CSR, Sustainability, Ethics & Governance

Series Editors: Samuel O. Idowu · René Schmidpeter

Nicholas Capaldi
Samuel O. Idowu
René Schmidpeter *Editors*

Dimensional Corporate Governance

An Inclusive Approach

Springer

CSR, Sustainability, Ethics & Governance

Series editors

Samuel O. Idowu, London Metropolitan University, London, United Kingdom
René Schmidpeter, Cologne Business School, Germany

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Nicholas Capaldi • Samuel O. Idowu •
René Schmidpeter
Editors

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Editors
Nicholas Capaldi
College of Business
Loyola University New Orleans
New Orleans, LA, USA

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

René Schmidpeter
Cologne Business School
Cologne, Germany

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Dedicated to All Members of the Global Corporate Governance Institute Worldwide

Foreword

The Global Corporate Governance Institute came into existence as the confluence of two streams of research: Corporate Governance and Corporate Social Responsibility. The former field has existed for over a century in Anglo-American Law, and the latter field came into prominence in the 1980s. Events since 1989 have made this confluence necessary. There are since the 1989 fall of the Berlin Wall very few places in the world where centrally planned economies are advocated. Almost everywhere there is the recognition of the importance of the promise of economic growth and development as the product of a market economy. At the same time, globalisation, the recognition of an inescapable global marketplace, became part of the public consciousness. But globalisation brings contagion—both its promise and its problems cannot be contained. It is no longer possible to be provincial.

Nor is it possible to understand these issues through the lens of one discipline. It is no longer possible to engage in the evolution of legal thought in abstraction from competing and sometimes conflicting legal traditions. The social sciences such as economics and traditional business school disciplines such as finance, management and marketing are forced to confront normative issues for which they are ill-equipped intellectually.

How are we to understand 'social' institutions? In what sense is a corporation (or firm) a 'social' entity, specifically as opposed to a 'commercial' entity? How do corporations relate to other social institutions (including political and legal ones)? What does it mean to evaluate the performance of social institutions in general and commercial ones in particular? How are we thereby to make sense of the notion of 'improving' performance? *Advocacy* of what future practice should be in evolving and novel contexts is not a form of research (i.e. not descriptive) but a normative activity. There is nothing inherently illegitimate about advocacy or normative activity. But it is intellectually dishonest to present this as 'research'. To what extent do activist organisations misrepresent the facts and to what extent is advocacy a mask for a private political agenda?

Scholars view CSR as a form of value creation (sustainable business model), risk management or philanthropy. While all of these perspectives are useful, these perspectives merely focus on the fact that corporations impact other social institutions. Might corporations have a positive obligation to transform other social institutions? Are corporations constrained to prioritise the production of profitable products or services?

As Schumpeter pointed out long ago, markets reflect a process of creative destruction. In the light of what Schumpeter had to say, we need to ask if we are researching the right questions. To what extent is our thinking constrained by inherited philosophical prejudice? Could this be by inherited cultural or geographical or historical bias? What institutions or institutional structures can be exported? Are we seeking a universal model or might we welcome a continuum of approaches?

We seek to turn the page and engage scholars from every discipline and every perspective to come together to grapple with what may be the epicentre of the major commercial, political and social issues of our time.

Global Corporate Governance Institute
New Orleans, USA
Nicholas Capaldi

Foreword: Global Corporate Governance: Global Cosmetics?

For CSR, the efforts of Samuel O. Idowu and colleagues have put in place a formidable background literature for CSR, including the *Encyclopaedia of CSR* and the *Dictionary of CSR* (Idowu et al. 2009, 2011, 2013, 2014). This has provided a well-documented vocabulary. The diversity of CSR is such that the same words are used with different meanings and contexts. CSR tends to be defined in terms of companies going beyond legal minimum requirements, and as such legal requirements vary around the world, we encounter varied cases. We need to explore central concepts around Responsibility, recognising that theory and practice can be very different. We must walk the talk, avoiding claims of academic detachment. We share an understanding of individual responsibility for our actions. Social responsibility, taking responsibility for the needs of others, may be less clear.

Management tends to be anything but Responsible. The culture is based on Irresponsibility, starting with protection of Limited Liability. We see an increased tendency to outsource responsibility. Profitability is maximised while commitments are restricted. This has accelerated with privatisation.

Once we see universities as businesses, it is harder to maintain academic detachment. There is pressure on universities to make cosmetic changes in order to compete. Despite the 2008 Financial and Economic Crash, and the subsequent Recession, many Business Schools have continued to teach as if nothing had gone wrong. Financial markets were not self-correcting. Loosely regulated banks and financial services exploited their freedom, with catastrophic consequences. Recovery is being financed by austerity and pressure on the poor. To talk of "responsibility" in such a context is absurd, insulting, and inflammatory. Universities now face a new threat from Massively Open Online Courses (MOOCs), which tend to be offered by high status universities but with a potentially disruptive impact on other universities. How are students to learn and to complete qualifications?

Vocational education continues to have lower status than academic studies, and Higher Education is remote from the workplace. Universities are knowledge workplaces. Combined with the pace of technology change, we see challenges to hierarchies and institutions (Johnsen and Ennals 2012; Johnsen 2014; Johnsen et al. 2015). Many companies do not regard their workforces as stakeholders and dialogue partners. They have developed approaches to corporate responsibility, looking outwards and ignoring the role of Working Life. Their schemes improve their image in the community, without affecting the core business. This is to apply lipstick to the capitalist pig (Ennals 2014). Companies are culturally situated, reluctant to address inconvenient truths, preferring denial.

Is there one model of capitalism which is followed globally, where the vocabulary of CSR is understood consistently? There is a small core of agreement. Capitalism should have a human face. CSR means companies going beyond legal minimum requirements. There has been optional corporate philanthropy. Now companies want to see CSR as integral to corporate strategy.

