenever a corporate executive is appointed, the mandate conferred upon him/her by the board is to use his/her expertise to maximise profits for those that the board represents. This may not be made explicit, but for Friedman it doesn't need to be. In capitalism it is to be assumed. After all, buying shares is an *investment*, not an altruistic gesture. Thus, the presumption ought always to be that the shareholders are out to make money, not to make the world a better place, and that their purpose for employing the executive is to achieve this end. By voluntarily taking on the position, the executive consents to these implicit terms.

He/she thereby makes an implicit "profit-maximising promise", to borrow from Kenneth Goodpaster. The upshot is that any deviation from profit-making in the form of zero-sum CSR is a promise broken or a trust breached (Goodpaster 1991, p. 63).

An alternative characterisation of the relationship says that shareholders are uniquely *vulnerable* to the decisions and actions of managers, and are for this reason entitled to their exclusive fiduciary concern.

Imagine the following scenario: You visit your family doctor suffering a minor medical condition. Following the examination, the doctor determines that you do not need the drug ordinarily used to treat the condition; his professional judgment is that bed-rest will suffice. Thus it is not in your best interest that the drug be prescribed. But the pharmaceutical company that manufactures the drug certainly has an interest that it be prescribed. So does the local pharmacist. After weighing up all these competing interests, the doctor prescribes the drug to you, despite his/her assessment that you do not need it. Something is obviously wrong with this picture. You put your trust and confidence in the doctor. They have a position of power over you – what they say and do can very severely damage your health. Because of this, we feel that your doctor owes a special fiduciary obligation to you, which requires them to put your interests first and not merely to weigh them up against the competing interests of other "stakeholders".

Alexei Marcoux (2003) argues that the shareholder-manager relationship is morally analogous to the doctor-patient relationship. Shareholders are also in a position of vulnerability. The decisions of the managers can cost them the whole of their investment and ruin them financially, yet shareholders do not have the same kinds of legal and institutional protections as non-shareholding stakeholders (employees, creditors, etc.). Therefore, managers have the same kind of special, fiduciary duty towards shareholders that doctors have towards patients. Accordingly, since the best interests of the patient should be the sole concern of the doctor, so too the best interests of shareholders should be the overriding concern of corporate executives.[1]

13.3 Denying the Derived-Positive Rights of Shareholders

The first way to reconcile Zero-Sum CSR with the rights of shareholders is to dispute these characterisations of the shareholder-manager relationship, and thus to mount pressure on the notion that shareholders have a derived positive right against corporate executives.

[1] In a similar vein Bruce Langtry (1994) describes shareholders as "residual risk bearers". Langtry explains: "they guarantee the performance of contracts, accepting the risk of net loss in return for entitlement to any net profit" (p. 438).

In their analysis of CSR, Marens and Wicks (1999) deny that shareholders "own" corporations, properly speaking. They also dismiss the related notion that the manager is the "agent" of the shareholder. Agency, Marens and Wicks argue, is "a highly specific two way relationship in which the principal can direct or override the agent and the agent can, under highly restricted circumstances, legally bind or create liabilities for the principal". In the shareholder-manager relationship "neither directional arrow holds". Executives have no obligation to submit to the specific preferences of shareholders regarding the management of the corporation, nor can they bind individual shareholders to contracts with third parties (Marens and Wicks 1999, p. 276).

Moreover, even if shareholders *do* own corporations, this might not carry the normative significance that Freidman and like-minded thinkers suggest. In other words, one might concede that the relationship is accurately described as "owner/agent", but question whether this is capable of generating the rights and duties that the primacy principle extends to shareholders and managers respectively. From the mere fact that B is an agent entrusted with A's assets, it does not straightforwardly follow that B is obliged to maximise the value of A's assets. Further argument is needed to bring us to that conclusion. As John Boatright says, "there is a logical gap . . . between the property rights of shareholders and the fiduciary duties of management" (Boatright 1994, p. 396). Now as we have seen, Goodpaster tries to bridge this gap by appealing to a "profit-maximising promise". It is not B's status as an agent, in and of itself, that makes profit his only legitimate end; it is B's implicit agreement to make profit his only end.

But is the profit-maximising promise fact or fiction? Clearly managers do not *explicitly* promise to maximise shareholder value, or sign a contract to that effect, so Goodpaster can only be referring to an *implicit* promise, understood by both parties without being explicated by either. However, surveys reveal that the expectations of shareholders do not accord with this view of the terms of the implicit shareholder-manager contract. The available evidence suggests that shareholders buy stock "with roughly the same expectations as those who make other financial investments", which is just that managers will consider their interests along with those of other constituents (Boatright 1994, p. 397).

Indeed the very *existence* of an implicit contract between shareholders and managers is a bone of contention. Writes Boatright:

> The lack of any face to face dealings between the two parties and the lack of any specific representations by management to individual shareholders further mitigate against any presumption that an implied contract exists. In short, the standard legal conditions for an implied contract are absent in the shareholder-management relation. (Boatright 1994, p. 298)

The notion that shareholders are uniquely vulnerable to the decisions and actions of managers might also be challenged. After all, shareholders elect the board, vote on resolutions, and can always dispose of unwanted stock (Boatright 1994, p. 396). Other "stakeholders" have little power by comparison. A typical employee can only change jobs with great difficulty, and local communities can do little if a company has been awarded a license to operate on the land they inhabit. Arguably, then, shareholders have just as much recourse to protect their interests as other stakeholders. Moreover, even if it is the case shareholders are uniquely vulnerable, perhaps more protective regulation is the answer. Making management the fiduciary of shareholders, responsible for maximising their interests exclusively, is not the only available solution to the problem of shareholder vulnerability (assuming there is such a problem).

If we take the primacy principle as given, the shareholder-manager relationship generates a fiduciary duty for management, and gives shareholders a derived positive right to have their interests maximised. Zero-Sum CSR is morally proscribed as an upshot. In this section I have sketched arguments in defence of Zero-Sum CSR which claim that the primacy principle misrepresents the shareholder-manager relationship, or exaggerates its normative significance. In the following section I outline an alternative strategy for defending Zero-Sum CSR. It claims that the primacy principle mischaracterises the relationship between managers and *non*-shareholders, or *understates* its normative significance.

13.4 Affirming the Derived-Positive Rights of Non-shareholders

Recall that the primacy principle states that (1) shareholders have a *derived positive* right against the management of their corporation, *and* (2) non-shareholders have no such derived positive right against the management of any corporation. The previous section focused on defences of Zero-Sum CSR that deny, or qualify, the first premise. In this section I look at defences of CSR that dispute premise 2. These arguments do not challenge the notion that shareholders have a derived positive right against executives; they simply insist that non-shareholders *also* wield some such right. This undercuts the idea that shareholders are entitled to have their interests *maximised*, or advanced exclusively.

Eugene Schlossberger's "dual investor theory" (1994) is a prime example here. Traditional shareholders contribute the "specific capital" that a company needs to pay for its machinery, labour, buildings and so on. But of course no modern business can prosper without the pre-existing knowledge created by government-subsidized education, without the monetary system, without the police and courts, without public infrastructure, and so on. Schlossberger calls this "opportunity capital". It is something to which a great many people contribute, most obviously through the payment of taxes. This contribution, Schlossberger argues, is simply another kind of investment, and every investor is entitled to a proportional return. It follows that a company that focuses exclusively on maximising profits for its "specific capital" shareholders is arbitrarily prioritising some investors over others. Opportunity capital providers are being denied their fair share of returns. An executive that promotes non-shareholder welfare through CSR, on this view, is simply responding to the contribution-based entitlements of another category of investors.

Robert Phillips reaches a similar conclusion via an alternative route. His key premise is that a commercial enterprise is a cooperative scheme that is geared towards producing benefits. The venture is fruitful in achieving this end because various parties make sacrifices for and contributions to it. The stakeholders of a company, no less than its shareholders, are participants in this cooperative scheme; they are "partners for the achievement of mutual advantage" (Phillips 1997, p. 64). Therefore it is only fair that stakeholders should be among the parties to whom the benefits of the cooperative scheme are distributed. In other words, the principle of fairness is violated where the goods generated by a mutually beneficial cooperative scheme accrue to only a subset of those that contribute to it, and this is what shareholder primacy effectively demands.

Clarkson shifts the emphasis from what stakeholders *do*, to what is done *to* them. Some stakeholders, Clarkson observes, are voluntary risk-bearers. They stand to lose something as a result of having invested something of value (Clarkson 1994, p. 5). This seems to cover both shareholders and the "opportunity capital" providers to which Schlossberger refers. But there are also those who are simply "placed at risk as a result of a firm's activities"; those upon whom the risks or externalities of business are foisted, without their voluntary assumption of those risks through personal decision or action. Clarkson suggests that these parties are properly counted as stakeholders with positive claims against the firm. The moral principle in play seems to be that it is unjust to make economic gains by exposing individuals to risk, without at least sharing the gains with the risk-bearers.

These arguments blur the line between shareholders and non-shareholders, but this is not the only way of attacking Premise 2. An alternative approach is to blur the line between the corporation and the state. Florian Wettstein, for instance, insists that corporations have become "quasi-governmental institutions" (2010), performing functions and wielding powers that were once the reserve of the state. With political power comes some measure of political responsibility; the quasi-governmental status of corporations obliges them to contribute to the promotion of social ideals and mitigation of social ills, says Wettstein. This is no longer a task for the state and the state alone. On this view, non-shareholders are to corporate executives what citizens are to government officials. Whether non-shareholders count as "investors" in any meaningful sense is irrelevant; their quasi-political relationship with the corporations in their midst gives them derived positive rights against managers.

Finally, there are social-contract-type arguments against premise 2 (Gibson 2000, p. 249). Suppose that we had to negotiate principles of corporate governance under a "veil of ignorance", where we know basic facts about the world but know nothing of our place *in* the world. Would it be rational for any negotiator to agree to a principle that reduces corporate governance to the maximisation of shareholder value? Presumably not, since once the veil of ignorance is lifted a negotiator might be unlucky enough to find that he/she lacks a share portfolio. Any prudent hypothetical contractors would thus endorse a stakeholder model of corporate governance, where the goods generated by business are distributed to a range of parties that affect or are affected by business activity. If the terms of some such hypothetical contract are taken to reflect the requirements of justice, as Rawlsian theorists maintain, then the demands of justice *in business* are best captured by stakeholder theory. Stakeholders, on this view, have positive rights against corporate managers because all parties would rationally consent (or do "hypothetically" consent) to some such arrangement.

The common feature of these arguments is that they focus on the relationship between managers and *non*-shareholding stakeholders. They characterise the relationship in such a way that it generates derived positive rights for the latter, contravening premise 2. The corollary is that shareholders cannot legitimately demand *exclusive* fiduciary concern. Thus management does not infringe upon the rights of shareholders by deviating from the goal of profit-maximisation.

13.5 CSR and Natural Positive Duties

As we have seen, the primacy principle contains an implicit proviso: shareholder value is to be pursued within the constraints set by the *natural negative rights* of non-shareholders (premise 3). That is, non-shareholders must not be harmed or unjustly interfered with. This much is accepted by even the staunchest Friedmanite. Once this point is conceded, however, I think a further concession must be made on pain of arbitrariness, or even incoherence.

Corporate executives are obliged to honour the natural negative rights of non-shareholders because these are rights that we all have simply in virtue of our humanity – the absence of a special relationship between non-shareholders and managers has no bearing on their moral force. By the same token, however, non-shareholders also retain any natural *positive* rights that they have simply in virtue of their common humanity; rights that they have to the assistance of others independently of their special relationships and transactions. Given this, to accept that corporate executives must always respect natural *negative* rights, without accepting that they must also work within the constraints set by natural *positive* rights, is entirely arbitrary. On any coherent formulation of the primacy principle, shareholders are entitled to have their economic interests maximised only within the constraints set by the natural rights of non-shareholders, both negative *and* positive.

The question that now arises is: Are there any circumstances where a corporation, by failing to assist or promote the welfare of a non-shareholder group, violates the *natural positive* rights of that non-shareholder group? I think that there are. To see this, let us distinguish between two kinds of "failure to aid".

First, imagine a philanthropist deciding on where he should donate his money this financial year. Despite knowing that there are malnourished children in South-America that need help, he decides to donate to starving children in Africa instead. We feel that this is perfectly acceptable. The philanthropist has a duty to aid those in need, but this duty is – in Kantian parlance – *imperfect*. That is, the philanthropist has the discretion to choose the kind of aid, the amount of aid, the timing of the aid, and the identity of the recipient (Buchanan 1987, p. 558; Schaefer 2007). No individual or group can rightfully demand that the philanthropist fulfil his duty to aid *in their direction* (Shue 1988). And so the philanthropist can legitimately choose to bypass the malnourished South Americans in favour of malnourished Africans. He has the presumptive discretion to choose who he helps and when he helps them.

But it is easy enough to think of cases where this latitude seems to lapse – where the presumptive discretion is defeated. Recall Peter Singer's famous example (Singer 1972). A pedestrian wanders by a pond and sees a child drowning. All he needs to do to save the child is to reach into the water. There is nobody else around, and the only cost he will sustain is that his brand new suit will be ruined. In these circumstances, surely the passer-by cannot defend his failure to act by insisting that he is free to choose how and when he discharges his positive duty to help others. The duty here is a *perfect* one; it specifies the recipient of the aid and the form that that the aid takes.

Where the duty to aid is *imperfect*, failure to aid does not violate anybody's positive right to receive assistance. The malnourished South Americans may have a human right to adequate sustenance, but they do not hold this right *against the philanthropist*. They cannot rightfully demand that he be charitable *towards them* rather than towards others. On the other hand, where the duty to aid is *perfect*, failure to aid *does* violate somebody's rights. The drowning child has a positive right to assistance, and the child holds this right *against the pedestrian*. Importantly, the child has this right independently of any special relationship or prior transaction with the pedestrian. The positive right is in this sense a *natural* one. Thus the pedestrian violates a *natural positive* right by failing to rescue the child.

Now what exactly justifies our contrasting attitudes towards these two kinds of cases? The philanthropist is allowed to bypass the needy South Americans, but the pedestrian may not similarly bypass the drowning child. Why is this? Suppose the pedestrian, rather than saving the drowning child at the expense of his suit, would prefer to make a donation equal to the value of his suit to charity which saves the lives of children elsewhere. Depending on whether the suit is from Louis Vuitton or from K-Mart, this may well be enough to save several children, or even several dozen. Why is this not his prerogative? How is it that the needs of the drowning child create a *perfect* duty for the pedestrian, while the needs of the starving South Americans create only an *imperfect* duty for the philanthropist?

The answer seems to lie in the "moral determinacy" of the situation that obtains in the drowning child case and others like it (Igneski 2006). When it comes to the malnourished South Americans, the help they need could come from any number of sources. The situation does not specify which individual or group must act. Nor does it specify what exactly must be done or the time that it must be done by. The drowning child case is different in all three respects. The situation singles out an agent who must act; fixes what must be done to solve the problem; and specifies a time at which (or by which) the necessary act must be carried out. Unless the passer-by reaches into the water, and unless he does so right now, the possibility of the child surviving is foreclosed. This is what is meant by "morally determinate".

When the conditions of moral determinacy obtain, the situation confronts a potential rescuer in a way that a morally indeterminate situation does not, and the latitude that usually attends our natural positive duties of aid gives way in this confrontation. The imperfect duty becomes *perfect*. Some identifiable individual or group can then rightfully demand that they be the beneficiaries of the duty's fulfillment. If they do not receive the assistance of the duty-bound agent, their natural positive rights are violated.

The question we need to ask is: Are there any circumstances where the shareholders of a company, like Singer's pedestrian, owe a *natural*, *perfect*, *positive* duty to some specific non-shareholder group? For the answer to be yes it would have to be the case that:

1. The non-shareholder group is in serious need. The pedestrian in Singer's thought experiment must sacrifice his suit to save the child's life, but clearly he need not make any such sacrifice simply to fish out a cherished toy or gadget that the child has dropped into the water. The duty to aid comes into effect only where basic needs or interests are at stake; *and*
2. The shareholders – via the management of the corporation – are able to render the necessary assistance without sustaining too high a personal cost

In addition to this, the conditions of moral determinacy must obtain:

3. If the non-shareholder group does not receive a certain kind of assistance by a certain time, it will be too late; *and*
4. Nobody else – apart from the shareholders via the management of their corporation – is in a position to render the necessary assistance within the required time span.

In any such scenario we could plausibly say that the situation singles out the shareholders of the company as the duty-bound agents, specifies what must be done, the time that it must be done by, and who it must be directed at. One might perhaps think of a pharmaceutical company that has developed a new drug which can cure a life-threatening disease in an impoverished country; where the company can make the drug freely or cheaply available and thus save scores of people in that country; where the company can do this without thereby imposing prohibitive costs on its shareholders; and where no other company, government, or NGO is similarly in a position to cure the disease.

In such (perhaps rare) cases, we can I think say that a certain group of shareholders owes a certain group of non-shareholders a natural, perfect, positive duty. Accordingly, the non-shareholders can rightfully demand to be assisted by the shareholders, or to have certain benefits conferred upon them, regardless of whether there are any prior commitments, relationships or transactions. By failing to deliver, the shareholders default on a perfect positive duty, which constitutes a positive rights violation against the non-shareholders.

The predicament of the *management* in charge of the shareholders' company seems to be this: It can initiate a CSR campaign which is geared towards conferring upon the non-shareholders the benefits to which they are entitled – in which case management facilitates its shareholders' discharge of their perfect duties, or fulfils those duties on its shareholders' behalf; *or* management can refrain from initiating any such CSR campaign with the company's resources. In this case, management facilitates its shareholders' violation of natural positive rights, or violates natural positive rights on their behalf.

Even if we accept premises 1 and 2 of the primacy principle – that is, even if we concede that *only* shareholders have a *derived* positive right against managers – the fact remains that shareholders cannot legitimately demand that managers trample on the natural rights of non-shareholders in the pursuit of profit. Therefore shareholders do not have grounds for complaint, in the above kinds of cases, when their managers engage in CSR in order to fulfil the natural positive rights of non-shareholders. In these circumstances, zero-sum CSR is consistent with the rights of shareholders even if they do have a privileged relationship with management which entitles them to exclusive fiduciary concern.[2]

Conclusion

According to the primacy principle, the special rights generated by the shareholder-manager relationship present a moral barrier to CSR activity. Specifically, shareholders can rightfully demand that CSR only be used as a means to shareholder value ("instrumental" or "shared-value" CSR), and never in its zero-sum variety where shareholder interests are compromised. In this paper I have distinguished three argumentative strategies for reconciling even zero-sum CSR with the rights of shareholders.