The dominant orthodoxy has been Liberal Capitalism, as seen in the USA and the UK. The European Union has developed an alternative Social Model, underpinned by EU Directives. In the European Union, employers have particular responsibilities to their employees. Social Partnership brings together employers' organisations and trade unions, who participate in the Social Dialogue process at all levels, as part of the process for improving working conditions (Fricke and Totterdill 2004). By contrast, many US and UK companies opt out of this social dimension, talking instead of Corporate Responsibility.

Scandinavia has maintained a distinctive Model. With the emergence of India and China, we see new approaches to business and to CSR. Emerging economies in Africa bring their own traditions. In a globalised economy, companies need to observe the laws and traditions of each of the places where they work. In Scandinavia, the social dimension is more developed, with a tradition of consensus, tripartite dialogue, respect for work, and social equity. They can consider work organisation in this context, favouring socially responsible innovation (see e.g. Ennals 1999, 2000, 2001; Ennals and Gustavsen 1999; Ekman et al. 2010).

The Quality Movement is now global in scale but with two traditions. In the USA and the UK, the emphasis has been on Compliance, with Quality as a tool for scientific management. By contrast, the Japanese need, during American occupation, was to empower workers to use their knowledge and experience. Hoshin Kanri (Hutchins 2008) demonstrated the strategic impact of workers engaging in self-managed collaborative problem-solving in Quality Circles, developing a culture of continuous improvement. This approach was taken up in India, and applied in schools, spreading to 25 countries, many in South Asia (Ennals and Hutchins 2012).

Once we understand that knowledge can be explicit, implicit or tacit, we see the implications for management. Running a successful company depends on communicating and sharing knowledge, only some of which can be written down and analysed. We can see older workers as repositories of experience and wisdom, strategically vital to the health and survival of the organisation (Ennals and Salomon 2011). By contrast, we may identify managers who purport to exercise responsibility while lacking experience and knowledge. There is experience of using the Dialogue Seminar Method to gain access to tacit knowledge in an organisation and using the power of analogies (Göranzon et al. 2006). Management decisions are not taken on the basis of complete information.

In the Action Research tradition, the researcher is engaged, rather than detached (see *International Journal of Action Research, AI* & *Society*). Managers are themselves part of the problems which they seek to solve. Management involves intervention and learning from differences. In the organisation, management is the orchestration of reflection.

The UN Global Compact offers an exciting way forward. The idea in 2001 was that, in order to take forward the UN Millennium Development Goals, UN agencies should work together with NGOs, companies and universities. The process seems to have degenerated into a superficial signing up exercise, often linked to accreditations. What has been lost is the opportunity for learning through the process of creating collaborative advantage. This can transform management culture and enhance sustainability.

This Foreword is based on an abridged version of the invited keynote talk at the first conference on Global Corporate Governance, Surrey University, UK, in August 2014.

Working Life and Innovation, University of Agder Richard Ennals
Kristiansand S, Norway

Skill and Technology, Linnaeus University
Växjö, Sweden

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Preface

Some years ago, I had the good fortune to meet the indefatigable Samuel Idowu which in turn led to an introduction to René Schmidpeter. All three of us had been working on a variety of overlapping issues that crossed traditional academic boundaries, even within schools of business to say nothing of the university world as a whole. Essentially we were focusing on topics which themselves did not constitute a traditional academic discipline such as entrepreneurship, corporate social responsibility and sustainability.

In addition, we were mindful of the fact that scholars from a variety of disciplines such as management, economics, law, religion, political theory, philosophy, etc., were writing and publishing on these topics within traditional disciplinary journals. Given the nature of the modern university, scholars tended to read only articles within their own discipline. Although scholars and teachers are always encouraged to be interdisciplinary, in reality tenure and promotion come with a focus on and publication in traditional disciplinary journals. The result was a wealth of useful material largely neglected outside of a small circle. Worse yet, some scholars were 'reinventing the wheel' because of their lack of familiarity with the work in other disciplines. Elementary mistakes recognised and explained by one group of scholars were repeated *ad nauseam* by those unfamiliar with that literature.

Commerce, in the age of globalisation, cries out for recognition as a field of study of its own, and it requires familiarity with a range of methodologies that simply are not housed within any one discipline. It is as if we are back in the Middle Ages trying to convince the traditional liberal arts that the sciences ought to be part of the curriculum. Business schools, which themselves only became a part of the university in the last century, are narrowly focused on specific marketable skills like accounting, finance, marketing, human resources, etc. There is no locus which brings these all together so that students can connect the dots and see the big picture. In their endeavour to appear respectable (i.e. scientific), the traditional business school disciplines are hopeless when faced with normative issues. Some hire adjuncts or junior faculty to address these issues so as to impress donors or to look like they are responding to public opinion. Adding core curricula taught by the humanities is of no help since liberal arts professors either do not understand commerce themselves (what's a balance sheet?) or are inexcusably hostile to it.

We seem to be no better off than when Adam Smith wrote the following in the *Wealth of Nations* (1776): "The greatest innovative ideas and initiatives are typically made outside universities. The greater part of universities have not even been very forward to adopt those improvements. . .several. . .have chosen to remain. . .the sanctuaries in which exploded systems and obsolete prejudices found shelter and protection after they had been hunted out of every other corner of the world. In general the richest and best endowed universities have been the slowest in adopting those improvements....The endowments. . .have diminished. . .the necessity of application in the teachers."

This volume is an initial effort to supply what has been lacking.

New Orleans, LA — Nicholas Capaldi
London, UK — Samuel O. Idowu
Cologne, Germany — René Schmidpeter
February 2017

Acknowledgements

We are grateful to all members of the Global Corporate Governance Institute who have supported the very first conference of the Institute held at the University of Surrey, Guildford, England, between the 14 and 15 August 2014. A few of the papers presented at this inaugural conference have culminated into this very first book in the name of the Institute. We are also grateful to our host in 2014 Reginee Pillay formerly of the University of Surrey. We also wish to express our gratitude to Judith Flatz from Austria who assisted us in documenting the inaugural conference in pictures and Bonnie Lawtas. We are particularly grateful to Stephanie Willis of the Centre for Spiritual Capital, Loyola University, New Orleans, USA, for managing the Institute's headquarters in New Orleans; without Stephanie's managerial skills these conferences we have held over the last couple of years would not have taken place. We look forward to working with you.

We are also grateful to our past sponsors, Springer International—our publisher, Gower Publishing Company, Loyola University, London Metropolitan University, Cologne Business School and the European Journal of Economics and Management.

We are particularly grateful to an Executive Editor at Springer, Christian Rauscher, for donating prizes on behalf of Springer to some of the excellent presenters of papers at the Surrey Conference in August 2014; we are equally grateful to our friend Barbara Bethke at Springer in Heidelberg for her watchful eyes on some important details academics carelessly ignore in many of these things.

Dimensional Corporate Governance: An Inclusive Approach—Introduction

Corporate social responsibility (CSR) as a management concept is a broad topic that has relevance in virtually every economic sector around the world. Therefore, the CSR, Sustainability, Ethics and Governance series often zooms in on the intricacies of its various disciplines, dimensions and relevance for a specific region or sector. This book however, takes a more inclusive approach and comprises such individual aspects into a "bird's eye view" offering expert insight into historical, present and future global perspectives. Articles in this book span many countries and sectors and are therefore, perfect for anyone interested in the overall concept of CSR and its application in different areas. CSR has been long since recognized as an important issue for the sustainable development of business and market stabilization. Therefore, this book offers both general approaches as well as location-based examples of sound CSR management techniques to help foster strong corporate governance. The following is a short glimpse into the critical areas explored in by our international experts. The book is divided into four parts: Business and Society, Corporate Governance, Corporate Social Responsibility and Reporting CSR as well as Sustainability and Financial Performance.

The Business and Society part of this multidisciplinary publication begins with a comparison of the expected role of business in four completely different markets: USA, South Korea, Hong Kong and Singapore. It is brought to us by Randal S. Franz and Donghun Lee who are management professors from School of Business, Government and Economics at the Seattle Pacific University. There is no one-size-fits-all approach to CSR that proves equally successful in all sectors and regions. In order to find the most successful integration style, it is important to understand local people's beliefs about the role businesses in society. Despite dramatic differences in this area, a "global" model highlighting similarities would be extremely helpful, especially in today's globalized world where many companies operate across international borders. The author's thus conducted a cross-cultural analysis of four key regions and shed light on differences and similarities based on an exploratory and confirmatory factor analyses (EFA and CFA). The authors describe the complicated challenge faced by managers who wish to practice

CSR in a global context and the importance developing an understanding for local variations in expected role of business in society.

This discussion is then furthered with a collaborative article from Manuel Castelo Branco and Catarinfa Delgado of the University of Porto, Portugal on an analysis of organizational responses to the justification of CEO pay ratios. The chapter offers a glimpse into whether CEO and general worker compensations had an impact on the decision of the 250 top companies featured in Standard & Poor's 500 Index to respond to publications by Bloomberg on CEO pay ratio calculations. It looks into different strategies employed by organizations to avoid the topic of unfair compensation, such as deflecting attention away from public concerns or attempting to devalue research on a case of technicality. The researchers look at whether or not the likelihood of a company's willingness to respond was positively correlated to increased or decreased CEO compensation and ways in which the organizations defended wage disparities among employees. Wage disparities and a growing income gap is a serious problem in both industrialized and developing nations and if companies are to be considered socially responsible, they must not only justly compensate, but also be able to clearly and transparently communicate salaries at all organizational levels.

The next chapter looks at the ethical side of CSR within the business management realm. The article is a result of research by Mary Godwyn of Babson College in Massachusetts, USA. Ethics is an issue, which is largely determined by cultural values and individual perception. As this series attempts to offer an international perspective on the various issues surrounding CSR, it is important to understand the levels of variation in how different programs, universities and cultures teach ethics to business management students. In order to bridge the gap between academia and practice, the author looks into ways in which different teaching strategies across 13 countries are implemented in the ethical standards of businesses in those regions. The research applies a framework by political philosopher Hannah Arendt on the manifestation of ethical standards among individuals and the influence of immediate surroundings on the conceptualization and understanding of ethical behaviour as well as the likeliness of people to accept ethical reasoning without critical reflection. Blind following and a lack of critical thinking skills among employees and managers can severely stunt sustainable management within organizations.

Further aspects of ethics in governance are developed by Friedrich Glauner of the Cultural Images & Global Ethics Institute at the Universität Tübingen, Germany who explores ethics, values and corporate culture based on the Wittgensteinian Approach as a way to understand corporate actions. The author discusses how corporations cannot accurately be considered ethical entities as they do not inherently self-impose a set of guiding principles for action based on moral consciousness – a prerequisite for moral behaviour. With this understanding in mind, the author develops strategies as how CSR and ethics can be entrenched in the core of company culture. The integration of cultural values is systemically analyzed in relation to psychological systems of a similar nature. The study concludes that the foundations and design of corporate culture is more influential on the success and sustainability of companies than mere training programs and ethical claims. The integration of CSR in business is about a true understanding and development of what the company culture accepts as ethical behaviour among all employees.

Part II of this book looks at Corporate Governance in various industries and regions. The discussion begins in Africa, where specific challenges associated with Nigeria's Corporate Governance Regulatory Framework are reviewed. The article by Benjamin Inyang of the University of Calabar in Nigeria looks into the recent emergence of corporate governance as a management concept in Nigerian business and the effects of the 2008 world economic crisis on the advancement of governance codes and guidelines for organizational behaviour. These new standards focus on the responsible management of companies based on ethics, transparency, integrity and accountability for the controlling of stakeholder benefits. These are however, not without limitations. The study finds that CSR codes can foster conflicts as systems can be interpreted differently among individual parties. Furthermore, the weak nature of regulatory mechanisms leads to inefficient and voluntary compliance.