But of course there are other arguments against CSR which make no reference to the status or entitlements of shareholders, including:

1. *The wealth-creation argument*: an economy in which corporate executives focus exclusively on profit-maximisation for shareholders creates more wealth for the collective and is thus in everybody's best interests. In other words, prioritising shareholders produces the greatest happiness of the greatest number, while consciously striving to produce the greatest happiness of the greatest number through CSR subverts that very outcome.
2. *The expertise argument*: Promoting social welfare is something the average business manager has no special aptitude in. His/her attempts at CSR are thus likely to prove ineffective, or even to backfire. The manager,

(continued)

[2] Tom Campbell (2009) rightly points out that even if people do have natural welfare rights, it does not follow that corporations have the corresponding obligation to fulfil those rights. Campbell suggests that this may in fact be unfair and inefficient way of distributing wealth (pp. 556–557).

writes Friedman, "is presumably an expert in running his company–in producing a product or selling it or financing it", but he has no expertise when it comes to addressing social ills (Friedman 1970). There has been some empirical research which lends support to Friedman's worry (Margolis and Walsh's paper "Misery Loves Companies" (2003) being a noteworthy example here).

3. *The Democracy Argument*: Says that CSR is undemocratic – indeed anti-democratic – in the sense that it invests governmental power in persons who have no democratic mandate. The executive who uses corporate finances to engage in CSR is providing something akin to a civil service, despite not going through the same processes or being subject to the same democratic controls as a civil servant.
4. *The accountability argument*: Weeding out incompetent and corrupt executives becomes difficult if they can always avail themselves of the excuse that their actions benefited some 'stakeholder' group or another. As Bucholz and Rosenthal put it, "when a manager serves two or more masters, he is in some sense freed from accountability to all and is accountable to none" (Buchholz and Rosenthal 2004, p. 145). Thus in order to preserve executive accountability, managers should be required to adhere exclusively to the task of maximising shareholder value.

Admittedly, none of the argumentative strategies I have outlined put a dent in these objections. Nevertheless I hope to have at least shown that one common argument against zero-sum CSR – that which says it violates the rights of shareholders – can be resisted in a variety of ways, not all of which have been fully appreciated.

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Chapter 14
The Importance of *Phronesis* to Corporate Social Responsibility

Regina Queiroz

Abstract Accepting that corporate social responsibility (CSR) demands that when deliberating about business any economic agent ought to take into account the interests of all stakeholders, i.e. clients, consumers, suppliers, employees, among others, CSR challenges economic rationality, understood as a maximization of individual utilities. CSR is best described under the Aristotelian conception of rationality, i.e. *phronesis*. Actually, *phronesis* is the practical wisdom that relates individual interest with the collective. From this conception of rationality the main claim of CRS – to consider others' interests in economic deliberation – not only follows necessarily the reasoning of any business agent, but also coheres easily with moral theory if this is defined from an Aristotelian perspective rather than from a utilitarian or deontological perspective.

Roughly, if utilitarianism implies the maximization of well-being of the majority, it is ethically acceptable to discriminate some stakeholders in order to increase the well-being of the majority (e.g. employees vs. clients). On the other hand, besides the well-known issue of the possibility of comparison utilities, utilitarianism does not offer a rule to choose utilities of equal value. From a deontological perspective not only is it hardly acceptable to link corporate social responsibility with profit – ethical claims are not compatible either with the consideration of consequences of our practices or non moral considerations – but also Kantian deontology does not offer a rule to decide about competing duties. From moral deontology corporate agents can face the dilemma whether to increase profit and neglect CRS or to be socially responsible and to ignore profit.

Facing these difficulties, I argue in my paper that not only does CSR cohere better with the Aristotelian conception of morality, grounded in *phronesis,* than with others normative ethical theories, mainly utilitarianism or Kantian deontology, but also that under Aristotelian ethics CSR is at the heart of an agent's practice in corporations.

R. Queiroz (✉)
Instituto de Filosofia da Linguagem (IFILNOVA), Faculty of Social and Human Sciences and Nova Business School, New University of Lisbon, Lisbon, Portugal
e-mail: queiroz.regina@gmail.com

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14.1 Introduction

Beyond the ethical, altruistic, or strategic nature of corporate social responsibility (hereinafter CSR) (Lantos 2002), CSR demands that when deliberating about business, any economic agent ought to take into account the interests of all stakeholders (e.g. clients, consumers, suppliers, employees, among others). Accordingly, since *phronesis,* the Aristotelian conception of reason is the practical reason that always relates individual interest with the collective, the main claim of CRS – to consider others' interests in economic deliberation – follows necessarily the reasoning of any business agent. CSR is, then, described under the Aristotelian conception of rationality better than under utilitarian or Kantian concept of reason.

Roughly, utilitarianism implies the maximization of well-being for the majority. Based on this principle, it is ethically acceptable to discriminate against some stakeholders in order to increase the well-being of the majority (e.g. employees vs. clients). Another feature of utilitarianism is that it offers no rule on how to choose between utilities of equal value. From a deontological perspective it is hardly acceptable to link CSR with profit. Also, Kantian deontology offers no rule about how decide about competing duties, norms and interests. From the Kantian conception of rationality, corporate agents then face the dilemma of whether to increase profits, satisfy their personal interests, and neglect CRS, or to be socially responsible and ignore profit and override their personal interests.

Facing these difficulties, I argue that CSR not only challenges economic rationality, understood as a maximization of individual utilities, but also aligns better with the Aristotelian conception of rationality, grounded on *phronesis,* than with other practical reasons belonging to normative ethical theories, mainly utilitarianism or Kantian deontology. I also argue that under Aristotelian ethics CSR is at the heart of an agent's practice in corporations.

I assume that as "creatures of societies" (De George 2010: 198) corporations have responsibilities and that a socially responsible corporation "is analogous to the socially responsible individual" (De George 2010: 200). I also assume an instrumental as well as an integrative conception of CSR (Garriga and Melé 2004), i.e. a conception that dissociates economic responsibilities, the pursuit of profits, from social responsibilities toward societies. This responsibility is seen as a duty of primary[1] (e.g. investors, customers, suppliers, employees, and managers) and secondary[2] (e.g. governments and communities) stakeholders.

Considering the main aim and the assumptions stated above, the paper has two parts. In the first we analyze the description of CSR under the economic, utilitarian, and Kantian conception of rationality. In the second we present *phronesis* as an

[1] "A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern" (Clarkson 1995: 106).

[2] Secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation but they are not engaged in transactions with the organization and are not essential for its survival" (Clarkson 1995: 107).

alternative conceptualization of rationality that fits better with CSR than do the utilitarian and Kantian, showing that this conception of reason is at the heart of corporate social responsibility.

14.2 What CSR Is?: The Challenging View of Profit Maximization of Shareholders

Although the debate about CSR goes back to the seminal book *Social Responsibilities of the Businessman* (Bowmen 1953), whether it is a field (Lockett et al. 2006) or a concept, CSR still has a complex, ambiguous, and controversial meaning (De George 2010; Garriga and Melé 2004; Knippenberg and Jong 2010; Lockett et al. 2006; Taneja et al. 2011; Windsor 2013). Among the numerous categories (Carroll 1979; Pinkston and Carrol 1996; Schwartz and Carroll 2003), and theories of CSR (Garriga and Melé 2004; Taneja et al. 2011), the integrative theory of CSR "looks at how business integrates social demands" (Garriga and Melé 2004: 57). This integrative approach is in this article related to stakeholder management, which demands that when reasoning about business, managers ought to take into account the interests of all stakeholders (Freeman et al. 2007, 2008; Lantos 2002). More accurately, although executives of corporations play a special role in accomplishing CSR, the integrative view sustains that every stakeholder has a personal social duty toward all the other stakeholders (Bowie 1991). Defining responsibility as having a duty or obligation (Vos 2003), CSR therefore challenges economic rationality, understood as a maximization of self-interest (Smith 1776) or maximization of utility (Von Neumann and Morgenstern 1953).[3]

From the perspective of self-interest maximization and when facing several courses of action, economic agents ought to choose the one that promotes the best self-interest (Smith 1776; Weirich 2004). Therefore, individuals' goals do not include any social concern. Moreover, social well-being can result whether as the consequence of an invisible hand (Smith 1776), from which the sum or aggregation of individual selfish goals can contribute to social welfare, or as the consequence of political legislation (Friedman 1970; Levitt 1958). Although Smith's (1776) economic thought points to an enlightened self-interest, the ideal of maximization of personal interest only contingently includes any social concern.

From the perspective of utility maximization (Von Neumann and Morgenstern 1953), this maximization does not to reduce utility to self-interest. Maximization utility can also include social goals (Sen 1987, 2009; Weirich 2004 – e.g. concerns of fairness (Akerloff and Kranton 2010) and commitments (Sen 1987, 2009)).

[3] Levitt (1958) clearly acknowledged that challenge when, against the idea that under corporate social responsibility "(. . .) profits must be merely adequate, not maximum" (Levitt 1958: 42), he proclaimed that "the business of business is profits" (Levitt 1958: 42).

Nevertheless, beyond the paradoxes of economic rationality, which evidences that instead of leading to collective welfare, economic rationality can lead to collective "worst-fare" (e.g. the prisoner's dilemma (see Campbell and Sowden 1985; Gauthier 1985; Hardin 1968; Harsanyi 1977; Sen 1977, 1987, among others)), corporations' translation of this conceptualization of rationality sustain that the main responsibility of corporate economic agents is to increase the profits of shareholders (Friedman 1970; Levitt 1958). Actually, since shareholders are the owners, and "a corporate executive is an employee of the owners of the business" (Friedman 1970: 51; Jensen and Meckling 1976; Levitt 1958), corporate executives only have fiduciary responsibilities toward shareholders. Corporate social responsibility therefore consists of increasing the profits of shareholders through rational maximization shareholders' interests (Friedman 1970; Jensen and Meckling 1976; Levitt 1958).

It is the case that any social concern is transferred to society through an invisible hand or by political legislation (e.g. the prohibition of sexual discrimination), the maximization of shareholders' interests cannot violate that prohibition. Under the lack of legislation, the maximization of individual well-being does not allow to reconcile the maximization of shareholders' interests with the interests of others stakeholders (e.g. the case of the catalogue of IKEA in Saudi Arabia).[4] In light of the lack of any political legislation against non-discrimination, IKEA, a Swedish corporation, erased women in their catalogues in Saudi Arabia. The maximization of profits for shareholders justified discrimination against women, which was severely criticized by European consumers. Facing this criticism, IKEA withdrew the catalogues and apologized to its clients.

Under shareholders' profit maximization economic agents ought to respect political and legal norms (e.g. the prohibition of workplace sexual discrimination). Accordingly, that maximization is, at least, compatible with an economic and legal (Carroll 1979; Pinkston and Carrol 1996; Schwartz and Carroll 2003) as well as a minimalist, instrumental, or narrow conceptualization of CSR (Beauchamp et al. 2008; De George 2010; Garriga and Melé 2004). Actually, if "law represents what the society demands" (De George 2010), the legalist and economic corporate responsibility can have a social content. This social content is, however, a 'side-effect' of the social nature of laws and it is not positively related to the positive social claims of individuals, groups, or the society as a whole (e.g. environmental concerns).

[4] www.theguardian.com/. . ./ikea-apologises-removing-women-saudi-arabia-catalogue (accessed on 23 November, 2013).

14.2.1 Some Limitations of Utilitarian Rationality

Utilitarian ethical theory shares with economic rationality the rational rule of maximization. Unlike economic reason, however, classical utilitarian rationality depends on the claim of maximization of the well-being or the happiness of the majority (Bentham 1789 II, IV; Mill 1863; Mirrlees 1982). Based on the principle of utility, "that property in any object, whereby it tends to produce benefit, advantage, pleasure, good or happiness" (Bentham 1789, I, III), any economic agent will always choose the interests that increase the sum of interests of the stakeholders. Classical utilitarianism offers a criterion to choose from among competing interests, the well-being of the majority, as well as conceptualization of reason that allows choosing from among disparate utilities. Accordingly, since CSR demands considering the interests of stakeholders, utilitarian rationality seems coherent with social responsibilities of corporations.

Being responsible toward the majority of the stakeholders does not mean necessarily to be responsible to all stakeholders. Returning to the case of the IKEA catalogue, utilitarian reasoning is compatible with the decision of erasing women from the catalogue. This decision could be justified on the majority of stakeholders' interests (shareholders, consumers, employees). Actually, managers could decide that erasing women from the catalogue would increase the well-being of the majority, even that of the erased women, including the consumers' well-being aggregate group. For example, taking women out of the catalogue does not prohibit them from obtaining the catalogue and buying furniture provided by Ikea. In addition, it would also allow keeping jobs for employees and providing profits to shareholders. Moreover, given Saudi political, ethical, and cultural values, it is not evident that Saudi women would have any interest in appearing in the catalogue.

The case of Ford Pinto, in which ruptured fuel tanks led to a number of fatal fires, offers a more tragic aspect of utilitarian reasoning. When Ford executives weighed the cost of a recall against prospective settlements with accident victims, they realized that it would not avoid the well-being of the majority (clients, employees, shareholders). Since outside of the corporation they are *mostly responsible toward the majority of consumers*, and the fatal fires would occur with only a few clients, the loss of life among a minority was rationally (and ethically) justified. Consequently, based on utilitarian reasoning, and not considering the relationship between utilitarianism and relativism (Lantos 2002), the prevalence of economic value maximization (Renouard 2011), and the individualistic scope of utilitarian calculus – "It is the aggregation of these individual utilities that utilitarians say must be maximized" (Velasquez 2000: 348) – CSR avoids neither the well known ethical criticism of neglecting of rights, nor the sacrificial nature of utilitarian calculus (Lantos 2002; Rawls 1971; Solomon 1993). Based on utilitarian reasoning, CSR also does not avoid the ethical criticism of reducing or ignoring the importance of freedoms (Sen 1990) or even the burden of immorality (Lantos 2002). Actually, the IKEA catalogue was something of an "accomplice" of the lack of some political freedoms of women in Saudi Arabia, and the Ford executives weighing the cost of a recall against prospective settlements with accident victims implied the sacrifice of rights.

14.2.2 The Impartial, Benevolent, and Spectator Observer

In addition to the neglecting of rights and the sacrificial nature of utilitarian calculus, utilitarian reasoning is also related to the hypothesis of the impartial, benevolent, and spectator observer. In *Utilitarianism* (1863), Mill stresses that the claim of happiness, the utilitarian standard, requires that between "his own happiness and that of the others, utilitarianism requires him to be as strictly impartial as a disinterested and benevolent spectator" (Mill 1863, 2.18.5). Although there is a difference between Hume and Smiths' description of the impartial observer – Smith's impartial observer is not necessarily a disinterested and uninvolved person (Sen 2009) – the utilitarian description of impartial observer follows mostly Hume's conception of impartiality (Sen 2009). From this perspective the hypothesis of the impartial observer supposes that corporate agents ought to be disinterested. Accordingly, he or she can rationally balance *the majority* of the considering interests only if his or her own interest is ignored. Otherwise, the calculus of overall utility will be biased. Therefore, CSR under the utilitarian conception of reason depends on a selfless conception of rationality.

As selfless rationality, the utilitarian conception of reason does not offer any suitable solution to face stakeholder groups that behave based only on private interests. For example, if employers do not provide safe work conditions to employees, they should not claim for safer work conditions. Based on their interests as a private group, they cannot claim safer conditions through impartial reasoning.

Since no stakeholder can claim for the safeguard of its self-interest, the dissociation between personal interest and social responsibility seems, then, highly controversial from CSR theory and practice. Indeed, consumers, employees, managers, and any corporate agent behave in a responsible manner only if they ignore their own interest. The safe work conditions should be, for example, a social concern of employers, who, in turn, should be disinterested in looking for profit. So, as personal interest seems necessarily to be incompatible with any social concern or can override social interest, under the utilitarian quest of impartiality personally interested persons are not socially responsible, and socially responsible persons are not personally interested. Consequently, the claim for their own interests (e.g. consumers, employees, and managers), means that they are reasoning as selfish agents and CSR would be delegated to an impartial spectator, external to the primary (e.g. managers, consumers, suppliers) and secondary stakeholders (e.g. the society or the government). The delegation of corporate responsibility external to the relationship between stakeholders undermines not only the meaning of CSR as a *duty* of every stakeholder, but the rational basis of CSR. As government and society are also secondary stakeholders, we should appeal to a non-social or non-governmental impartial spectator. Therefore, CSR would, at least, be based on faith.

We acknowledge that selfless consumers could boycott the corporations that do not provide safe work conditions, as occurs in some corporations that exploit child labor, or sell milk to-non literate women in underdeveloped countries (e.g. Nike in

1991 and Nestle in 1973, respectively (Velasquez 1992)). In this case, it suffices that a stakeholder group could reason under impartial reason (e.g. the consumers) to ensure corporate social responsibility. Nevertheless, accepting that all the stakeholders would reason under an impartial concern, and the rule of reasoning would be the well-being of the majority, it would be hardly to choose safe work conditions as the greater social utility. Workplace accidents, such as the Kader toy factory fire[5] in Thailand, or the building collapse in Dacca, Bangladesh,[6] illustrate that the utilitarian calculus can dispense with safe work conditions.

One may sustain different content of stakeholders' responsibilities inside (De George 2010) and outside corporations. From this perspective managers are responsible to the workers, and workers to the jobs for which they are hired (De George 2010). Employees' safe work conditions are then a responsibility of managers. Nevertheless, if under the utilitarian rule managers' reason from an impartial point of view, it also would be hardly to choose safe work conditions as the greatest social utility. Accidents such as the Kader fire, Dacca building collapse could hardly be prevented. Moreover, under lack of political legislation that compel corporations to safeguard the physical and psychological integrity of workers (as is the case in several underdeveloped countries (Bowie and Arnold 2008)), the prevalence of economic value maximization in utilitarian impartial calculus also undermines CSR.

Admitting, however, that utilitarian impartial calculus could be compatible with the broad perspective of corporate social responsibility, utilitarian rationality does not offer a suitable criterion to: (a) rank interests; (b) choose among interests with the same utility. Considering the well-known controversy about the rationality of comparison of utilities (e.g. Hsieh 2007; Robbins 1945; Sen 1997, 2009; Simon 1983), and accepting the criticism against interpersonal comparisons of utilities, economic agents are condemned either to irrationality or to the incapacity of deliberation. Condemned to irrationality because economic agents will choose arbitrarily; condemned to the incapacity of deliberation because if they did not wish to choose arbitrarily, they would feel like Buridan's ass. Buridan's ass describes a situation demonstrating the impracticality of decision-making using pure reason, especially a situation involving two equal choices. For example, a hungry and thirsty man cannot decide whether to slake his thirst first or his hunger, and dies.[7] Similar to the hungry and thirsty man, the utilitarian agent led by the utilitarian conception of impartial rationality can jeopardize stakeholders' duties.

[5] www.wsws.org/en/articles/2003/05/kade-m16.html

[6] www.nytimes.com/.../report-on-Bangladesh-building-collapse-finds-widespread-blame.html

[7] http://wordsmith.org/words/buridans_ass.html

14.2.3 Some Limitations of Kantian Practical Rationality

In order to satisfy social concerns, some authors have advanced a Kantian basis for CSR (Bowie 1991; Arnold and Bowie 2008). In Kantian moral philosophy human action is moral only if its principles or laws, necessary and universal, are founded on pure human practical reason, and not on experience. The function of pure practical reason is to establish the principles that should prevail, deriving the actions from the law. Practical reason determines, then, the human will (faculty of determining itself in accordance with the representation of certain laws) to act according to its representations a priori.