While the origins of CSR in Nigeria can be traced back to unrest about mismanagement in large corporations, small and medium sized businesses also play a key role. The SME perspective and how it can help to foster increased responsibility in Nigerian Business is discussed by Adebimpe Lincoln, Oluwatofunmi Adedoyin and Jane Croad of the Cardiff Metropolitan University in the United Kingdom. The study examines the growing amount of literature on CSR and sustainability in Africa and reflects upon the motivations and challenges associated with its development in Nigerian SME's. Through this article, the researchers attempt to fill research gaps and provide a theoretical perspective upon which further studies can be based, especially with a focus on developing countries that face similar challenges to those in Nigeria. We then fly back to Europe where Mara Del Baldo of the University of Urbino "Carlo Bo" discusses CSR in relation to shared territorial governance and the implications for social innovation. The article offers an Italian perspective on the cultivation of governance based on territory. It applies a model for regional-based governance to support the development of public policies for sustainable development, which relies on contextual factors to allow for replication in other areas.

The Corporate Governance chapter is concluded with Liliane Segura, Henrique Formigoni, Rute Abreu and Fátima David's knowledge of the integration of CSR in global business by offering a Southern American standpoint focused on Brazil. The authors from the Mackenzie Presbyterian University in Brasil and the Polytechnic Institute of Guarda in Portugal discuss the role of company founders in the financial decisions of Brazilian companies. The researchers compare the level of debt among various companies in the country in relation to whether or not the organization is managed by its founder or other non-founding professionals. The study concludes that significant evidence exists in support of more responsible financial decision-making, and therefore, lower debt levels among companies managed by their founding director. This is generally due to the founders' personal bias and protection of his or her own financial interest and therefore, pressure to act responsibly when it comes to company investment and spending.

Part III on Corporate Social Responsibility and Reporting CSR begins by considering value concepts of economics and its relation to the social and philosophical heritage of CSR. The article was written by Massimo Costa and Patrizia Torrecchia of the Università degli studi di Palermo in Italy. The study underlines the importance of the value creation concept of CSR with reference to time specific Italian literature. The authors look at value not only in the case of economic relevance but also broader societal and environmental effects of corporate actions and triple bottom line performance. It is followed by another article from Portugal that develops a specific case study from the beverage industry as a practical example of a CSR management system. Fátima David, Rute Abreu and Rita Almeida of the Guarda Polytechnic Institute in Portugal look into systematic CSR policies for the development of responsible practices. The empirical analysis of an industry case, proposes that the company implements a set of principles to guide top management with aspects such as ethics, value chain management, communication transparency, environmental stewardship and societal well-being. The application of CSR does not only differ across regions, but also industries. Therefore, this part is concluded with another industry specific example, this time from India. The article discusses CSR in the Indian apparel industry, a massive sector which in many countries has experienced significant negative media attention for issues such as child labour, poor working conditions and sub-standard environmental performance. The author, Archana Gandhi, Associate Professor of the National Institute of Fashion Technology in New Delhi, India discusses the benefits and challenges of CSR for Indian clothing manufactures. While, short-term thinking and misconceptions about the nature of the industry's CSR activities are significant challenges, companies with higher levels of CSR have demonstrated significant benefits including decreased employee turnover and improved social reputation. Unfortunately, there is still a severe lack of CSR integration in Indian apparel firms. On the one hand, this makes success easier for companies implementing it, but on the other demonstrates the dire need for further development and research in the area.

The final part of this book, Sustainability and Financial Performance, begins with a look at the financial impact of sustainability practices on Nigerian oil and gas companies. The author, Abubakar M. Dembo of the University of Bedfordshire in the UK examines the performance of the listed companies in the country's energy sector based on return on equity, capital employed and price earnings ratio measures. As demonstrated many times throughout this book and also the entire series, this article once again shows the positive correlation between sustainability and economic performance in companies. In this case it can even be seen from both perspectives, i.e. that increased financial performance leads to sustainable development within the firm and also, that increased sustainability results in higher profits. Thus, proving that no matter which comes first, it is always a good idea to adapt a long-term approach consistent with the advancement of social and environmental goals. Sustainability and CSR can be demonstrated in many different ways. The next authors provide us with an excellent example of how it can be used to solve critical social issues in the workplace. Noopur Anand, Archana Gandhi, Vipul Verma and Sarablin Kaur from the National Institute of Fashion Technology in New Delhi, India, present a case on an ergonomic workstation specifically designed for pregnant workers in the Indian garment industry. The fashion industry has a large amount of female workers who at some point in their career become pregnant. Therefore, it is important to develop strategies that cater to the specific needs of childbearing women. Such programs increase workplace safety, empower women and thus, lead to improved working condition and therefore, happier and more reliable employees. The researchers present the specific struggles of pregnant women in the industry and how conditions can be improved through the strategic design of chairs that cater to their needs.

As previously stated, CSR is coming more and more into focus in countries around the world. Indonesia for example, another emerging country, is shifting its attention to the implementation of CSR to solve a number of the countries dynamic issues through responsible management. For this reason, Juniati Gunawan of the *Trisakti University* in Jakarta, Indonesia has developed an article on CSR initiatives and the regulatory approach from an Indonesian perspective. While in many emerging markets CSR is either loosely controlled or not adequately enforced, Indonesia has taken a more regulatory approach on both a local and national level. While this helps with the advancement of responsible business, a common misunderstanding of the concept still exists in that it remains linked to philanthropically and donation-based activities and not integrated as a core management concept. Therefore, the paper draws from leading organizations in order to serve as an example for the challenges, opportunities, methods and initiatives involved in incorporating CSR into organizational DNA. It also draws up governmental challenges and the overall development of organizational ethics in the region.

This book offers numerous examples and various perspectives on challenges and opportunities for sustainable management and responsible business around the world. It is of critical importance that this discussion is furthered through collaboration between academics and practitioners. As discourse in the field constantly advances and is focused on in more and more places and across sectors, lessons can be learned and misunderstandings clarified. We sincerely hope that the knowledge offered in this book helps students, professors, managers and interested stakeholders develop a better understanding of the importance of CSR and the role of business in society. It is finally time, that all companies realize the benefits of focusing on the creation of long-term societal value and abandon out-dated approaches to short-term economic gain.