Given the nature of the human person – both rational and sensible – the will is not absolutely good, since what it does is always in accord with reason. Therefore, the determination of the will by moral law is a constraint and the representation of a principle or law (concept of unconditional necessity) is an imperative. Consequently, the moral law appears in the form of imperatives: categorical if it will be determined solely by reason, and the action is seen as an end in itself; hypothetical if the will is determined by the representation of the substance of the action and if the action is understood as a means to obtain an end.

In *Grundlegund zur Metaphysik der Sitten* (1785) Kant proposes three formulations of the categorical imperative: act in such a way that your actions may be erected into a universal law (Kant 1785, BA 52, 53), act in such a way that your actions may be erected into a universal law of nature (Kant 1785, BA 52, 53), act in such a way as to treat humanity in your person and others as an end and not a means (Kant 1785, BA 66, 67). The third formulation is perhaps the one that best reflects the essence of Kantian morality, not only because it clarifies the distinction between the categorical imperative and hypothetical imperative, but also because it reveals the intentionality of the categorical imperative: when the human subject acts in accordance with this imperative he or she is raised to the dignity of a person, being understood as an end in itself and not as a means.

Since Kant's practical reason obliges treating any economic agent as an end in himself or herself, respecting the humanity of stakeholders (Evan and Freeman 1993) as well as their equal dignity (Bowie 1991; Arnold and Bowie 2008), it seems that rational deliberation of any economic agent can align with corporate social responsibility. Actually, managers will not deceive their shareholders, clients, and employees, as it happened with the behavior of Enron's CEOs and CFOs, such as Andrew Fastow, Jeffrey Skilling, and Kenneth Lay (Collins 2006).

In addition to managers, a broad conception of CSR is no less demanding to clients of corporations, as well as consumers. Accordingly, based on the Kantian rational categorical imperative, clients would not deceive companies, as frequently occurs in their financial relationships with banks and insurance companies. Similarly, and in an economic globalization era, responsible consumers following Kantian practical rationality would avoid consuming products manufactured in sweatshops of developing countries. Actually, since it is frequently based on child labor and unsafe work conditions (Arnold and Bowie 2008); it could be argued that production does not respect human dignity of persons.

However, the deontological nature of Kantian practical reason also faces some weakness. The understanding of persons as ends in themselves hardly allows that economic agents can also calculate the interests of stakeholders. Calculating interests, whether related to individuals or groups, demands a hypothetical imperative, and implies treating persons as a means. Moreover, if profit is one of the main interests of business, from the Kantian conception of rationality corporate agents can then face the dilemma of increasing profit and neglecting CSR, or being socially responsible and ignoring profit. Although some social corporate decisions excluded profit (e.g. "3M's decision to [curtail] its pollution despite economic loss" (Schwartz and Carroll 2003: 515), Merck developing *pro bono* Mectizan, a drug to cure river blindness and distributing it in developing countries (Bollier and Weiss 1991), social responsibility of corporations is not necessarily incompatible with profit. Otherwise it would be confused with charity or philanthropy and would also corroborate the arguments of Friedman (1970) and Levitt (1958) against corporate social responsibility, mainly the illegitimate limitation of shareholders' search for profits. Actually, the demands of social responsibility are also framed by economic responsibility, based on the quest of increasing profit. Social claims of CSR ought not to override one of the main aims of economic activity.

However, as the Kantian conception of practical rationality does not allow considering interests, it offers, at best, a criterion to calculate interests, i.e. to consider *equally* stakeholders interests (Freeman 1994; Lantos 2002; Arnold and Bowie 2008). As persons are seen as ends in themselves, stakeholders' interests deserve equal respect. Nevertheless, the principle of equal respect does not offer a criterion to choose between *competing and conflicting interests,* as well as to decide among *competing duties* (Lantos 2002). A corporate manager will comply with those duties unequally or comply with only one of them. At worst, the corporate manager would behave as Buridan's ass, and comply with none of them.

Kantian practical reason also does not offer a criterion for dealing with conflicting rules and does not allow for exceptions (Crisp and Slote 1997; Staveren 2007). Since the increasing global scope of economic activity demands a greater effort to reconcile social competing rules, practical deontological reason cannot help stakeholders, in general, or managers and shareholders, in particular. For example, when dealing with a religious norm followed by consumers, such as respecting a sacred tree (e.g. de Neem tree (Werhane 2008)), or following the norm of increasing the shareholders profits, Kantian deontology does not offer a criterion to choose between them.

Finally, the claim of universal impartial duty, as in utilitarianism, can lead to the defeat of corporate social responsibility. Accordingly, CSR hardly can be a feasible concern under Kantian practical rationality. In other words, since CSR is related to competing duties, norms, and interests, as well as being an instrumental calculation, Kantian practical reason is not a suitable reason for CSR (Altman 2007; Sollars and Englander 2007).

14.3 The Importance of *Phronesis*

The Aristotelian concept of practical rationality, *phronesis*, aligns better with CSR than does the Kantian or Utilitarian conception of rationality. Recall that the nature of rationality underlying CSR is a conception in which any individual agent ought forcibly to take into account others' interests. Nevertheless, as we have seen in selfish maximization of interest, as well as in the Kantian or Utilitarian conceptualization of reason, this consideration is highly controversial from a rational point of view.

The Aristotelian conception of practical rationality or *phronesis* seems to offer a suitable way of reasoning that allows any economic agent to rationally consider all interests. Why does this description of *phronesis* offer a suitable way of reasoning for CSR?

14.3.1 Phronesis Relates Private to Social Interests

Phronesis, prudence, wisdom, or practical wisdom, is an intellectual virtue of the calculative faculty of the soul. This calculative faculty "contemplate[s] those things which admit variation" (Aristotle 1999, 1139a 9-11)), such as action, contrary to the scientific part of the soul, which contemplates the first and foremost invariable principles. The calculative faculty of the soul corresponds to our practical reason, a scientific [part of the soul] to our theoretical reason. *Phronesis* is therefore the excellence of reasoning of our practical reason, which is the reason that deliberates about human action. As Aristotle (1999) distinguishes intellectual from moral virtues or virtues of character – roughly defined as a state in accord with the correct reason and as a habit of choosing the relative mean – prudence is then the intellectual virtue or the correct reason that guides moral virtues to always choose the relative mean in accordance with happiness.

The moral and intellectual virtues of *phronesis* have different tasks: (a) "moral virtue enables us to achieve the end" (chosen by desire) and "makes the goal correct". (Aristotle 1999, 1145a 7, 5, 1144a 6, 10, 1144a 10). The correct goal ought to be in accordance with the final end or happiness, which is the activity of reason followed by virtue, and; (b) "prudence makes us adopt the right mean to the end" or "makes the things promoting the goal [correct]." Aristotle 1999, 1145a 7, 5, 1144a 6, 10, 1144a 10. The excellence of the rational part of the soul *prescribes* the right mean to the end chosen by desire. Prudence is then *prescriptive* because it commands or prescribes what "we ought to do or not to do." Aristotle 1999, 1143a 10, i.e., it commands or prescribes what means are allowed or forbidden to attain our ends.

Ethical practical reason, or *phronesis*, commands persons to relate their personal well-being with that of others. Actually, as a *virtue, phronesis* is the excellence of practical reason, because it always supposes the search for the just means among competing interests. Pericles is the example of a prudent person because he belongs to the group of persons that "are able to study what is good for themselves and for human beings (. . .)". (Aristotle 1999, 1140b 8). Looking for the right means stresses the link between what is good for human beings and for personal interest. Looking for the right means does not then, imply any impartial reasoning, i.e. a selfless reason, as happens in the utilitarian and Kantian conceptualization of rationality, nor a selfish reason, as is sustained in the classical or neo-classical economic concept of rationality.

Therefore, not dissociating private interests from collective ones is one of the great advantages of Aristotelian rationality relative to Kantian deontology and utilitarianism. Actually, when reasoning under *phronesis*, stakeholders are simultaneously weighing their personal and their collective interests. Dame Anita Roddick, founder of Body Shop International, can be seen as the example of a prudent business woman who simultaneously chose what is good for herself and for human beings. In reality, when she opened a soap factory in Easterhouse, she wanted to make profits for herself and at the same time provide the best pay, and the best working conditions for her employees. She also wanted to sell safe products to her consumers and to put 25 % of the profits into the community. Dame Anita Roddick clearly integrated into her personal calculation the interests of consumers, employees and members of the community that allowed her to "make money", promoting, then, happiness. Ben & Jerry's (Lager 1994) and Malden Mills (De George 2010) are also corporations led by prudent business persons who simultaneously chose what is good for themselves and for customers, suppliers and communities.

14.3.2 Phronesis Is a Communal Way of Reasoning

Since rational deliberation demands finding the relative mean within us in order to take into consideration the relative mean between the individual self and the way other beings would respond in the same situation, *phronesis* is a collective way of reasoning or a communal reasoning (Queiroz 2012). This communal reasoning implies that "*we enlist partners* (. . .) on large issues when we distrust our own ability to discern [the right answer] (. . .)" (Aristotle 1999, 1112b 13-14, emphasis added). It is not by chance that Aubenque (1963) stresses that the word deliberation (*bouleusis*) comes from (*boule*), which in Homer designates the Council of Ancients, and in Athenian democracy, the Council of Five Hundred.

This communal way of reasoning means, then, that CSR is not only a collective endeavor, but also demands a collective reasoning, which allows overcoming the well-known difficulty of balancing competing interests by managers or executives (Heath 2006). Indeed, although *enlisting partners* is a necessary, but not a sufficient condition, to act on the basis of *phronesis* – we can enlist partners to discern an unethical answer to a situation (e.g. the case of Enron) – social problems faced by corporations are easier solved by a communal reason. In other words, it is easier to consider the interests of every stakeholder if managers in corporations enlist customers, suppliers, shareholders, and the community as partners for solving social problems. Facing an increasing pressure of organizations of civil society (Garriga and Melé 2004), which demands that they are socially responsible, the dialogue with the primary or secondary stakeholders is easier to understand under a collective way of reasoning.

This communal way of reasoning is much more pertinent at an international and global business level, mainly for multinational enterprises (MNEs). Actually, the difference between social standards of home and multiple host countries' corporations (Windsor 2004), as well as the lack of guidance from "international business ethics, international business law, and international public policy already" (Windsor 2004: 733) implies that social concerns of corporations are, for example, always favored as partners with non-governmental organizations (NGOs) (Arnold and Bowie 2008; De George 2010; Windsor 2004).

14.3.3 *Phronesis* Deals with General Principles Under Certain Circumstances

Communal reasoning is not understood as a bargaining reasoning in which every stakeholder wishes to gain the advantage, but is based on circumstantial general principles. In fact, it is even indisputable that *phronesis* deals with particulars and concrete cases (Solomon 1993; Hartman 2008, 2009), just as an ethical act demands knowledge of particular facts – correct reason ought to deliberate particular means in particular situations in order to fulfill its task virtuously. The result of this deliberation is decision, which consists of applying universal principles to particular situations (*N.E.,* 1112b 26, 1139a21-1139b 5). Prudence deals with particulars, but that does not mean that it excludes universals (*N.E*, 1141b 15, 1142b 15, 1142a 23; Beabout 2012; Rooney and McKenna 2006). Thus, any ethical behavior is always based on the right principle(s), which offer us the right answer(s).

This right principle is chosen under circumstances, however, and ought not to be understood in an aprioristic Kantian conception (Cottingham 1991; Queiroz 2012) or in a utilitarian perspective (Solomon 1993). It cannot be understood in an aprioristic Kantian conception of rationality because the calculation of practical reason in Kant erases, among other features, the consideration of circumstances, whether spatial, temporal, or emotional. On the contrary, when looking for the right means *phronesis* faces circumstances which are not the same for each individual across time and for different individuals at the same time. Therefore, if acting on the basis of *phronesis* implies subsuming the particular case under a general principle, this inclusion of the "inner" task adjusts to the relative mean for us not only *under* some circumstances, but also dependent on them. *Phronesis* implies, then, an endless communally responsible way of reasoning on the part of every stakeholder.

Accepting that principles are based on *phronesis* is also different from the deliberation of the utilitarian impartial observer. Unlike the prudent man or woman, the utilitarian impartial legislator does not have any particular interest, ought to order the utilities based on a cardinal measurement (Mill 1863), and mechanically applies the principle to particular cases.

Accepting these differences, corporate agents, whether primary or secondary, cannot transfer the burden of social responsibility to any conventional principle, to an aprioristic universal rule or to a general principle, such as utility. This means that any socially responsible practice implies a quest for social solutions to particular situations and cases. The communal reasoning of general principles under circumstances is highly relevant for MNEs. Actually, since they face social needs that differ considerably across multiple host countries, and *phronesis* is a communal reasoning of general principles under certain circumstances, CSR practices are anchored in a stringent consideration of circumstances. For example, in developing countries CSR can favor the fight against corruption (Fadiman 2010), and the creation of positive workplaces (Rego and Cunha 2008), without violating human rights of employees (e.g. the right to life, the right to safe work, the right to be paid in accordance with what the governments consider necessary to meet basic needs (Arnold and Bowie 2008; Varley 1998)). Although in developed western countries corporations still violate these rights, CSR should address the remaining salary gap between men and women.

14.3.4 CSR at the Heart of Rationality

Since *phronesis* demands: (a) including the interests of others in our reasoning; (b) a communal way of reasoning; (c) looking for general principles under particular circumstances, there is no need to defend CSR under the Aristotelian conception of rationality. Actually, the right reason is by itself socially responsible.

Despite the quasi-consensual importance of CSR, its complexity, ambiguity, and controversial meaning result from an economic tradition of rationality based on the priority of self-interest. Indeed, the social content of reason claimed in social responsibility is 'naturally' an intricate issue, the solution of which can be solved not only under the classic conception of rationality, but also under the neo-classic conception, as well as under alternative conceptions, such as the utilitarian and the Kantian practical reason. Following the Aristotelian conception of reason, the nexus between the individual and social claims are the results from the reasoning under *phronesis*.

Phronesis, which has become an important framework for business ethics, is related not only to the importance of character in ethical rational decision-making (Athanassoulis and Ross 2010; Bhuyan 2007; Hartman 2001; Solomon 1993, among others), but also to entrepreneurship (Dunham 2010; Dunham et al. 2008). *Phronesis* is undoubtedly valuable for managerial reform (Kane and Patapan 2006), and a suitable understanding of the morality of everyday activities in organizations

(Nyberg 2008), or mentoring (Moberg 2008). Finally, *phronesis* is also important in providing a framework to guide regulators against corporate psychopathy (Marshall et al. 2012), to guide the development of management (Mckenna 2005; McKenna and Rooney 2012; Rooney and McKenna 2007; Tsoukas and Cummings 1997), and to guide business ethics in general (Giovanola and Fermani 2012; Hartman 2009; Moberg 2007; Rossouw 2008; Solomon 1993).

From our perspective, *phronesis* is mainly important to the theory and practice of CSR since it offers *a concept of rationality* that corresponds to the principles and claims of CSR. As an adequate concept of rationality for CSR, *phronesis* can fruitfully complement reported research into the importance of wisdom, in general (Moberg 2007; Staler et al. 2006), and wisdom in organizations (Mckenna 2005; McKenna and Rooney 2012; Rooney and McKenna 2007; Tsoukas and Cummings 1997, among others), leading the current research into the main issues of CSR at a national, international, and global level.

Conclusion

As a practical reason that always relates individual interest with the collective, *phronesis* not only follows necessarily the reasoning of any business agent, but also conforms easily with CSR, rather with from a utilitarian or deontological perspective of reason.

The utilitarian impartial observer (Bentham 1789; Mill 1863; Smith 1776), the intricate issue of comparison of utilities (Hsieh 2007; Robbins 1945; Sen 1997, 2009; Simon 1983, among others), and the sacrificial nature of utilitarian calculus (Lantos 2002; Rawls 1971; Solomon 1993) only with difficulty allows a clear justification of CSR as a duty of every stakeholder.

Similarly, from a deontological perspective of rationality, it is difficult to link CSR with individual and social interest. The Kantian conception of rationality does not offer a sound criterion by which to choose among competing duties, rules, and interests and can justify the practice of CSR only with difficulty (Altman 2007; Sollars and Englander 2007), mainly at an international and global level.

Since *phronesis* integrates the interests of the others in our reasoning, implying a communal way of reasoning that looks for general principles under particular circumstances, CSR is at the heart of any agent's practice in corporations. In other words, corporate activity of every primary or secondary stakeholder (Clarkson 1995) is inherently social. *Phronesis* can therefore deepen the literature about the importance of wisdom, in general (Moberg 2007; Staler et al. 2006), and wisdom in organizations (Mckenna 2005; McKenna and Rooney 2012; Rooney 2007; Tsoukas and Cummings 1997, among others), leading the current research to the main issues of CSR at a national, international, and global level.

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Chapter 15
Talking Global Justice: The Importance of Critical Social Theory in the African Business Paradigm

Helen Lauer

Abstract Cultural diversity is tacitly regarded nowadays as the bane of efforts to internationalise criminal law (Thomas Nagel, *Philosophy and Public Affairs* 33: 113–147, 2005) or to globalize even the most rudimentary principles of corporate social responsibility [CSR]. In this essay it is proposed, to the contrary, that cultural diversity is best regarded as a vehicle for discovering fundamental convictions about the possibilities for a trans-national meaning of economic justice rather than the main obstacle to its realisation. Guidance is taken from principles of indigenous models of good governance and diplomacy that characterise contemporary West Africa's rich cultural diversity and which alleviate the severe economic pressures of its many histories. The possibility of global economic justice requires a conceptual change: from defining global justice as a fixed system of uniform procedures and implacable rules applied impartially and universally, to regarding the very idea of justice as the outcome of moral contestation. Global economic justice as an ideal is treated here as a collective and necessarily incompletable work in progress, emerging by ongoing rigorous analytic confrontation internationally between divergent traditions and contrary value systems. Focus will be on correcting shortfalls in the assumptions sustaining the recent history of international human rights documents, and proposals offered in the discourse of transnational corporate social responsibility theorists. Since cultural diversity obtains within social hierarchies just as aggressively as it does across nations, testimonies are required early in the process of treating global justice as an ongoing deliberative project, so that judicial interpreters come to know something about underclass experience and conditions prevailing in the informal economic sector as it expands worldwide.

H. Lauer (✉)
University of Ghana, Legon, Ghana
e-mail: helenlauer@yahoo.com

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15.1 Introduction

In June 2009 Shell Oil company underwent scrutiny in a New York court trial of the case *Wiwa* vs. *Dutch Shell Company* for the defendant's alleged human rights abuses and conspiracy to murder opponents of corporate operations in the Niger Delta, which preceded extra-judicial killings of Ogoni environmental protection community activists in 1995 (Genova & Falola 2003).