Cologne Business School
Cologne, Germany
René Schmidpeter

Loyola University, New Orleans
LA, USA
Nicholas Capaldi

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

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About the Editors and Contributors

About the Editors

Nicholas Capaldi is Legendre-Soulé Distinguished Chair in Business Ethics at Loyola University New Orleans, where he also serves as Director of the Center for Spiritual Capital. He is the founder and President of the Global Corporate Governance Institute. He received his BA from the University of Pennsylvania and his PhD from Columbia University. His principal research and teaching interest is in public policy and its intersection with political science, philosophy, law, religion and economics. He is the author of eight books and over 100 articles, editor of six anthologies and member of the editorial board of six journals and has served as editor of *Public Affairs Quarterly*. He is Associate Editor of the *Encyclopedia of Corporate Social Responsibility* (Springer). His most recent book is *America's Spiritual Capital*, co-authored with Ted Malloch. He is the author of the Cambridge intellectual biography *John Stuart Mill*. Currently, he is writing a book entitled *Liberty and Equality in Political Economy: From Locke versus Rousseau to the Present*.

Samuel O. Idowu is a Senior Lecturer in Accounting and Corporate Social Responsibility at London Guildhall Faculty of Business & Law, London Metropolitan University, UK. He researches in the fields of Corporate Social Responsibility (CSR), Corporate Governance, Business Ethics and Accounting and has published in both professional and academic journals since 1989. He is a freeman of the City of London and a Liveryman of the Worshipful Company of Chartered Secretaries and Administrators. Samuel is the Deputy CEO and First Vice President of the Global Corporate Governance Institute. He has led several edited books in CSR, is the Editor-in-Chief of two Springer's reference books—the Encyclopedia of Corporate Social Responsibility and the Dictionary of Corporate Social Responsibility—and is an Editor-in-Chief of the International Journal of Corporate Social Responsibility. He is also a Series Editor for Springer's books on CSR, Sustainability, Ethics and Governance. One of his edited books won the most Outstanding

Business Reference book Award of the American Library Association (ALA) in 2016 and another was ranked 18th in the 2010 Top 40 Sustainability Books by *Cambridge University Sustainability Leadership Programme*. Samuel is a member of the Committee of the Corporate Governance Special Interest Group of the British Academy of Management (BAM). He is on the Editorial Boards of the International Journal of Business Administration, Canada, and Amfiteatru Economic Journal, Romania. Samuel has delivered a number of Keynote Speeches at national and international conferences and workshops on CSR and has on two occasions 2008 and 2014 won Emerald's Highly Commended Literati Network Awards for Excellence. To date, Samuel has edited several books in the field of CSR, Sustainability and Governance and has written four forewords to books. Samuel has served as an external examiner to the following UK Universities—Sunderland, Ulster, Anglia Ruskin and Plymouth. He is currently an external examiner at Robert Gordon University, Aberdeen, Teesside University, Middlesbrough and Sheffield Hallam University, UK.

René Schmidpeter holds the Dr. Juergen Meyer Endowed Chair of International Business Ethics and Corporate Social Responsibility at Cologne Business School (CBS). He is also a professor at the Nanjing University of Finance and Economics as well as the director of the Center for Advanced Sustainable Management (CASM) at CBS. He is a series editor for Springer's CSR, Sustainability, Ethics and Governance books, a section editor of the Encyclopedia of Corporate Social Responsibility (ECSR) and an editor of the Dictionary of Corporate Social Responsibility (DCSR). His research and teaching activities focus on the management of Corporate Social Responsibility, international perspectives on CSR, Social Innovation and Sustainable Entrepreneurship as well as the relationship between business and society. He has published widely and is the editor of the German management series on Corporate Social Responsibility at Springer Gabler.

List of Contributors

Rute Abreu is an Accounting and Finance Professor in the Polytechnic Institute of Guarda, Portugal. She received her PhD Degree in Accounting and Finance from the Salamanca University, Spain (2009). Since 2012, she is the Director of the Integrated Management Systems (Environment, Quality, Safety and Social Responsibility) Master Degree. In parallel, she researches and promotes activities within the social responsibility research network and global corporate governance institute, publishes papers in several journals and book chapters and participates frequently in conferences all over the world.

Oluwatofunmi Adedoyin holds an LLB in Law from the University of South Wales and an LLM in Law and MSc in International Business from Swansea University. She has recently successfully defended her doctoral thesis in Corporate

Governance Mechanisms in the Nigerian Banking Sector at Cardiff Metropolitan University. Dr Adedoyin has vast research experience and her interests lie in the area of Corporate Governance, Corporate Social Responsibility, Board Diversity and the Banking and Finance sector. Dr Adedoyin has published and presented a number of articles on Board composition, Board Diversity and Corporate Social Responsibility.

Rita Almeida has since 2007 been the Quality Director at the *Glaciar Indústria, S. A.*, Portugal. Between 2004 and 2005, she was a consultant and trainer in the implementation of the Hazard Analysis and Critical Control Points system in the *TopTest,* Portugal. She received her Degree in Food Engineering from the Piaget Institute of Mirandela, Portugal (2003), and her Graduate in Integrated Management Systems (Environment, Quality, Safety and Social Responsibility) from the Polytechnic Institute of Guarda, Portugal (2012).

Noopur Anand is an academician with more than 19 years' experience. Currently, she is Professor and Chairperson of the Department of Fashion Technology at NIFT. Her specialisation is in field of Textiles and Clothing. She has done her doctoral (PhD) in the field of Product Development (Smart Garment). The aim of doctoral work was to design maternity wear by using pattern engineering features that can fit a women well pre-pregnancy, during pregnancy and post-maternity—A 'Smart Maternity Wear'—and thus design more sustainable maternity wear which had longer serviceable lifespan and remained serviceable till the user is ready to discard it not because the garment has outlived its utility.