Yet the atrocities that provoked this trial should have come as no surprise, for the domain of the multinational business dealings in Africa have remained essentially a lawless frontier since European trade initiatives were launched overseas in the sixteenth century. The attitudes of venture capitalists towards African markets and resources – human and natural – have not changed essentially in 500 years of coercive power brokerage and profiteering in the name of partnerships and foreign aid for development. This partly accounts for why there has been such a resounding shortfall in realising the international covenants to champion economic and basic human rights (as mentioned in Sect. 15.4) and the Millennium Development Goals (discussed briefly in Sect. 15.3) promulgated in 2000. Intellectuals in the Americas and throughout the Diaspora have commented correlatively upon the negative impacts of globalisation in the Two-Thirds World (Sen 1999; Stiglitz 2002; Tabb 2002). A relatively uncontested feature of this critique has been to contextualise the current era of 'globalisation' as a continuation of European patterns of mercantile initiatives and economic adventurism that became noteworthy as early as the fifteenth century. There is relatively little or no awareness globally of the legacy of successes in ameliorating those negative impacts that have been structured into the social arrangements and political institutions throughout Africa in the process of fielding the extraordinarily perverse European international trade agenda since its inception over 500 years ago.

This chapter provides evidence of the importance of sustaining critical discourse from African perspectives about non-African attitudes towards human nature and social responsibility of governments which underlie late capitalist post-industrial economies (such as the US and UK). Because over-generalisation is a core error in global discourse and deterrent to useful development policy in response to African business people's challenges, needs, and aspirations, I am obliged to restrict these remarks to the only region about which I have the most firsthand experience. In any case the main arguments in this chapter are historically specific to transnational trade legacies specific to West Africa; nonetheless close analogues might apply to other regions of the African continent and the post-colonized global South. The situation on the ground here in Ghana, for instance, is at once more pernicious and more straightforward than some of the contributors to the readily accessed literature on cross-cultural corporate ethics would have us believe. In the concluding section (Sect. 15.6), I will return to the reasons we might profit by drowning out the noise of the global arena with a wider and more accessible distribution of African sourced critiques of late capitalist welfare democracies. In Sect. 15.5 I survey some of the hidden traditions within Ghana, an example of West African nations where critiques of political leadership have been an integral component of the history of people's interaction with those in political and economic power.

Critical social theory recognised in the global academic arena is constituted in part by the received canon expressing disillusion with capitalism that emerged from within technocratic societies following the European generated World Wars of the twentieth century. Complaints about abstract individualism and normative dualism (the spirit vs. the body, civilizing stewardship vs. unruly nature) have occupied the centre of European critical social theory since the Frankfurt School after World War II, most typically associated with the work of Max Horkheimer and Theodor Adorno ([1944] 1987), also Herbert Marcuse, Walter Benjamin, Erich Fromm, and Jürgen Habermas. Derision of the impact of conformist conventionality and familial dislocation, brought about through the pressures of industrialization and corporate enterprise, dominated the early humanistic psychology movement advocated by Abraham Maslow, as well as the founder of client-centred therapy Carl Rogers, alongside the progressive pedagogue A.S. Neill.

The mainstream of critical social and economic theory is not restricted to analyses of Anglo-American and European societies. From the middle of the twentieth century, social critics Hannah Arendt, Claude Ake, Edward Said, and the seminal researchers who spawned the Women In Development literature (Stamp 1989), and an entire discourse catalogued as non-Keynesian economics illuminated the failures of neo-liberal policies exported to Africa and India from late-capitalist welfare states. These social critics describe how consumerism extinguishes the individual in so-called individualistic cultures, how cultural innovation is reduced and dissipated through commercialisation as commodities for mass marketing, how reproductive work is bifurcated and dismissed from the domain of valued marketable labour, how organised industry has alienated the self from society and from nature. But this literature misses an important foundation which is elementary to indigenous Ghanaian and Nigerian views of life, i.e. long standing beliefs about (i) the harmonious and essentially spiritual balance between nature and community, (ii) the seamless connection between the state and civil society, and (iii) the co-dependent relation of individuals to each other.

These basic intuitions, which are self-evident to many Anglophone West Africans in every sector of society, may provide an antidote to protect future economic development initiatives from the errors inherent in the post-industrial Western expansion agenda. Such an agenda is continually pressed upon African governments by multinational corporations anxious to partner with the continent to build business frameworks that will benefit foreigners and African minority elites at the expense of 'ordinary locals', floral, and fauna (Dawson 2005). The economic factors contributing to the failure of standard or received corporate social responsibility discourse to apply in Africa will be the focus of the next section.

15.2 Business *Versus* Ethics

In some ways, business ethics has been charged with a mandate it cannot readily fulfil (de Jongh 2007). Some scholars assume – mistakenly, as I will argue – that it is the diversity of moral opinion existing worldwide which is the crucial challenge to running a transnational business honourably in West Africa as elsewhere in places that have come to be lumped together as developing countries (Visser et al. 2006). This assumption is conveyed for instance by William Frederick's work published in 1991 and 1994, by Bryan Husted and David Allen in 2000, by Moon and Woolliams also in 2000, Daniel Litvin in 2003. Husted and Allen claim, for instance, that "social responsibility is about stakeholder management; . . . it is about . . . achieving long term social objectives to create competitive advantage. [It] is about meeting agreed public expectations of [a] business firm's behaviour; . . . it is a way of protecting the firm's strategy from the social issues affecting the firm" (Husted and Allen 1998, p. 9; 2000, pp. 23–25). And "social responsiveness is [a firm's] ability to respond to social pressures . . ." (Frederick 1994, p. 154).

It would seem from the perspective of these business ethicists that practicing social responsibility cross culturally is all about unbiased reconciliation of conflicting preferences. Moon and Woolliams (2000) depict the practice of corporate social responsibility as requiring a kind of honest brokering, taking on board the views of relevant stakeholders and business operators with their culturally specific styles of body language, handshaking, voice modulation, gestures of deference, as well as their potentially conflicting responses to moral puzzles, without fearing or favouring any alternative. Cross-cultural ethics appears to involve a resolve to restrain from challenging or questioning or judging any one point of view that registers as sufficiently popular on a suitably reputable opinion poll, such as Trompenaars' data base (Moon and Woolliams 2000, pp. 107, 113).

By focussing on an illusory tension between astute observation of social norms *versus* reasoning through to moral imperatives, Moon and Woolliams appear to underestimate the ethical dilemmas and challenges that do arise from genuine conflicts of interest between private company partners and public stakeholders in West Africa.

However we interpret the contrast between statements that report norms and customary practice *versus* statements that convey judgments about right and wrong, I think we can agree that the capacity to make ethical judgments and choices requires as a necessary (though not sufficient) condition the inheritance of language, with the innate or learned ability to talk to ourselves. Some people use this ability to carry on talking to themselves about right and wrong. But from the fact that morality can only be thought about within one linguistic and cultural tradition or another, it does not follow that no distinction can be discerned between following cultural customs or social norms on the one hand, and making judgments about whether a given custom or norm is ethically right or wrong, on the other (Taylor 1978). In what follows, I first show why ethical reasoning cannot take the place of, nor be replaced by, efficient strategizing to mollify stakeholders while satiating shareholders. These are two important but distinct sorts of social enterprise.

Of course they are closely tied up. As a matter of psychological fact, we seek out each other's views and priorities to figure out what is the right thing to do. Getting things right morally correlates often but not always with garnering social approval. Even the mere exhibition of concern over ethical issues is reinforced by the relative security and comfort that most corporate communities gain from social approbation. But the conscientious pursuit of social approval and the achievement of public commendation are one thing; the fixing of moral commitments and financing their practice are another.

Consider a regional corporate manager who is obliged to work out an ethical solution to a practical problem, like deciding what minimum wage to fix in an impoverished economy, or how much company money to commit gratuitously to environmental protection measures. To adjudicate among her viable options, if one assumes she follows the advice of Moon and Woolliams (2000, p. 107) by consulting the Trompenaars data base of 50,000 entries from 100 countries which summarises statistically the majority response to ethical dilemmas concerning like matters on a national basis. She then recommends a policy commensurate with the dominant views tracked in the country where her franchises are based. She thus attunes her corporate policy to local opinion, or what Moor and Woolliams call the ethical environment. But in so doing she has confused political correctness with moral conviction. The manager thus skirts the issue of what is the morally right thing to do and instead goes for what the traffic will allow. Like the honest tradesman who avoids alienating his customers by always giving the right change, she is just using good business savvy. Not all instrumental goods have moral significance.

By dodging the challenge of reasoning about the moral worth of public opinion in this case, I think she may not have been culpable for doing anything ethically wrong; but I would not count her action as socially responsible in an ethical sense. She may be exhibiting social responsiveness as Frederick defined it in 1994 (p. 154). But this seems to me to be a play on words. An opportunist who notices all his co-workers are so focussed on a football match that he can safely raid the till could be called socially responsive in Frederick's sense.

The trouble with Trompenaars' database as a guide to ethical strategising (Moon and Woolliams 2000, p. 111) is that it yields empirical facts about the choices made by questionnaire respondents, but it does not reflect the moral propriety of those choices. It cannot. A moral agent can perform this task; it's not an algorithmic problem. Even if a computerized data base ingeniously avoids distilling the dissonance of a complex society into oversimplified chords that harmonise with the preferences of its political elite, the fact that a practice is socially encouraged does not make it morally acceptable, even among the very people who condone it, covertly or overtly. Popular opinion and moral judgment on a given day may converge, or not, depending upon a host of circumstances. This is partly why there is a constant debate among constitutional law scholars about whether the jurists and legislators of government should try to educate, nudge, and propel their citizens to a more humane, more dignified law-abiding status quo than the one they inherited from their predecessors.

For corporate managers to face seriously the challenge of social and environmental responsibility is to ask a similar question about the leadership role of those who govern the business community. To what extent should recently arrived yet dominant fiscal players in a nation's private sector be acting as frontrunners of enlightened development for a country in economic transition?

15.3 Millennium Development Goals

A standard answer to this question continues to involve reliance upon the UN Millennium Development Goals – now in their post 2015 revision phase – initially authored by Jeffrey Sachs, founder of the Earth Institute, Columbia University in New York and Director of the UN Millennium Project. Sachs presented the MDGs to the Secretary-General of the UN in 2005, and has remained an integral member of the development of a post-2005 Millennium Goal Agenda (Sandhu-Rojon 2013). But apart from the surrealism of pegging their expiration date at 2015, the MDGs talked in numerical terms of minimum standards, foregoing the language of fundamental rights and human ideals – according to a critique provided by the political economist Frank Hormeku of Third World Network-Africa in an open public forum (April 2006, Teacher's Hall, Accra). Specifically, the MDG number eight has required countries to establish "further an open, rule-based predictable, non-discriminatory trading and financial system ... deal comprehensively with the debt problems ... through national and international measures to make debt sustainable in the long term ... make available the benefits of new technologies, especially ICT, in cooperation with the private sector." By mandating and prioritizing governments to nurture international partnerships, MDG 8 has been criticized on a number of grounds: emphasis on enabling foreign multinational pharmaceutical agendas adroitly bypasses the recognition and importance of local solutions for domestically defined health care needs. By encouraging macro agri-business and criminalising its competitive methods and conditions essential to the success of indigenous food production, processing, transport, and seed varieties, MDG 8 dismisses the needs of subsistence farmers in agrarian economies who are wholly responsible for feeding the majority of externally indebted populations. MDG 8 and the other seven do not address the need for African labour market's protection against foreign commandeered exploitation, nor the need to control price fluctuation of imported goods, nor the need to correct the anomalies of world trade that are due to subsidies and tariffs favouring only G-8 countries' producers and suppliers. Nor do the MDGs address the need to protect African manufacturers and markets from monopolies inflicted by multinational conglomerates. The MDGs focus too simplistically on national aggregates and ignore the internal variations in illiteracy, unemployment and poverty throughout national territories, whereby the correction of such regional imbalances is so crucial to achieve sustainable economic growth, as stressed by the Ghanaian development economist Abena Oduro (2012).

15.4 Human Rights Covenants

As an alternative to the MDGs, it is standard to consult the range of United Nations compacts and other world body documents for benchmarks and starting assumptions to establish codes for doing business in depressed economies (Falk 2004; Frederick 1991, 1994; Hamaan 2007; Ignatieff 2001; Litvin 2003; Reed 2002; Rossouw et al. 2002). But these covenants can still generate anomalies if one confuses the pursuit of ethical policy with the embrace of practices that are approved within a specific set of spatio-temporal coordinates. From the little I gathered through reports issued by the UN Centre Against Apartheid (1980) a prime example of such a *reductio ad absurdum* was the original Sullivan Principles, chartered in 1977 for American companies doing business in South Africa. For those unfamiliar with the Sullivan Principles, these were the directives by which American corporations earned formal consent to operate in South Africa by maintaining the standards of social welfare officially condoned at the time. Americans built infrastructure that facilitated apartheid laws (i.e. miners' single-occupancy dormitories, Township housing, and the Bantu schools that ran at $^1/_5$ the cost of educating white Afrikaner children). Compliant American corporations assiduously abided by discriminatory labour regulations, until they were prohibited from doing so in 1994. Yet semantically, the Sullivan Principles are "entirely consistent with" the human rights covenants inscribed in the UN Declaration and the European Convention, the Helsinki Act, the OECD Guidelines for multinational enterprises, the ILO Tripartite Declaration, the UN Code of Trans National Corporate Conduct, to name just six such compacts (Frederick 1991, p. 176 n. 1). In 2008 apartheid victims were reported as suing 36 United States corporations including Bank of America, Bristol Myers-Squibb, Colgate-Palmolive, Exxon Mobil, Hewlett Packard, IBM, Nestle, "for aiding in violations of international law" (*Associated Press* 12 May 2008).

15.5 The Invisibility of Indigenous African Norms

So what are socially responsible corporate managers transplanted to West Africa supposed to do? It seems imperative for them to countenance from the outset that the global arena is dominated by a moral vacuity that defies ethical business practice almost anywhere that features a troubled and vulnerable national economy, including those in West Africa. Standard business policies sustaining the status quo ought to be mitigated by moral deliberation and critical interrogation of basic starting assumptions are in order. Some would argue that is contrary to the role of applied ethics in the business world, because such a critical interrogation threatens to challenge the institutional arrangements that make cross-cultural investment a lucrative prospect and worthwhile risk (MacIntyre 2006). For one thing, the international commercial norms which shape the global political economy are not binding by any formally enforceable, legal instruments (Cutler 1999; Reed 2002, p. 240; Falk 2004, p. 22). International norms of trade are invincible only because they protect, by fair means and foul, the movement and accumulation of privately commanded profits of investors who back financially the most powerfully endowed Military-industrial conglomerates (D'Mello 2002). Secondly, development consultants whose advice is promulgated internationally by the knowledge distribution arms of these same conglomerates, by and large do not know what they are talking about when it comes to interpreting the needs and aspirations of West Africans. This is not for lack of concern, or diligence, or formal training. It is a very deliberate function of political history, as I will try to show in the remainder of my remarks.

The strengths of indigenous African governance, traditional tactics for the management of natural resources, and the commercial savvy of major economic players over a millennium in this part of the world, are largely invisible to the international gaze. Quite intentionally and without apology, there is much more to African governance and economic activity than may ever be permitted within the purview of international surveillance (Lauer 2007).

Thus, when in 2003 the former UN General Secretary Kofi Annan, himself a Ghanaian, decried African states for lacking viable institutions to promote poverty reduction, conflict resolution, and internationally respected human rights, while addressing the Second Ordinary Session of the African Union in Maputo Mozambique (as quoted July 10, 2003 by *BBC Worldservice News Hour*, and in *Daily Graphic* Accra newspaper, Saturday July 12, 2003, pp. 1, 5). Annan was referring to the continent's modern central states. These are political entities that did not exist in West Africa 150 years ago. And with this charge, no one in post-colonized West Africa is much disposed to disagree, because these modern central states are recognized as perfunctorily established, pre-fabricated props, auxiliary to the locus of long-standing (i.e. ancestrally empowered) governance. I'm not suggesting here that the ancient institutions of chieftaincy are fit to resume running the countries in which they constitute an inchoate popular cultural memory; that's unfeasible and few advocate such an essentialist, simplistic agenda. Yet there's no gainsaying that modern state structures, with their externally imposed boundaries, imported bureaucratic apparatus, compulsively distracted loyalties and preoccupations with the greed-motivated dealings of foreign states, have been regarded for over half a millennium in the collective West African experience as unfortunate necessities, whose antics reflect the norms and standards typical of engagement with the outside world. Modern central states lose credibility insofar as they must deal with trans-national corporations – indeed they are mandated to do so by number 8 of the Millennium Development Goals, whose immanent deadline of 2015 occasions an institutionalised review, revised assertion and re-establishment (Sandhu-Rojon 2013).

At a less tangible – certainly less fanciful – level, the regional organs formed by Africa's central state bodies remain comparably out of touch with the populations they are supposed to represent in the global arena. This supposition of representation is held by outsiders but it is not shared by the majority of West Africans. In 2003 a Nigerian critic of ECOWAS observed that "a major flaw [of ECOWAS] is the absence of popular support and participation [and this is] . . . typical of most modern Africa's regional and sub-regional integration projects" (Asinwaju 2003, p. 715).

Nevertheless, although modern state structures and their complicit economic institutions make the ancestors furious (Mazrui 1986, p. 11; featured by Opata 1998, p. 135), this fury is hardly felt in this era of globalisation; indeed in Ghana it is moribund. For it is also the case that in West Africa – most notably in Ghana, the legislation, foreign diplomacy, domestic labour policy and centralised public services are still designed in large measure to serve foreign capital interests. It may not be at all farfetched to suggest that African company management and labour organisation today might be studied as an extension of the beliefs and value systems which long ago materialised as the fortresses of Elmina, Cape Coast and Gore Island. It has been argued (Harney and Nyathi 2007) that current symptoms of organisational dysfunction faced in African corporations today are historically rooted in centuries of euro-centric racism. These symptoms include disaffection, under-performance, factionalism, nepotism, deflection of resources, abuse of facilities, excessive turnover or stultification of personnel, disarray, aimlessness, *aporia* (Puplampu 2005). Martin Fuglsang (2007, p. 72) also regards the history of corporate business in Africa as indelibly linked to the economic subjugation which created the industrial giants located around the perimeter of the Atlantic Ocean. These giants have grown legs that traverse the globe, continuing to operate through the "internal apparatus of capture in capitalism."

Given this underside of globalisation, many post-colonized states are able to function at all because they have evolved dual or parallel systems of governance and economic activity, thereby compensating somewhat for the tension between conflicting roles of modern governments in the capitalist world order – serving as good business partners to TNCs on the one hand and responsible stewards of their citizens' welfare on the other. I am not romanticizing the persistence of parallel systems of governance by chiefs, nor am I promulgating any illusions about the grinding demoralisation perpetrated by Ghana's bloated informal economy. I merely point to their existence historically and materially, to illustrate the opacity of economics and governance in this part of the world from the standpoint of onlookers broadcasting advice about ethical standards from the global arena (Lauer 2007).