Her other areas of work are Fit analysis, Sustainable/'Smart' Product Development and Pattern Engineering in which she has worked extensively.

Her areas of work have been Pattern Engineering and Functional Garments; stretch % of Knitted Fabrics and its relation with garment fit and pattern making; Styles and Sizing of Lingerie; Clothing Requirements for Elderly; improving efficiency of sampling room; Anti-molestation Garment; Interchangeable Shirt Component; Bulletproof Jacket; Anthropometric Measurement for Hand, Face and Feet using indigenous techniques(and not body scanners); Dream Brassier; Calorie Burn Measuring Garment; Piezo-electric Cell and use in Smart Garments; Size India National Sizing Survey of India; Use of Mistura Seam in Corsetry; Impact of body shapes on patterns; Reflexology Sock; Self-defence poncho; Smart suit for sewerage divers; and more. She has published research papers in journals and apparel magazines.

She has been involved in providing consultancies and training for Govt. agencies and industry partners like Fabindia, Coles Buying Services Kmart Australia, University of Austin, Indian Navy, National Backward Classes Finance and Development Corporation, various NGOs, etc., in areas of product development and pattern engineering.

She has also filed for patent for Self-defence wearable-anti-molestation jacket for protection of women from assailers.

She has held various administrative portfolios at NIFT like Head Research wherein she was heading the research division of all campuses of NIFT across country, Unit in-charge Academic management systems of NIFT wherein she was looking after academic requirements of all NIFT campuses across India and Centre coordinator Master's in fashion technology Programme wherein she was heading the postgraduate programme offered at New Delhi, etc.

She is currently Chairperson of the Department of Fashion Technology (Apparel Production) at NIFT and heading 15 programmes of undergraduate and postgraduate level across all NIFT Campuses.

Manuel Castelo Branco is an assistant professor at the School of Economics and Management, University of Porto, Portugal, interested in CSR and the reporting thereof, CSR education, corporate governance, corporate corruption and accounting and the public interest. He received his PhD in Management Sciences from the University of Minho, Portugal, in 2007. His teaching focus is in the areas of accounting and CSR. His academic work has been published in journals such as the Journal of Business Ethics, the Journal of Cleaner Production, the British Accounting Review and the Spanish Journal of Finance and Accounting.

Philippe Callot has been a Professor at ESCEM School of Business and Management since September 2000. Former tourism consultant for 11 years, he is a member of the TRC—*Tourist Research Center*. Author of numerous intellectual contributions, his work focuses mainly on Marketing of Services, International Marketing and SME in tourism. Former Head of the Marketing and Sales department, he holds a Doctorate in Management Science from IAE, Poitiers University, and he is Qualified Research Supervisor since 2011 (Angers University IMIS-Esthua).

Athanasios Chymis is a Senior Researcher, KEPE—Institute for Economic Research and Planning in Athens, Greece. He holds a PhD from the University of Missouri-Columbia in Agricultural Economics. He is interested in the connection between ethics and economics, and, currently, his research is focused on how social responsibility could be infused in the public administration sector as well as in all organisations of both the private and the public sector. His latest book is *Public Management as Corporate Social Responsibility: The Economic Bottom Line of Government* (co-editor), Springer, 2015. He is also the author of *Reconciling Friedman with Corporate Social Responsibility*, Akademik Verlag, 2008.

Massimo Costa (Palermo 1967) is actually qualified for full professor in 'Economia aziendale' (Business Economics) in Italy. He teaches 'Ragioneria' [General Accounting] and 'Contabilità e bilanci aziendali' [Financial Accounting] at the University of Palermo (Department of 'Statistic, Business and Economic Sciences').

He has degree in 'Social & Economic Disciplines' at the University 'L.Bocconi' of Milan in 1991, Master's in 'Auditing' at the School of Management 'G.Carli' of

Rome in 1994 and PhD in "Economia aziendale" at the University of Pisa in 1998. After various experiences in private and public organisations, he was Assistant Professor at the University of Palermo in 2002 and Associate Professor at the same university in 2006. He obtained the qualification for Full Professor in 2015.

His main field of interests concern the History of Accounting, the Comparative Accounting, the Process of Standardisation and Harmonisation in Accounting, the Issues of Measurement for Quality, including social and environmental accounting, corporate disclosure on social-environmental issues, evaluation for public policies and social return on investments.

Paolo D'Anselmi is a practitioner of management consultancy and policy analysis. He teaches Corporate Social Responsibility at the University of Rome Tor Vergata, Italy. He is a graduate in Engineering (Sapienza, Rome) and in Public Policy (Harvard). He is currently working on extending Corporate Social Responsibility to public administration. His recent related publications include *Values and Stakeholders in an Era of Social Responsibility: Cut-Throat Competition?* Palgrave, 2011; *SMEs as the Unknown Stakeholder: Entrepreneurship in the Political Arena* (co-editor), Palgrave, 2013; and *Public Management as Corporate Social Responsibility: The Economic Bottom Line of Government* (co-editor) Springer, 2015.

Fátima David is an Accounting and Finance Professor in the Polytechnic Institute of Guarda, Portugal. She received her PhD Degree in Accounting and Taxation from the University of Salamanca, Spain (2007). She is currently the Accounting Degree Director. She works on activities with a social responsibility research network; her research has been published in several journals, and she participates in conferences and meetings.

Mara Del Baldo is Assistant Professor of Entrepreneurship and Small Business Management and of Financial Accounting at the University of Urbino (Italy), Department of Economics, Society and Politics. Mara is a visiting professor at the University of Vigo (Spain), the Jurai Dobrila University of Pula (Croatia) and the New Bulgarian University of Sofia (Bulgaria). She is a member of the European Council for Small Business, the Centre for Social and Environmental Accounting Research (CSEAR) and the European Business Ethics Network (EBEN) Italia, as well as of different Italian scientific associations. She is board member and reviewer of different international journals. Her main research interests include Entrepreneurship and small businesses; Corporate Social Responsibility, Sustainability and small entrepreneurs/SMEs' business ethics; SMEs strategies of qualitative development and networking strategies; financial reporting; ethical, social and environmental accounting and accountability (SEAR); and integrated reporting. She has published in different Italian and foreign journals as well as in national and international conference proceedings and books.