I hope in this light it begins to emerge why non-African criteria produced in the global arena are inadequate for assessing the quality of corporate governance, juridical procedure, executive performance and the intra-regional diplomacy in West Africa's post colonial societies, while everyone on the ground in West Africa concedes vigorously that there is great need for improvement in all these areas. NEPAD (New Economic Partnerships for African Development) was an example of a device instituted as a neo-liberal model for Africans to follow, produced under the aegis of the Organization of African Unity in 2001, and later adopted by the African Union. Yet it remains controversial because it was conceived and implemented without tolerating input from African civil societies, presenting as ‘new’ and imported policies already familiar to indigenous African economies e.g. regional cooperation (see Martin Ajei 2011). African Growth and Opportunity Act (AGOA) was a piece of US legislation passed in 2000, which yielded effects in Lesotho so detrimental to the local labour population that its terms of engagement begged questions about who were the actual beneficiaries of international development partnerships investing in African business ventures (Lauer 2004b). Comparable problems arise from international aid for public health care across West and East Africa, as well as South Africa, where ante natal clinics shut down due to the imposition of foreign and often inappropriate values and priorities in the provision of maternal health services. A controversial case in point is the US Presidential initiative to improve immunity for women through antiretroviral medication funding in the PEPFAR programme, which supports pharmaceutical companies in their effort to expand markets (see Regien B Biesma et al. 2009).

Such large scale programmes all come with methodologies for assessment that vary in their degree of sensitivity to the actual impacts of business ventures on local populations. Transparency International’s barometric for measuring relative levels of ‘perceived corruption’, carry presuppositions about the meaning of ‘corruption’ and its cross-cultural implications which have gone almost entirely unexplored (see Albert K. Awedoba 2012). Another example of this misrepresentation arises from the reliance upon Millennium Development Goal indicators which are often methodologically flawed for lack of close examination of the demographics in focus. Lack of attention to income distribution nationwide, for instance, disrupts the accuracy of parameters intended to be gender-sensitive in measuring the effects of education for girls and the alleviation of poverty in Ghana (see Abena Oduro 2012). Another source of profound obfuscation is the rhetoric used in e.g. UNDP World Development Report 2008 which appears intended to camouflage facts about the power relations entailed in lucrative big agribusiness agriculture-for-development agendas (see Kojo S. Amanor 2009). Alternatively, ‘Global Compact’[1] might constitute an initiative that does not reify the misrepresentations that these other instruments commit with the purported intention to enhance regional African development – albeit without adequate incorporation of indigenous Sub Saharan economic intelligence and leadership capacity.

Let me be sure to make myself very clear: the legitimate conflicts that may arise for the private corporate community which may be peculiar to West Africa are not due to contemporary *perceptions* and *attitudes* towards trans-national companies based on layers of deeply antagonised shared experience located at the receiving end of transnational trade strategies and policies on the west coast of Africa. Rather,

[1] I owe this suggestion of a counterexample to Dr. C. S. Frederiksen, in email correspondence, May 12, 2014.

it is the actual performance and policies, determined by investment interests of international agencies themselves throughout history, that contribute to the ethical problems encountered for foreign business investors today. This explains why, for instance, the Darfur 'crisis' – where Sudan borders on Chad – suddenly sprang into existence for the global public's humanitarian gaze in 2001, the very year that the World Bank's biggest African investment in history, the precious Chad-Cameroon oil pipeline project, reached completion – although in fact the Darfur based conflict with the Khartoum government has been raging with steadily increased virility since the 1980s, and its beginnings date back to the 1800s (Assal 2002, 2004; Assal et al. 2004; Beshir 1963, 1975; Chomsky 2002; Deng 1995, 1998; Watts 2003).

The global arena's standards of good governance and best business practice are inadequate in part because the actual structures, protocols and philosophies of indigenous African political and commercial cultures still do not concern G-8 country leaders and trans-national corporations. The current preoccupation remains, as ever, with whether or not African governance and economic institutions are favourable for long-term returns on foreign investments and for protection of the ongoing adventures in resource extraction.

This disaffection works both ways. The systems of governance and resource management tactics that are indigenous to Ghana, for instance, have not only been compromised and embroiled by their collusion with the morally heinous trans-continental extractive schemes and strategies governed and orchestrated by illegitimate foreign authority figures since colonial times. These traditional systems have also continued to evolve in *defiance* of foreign schemes and authority. From the standpoint of late-capitalist welfare states whose bottom line interests here are restricted now chiefly to oil and mineral extraction, the soft side of West African power is equally attractive once it is recognised: the region's ancient consensual democracies, resource management, environmental conservation, social welfare and commercial regulation, social tolerance and inter-state diplomacy are all radically futuristic according to the neoliberal ideals of stable, good governance. Some examples of these progressive institutions in anglophone countries of Africa (e.g. Ghana, Nigeria and Uganda) are the varied rural credit arrangements (Songsore 1992), small scale cooperative industries, private philanthropies, village scholarship schemes for study abroad, holistic medicine, strict ecological taboos regulating fishing and hunting, land-for-food trusts, parent-teacher associations, work/study and life-skill learning programs, neighbourhood health-care and house-to-house support networks (N. Kaleeba et al. 2000) that nearly eradicated the AIDS crisis in the 1990s, following Idi Amin's protracted war against his civilians in Uganda. The success of these instruments of social and economic welfare all fall within the responsibility and remit of traditional rulers and their councils of elders.

However, the dominant authorities in the international community do not regard these village institutions as governmental. In the 1990s, World Bank experts analysed these so-called "social safety nets" as makeshift, ad hoc coping mechanisms, urging that these folkways be passively exploited by central governments to mitigate the increase in poverty, chronic disease and premature mortality –

increasingly dubbed HIV/AIDS in Africa. But the depraved status of broken immunity for Africans was induced and propelled in the early 1980s by IMF advice for economic reforms. Subsequently in 1995 the term 'social safety net' was appropriated and absorbed into IMF fiscal adjustment jargon to refer to central government expenditures budgeted for direct relief payments (dole) to the eligible poor (World Bank 1991, 1993; IMF 1995/2000, pp. 27, 28).

The point to stress here is that in order to remain viable, the most effective and enduring aspects of indigenous leadership and economic strategies for self-determination and survival under the most extreme odds must have been hidden from the international gaze – hidden in the sense that their utility and functioning would not be recognised readily nor articulated first hand through the international languages of former colonisers (English, Dutch, German, Spanish, Portuguese, French). Furthermore, to interpret indigenous systems so that they serve their constituents in West Africa today, one must continue fielding and redressing global misrepresentations of African society (Falola 2012, Lauer 2004a). In some respects these stereotypes remain the same as when they were introduced with the intercontinental trade which began for West Africans on the unfortunately sour note alluded to earlier, roughly 500 years ago.

Conclusion

This chapter has been devoted to revealing that the critiques of capital intensive expansive and extractive policies of Anglo-European political economies are not at all a new development in the current globalisation era of African economic development. Focussing on the history of Ghana, anti-colonial dissent and uprisings, citizens' complaint correspondence and petitions to British governors all critiqued the social status quo (Assimeng [2002] 2012). Throughout anti-colonial and revolutionary activities, themes of resistance to foreigners' invasive policies and stereotypes about Africans have prevailed, alongside resistance to the ruthless mercantilism and profit seeking disregard for human welfare and dignity. Mission based motivational literature, messianic cults, Bible literacy and self-help and health campaigns, Negritude consciousness and resistance to foreign colonial privilege all reflect centuries of explicit social critique and political opposition to bad business and administration policies. Farmers' strikes and slow downs, burning of produce, the Mau Mau Rebellion and other land reform uprisings, the heroic student strikes not only of Soweto outside of Cape Town but in the Darfur of Western Sudan in the 1980s, all constitute non-discursive texts that criticise trans-national capitalist values. This resistance in word and deed constitutes the foundation of an implicit critique of the western post-industrial technocratic narrative, even as the élite of West African societies have always functioned, and continue to serve, as subalterns and clients of Anglo-European and American commercial expansionists.

(continued)

From the foregoing considerations, it ought to be clear that utility lies in relying upon cultural interpreters and historians whose first language is *not* one of the former colonizing nations, but whose formal command of an international language is sufficiently rich to critique fundamental inconsistencies in the neo-liberal capitalist doctrines of human nature and their derivative universal definitions of human rights alongside unbridled drive for domination. Africanists and culture narrators can help business policy makers to protect African work forces against prevailing neo-liberal delusions about the exploitability of this continent's human and natural resources, delusions about the expendability of Africans' extended family obligations and sexual norms, delusions about the dispensability of individual worker's relations to significant others in the organisation as a whole.

Modernity has been scrutinised scathingly from within Europe and America since World War II, so far as it *can* be. More original and penetrating insights may emerge from casting a critical light beam upon modernity when the torch is held by those who extrapolate traditional African values and their audaciously persistent economic legacies. The post industrial societies ('G-8 countries) presumed to dominate the process of globalisations at large, confronted with protracted low intensity conflicts, pervasive environmental degradation and gross imbalances in distribution of wealth and welfare, have much to learn from people whose cultures have encompassed and survived the ravages of colonialism. By continuing their traditions of dissent and critique, African humanities scholars can provide the business world with the historical momentum with which to defend against those oversimplifications that are trademarks of foreign opportunists – with respect to the theories, research and product developments that dominate African public health care delivery, democratic government spending, educational opportunities, and quality of work. To quote the Nigerian political historian Toyin Falola (2012), the African humanities are earmarked to "educate society about the imminent dangers of globalisation and stimulate the greater imagination, encouraging broader reflection on the future of society." African scholars and social critics can advise corporate managers at the steering wheel of economic development partnerships not only how to govern and how to do business – but also how *not* to govern, and when it comes to doing business with foreigners, where to draw the line.

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Chapter 16
Liberal CSR and New Marxist Criticism

Kristian Høyer Toft

Abstract The term 'corporate social responsibility' (CSR) is considered by the new Marxist left to be a self-defeating oxymoron. In this chapter, the new Marxist challenge to CSR as a meaningful, coherent concept and practice is discussed. In the wake of the financial crisis the critique from the Marxist-inspired left tends to replace the scepticism of the libertarian right (Friedman 1970). The legitimacy of business in society is at stake, and the critical left is well placed to debunk the integrity of business's claim to social responsibility.

To provide an overview of current Marxist inspired CSR thinking, this chapter introduces the Hegelian inspired critique of a New Spirit of Capitalism (Chiapello 2013) as well as the critique of ideology targeted at the neo-liberal project of corporate responsibility (Žižek 2008; Fleming and Jones 2013).

Subsequently, two possible liberal 'revisions' to the Marxist inspired scepticism of CSR are presented and discussed: first, the theory of a social connection model (Young 2006), and then the theory of deliberative democracy and political CSR (Scherer and Palazzo 2011).

Finally, the chapter concludes with a plea to reconsider the classical Marxist concept of exploitation.

16.1 New Marxist Thinking on CSR

A defining trait in recent Marxist thinking and critique of corporate social responsibility (CSR) is that the concept is a complete non-starter. Such profound scepticism about CSR is seen in Fleming & Jones' self-reflective comment on the title of their recent book *The End of Corporate Social Responsibility: Crisis and Critique*: 'we feel that corporate social responsibility never really began' (2013, p. 1). They continue 'We know that the CSR discourse is untrue, *but we act as if it is true*' (ibid. p. 88 emphasis in original). CSR is thereby described as the 'opium of the masses' that covers up the true misery of capitalist exploitation (ibid. p. 67). The perceived

K.H. Toft (✉)
University of Aalborg, Nyhavnsgade 14, Aalborg 9000, Denmark
e-mail: kht@learning.aau.dk

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inherent oxymoronic and self-defeating nature of CSR that is the new Marxist inspired critique has gathered more adherents in the wake of the financial crisis. It might seem as if business ethics designed for legitimating the role of business in society is not well equipped for engaging a public suffering from the devastating effects of the crisis. Trusting big corporations to act socially responsible and serve the public good is certainly difficult for people to believe, now that they are paying for the *financialization* of the economy and the resuscitation of the financial sector (Marazzi 2011, p. 26; Chiapello 2013, p. 76). However, ordinary people as consumers become sceptical about CSR due to events beyond the financial crisis, in the spectacular media coverage of scandals such as Shell's controversial operations in the Niger Delta and Nike's use of sweatshop labour in their supply chain. Business corporations' public legitimacy – their licence to operate – is called into question by such media exposure, and it feeds the Marxist suspicion of capitalist exploitation and ruthlessness. Surprisingly, recent Marxist thinking on CSR is not primarily concerned with the victims of exploitation (they are implicit to the approach). Rather, the theoretical focus is directed towards how capitalism works, how business corporations and business people take advantage of the tendency towards *responsibilization* (Shamir 2008) in society at large. Obtaining an overview of the on-going and proliferating academic, and also more interventionist politically-oriented, writings on Marxism and CSR is difficult. Most of the academic work is done from within the continental tradition of European philosophy, owing its legacy to Hegel, Nietzsche, Heidegger and Foucault. Hence, this writing reflects a distance towards both liberal and the analytic philosophical inspired approaches. Since much business ethics thinking has a background in the rise of American business culture from the 1950s and onwards, the relationship between CSR and liberalism is rather close (Richter 2010). One could say that the very *raison d'etre* of CSR is to help the private business sector gain a solid footing in society in order enhance profits. The early libertarian criticism of CSR, as articulated by Milton Friedman (1970) and the subsequent libertarian defence of CSR found in the work of Porter and Kramer (2006) call for 'creating shared value' in scenarios of public-private win-win cooperation. In this view, CSR is a means toward an end: profit-making, despite Friedman's scepticism of the CSR project. In fact, the current Marxist criticism of CSR is the true heir to Friedman's scepticism. Today it is the Marxists who attack the pretence of the 'role of business in society' that defenders of CSR must address. However, this diagnosis of the academic agenda is not backed up by a multitude of eager defenders of CSR who address Marxist inspired criticism. The liberal, and in some cases conservative (Solomon 1992), outlook that characterizes the CSR agenda might explain the absence of any CSR defence against allegations of capitalist exploitation. Dealing with Marxist concerns of exploitation and alienation is simply beyond the pale of what CSR researchers should consider. Hence, the predominant work on Marxism and CSR is done from within the Marxist camp and is therefore filled with strong anti-capitalist sentiments. The Marxist critique of CSR is a continuation of an anti-capitalist critique.

This chapter provides an overview and introduction to recent Marxist-inspired criticisms of CSR, focusing on the contributions of Eve Chiapello and Slavoj Žižek.

The former exemplifies a distinct Hegelian dialectical reading of CSR as critique, whereas the latter, though also profoundly Hegelian in his approach, reads CSR as a further naturalization of capitalism as the only foreseeable 'game in town'. Žižek sets the stage with a satire over the benevolent and politically correct liberal – the *liberal communist* – who hypocritically says that he wants business to be socially responsible, while at the same time engages in heavy capitalist exploitation of the global poor.

Following this introduction to Marxist thinking on CSR, I suggest an alternative 'Marxist'-inspired though still liberal approach to CSR. My alternative approach is more sympathetic to the possible beneficial outcomes of engaging with CSR, but it directly addresses the issue of exploitation and justice related to global interdependency (social connection, Young 2006) and situations of a global regulatory governance vacuums (Scherer and Palazzo 2011).

16.2 The New Spirit of Capitalism: Chiapello's Hegelian Critique of CSR

According to Eve Chiapello, a key feature of capitalism is its ability to assimilate criticism. This ability is considered as a management decision to assimilate resistance by 'investing' in criticism. As long as criticism of capitalism can be aligned with continuing profit-seeking activity, the longevity of the system is secured. This view, echoing Marcuse's repressive tolerance, stands in opposition to Karl Marx's belief that capitalism as a system is headed towards collapse due to its internal contradictions (Chiapello 2013, p. 63).

Chiapello's contribution to interpreting CSR in the vein of a critique of capitalism relies on a Hegelian systems logic of *Aufhebung* (Eng.: sublation) both negating and preserving opposition. As a criticism of capitalism, CSR is negated in the sense that capitalism can embrace the social and environmental concerns raised by the CSR agenda, thus making CSR superfluous. Simultaneously, capitalism preserves CSR in that it can deal with the issues raised by the CSR project. Chiapello has not explicitly subscribed to Hegelian dialectics as such, since her theory is primarily meant to be sociological. Yet it is 'beyond the merely descriptive' in that it is proposed as a 'general theoretical model' (ibid. p. 61). Nonetheless, the Hegelian heritage is clear, since the 'interaction between capitalism on the one side and criticisms of capitalism on the other gives rise to the spirit of capitalism of a given period' (ibid. p. 62). Spirit in Boltanski's and Chiapello's (2005) version operates as a unifying concept very similar to Hegel's usage (see Taylor 1995).

Chiapello's argument that CSR represents a reconciling 'third way' between capitalism and critique is indicated in four dimensions of critique: the social, the conservative, the artistic and the ecological. CSR is most easily seen in the workings of social and ecological critiques, according to Chiapello (2013, p. 77):

> It is therefore possible to see the CSR movement as a form of response to the new social and ecological criticisms, which does not seek to abolish wage labour or withdraw from capitalism, in a world in which states are considered powerless and perceived as illegitimate, leaving the obligation of constructing new regulations up to the companies themselves.

However, CSR as a movement is also consistent with the conservative critique (ibid. p. 76). To see how CSR might reconcile various criticisms, let us examine Chiapello's theory more closely.

The four criticisms are seen as ideal types related to particular historical periods (ibid. p. 80).

Social, conservative and artistic critiques have their origin in the nineteenth century philosophical reactions to capitalism, i.e. as Marxism, Conservatism and Romanticism. However, they reappear in the twentieth century in new forms. The social critique is a response to lack of social justice and the exploitation of the labour force. The welfare state can be seen as the capitalist assimilation to social criticism. The conservative critique addresses social misery, and the capitalist response is philanthropy to protect people's dignity. The artistic critique is seen as the heritage from 1968, in its focus on alienation and the lack of authenticity in 'disenchanted' capitalist working life. The capitalist response is witnessed in the business world's appropriation of the creativity and innovation agenda. Working life is now to be a life of freedom that will emancipate the inner potential of the individual employee. The ecological critique is rather new, since it corresponds to the recent (at least since the 1970s rising) awareness of environmental disaster caused by e.g. climate change (ibid. p. 75). CSR and green capitalism are seen as the current 'reforming nebula' (ibid. p. 76) that facilitates reconciliation with critical concerns. Concretely, multinational corporations in fact favour the scenario where soft law regimes can create a global level playing field that will provide protection from adverse competition scenarios and a race to the bottom (cf., the tendency of the rate of profit to fall). In this critique, corporations should embark on CSR and green capitalism to serve their own profit-making interests. The CSR agenda cannot be taken seriously, reflecting only the ingenuity of the capitalist system to capitalize on criticism. The possible future adaptation and assimilation of the capitalist system provides the possibility for a resurfacing of small-scale production units in local networks (ibid. p. 80), allegedly being more sustainable. However, Chiapello does not conclude in the positive normative, even though she admits (and admires, like Marx also did) the comprehensive ability of capitalism to reform itself. In this sense, she remains sceptical about the motives behind present-day CSR rhetoric, since 'As long as [capitalism's] profit-based dynamic can continue to operate, it can integrate various constraints and try out a range of systems' (ibid. p. 63). Indeed, CSR is too good to be true.