Catarina Delgado is an assistant professor at the School of Economics and Management, University of Porto, Portugal, interested in CSR and the reporting thereof, CSR education, corporate governance, sustainable supply chain management, reverse logistics and green logistics. She received her PhD in Electrical and Computer Engineering from the University of Porto, Portugal, in 2004. Her teaching focus is in the area of operations management. Her academic work has been published in journals such as the International Journal of Systems Science, the Journal of Manufacturing Technology Management, the Journal of Public Affairs and the Spanish Journal of Finance and Accounting.

Abubakar M. Dembo, PhD has worked in both public and private sector organisations in Nigeria for more than 24 years. He started his PhD while he was heading the budget department of the Petroleum Training Institute, an organisation involved in training middle-level personnel for the Nigerian petroleum industry. His PhD explored the impact of voluntary disclosures on company performance with emphasis on listed Nigerian oil companies. Abubakar holds a Bachelor's degree in Statistics and an MBA in Finance from Ahmadu Bello University, Zaria, Nigeria. He also holds an MSc degree in Accountancy and Finance from Birmingham City University, UK, which he obtained with a scholarship from the Petroleum Technology Development Scholarship Scheme. His Doctorate degree is from the University of Bedfordshire. Abubakar has attended and presented papers in the fields of Corporate Governance, Corporate Social Responsibility and Sustainability at National and International Conferences. Abubakar is an Associate member of National Accountants of Nigeria (ANAN) and a member of Certified Practising Accountants (CPA), Australia.

Massimiliano Di Bitetto is a senior researcher and Director Central at the Italian National Research Council in Rome, Italy. His research, currently, reaches in the field of management and organisational sociology. His related publications include *SMEs as the Unknown Stakeholder: Entrepreneurship in the Political Arena*, (co-editor), Palgrave, 2013, and *Public Management as Corporate Social Responsibility: The Economic Bottom Line of Government* (co-editor) Springer, 2015.

Henrique Formigoni is an Accounting and Finance Professor at the Center of Applied Social Science of Mackenzie Presbyterian University in São Paulo, Brazil. He received his Master's Degree in Accounting from Pontificia Universidade Católica, Brazil, and his PhD in Accounting from the University of São Paulo, in São Paulo, Brazil, and Postdoctoral Study in Accounting and Finance from the Universidad de Salamanca, Spain. He worked for several companies as an accountant for many years, and now he is the Coordinator of the Accounting course and works as a researcher and professor in Mackenzie Presbyterian University.

Randal S. Franz, PhD is co-founder of the Center for Integrity in Business and Professor of Management in the School of Business, Government & Economics at Seattle Pacific University. Dr. Franz received his PhD and AM degrees from

Stanford University. He is an organisational sociologist with specialties in Organisational Behaviour and Design. He also teaches in the areas of Social-Enterprise and Sustainability. Dr. Franz' recent research focuses upon the topic of Corporate Social Responsibility and society's changing expectations for the institution of business. He has consulted in the healthcare, professional services, law enforcement, software and aerospace industries. His work has been published in the Journal of Global Responsibility; Journal of Management Inquiry; Journal of Management, Spirituality & Religion; Business & Professional Ethics Journal; Journal of Management Education; Small Group Research; and the American Compensation Association News and Washington CEO magazine.

Archana Gandhi holds a Doctorate from the Faculty of Management Studies, University of Delhi. Her PhD thesis was in the area of 'Merchandisers' Performance in Improving Supply Chain Competitiveness of Apparel Export Units'.

She is a full-time faculty (Associate Professor) with the National Institute of Fashion Technology, Department of Fashion Technology, Delhi, for the last 16 years. Her areas of teaching have been Apparel Merchandising, Quality Management, Product Development and Corporate Social Responsibility.

She has been involved in research projects undertaken by NIFT with leading apparel retail, export and buying organisations like Fabindia, MM Exports, GAP, ITC, Wills Lifestyle, Coles Direct Sourcing Pvt Ltd, University of Austin, Texas, and Ethiopian Textile Industry Development Institute (ETIDI).The projects have been in the area of merchandiser performance, production and quality management and CSR. She has also papers published in these areas.

She has been conducting Merchandiser training programmes for Okhla Garment and Textile Cluster (OGTC) associated organisations.

Archana was a guest faculty at the Colorado State University, Fort Collins, USA, in the Department of Apparel Design and Merchandising in 2009.

Before joining, NIFT Archana worked for 6 years at a leading buying agency in India, Triburg, as a merchandiser and handled accounts like GAP Kids, Royal Robbins, John Forsyth Company and Kmart, USA.

She is an Economics graduate from Delhi University and a postgraduate in Garment Manufacturing Technology (GMT), National Institute of Fashion Technology. She also holds a Master's in Marketing Management.

Friedrich Glauner, PhD combines 20 years of being an entrepreneur, CEO, manager and consultant with 16 years of scientific research in the fields of philosophy, semiotics, systems theory, communication theory and values-driven human systems management. He lectured philosophy, systems theory, semiotics and language theory at the Free University Berlin and the Technical University Berlin, was lecturer at the ebs European Business School, Oestirch-Winkel, and lectures at present values-driven strategy development, management, business modelling as well as ethical business management and Leadership and Communication at the University of the German Army, Munich, the Global Ethos Institute at the Eberhard Karls University, Tübingen, and at other graduate schools.

He studied philosophy, economy, history, science of religions and semiotics at the University of Cologne, the Free, the Technical and the Humboldt-University Berlin and as Postgraduate Fulbright Fellow at the UC Berkeley. At the London School of Economics and the Department of Economics of the University St. Gallen, he took additional courses.