I now turn to Žižek's Marxist view on CSR, and hence stay within the family of continental critical thinking about CSR.

16.3 The Liberal Communist and Žižek's Critique of CSR

Where Chiapello remains at the structural level of explaining the functioning of the capitalist system in regard to CSR, Žižek targets the hidden motives of capitalists engaged in being socially responsible. Žižek employs the critique of ideology by revealing the hidden class interests of liberals who adhere to corporate social responsibility. Žižek's approach works at two levels in the critique of CSR: at one level, he reveals the personal hypocrisy of 'nice' liberals. At the second level he reveals naturalized ideological capitalism. The ideological level here concerns the taken for granted truths about the inevitability of the capitalist political-economic system. The very idea of a humanized sort of capitalism resembles ideology at its most successful. Žižek combines a satirical-ironic style in his writings with German Idealism, Hegelianism, Marxism and Lacanian psycho-analysis. His approach is therefore far from the mainstream in the academic literature on CSR. In *On Violence* (2008), one finds his most elaborate criticism of liberal CSR personified in the character of the 'liberal communist'. Cederström and Marinetto (2013) have discussed Žižek's recent writings on what he calls 'cultural capitalism' as being synonymous with CSR. In Cederström and Marinetto's reading of Žižek, there are three distinct beliefs held by the liberal communist:

> (1) that there is no opposition between capitalism and the social good; (2) that all problems are of a practical nature, and hence best solved by corporate engagement and (3) that hierarchies, authority and centralized bureaucracies should be replaced by dynamic structures, a nomadic lifestyle and a flexible spirit (ibid. p. 416).

These three 'positions' or beliefs encapsulate Žižek's somewhat scattered comments on CSR and therefore provide a good starting point for a more systematic overview.

16.3.1 Frictionless Capitalism

Bill Gates, founder of Microsoft, calls the first point 'that there is no opposition between capitalism and the social good' *frictionless capitalism* (Žižek 2008, p. 14). According to Žižek, Gates is an example of a liberal communist, since he combines the hypocritical view that one can be engaged in philanthropy in his battle against malaria using wealth created by exploiting working people (ibid. p. 17). The double standards employed by liberal communists like Gates are embedded in capitalist ideology, according to Žižek. Hence, the idea that corporate interests go hand in hand with the public good in a frictionless way is ideological. The mainstream thinking found in current strands of 'strategic CSR' (Porter and Kramer 2006) reveals how CSR is viewed as a panacea to dehumanized capitalism. However, this optimistic view is found also within the leftist postmodern camp, where Antonio Negri subscribes to so-called 'digital capitalism', praising open source as a new alternative to the private property regimes belonging to the old capitalism (Žižek 2008, p. 14).

According to Cederström and Marinetto, the new corporate environmentalism is another example of 'frictionless capitalism'. When multinational corporations pro-actively engage in drafting environmental regulation, they primarily do so because they want to safeguard their business interests and less because of a genuine interest in the environment, regardless of how positive the impression might be (2013, p. 421). Looking at the process of engaging stakeholders, there might also be reasons for some caution about ideas of a frictionless capitalism'. Bobby Banerjee, a critic of the CSR agenda, observes that:

> In my work with two indigenous communities in Australia, I sought 'stakeholder input' about the presence of a mine on indigenous land. The response was unanimous: both communities wanted the mining company (a very, very, very large multinational company) to 'clean up, pack up, leave and never come back', to quote the words of one traditional owner. The company's response was to hire an anthropologist to 'consult' with communities on how best to expand its operations. The fact that these 'consultations' take place under drastically unequal power relations remains unaddressed (2008, p. 64).

So, according to Marxist critics, frictionless capitalism is not as smooth as the CSR discourse suggests.

16.3.2 Pragmatism

The second belief held by the liberal communist is 'that all problems are of a practical nature, and hence best solved by corporate engagement' (Cederström and Marinetto 2013, p. 416). This is the sort of pragmatism that overlooks the political-economic context in which social problems like poverty are embedded (Hanlon 2008). Žižek is sceptical about the way liberals suppress worries about the backdrop of deep structural economic causes of poverty – he calls this 'objective violence', as opposed to the more visible cases of 'subjective violence' that stimulate the liberal urge to help (Žižek 2008). Liberal pragmatism tends to focus on the misery that is most visible and presents an urgency we need to react to, but not reflect upon:

> Just this kind of pseudo-urgency was exploited by Starbucks a couple of years ago when, at store entrances, posters greeting customers pointed out that almost half of the chain's profit went into health-care for the children of Guatemala, the source of their coffee, the inference being that with every cup you drink you save a child's life (ibid. p. 5).

Such urgency presents ideology at work, according to Žižek, since it precludes reflective thinking by covering up the deeper causes of the misery. Moreover, it translates urgency into an 'action-guiding' moral principle of helping the ones most in need. Thus, there is a clear practical way of solving the problem of poverty and child mortality in this particular case and Starbucks is conveniently situated to design a practical solution for the politically and ethically concerned consumer to 'buy into'. In fact, liberal communists believe that unconventional innovative thinking in regard to alleviating poverty and social problems is what is needed.

> They [the liberal communists] hate a doctrinaire approach. For them there is no single exploited working class today. There are only concrete problems to be solved: starvation in Africa, the plight of Muslim women, religious fundamentalist violence. When there is a humanitarian crisis in Africa – and liberal communists really love humanitarian crises, which bring out the best in them! – there is no point in engaging in old-style anti-imperialist rhetoric. Instead, all of us should just concentrate on what really does the work of solving the problem: engage people, governments, and business in a common enterprise; start moving things, instead of relying on centralised state help; approach the crisis in a creative and unconventional way (ibid. pp. 18–19).

The real problem with this sort of pragmatism, according to Žižek, is that it naturalizes capitalism as the only imaginable political-economic system in all foreseeable future. He has made the joke that it is today easier to imagine a cosmic catastrophe and doom of the planet by, e.g. the collision with an asteroid from outer space, than it is to conceive of an alternative to capitalism. The outcome of naturalizing capitalism is seen in the debate over child labour and sweatshops. Jeffrey Sachs, a former critic of sweatshops, has now changed his position to become a defender, based on the argument that 'realistically', they represent a platform for lifting poor people out of poverty (Cederström and Marinetto 2013, p. 422). In the case of child labour, a common defensive reply is that the alternative is even worse, implicitly referring to the fact that children labouring in third world countries often do so because they would otherwise be forced into even worse situations such as prostitution or street begging. Even though this is most likely a 'realistic' and consequentialist assumption, it also reiterates the 'no foreseeable alternative to capitalism'-view; thus, we need to be pragmatic. The point is not that pragmatism is not required in situations like these; rather, it is that pragmatism may provide the kind of complacency that sustains ideological thinking.

16.3.3 Cool Capitalism

The third and last belief commonly held by liberal communists is the view that capitalism can be cool and human. Cederström & Marinetto talk about 'hipster capitalism' (2013, p. 424). A cool capitalist believes that 'that hierarchies, authority and centralized bureaucracies should be replaced by dynamic structures, a nomadic lifestyle and a flexible spirit' (ibid. p. 416). This feature of liberal communism corresponds well with Chiapello's diagnosis of critique being incorporated into capitalism through adaptation and assimilation. Hence, according to Žižek it is no coincidence that top executives such as Bill Gates are perceived as 'ex-hackers' who subversively represent an anti-establishment attitude (Žižek 2008). The catchword is *smart* thinking (ibid. p. 16).

Whereas the post-political pragmatism held by the liberal communist concerned issues of how to alleviate the misery related to 'exploitation', the cool capitalist is more concerned with ‘authenticity’ and thus gravitates to the Marxist concerns about ‘alienation’. Capitalism is creative, and this is seen in the way it can solve problems in new and innovative ways, not least in ways that are aesthetic as well. When, for instance, Mercedes-Benz launched a campaign for car sharing, ‘CarTogether’, they used the famous and iconic photo of Che Guevara, and proclaimed: ‘Some colleagues still think that car-sharing borders on communism. But if that’s the case, viva la revolucion!’ (Cederström and Marinetto 2013, p. 426). In a similar vein, in 2012, the ice cream producer Ben & Jerry’s raised $300,000 to support the Occupy Wall Street movement (ibid. p. 424).

16.4 The End of CSR?

These are the three beliefs held by the liberal communist: frictionless capitalism, pragmatism and cool capitalism. Together, they provide a critique of some internal inconsistencies found in current CSR thinking. What can we conclude from this?

The Marxist-inspired criticisms offered by Chiapello and Žižek are examples of critique of ideology applied to CSR. It gives the impression that the entire agenda of CSR is corrupt and it can be defeated. The criticism is aimed at both the structural level of the economy as well as the micro-level of personal intentions. Hence, CSR exemplifies what Adorno called a ‘sticking plaster’ on the wound of capitalist exploitation (cited in Jones et al. 2005, p. 110), as well as being a cover up for personal hypocrisy and greed. However, even though much of this sort of criticism is to the point in some cases, and perhaps even symptomatically overlooked by mainstream CSR thinking, it lacks positive suggestions for the role that the private sector could play. Among the Marxist inspired critics of CSR, Fleming and Jones (2013) endorse the liberal deliberative democracy model suggested by Scherer and Palazzo (2007). Hence, even though the CSR discourse is corrupt and unhelpful in overcoming capitalism, there might be tendencies within CSR that could be initial stepping-stones for needed reforms of capitalism.

In the following, I will suggest some possible counter critiques and revisions to the current Marxist critique of CSR.

The replies are meant to argue that the primarily ‘liberal’ CSR agenda is not as far away from the concerns of Marxism as one might think. My remarks could function as positive supplementary amendments to the mainly negative Marxist theory on CSR. In my positive critique, I am particularly inspired by the ‘social connection model’ for global justice suggested by Iris Marion Young (2006) and by Scherer and Palazzo’s (2011) deliberative democracy model for global corporate-state co-governance. I will now briefly present these two approaches, and then conclude by proposing that the concern for justice – generally rejected by Marxists but embraced by so-called ‘analytic Marxism’ (Cohen 1995; Kymlicka 2002), could be relevant for future CSR thinking.

16.5 Liberal Revision 1: The Social Connection Model

If Marxists are concerned about capitalist exploitation in upstream supply chains, Iris Marion Young's social connection model is a welcome contribution. Young operates within current liberal political theory, particularly the Rawlsian theory of justice (Rawls 1971, 1999). In particular, she is inspired by how Thomas Pogge has argued for transposing the issue of justice beyond the nation-state to the global level of society (2002). According to Rawls, the site of justice is the nation-state, because here citizens find themselves reciprocally related (Rawls 1971) – whereas this is not the case beyond the nation-state. Well-off citizens might owe a certain level of humanitarian assistance to poor people in far-off countries, but they do not owe any sort of justice to them (Rawls 1999). Thomas Pogge has argued that the basic structure of global trade, international law and institutions together qualify for the sort of reciprocity between people that Rawls would admit qualifies for raising claims of justice (Pogge 2002). Young takes Pogge's point of global interdependency and concludes that:

> Claims that obligations of justice extend globally for some issues, then, are grounded in the fact that some structural social processes connect people across the world without regard to political boundaries (Young 2006, p. 102).

The distinction between institutions and mere social connections refers to the somewhat vague definition of 'institution' at work in the work of both Rawls and Pogge. By admitting that spurious ties like mere 'social connections' provides sufficient reason for claims to justice is far beyond what standard liberal political theory would accept. Young willingly admits this, but when examining the case of sweatshops in the global garment industry, things look different:

> Not a few institutions and individuals find absurd the idea that consumers and retailers bear responsibility for working conditions in faraway factories, often in other countries. Not unreasonably, they say that even if the workers producing the items they buy suffer wrongful exploitation and injustice, we have here nothing to do with it. It is, rather, the owners and managers of the factories who are to blame. Despite the apparent reasonableness of this dissociation, the claims of the anti-sweatshop movement seem to have struck a chord with many individuals and institutions. I think that to understand why this is so, we need a conception of responsibility different from the standard notion of blame or liability (Young 2006, p. 107).

Hence, Young introduces the sort of responsibility associated with the 'social connection model' relevant for the case of sweatshops (and for that matter any similar social relation mediated by global markets and production). The two views on responsibility are: the traditional juridical 'liability' view, and the '(moral) responsibility for social connections' view. Five features distinguish the two sorts of responsibility from each other. First, the social connection responsibility view cannot isolate who is responsible for inhumane working conditions in sweatshops. There is no single perpetrator, even though in the sweatshop case, the local management is legally liable and blameworthy:

> Finding them guilty, however, does not absolve the multinational corporations from responsibility for the widespread nature of poor working conditions in the factories producing goods they market. Nor does it absolve those of us who purchase the goods from some kind of responsibility to the workers who make them (ibid. p. 120).

The second feature is about 'fair background conditions'. Judging someone to be liable presupposes that the normal background condition is stable and fair, similar to Rawls' assumption about the rule of law in the nation-state. However, this assumption does not hold according to the social-connectionist view, e.g. the social and political background conditions are typically disputable in the case of sweatshops.

The third difference concerns the fact that liability is usually backward looking, whereas the social-connectionist view is forward-looking (ibid. p. 121). This has the implication that responsibility related to sweatshops falls on those who are to benefit from them in the future. This corresponds well with John Ruggie's UN guiding principles for responsible business, according to which corporations have a responsibility to 'respect' and 'remedy' violations of human rights within their 'sphere of influence'. This sort of responsibility is precautionary and forward-looking (Ruggie 2008).

The fourth and fifth distinctions regard responsibility in the social connectionist model as shared and to be discharged through collective action (Young 2006, p. 123).

Young does not say much about the content of what justice requires; her work is focused on requirements for justice per se.

We should consider Young's work on structural injustice and the social connection model as a liberal supplement to the Marxist theories of CSR. Young provides the positive model that allows justice to be the standard for normative judgment of the case of responsibility through the supply chain, as demonstrated by the case of sweatshops. She also singles out exploitation and structure as core features of the 'system', on a par with Marxist views. The social connection model is thus a relevant supplement to the negative critique of ideology manifest in leftist CSR criticism.

16.6 Liberal Revision 2: Political CSR and the Vacuum of Global Governance

Andreas Scherer and Guido Palazzo (2007, 2011) have suggested 'political CSR' as an umbrella concept for understanding how business corporations are embedded in and cooperate with political institutions, in particular at the global level. Due to the forces of globalization, nation-states are less powerful and hence, a regulatory governance vacuum appears. To compensate for the absence of regulation in the governance of global society, civil society actors (mainly NGOs), international organizations and the general public push for solutions on issues and in geographical areas where they expect someone to take responsibility. Multinational corporations are often well situated to discharge such duties and contribute to solutions. Scherer & Palazzo here refer to Young's social connection model as paradigmatic for understanding how political CSR should be conceived (Scherer and Palazzo 2011, pp. 912–913). However, where Young points to global interdependency of social connections and social structures, Scherer and Palazzo make the opposite point: that globalization elicits two effects: increased interdependency of global social connections in combination with an increase in a global regulatory vacuum. Hence, considering sweatshops, they exemplify global connectedness between the workers in primarily poor countries and consumers in affluent countries; on the other hand, the sweatshops often operate in geographical areas where regulation is absent or cannot be enforced. In this sense, Scherer and Palazzo's contribution works as a supplement to Young's theory. However, it is not entirely clear to what degree the Habermasian normative framework of deliberative democracy employed by Scherer and Palazzo provides any guarantee that multinational corporations will participate deliberatively and democratically. Even though they are under public pressure from stakeholders, the theory cannot predict whether multinationals could take advantage of the power position they have *vis á vis* their stakeholders. The procedural democratic normative model for deliberation and cooperation is quite minimalistic in regard to substantive norms (human rights basically), and it is not enforceable beyond what stakeholders can push through. Fleming and Jones (2013), while acknowledging the democratic potential in the theory of political CSR, remain sceptical:

> But one cannot have capitalism and deliberative democracy simultaneously since they cancel each other out given the mutually exclusive institutional logics that, in essence, constitute them (ibid. p. 87).

Even though Marxist-inspired critics such as Fleming and Jones do not share the optimism of Scherer and Palazzo in 'reading' the current situation of multinationals and stakeholder involvement at the global level, it is possible to see the very notion of 'political CSR' as promising. Political CSR might be conceived within the (critical Habermasian) liberal camp, and its strength lies in its diagnostic credibility to describe the transition from mere strategic and re-active CSR towards normative and ethical CSR. The validity of political CSR in accounting for this move can be tested at the empirical level. In regard to amending Marxist-inspired criticism of CSR, the very term 'political CSR' has opened up a venue for viewing CSR as a politically contested term, and thereby decoupling the term from its deadlock position between strategic-economic and purely (idealistic) ethical CSR. In this sense, political CSR is a 'bridging' concept that opens up for a wider dialogue between the harsh Marxist critics and the more hopeful critical liberals as to what CSR is and whether pursuing CSR could be worth the effort.

16.7 Concluding Remarks: CSR and Exploitation Revisited

From a Marxist standpoint, the issue of exploitation is central. The current Marxist criticism of CSR presupposes that CSR is a veneer that masks capitalist exploitation. However, it is not obvious how the presupposition about corporate exploitation should be understood, aside from the most clear-cut cases. Part of the reason for this is probably that the concept of 'exploitation' is mainly understood by Marxists as a political-economic and thus scientific concept. It is not a normative and ethical one. Hence, claims to violations of justice through exploitation are not in accordance with the classical Marxist view. Justice is ideology, and a mirror image of the power inequalities of class society. Liberals like Young, Scherer and Palazzo accept that exploitation is part of the problem that businesses must deal with. However, if the concept of exploitation cannot be defined clearly, it will be difficult for businesses to ensure that they do not engage in it. From the Marxist viewpoint, the very labour-wage relation itself is an expression of exploitation; from an orthodox Marxist view, it is unavoidable for businesses to be exploiters of the workforce. However, further qualification of what counts as exploitation might be needed. Part of the reason why Marx thought of exploitation as 'wrong' was that he presupposed: (1) that workers, through self-ownership of their labour, provide surplus-value (profit) to the capital owner, (2) that the worker has no alternative to work, since the alternative is unemployment and poverty, and (3) that the worker does not own the means of production himself (Kymlicka 2002, pp. 176–195). It can be disputed if these three conditions are still valid today in an unqualified sense. Within welfare states, for instance, condition (2) and sometimes (3) are not satisfied. However, moving to third world countries and observing cases like the sweatshop, the Marxist definition of exploitation becomes relevant. Now, conceding the relevance of exploitation to CSR, further qualification is needed for the concept to be operative. It can further be discussed what are the properties that make exploitation wrong. Following the lead from current 'analytical Marxist' thinking, it is not so clear if all three Marxist conditions of exploitation need to be satisfied (cf. Cohen 1995, pp. 195–196). Maybe condition (1), the worker supplying surplus value to the capital owner, is a sufficient condition for being exploited. What does it mean to exploit someone? Does it qualify to simply take advantage of someone's bad situation? Or are further conditions relevant to have necessary and sufficient conditions fulfilled for defining exploitation? Such issues are disputed in the academic philosophical literature. Moreover, taking the issue of justice into account, Marxists are challenged to move from the negative critique of ideology that rejects justice as irrelevant to understanding exploitation (Kymlicka 2002) to explaining why, by the standard of justice, exploitation is wrong. According to analytical Marxists like G. A. Cohen, exploitation is wrong because it is unjust: exploitation violates ideals of equality and rights (Cohen 1995). Hints of an understanding of Marxist justice are found in the saying 'from each according to his ability to each according to his needs' (Kymlicka 2002, p. 187). A needs-based conception of justice could be placed in the wider context of theories of justice, e.g. theories that refer to David Hume's circumstances of justice: moderate scarcity of goods and moderate conflict between citizens' conception of the good (moderate egoism).

To conclude: current Marxist theory and criticism of CSR is a highly relevant contribution to understanding political and ethical aspects of the CSR agenda and where it might be heading. However, since the current Marxist-inspired criticism of CSR subscribes to a mainly negative theory about CSR – CSR is a smokescreen and should be abolished, so to speak – it is worth investigating whether current liberal theory of CSR and recent analytical Marxist thinking could provide a positive contribution to understanding exploitation. Succeeding in this would be helpful to both ensuring central Marxist concerns about capitalism and helping corporations to avoid exploitative behaviour.

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Chapter 17
Corporate Social Responsibility in the European Union: An Assessment of CSR Strategy

Hakan Karaosman, Asli Yuksel Mermod, and Ulku Yuksel

Abstract This article investigates the role of Corporate Social Responsibility (CSR) in corporate governance. In the context of CSR's function in corporate governance, this study specifically focuses on the Europe 2020: European Union's Growth Strategy, and its corresponding directives related to CSR. Not only are the Member States of the EU requested to comply with the regulations, and laws, but the candidate countries are also expected to improve their sustainability performances as well as their national frameworks to foster social responsibility (European Commission, Europe 2020 – EU – wide headline targets for economic growth. Europe 2020. http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm, Accessed 15 Mar 2014, 2011).

The study investigates the European Union's 2020 Growth Strategy with a driven focus towards CSR targets to provide a comprehensive framework of what the EU has accomplished. In doing so, this paper seeks to depict a picture based on a real industry: the mining industry and the details of 2014 Soma Disaster in the Coal Mining industry in Turkey. With an attempt to demonstrate how CSR may be improved in terms of environmental as well as corporate governance at the EU level, a strategic assessment is provided.

The authors present case study evidence from the Mining industry and the Soma mining disaster which occurred in 2014 in Turkey that shows that established and newly formed governmental regulations and reforms relating to health and safety of the workers in the mining industry and the conditions of the mining shafts can be instrumental in implementing humane, civilized, ethical and acceptable norms in

H. Karaosman
Department of Industrial Management, Business Administration and Statistics; School of Industrial Engineering, Universidad Politécnica de Madrid (UPM), Madrid, Spain
e-mail: hakan.karaosman@upm.es

A.Y. Mermod (✉)
Department of Business Administration, Marmara University, Istanbul, Turkey
e-mail: asli@asliyuksel.com

U. Yuksel
The University of Sydney Business School, Discipline of Marketing, Sydney 2006, NSW, Australia
e-mail: ulku.yuksel@sydney.edu.au

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the form of corporate governance. These reforms potentially lead to collaborative cooperation of the companies with the governments and form corporate governance, part of a sustainable, ethical, and socially responsible conduct that facilitates implications of safety measures culminated by a health, and safe labour conditions in a given country in the context of the industry.

The study incorporates contemporary literature and documents of the European Union's Growth Strategy, which portray the expectations and directives of the body as to the CSR practices of the member and candidate countries, emanating from the Europe 2020 configuration. In doing so, it takes a process approach and provides much needed qualitative evidence in CSR research via a case from the mining industry.

17.1 Introduction

What does sustainability constitute? The concept of sustainability is trendy, reputed, and business models of various sectors are seen embracing it across the world. Thus, it is vital to first determine what sustainability encompasses. United Nations (UN) described sustainability in its renowned 'Brutland Report' of 1987. Sustainable Development (SD) was developed to meet present generations' needs without endangering future generations' ability to satisfy theirs. Triple Bottom Line (TBL) of sustainability issues the integration among economic profitability, social sustainability, and environmental sustainability based on international values, and needs. The generally acknowledges definition of sustainability is "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs (Brundtland 1987)."

CSR could be described in the terms of sustainability. Thus far, different definitions for CSR have been generated. Kotler and Lee (2005) described CSR as a commitment to improve social conditions, and well being of societies through business practices, and contributions. Additionally, World Business Council for Sustainable Development (2000) stated that CSR is a business commitment to help improve societies' life quality. In general, CSR is a concept that expects from businesses to operate while meeting legal, ethical, environmental, and social expectations or needs of societies (COM 2006a; Garriga and Melé 2004; United Nations 1987). All the core subjects of social responsibility established by ISO 26000 are included in key CSR definitions which involve the environment, community involvement and development, consumer ethic issues, corporate governance, human rights, labour practices, and fair operating practices (Dahlsrud 2006). As such corporate governance can be considered as a part of the CSR and social responsibility.

In terms of a marketing perspective CSR is often referred to as "cause related marketing" which may be perceived as a marketing tool, acknowledging "not only that business success is compatible with the public good, but that both can be achieved in unison" (Varadarajan and Menon 1998, p. 72). More and more firms use cause related marketing as a competitive tool, "triggered by factors relating to business, NPOs and government, which include shifts in the macro-environment, competitive challenges, increased demands of consumers and decreased government support for non-profit organisations" (Hemat and Yuksel 2014, p. 4). This is because ever more saturated markets made it a hard task for marketers to differentiate their products and offerings, increased by strong local and international competition (Westberg 2004). Cause-related marketing plays a significant role in disseminating firms' marketing practices as it revolves around "companies communicating through their advertising, packaging, and promotions their CSR, which is their affiliation with their NPOs or support for causes" (Hemat and Yuksel 2014, p. 4).

Even though, CSR has been restructuring the world, numerous facts remain unknown, and even untouched. Given its complex nature, this concept should be further analysed, and contemplated. The challenges, that the world faces recently, which we encounter in terms of environmental, and societal needs, have been shaped by what, we underestimated in the past. Therefore, there is an urgent need to chime for change in order to act more responsible for a more sustainable and better future. CSR consists of a wide range of issues including human rights, labour conditions, environmental affairs, corruption, and discrimination (Laudal 2010; UNGC and GRI 2007). Being socially, and ethically responsible is what the planet needs to be able to provide pleasant conditions for future generations (Abreu et al. 2012). Thus, we all are responsible, equal, and at the first row in this ethical game. With an increasing knowledge, and interest in CSR, societies are becoming more aware of the need for a change in our daily habits (Öberseder et al. 2013). However, there is one question to be asked: Are attitudes, and behaviours aligned? Do what we say, and what we do correspond each other? In order to answer these questions positively, it should be ensured that ethics, transparency, and accountability be warranted, and sustained not only in corporations but also in societies. To this respect, governments have a major role to endorse, facilitate, and mandate CSR participation through controls, inspections, targets, and legislations (True Volunteer Foundation 2008).

Corporate governance and accountability are important parameters in which ethics should be fully integrated. During the General Assembly of the United Nations, Nobel Prize winner Professor Robert Shiller (2010) stated that the world economy remains in a fragile and weak situation following the financial crisis, which began in 2007. According to a study presented at a joint International Labor Organization-International Monetary Fund conference in Norway, the number of unemployed worldwide has been drastically increased to about 30 million since 2007 (Shiller 2010). Furthermore, the world real gross domestic product (GDP) growth rate is not favorable. This demonstrates that sustainability, and its inseparable pillars (i.e., ethics, social responsibility, and economic welfare) should be improved. Having these facts in mind, existing jobs should be kept while new ones are generated, business actions should be held in an ethical manner and, environmental resources should be protected. Overall, responsible actions should be endorsed, and sustained to boost economic, environmental, and social conditions.

Corporate Social Responsibility (CSR) plays a noteworthy role in the corporate governance. In the context of CSR's function in corporate governance, this study specifically focuses on the Europe 2020: European Union's Growth Strategy, and its corresponding directives related to CSR. Not only are the Member States of the EU requested to comply with the regulations, and laws, but the candidate countries are also expected to improve their sustainability performances as well as national frameworks to foster social responsibility (European Commission 2011). Therefore, it is vital to articulate what the directives say, how targets could be achieved, and how current practices comply with those directives or should be improved. This study investigates the European Union's 2020 Growth Strategy with a driven focus towards CSR targets. A renewed strategy for CSR, in which specific CSR actions have been targeted, is assessed in order to provide a comprehensive understanding and framework of what the EU has accomplished. In doing so, this paper seeks to depict a picture based on a real industry: the mining industry and details the case of 2014 Soma Disaster in the Coal Mining industry in Turkey. With an attempt to demonstrate how CSR may be improved in terms of environmental as well as corporate governance at the EU level, a strategic assessment is provided. With an attempt to improve sustainability, and social responsibility, the European Union has set some crucial targets to be met by 2020. This paper aims to shed light on the CSR related legislation and practices of the Europe 2020: Europe's Growth Strategy, more specifically to the renewed CSR strategy with actual targets. In sum, this paper examines, (i) Europe's Growth Strategy, (ii) a renewed strategy for CSR, (iii) an assessment of the CSR targets, progress, and achievements, and (iv) a specific assessment of the mining industry.

The rest of the paper is organized as follows. Firstly, theoretical background is provided in which the Europe 2020 and an agenda for CSR is presented. Afterwards, CSR actions implementation table is depicted to show what has been accomplished so far. Then a specific focus is driven towards the mining industry in terms of regulations, and mitigations via a case study method approach through the case of 2014 Soma Mining Disaster in Turkey. Lastly, a conclusion, and implications are pointed.

17.2 Background

17.2.1 EUROPE 2020: Europe's Growth Strategy

Due to the globalization, and rapid changes, societies have been exposed to long-term challenges, and shortage of economic as well as natural resources. In order to accelerate social and economic progress, and overcome such challenges, the

European Union (EU) is taking some fundamental further steps. As such, with an attempt to create a smarter and more sustainable economy, the EU has set out a strategy for the twenty-first century. Europe 2020 – Europe's Growth Strategy employs three guiding principles, and priorities (COM 2010) which they name as (i) Smart Growth, (ii) Sustainable Growth, and finally (iii) Inclusive Growth.

Europe 2020 reinforces these priorities through developing an economy based on innovation, promoting a greener, and more sustainable economy along with fostering a high-employment economy through social consistency. In order to achieve a smart, sustainable, and inclusive growth, the EU has set significant targets to be achieved by 2020 (COM 2010) as follows: (1) 75 % of the population aged 20–64 should be employed: This features a greater involvement of women, older workers, and better integration of migrants; (2) 3 % of the EU's GDP should be invested in R&D: This target initiates to focus on input rather than impact through innovation; (3) The "20/20/20 climate/energy targets" should be met: This goal covers reducing GHG emissions by at least 20 % compared to 1990 levels, 20 % increase in energy efficiency, and 20 % increase in the share of renewable energy resources; (4) The share of early school leavers should be under 10 %, and at least 40 % of the younger generation should have a tertiary degree; and finally, (5) 20 million less people should be at risk of poverty: This goal attempts to reduce the national poverty lines by 25 %.

These targets were set to represent abovementioned three main priorities, and each target was adapted for member states. The European Commission (EC), on the other hand, has put some other initiatives to catalyse the progress under these priorities. Seven flagship initiatives were developed to take committed by the EU, and the Member States. These important actions consist of "innovation union", "youth on the move", "a digital agenda for Europe", "resource efficient Europe", "an industrial policy for the globalisation era", "an agenda for new skills, and jobs", and "European platform against poverty". Having these targets, and priorities in mind, for a stronger economic governance, Europe 2020 was established based on two fundamental pillars: the first relates to the thematic approach through combination of targets, and the second is about country reporting by helping the Member States develop, and improve their own strategies (COM 2010).

Developed and emerging economies have become tough competitors for the EU. Countries such as India and China are comprehensively investing in research and development with an attempt to advance their value chains. Moreover, global finance, and its inconsistency such as short-termism, excessive risk-taking in financial markets, and speculative behaviour have created some imbalances. Apart from these economic dimensions, natural resources have become scarce. To fight against climate change and resource based challenges, an action has been required to chime for change. Therefore, EU has set this strategy to act so as to avoid decline in today's blurred global arena. Not only on the economic or environmental side, but also on the social side, the EU faces up some problems such as resource scarcity, productivity issues, and ageing. The EC defines inclusive growth as a growth by which societies could be empowered through high levels of employment, enhanced skills, and modernised labour markets, social protection, and training. In order to assure, and maintain a cohesive society, delivering an economic yet social cohesion has been one of the essential targets across the EU. More specifically, the EU has outlined an action plan that requires strengthening the training policies, raising corporate social responsibility among the business communities, reducing the unemployment, and finally, increasing labour participation (COM 2010).

Corresponding flagship initiative, that is, “an agenda for new skills, and jobs” aims to generate conditions for improving labour markets by raising employment levels, and ensuring the sustainability within the business models. In order to accomplish these objectives, the commission has been working on several initiatives which include and aim (i) to define, and implement the second phase of “the flexicurity agenda” (an integrated flexibility, and security strategy) to pinpoint methods to better achieve economic transitions, and to fight against unemployment; (ii) to promote intra-EU labour mobility, and further provide financial support; (iii) to strengthen the capacity of social partners to achieve a full problem-solving potential; (iv) to adapt the legislative framework, in line with ‘smart’ regulation principles, and new risks for health, and safety at work; (v) to provide cooperation with a strong incentive to the strategic framework in education, and training; and finally, (vi) to ensure that skills required to engage in the labour market are attained, and to develop a common language entitled “European Skills, Competences, and Occupations Framework (ESCO)”.

Europe 2020 strategy is extremely important for the member states; nevertheless, it has a big significance for candidate countries as well. Turkey, which is a candidate country, is expected to further implement, and promote sustainability in its industrial as well as governmental actions, policies, and daily agendas to better ensure a sustainable future.

17.2.2 A Renewed EU Strategy: 2011–2014 for CSR

Corporate Social Responsibility (CSR) was defined by The European Commission as “a concept whereby companies integrate social, and environmental concerns in their business operations, and in their interaction with their stakeholders on a voluntary basis” (COM 2011a). CSR requires a strategic approach to increase the competitive advantage. From scholars to practitioners, prior studies articulate that CSR could bring further benefits including risk management, cost savings, license to operate, consumer, and employee satisfaction,, and innovation (Bhattacharya and Sen 2004; Lin et al. 2009; Öberseder et al. 2013; Weber 2008). Furthermore, it is inevitable to stress that CSR requires engagement with internal and external stakeholders. This way, it could ensure the development for growth. Sustainable development, and social market as well as economical targets could be better achieved through well-established CSR strategies. Therefore, CSR has been defined as one of the strategic goals at the European level. The EU has a target of boosting the employment rate up to 75 % within its Europe 2020 strategy (COM 2010, 2011a, c). Thus, CSR is directly linked with the EU's strategic objectives to be achieved by 2020. More specifically, companies operating in the private sector are expected to take responsible actions by going beyond legal frameworks. CSR provides a set of values through which the social effects of the economic crises could be mitigated, and a more cohesive society could be generated.

Therefore, the EU has been playing a pioneering role in the development of public policy to further promote, and communicate CSR. Hereby, it could be articulated that, throughout the past decade some significant CSR initiatives were taken at the EU level. The very first "Green Paper" was published in 2001 (COM 2001), and the European Multi-stakeholder Forum on CSR (EMSF) was established in 2004. Subsequent to the forum, the EC issued the Communication on CSR in 2006 as a follow up (ECCJ 2006). Furthermore, a new policy was published with an attempt to support business-lead initiative. Within this "European Alliance for CSR policy" the main priority areas were listed as follows (COM 2006a, 2011a): (i) -Awareness-raising, and best practice exchange; (ii) Support to multi-stakeholder initiatives; (iii) Cooperation with members; (iv) Transparency; (v) Research; (vi) Education; (vii) Small and Medium Enterprises (SMEs), and (viii) The International dimension of CSR.

Through this policy, more than 180 companies across the union were acknowledged developing a series of practical implements. Despite the tendency, important challenges were encountered, and some have still remained untouched. Social and environmental concerns have not been fully integrated into the business models yet. National policy frameworks are also limited. Only 15 out of 27 EU member states had national frameworks to promote CSR back in 2011 (COM 2011a). In order to attempt these challenges, the European Commission has been working on identifying new factors to increase the impact of CSR policies. Amongst other key issues, the EC has been specifically working on (i) making the EU definition of CSR more consistent with updated international principles, (ii) issuing the company transparency on social, and environmental issues,, and (iii) paying a significant attention to human rights. This is why companies and specific industries are further expected to improve CSR whilst making their operations. Furthermore, "The European Policy for CSR" aims to endorse a full consistency with internationally recognised guidelines, and principles, including OECD Guidelines for Multinational Enterprises, United Nations Global Compact, ISO 26000 Guidance Standard on Social Responsibility, (International Standards Organisation, 2010), and the International Labour Organization Tri-partite Declaration of Principles Concerning Multinational Enterprises, and Social Policy (COM 2011a).

In the light of these principles, and guidelines, it could be stressed that CSR consists of human rights, labour, and employment practices, environmental issues,, and preventing corruption (UNGC and GRI 2007). Along with these indicators, CSR agenda also covers community development, the disclosure of non-financial information, supply-chain transparency,, and integration of disable individuals (COM 2011a). In addition, the EC has adopted a communication on the EU policies in which employee volunteering is also recognised (COM 2011b).

In conclusion, the definition of CSR requires companies to be more responsible for their impacts on society as well as environment by integrating environmental, ethical, human rights, and consumer concerns into the core business strategy. The complexity of this transition will depend on various factors such as the size of the company, and the business industry itself. Therefore, industry specific action plans, and frameworks are heavily needed to conceptualize a more efficient CSR depiction. It can be stressed that CSR should be developed, and implemented by companies while public authorities, and governments are supporting to such incentives through mix of voluntary and, where necessary, corresponding regulations.

17.2.3 An Agenda for the Renewed CSR Strategy: 2011–2014

The commission created an agenda consisting of commitments as well as suggestions for companies. Through the implementation of this agenda, the EC attempts to enhance the visibility of CSR, and disseminate good practices; to improve, and track level of trust in companies; to improve self-, and co-regulation processes; to enhance market reward for CSR; to improve company disclosure of social, and environmental information; to further integrate CSR into education, training, and research; to emphasise the importance of national, and sub-national CSR policies; and finally to better align European, and global approaches to CSR. For each action with regard to the CSR strategy, CSR related targets were assigned to meet. Prior to highlighting what has been accomplished, and what the current status of this action plan is, a specific focus shall be given to the explanation for each target. Further details below are articulated based on the “a renewed EU strategy 2011–2014 for Corporate Social Responsibility” report issued by the EC. The targets to be achieved can be encompassed in eight separated CSR allied goals.

The first goal relates to “*enhancing the visibility of CSR, and disseminating good practices*”. The EC set targets within its action plan to further disseminate good CSR practices, and encourage more companies to develop their own CSR strategies. The EC also launched numerous programs to work with companies on social, and environmental issues (COM 2011a). Company, and government engagement was intended to achieve a success degree within its Europe 2020 strategy. The second goal is about “*improving, and tracking level of trust in companies*”. The EC intended to improve trust, and reliability with an attempt to become one of the most trusted economies. Lack of trust occurs due to the gap occurred between societies’ expectations, and existing perceptions. By setting these targets, the EC aimed to prevent exaggerated social and environmental disclosure of companies. The third one revolves around “*improving self-, and co-regulation processes*”. These types of processes, such as code of conducts, could earn support from the stakeholders when they are conducted in appropriate and relevant way. The EC intended to improve self-, and co-regulation processes for a better regulation program. The next goal gets on “*enhancing market reward for CSR*”. CSR are acknowledged to increase the competitive advantage in the long term, however majority of companies hesitate since it could not provide financial benefits in a shorter period. To overcome important obstacles, the EU leveraged its policies. Moreover, the EC intended to widely encourage companies to disclose not only their environmental impact, but also information about tax standards. Another goal involves "*improving company disclosure of social and environmental information*".

Climate, and energy based information along with societal needs are significant to issue. To better engage with all stakeholder groups, and fully integrate CSR into the business, accountability is vital. The EC thus intended to encourage companies to disclose their records, and non-financial disclosures transparently. The following goal revolves around "*further integrating CSR into education, training, and research*". The EC intended to enhance CSR value and societal attitude by integrating CSR, sustainable development, and responsible citizenship into syllabuses, and education. Further academic research and more empirical studies were also targeted. Then, the next target is on "e*mphasising the importance of national and sub-national CSR policies*". Local and regional authorities were aimed to utilize the EU structural funds to develop, and further improve CSR strategies. The best way to address, and overcome problems such as poverty, and social inclusion was believed to make collaboration amongst companies, and governments. Finally, the concluding goal is about "*aligning European, and global approaches to CSR*". EU set targets to promote international CSR principles, and integrate those principles into their policies. Therefore, focusing on those guidelines, implementing the UN guiding principles on human rights, and highlighting CSR whilst improving the relations with other countries, became significant objectives within EU 2020 Strategy.

17.2.4 European Commission CSR Action Plan 2011–2014: What Is the Current Status?

Back in March 2014, the EC has revealed the current status of their CSR action agenda in their communication. Table 17.1 below presents the EU's prioritized CSR actions, and current status based on targets set, and accomplishments achieved.

17.3 Case Study: The Mining Industry

Mining industry should be considered a very significant industry in relation to its CSR practices, as it should provide a responsible arena given the number of various corporations, and groups of individuals it encompasses. Therefore, stakeholder engagement throughout all operative stages should be ensured. Companies are expected to further work to minimize any negative impact on environment, and

Table 17.1 CSR action implementation

No	Action	Target date	Current status
Enhancing the visibility of CSR and disseminating good practices			
1	Create in 2013 multi-stakeholder CSR platforms in a number of relevant industrial sectors	2013	Three projects were awarded subsequent the call for proposals for this action. The projects from the fruit juice, the machine tools and social housing sectors were set to run 18 months from March 2013
			DG CONNECT (European Commission Directorate General for Communications Networks, Content & Technology) is set to launch a thematic network/platform called ICT4 Society from February 2014 with an attempt to ensure coherent and consistent coordination of CSR issues in the ICT sector
2	Launch from 2012 onwards a European award scheme for CSR partnerships between enterprises and other stakeholders	2012	The first European CSR awards ceremony successfully took place on 25 June 2013 in Brussels
Improving and tracking level of trust in companies			
3	Address the issue of misleading marketing related to the environmental impacts of products (so-called "green-washing") in the context of the report on the application of the Unfair Commercial Practices Directive 18 foreseen for 2012	2012	In April 2013, the EC published a Communication on the application of the UCP directive (138 final) (COM 2013b). Subsequently, the accompanying report (139 final) (COM 2013a) were released. It provided an outline for the actions required to maximize the benefits of the application
4	Initiate an open debate with citizens, enterprises and other stakeholders on the role and potential of business in the twenty-first century, with the aim of encouraging common understanding and expectations	2013	Debate on financing has been proposed to commence on 2014
			CSR Eurobarometer (DG Connect 2013) was published in 2013 by stressing that EU citizens feel uninformed about company's social activities
			Eurobarometer on discrimination (DG Connect 2012) was published in 2012 by showing that in particular in the employment sector EU citizens feel that there is need for improvement

(continued)

Table 17.1 (continued)

No	Action	Target date	Current status
Improving self- and co-regulation processes			
5	Launch a process in 2012 with enterprises and other stakeholders to develop a code of good practice for self- and co-regulation exercises	2012	A set of principles for better self- and co-regulation was published in February 2013
			A Community of Practice has been set up, with an online platform up and running to let companies, industry associations, NGOs, universities, researchers or other organisations exchange ideas and best practices about better self- and co-regulation actions with an attempt to promote and advance the Principles for Better Self- and Co-Regulation that summarize current evidence-based best practice design principles for self and co-regulatory actions
Enhancing market reward for CSR- Public Procurement			
6	Facilitate the better integration of social and environmental considerations into public procurement without introducing additional administrative burdens for contracting authorities or enterprises	2011	Proposal for revision of public procurement directives published by the Commission December 2011. The proposed directive is aimed to be adopted in 2014
Enhancing market reward for CSR- Investment			
7	Consider a requirement on all investment funds and financial institutions to inform all their clients about any ethical or responsible investment criteria	No date assigned	The Commission adopted legislative proposals in 2012 in order to improve disclosures for retail investment products that provide a basis for providing summary information about CSR and socially responsible investment matters
Further integrating CSR into education, training and research			
8	Provide further financial support for education and training projects on CSR under the EU Lifelong Learning and Youth in Action Programmes, and launch an action in 2012 to raise the awareness of education professionals and enterprises on the importance of cooperation on CSR	2012	Seminar on youth, entrepreneurship, volunteering and CSR organized in Sept 2012 that articulates that more support is required to encourage young people into voluntary activities that will better prepare them for the world of work
Emphasising the importance of national and sub-national CSR policies			
9	Create with Member States in 2012 a peer review mechanism for national CSR policies	2012	Thus far 5 peer review (out of 7) have been held

(continued)

Table 17.1 (continued)

No	Action	Target date	Current status
INV 1	The EC invited member states to develop or update CSR plans or national lists of priority actions	Mid-2012	A survey was sent to EU Member States. 25 responses out of 28 (except BE, GR, LU) were received showing that 24 member states had a plan; and one member states (LV) is not planning a national action plan
Aligning European and global approaches to CSR- Principles & Guidelines			
10	Monitor the commitments of European enterprises with more than 1,000 employees to take account of internationally recognised CSR principles and guidelines, and take account of the ISO 26000 in its own operations	No date assigned	Analysis of 200 randomly selected large enterprises was published in March 2013, which is available here: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm
INV 2	The EC invited large European enterprises to make commitment to take account of UNGC, OECD GL or ISO 26000 in their CSR approaches	2014	*Status to be followed up*
INV 3	The EC invited all European-based multinational enterprises to make a commitment to respect the ILO Tri-partite Declaration of Principles	2014	*Status to be followed up*
Aligning European and global approaches to CSR- UN business & Human rights			
11	Work with enterprises and stakeholders in 2012 to develop human rights guidance	2012	Sector guidance: selection of sectors was announced February 2012, which is available here: http://www.ihrb.org/project/eu-sector-guidance/consultation-documents-and-reports.html
			SMEs: Introductory guide and other materials published in multiple language version was announced in March 2013, which is available here: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/human-rights/index_en.htm
12	Publish by the end of 2012 a report on EU priorities in the implementation of the UN Guiding Principles	2012	In May 2012, the EU published an informal discussion paper as an input for Danish Presidency Conference on implementation of the UN Guiding Principles. Estimated publication date of report now second quarter 2014

(continued)

Table 17.1 (continued)

No	Action	Target date	Current status
INV 4	The EU invited all European enterprises to meet the corporate responsibility to respect human rights, as defined in the UN Guiding Principles.		*Partial follow up could be possible through action 10*
INV 5	The EU invited all Member States to develop national plans for the implementation of the UN Guiding Principles	End of 2012	EU Strategic Framework and Action Plan on Democracy and Human Rights, adopted by the Council of the EU was published in June 2012 (Council of the EU 2012), and one of the actions is for Member States to develop national plans for the implementation of the UNGPs, with timing indicated for 2013
Aligning European and global approaches to CSR- CSR in relations with third countries			
15	Identify ways to promote responsible business conduct in its future policy initiatives towards more inclusive and sustainable recovery and growth in third countries.	2012	In January 2012, the EC adopted its communication on Trade, Growth and Development (COM 2012c)
			In August 2012, the EC adopted its communication on social protection in EU development cooperation (COM 2012b)
			The 2012 and the 2013 Action Programs of the European Instrument for Democracy and Human Rights (EIDHR) supported the development of trade unions and social dialogue in 3rd countries, which is available here: http://www.eidhr.eu/library
			Roadmap on ''Strengthening the role of the private sector in achieving inclusive and sustainable growth in developing countries was published in 2012 (COM 2013c)

Source: Developed by the authors based on the European Commission Communication on CSR 2011: Implementation table (COM 2014)

society while maximizing profits. Responsible business requires taking a proactive approach in order to ensure responsible operations to prevent environmental pollution, mitigate any kind of social impact, and provide better conditions for health, and safety. To better illustrate the need for a responsible mining business; it would be worthwhile to point out some "irresponsible mining" examples. Due to social scandals, and incidents that have happened throughout the past years, most people, and stakeholder groups have come across the mundane consequences of irresponsible actions. Therefore, it is an inevitable fact for the mining industry to further implement, and improve CSR practices while running their operations. In order to be able to learn from past accidents, and unfortunate incidents, societies need to look back to force the mining industry to strictly follow precautionary principles through which risks are recognized, and action plans are implemented.

17.3.1 Mining in the EU: Regulation and Further

While aiming to further integrate CSR into the business agendas in order to grow the economy and societies' wellbeing, one of the challenges Europe encounters relates to raw material shortage. To overcome these barriers, and ensure an inclusive yet sustainable growth, industry specific actions are highly required. To this extend, the EU mining industry is acknowledged to potentially become a comprehensive solution to Europe's raw material shortage. However, mining activities highly depend on employment, and productivity. Major challenges of the industry consist of land use, labour intensity, health, and safety issues, and process to be complied with environmental laws. The mining industry is also significant for value added generation, and high employment rates. Therefore, this particular industry is directly linked with CSR matters, which deserves a careful attention to be paid. Given sustainability is a key requirement for both the industry, and the EU, some framework, and legislation were already developed (Szcepanski 2012). In his report, Szcepanski (2012) emphasizes that the EU should not only be concerned about environmental impact but also about occupational health, and safety.

17.3.1.1 Environmental Regulation

Two types of environmental concern are raised due to the mining operations, namely: (i) Depletion of non-renewable resources, and (ii) harm to the environment as a consequence of air, water, and noise pollution as well as negative effects on groundwater (COM 2000a). Under this category, the EU legislative framework provides some comprehensive directives. As such, *The Mining Waste Directive* introduces obligatory permits, and requirements for constructing, and adjusting an extractive waste facility (COM 2006b); *The Water Framework Directive* provides a river-basin management with a focus on ecology, and obliges a good status that should be achieved for all EU water by 2015 (COM 2000b); *The Habitats Directive* shapes a nature conservation policy for a better nature protection (COM 1992); *The Environmental Impact Assessment Directive* (COM 2012a) assesses the effects on the environment; *The Liability Directive* is based on "polluter pays" principle (COM 2004).

17.3.1.2 Health and Safety

In relation to health and safety, European Commission (2010), the mining industry employs one of the maximum rates of work-related health problems, and accidents at work place (Szczepanski 2012). *The Occupational Health, and Safety at Work Directive* provides a guideline by setting general principles to protect the health, and safety of workers (COM 1989). The directive has been aiming to eliminate the risk factors for accidents. To that extend, employers have been obliged to ensure the health, and safety through activities of prevention, training, and education. According to this directive, the employer should appoint one or more trained workers to ensure that the procedures are pursued with an attempt to establish protective services. Workers, on the other hand, are also expected to comply with some obligations in accordance with the training provided, and instructions set (COM 1989).

In conclusion, the EC has been working on the directives for CSR, health, and safety issues, and sustainability. In sector specific actions, mining industry has a significant place since it could contribute to (i) enrich the raw material generation, (ii) provide high rates of employment; and (iii) increase EU's competitive advantage in the global arena. Given the fact that mining industry is directly linked with multiplexed social concerns, it could be articulated that CSR has been paid attention at the EU level to improve the conditions. However, despite the efforts made, some countries fail to perform better, and provide examples for the best practices (Adey et al. 2011).

17.3.2 The Case: 2014 Soma Mine Disaster of Turkey

Being one of the key coal producers in the world, mining accidents happen in Turkey. About 600 miners had lost their life in Turkey over 31 years between 1983 and 2014 with around 100 deaths reported since 2003.

Prior to 2005, the Soma mine was state-owned. In 2007 it was taken over by the private company Soma Holding. (Der Spiegel). Private companies usually are leaded by 'for-profit' approach. Soma Group is a Turkish conglomerate operating in coal mining and construction business. The mining shaft of the Soma Komur Isletmeleri AS (Soma Mining Inc., a Turkish coal mining company), a subsidiary of the Soma Group, is 300 miles southwest of Istanbul, in Manisa in Turkey. The company which is the largest coal producer in the region has its headquarters is in Istanbul Soma Mining and started its mining operations in 1984. According to the company's website Soma employs 5,500 people out of which 5,000 work in underground mining venture and mine about 2.5 million tons of coal per year; the rest being the engineers and technical and managerial staff. The company obtained the rights for the mining of about 18 million tonnes of coal from the state in a legal tender in 2005.

On the 13th of May 2014, the largest coal mining disaster in Turkey's history of the mining industry occurred in the Soma/Manisa coal mining shaft which should be highlighted as the single "highest loss of life." The mining disaster occurred due to a mine fire which trapped miners underground. The mining company has attributed the tragedy contradictorily to an explosion whereas other sources indicated a fault with the mine's electrical distribution system, inciting a fire. As a consequence the mine's shaft as well as its ventilation system lost power when around 800 miners were underground during the incident. The cause of the deaths was intoxication due to exposure to excess carbon monoxide. Although officials at the Soma Group claimed the incident happened despite the "highest safety measures and constant controls", protestors were enraged blaming the negligent government legislation, rules and regulations.

Alas, the 2014 Soma disaster has proven Turkey's dismal coal-mining safety record, which cost more than 700 miners their lives, albeit officials initially claimed it was about 307 miners who died. Hak-Is Union Confederation chairman stated that "80 % of these [deaths] could have been avoided if necessary safety measures had been taken," (The Economist) blaming this huge accident on the mining company which puts the priority on profitability and not on safety.

In an early 2012 interview, the owner of Soma Holding stated that the company run under low operating costs, and thus surpassed estimates by the previously state-run operation. Although the state had estimated Soma would cost $130–140 a ton to mine, the company committed to $23.80 per ton, including a 15 % royalty fee paid to the state (E&MJ News). Minimizing costs policy should not be provided by jeopardizing the safety conditions of the workers, but it appears that many precautions have been avoided in order to maximise profits and minimize costs. The gas masks used in the Turkish coal mine were more than 15 years past their expiry date; media in the country have reported. The workers emphasized that the inspections which were made to control the mine were superficial. "The state safety inspectors went usually only 300 m–400 m down but the mine was 2 km deep and the inspectors should have checked until the end," was a statement made by one of the workers. The workers also admit that the authorities were not responding adequately to rising temperatures, alarms and growing gas levels in the mine (Dombey & Zalewski, 2014) .

In underground mining the costs are kept to a minimum when the managing company is a for-profit company; the costs can be lowered by low wages and low safety standards. The experts clarified that the explosion arose when a transformer blew up. As a consequence of such an accident would cause overheating and a fire as an outcome, which consumed all the oxygen in the mine, the concentration of methane, carbon monoxide and coal dust in the mine additionally, result in another explosion. The only way to prevent the new explosions would be if there were underground water reservoirs that could flood the tunnels in the event of an explosion. But there were no such reservoirs in the Soma mine, nor were there adequate emergency escape routes, say eyewitnesses (Soma Tragedy, 2014). One of the press conferences made after the disaster focussed on the absence of the rescue chambers- safe rooms where miners can take refuge for an extended period of time. Rescue chambers were not a legal requirement (BBC news). If EU standards and regulations concerning safety and health were applied on the mining industry in Turkey before the disaster, perhaps more than 300 lives could have been saved by now.

Economists say that, the producers aim is profit maximization, and this goal can be achieved by decreasing the costs or increasing the prices, but in real life there is one more important fact than just profit maximization: humanity. CSR approach in all business lines keeps in its principles the fact of the importance of human, nature, environment, sustainability and future.

Discussion and Conclusions

Corporate Social Responsibility (CSR) plays a vital role in corporate governance. In the context of CSR's function in corporate governance, the locus of the study was on the Europe 2020: European Union's Growth Strategy, and its corresponding directives related to CSR. Both the Member States of the EU and the candidates are requested to comply with the regulations, and laws to advance sustainability performances social responsibility (European Commission 2011). The study highlighted the European Union's 2020 Growth Strategy with a focus on CSR targets to provide a comprehensive framework of what the EU has accomplished and depicted a picture based on a real industry: the mining industry with details from the 2014 Soma Disaster in the Coal Mining industry in Turkey as a case. With an attempt to demonstrate how CSR may be improved in terms of environmental as well as corporate governance at the EU level, a strategic assessment has been provided.

Case study evidence from the Mining industry and the Soma mining disaster which occurred in 2014 in Turkey proved that established and newly formed governmental regulations and reforms relating to health and safety of the workers in the mining industry and the conditions of the mining shafts are fundamental in executing humanitarian, refined, moral, right and gratifying standards in the form of corporate governance. These improved standards and reforms eventually lead to joint collaboration of the companies with the governments which then will inform corporate governance practices as part of a sustainable, ethical, and socially responsible conduct that facilitates implications of safety measures culminated by healthy and safe labour conditions in a given country in the context of the industry.

By incorporating current literature and legal documents of the European Union's Growth Strategy, which portray the expectations and directives of the official body as to the CSR practices of the member and candidate countries, emanating from the Europe 2020 configuration. The process approach provided much needed qualitative evidence in CSR research via a case from the mining industry.

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