His most recent book ‘CSR und Wertecockpits. Mess- und Steuerungssysteme der Unternehmenskultur’ (Springer 2013) will be published in a second enlarged edition in German and in English beginning 2016. ‘Future Viability. Values Strategies to the competitive advantages of tomorrow’, his new book, will be published by Springer beginning 2016 in German and English too.

His approach to values management as means for developing high-performance teams and future viable business models combines cybernetic elements of organisational development with social- and existential-psychological findings regarding the formation of personality, philosophical arguments on mental models by which we construct reality and modern management instruments for steering strategy and change processes.

He argues that corporate cultures are the basis for fostering economic value added. To this end, he developed the instrument of the values cockpits to steer and measure corporate cultures with rational means. In this process, cultural images are the foil for working with values. These are implemented and managed within the corporation by the instrument of the C4-Management. It is aligning the four corporate dimensions of Corporate Identity, Corporate Values, Corporate Knowledge and Corporate Development according to the core values driving the fostering of benefit.

Besides working with corporations and as scholar, Friedrich Glauner is engaged in several non-profit organisations for example as member of the extended board of the DNWE Deutsches Netzwerk Wirtschaftsethik EBEN (European Business Ethics Network) Deutschland e.V.

Mary Godwyn focuses on social theory as it applies to issues of inequality. Within the field of sociology, her areas of expertise include Critical and Classical theory, Feminist Theory, Ethics and Business Ethics, Diversity and Inclusion and the Sociology of Entrepreneurship.

Her work has been published in journals such as Symbolic Interaction, Current Perspectives in Social Theory, Gender and Management and the Journal of Small Business and Entrepreneurship. In 2008, her business ethics case, ‘Hugh Connerty and Hooters: What is Successful Entrepreneurship?’, won the Dark Side Case Competition sponsored by the Critical Management Studies Interest Group and the Management Education Division of the Academy of Management. She has also published three books: Minority Women Entrepreneurs: How Outsider Status can Lead to Better Business Practices, co-authored with Donna Stoddard, DBA (Stanford University Press and Greenleaf Publishing, 2011); Sociology of Organizations: Structures and Relationships, co-edited with Jody Hoffer Gittel, PhD (Sage Publications, Inc., 2012); and *Ethics and Diversity in*

Business Management Education: A Sociological Study with International Scope (Springer-Verlag, 2015).

Juniati Gunawan, PhD Graduated as a Philosophy Doctor in Corporate Social Reporting from Edith Cowan University, Western Australia. She is a senior lecturer and Director of Trisakti Sustainability Center (TSC), Trisakti University, Jakarta, Indonesia. She is a guest lecturer and speaker at national and overseas universities. He is a member of several international journals, an Editorial Board member for The Issues in Social and Environmental Accounting (ISEA)-Ebsco and Cabell's Publishing and a Member of Reviewer Board for Social Responsibility Journal (SRJ)—Emerald Publishing, Emerald Case Emerging Market—Emerald Publishing, Issues in Business Management and Economics (IBME)—Journal Issues, Scientific Media of Accounting and The Indonesian Institute of Accounting. As also a practitioner, she serves a number of organisations from various industries and is an expert committee member for corporate social responsibility awards events in Indonesia since 2005.

Some of her publications:

- Gunawan, J & Abadi, Kumala. 2015 (forthcoming). *Content Analysis Method: A Proposed Guideline for Quantitative and Qualitative Disclosures*. Book Chapter of: *Handbook of Research Methods in CSR,* Edited by David Crowther and Linne Lauesen, will be published by Edward Elgar, Spring 2015.
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Benjamin James Inyang is a Professor of Management in the Department of Business Management and current Dean, Faculty of Management Sciences of the University of Calabar, Nigeria. He is a Commonwealth Scholar and received his

MIR and PhD Industrial Relations from the University of Western Australia, Australia, after he obtained a BSc (Hons.) degree in Sociology from the University of Calabar, Nigeria. His primary research interests are in the fields of organisational behaviour, human resources management, industrial relations, management theory, corporate governance and corporate social responsibility. He has wide experience in teaching, management consulting and administration and has served in senior management positions in government and private sector organisations. He has attended and presented papers in several international conferences and published extensively in numerous journals including *Journal of Global Business and Technology, Journal of Systems and Information Technology, South African Journal of Labour Relations, Journal of Business Systems, Governance and Ethics, Management Research and Practice, International Journal of Business and Management, Interdisciplinary Journal of Contemporary Research in Business, European Journal of Economic, Finance and Administrative Sciences, International Business Research, International Journal of Business and Social Science* and *International Journal of Business Administration.* Professor Inyang has published and co-authored many books including *Organizational Behaviour: A Managerial Perspective*; *Management Theory: Principles and Practice*; *Corporate Planning and Policy: Concepts and Applications*; *Essentials of Business Communication* (co-author); and *Personnel Management Practice in Nigeria* (co-author) and two entries in the *Encyclopedia of Corporate Social Responsibility* (Springer) and served as a Field Editor in the Encyclopedia project. He is currently serving on the editorial boards of *International Journal of Business and Management, International Business Research and Contemporary Management Research.* He is serving as external examiner in the area of management in many Universities including University of Uyo, University of Port Harcourt and Rivers State University of Science and Technology—all in Nigeria. He is a member of Emerald Literati Network. Professor Inyang is a member of Academy of Management Nigeria and the Chartered Institute of Personnel Management of Nigeria (CIPM).

Sarbalin Kaur is an alumnus of National Institute of Fashion Technology and undertook Postgraduate programme—Master of Fashion Technology Degree (2013) from National Institute of Fashion Technology, New Delhi. She completed her schooling from St. Thomas School, New Delhi, and pursued Bachelor of Technology (IT) from Guru Tegh Bahadur Institute of Technology, New Delhi (2011).

She has gained experience through internships, while at NIFT, at Rajasthan Spinning Weaving Mills, Bhilwara, Shahi Exports Pvt. Ltd, Faridabad, Triburg, etc. She has undertaken a Smart Merchant Programme at Triburg as an extension to the classroom learning. As part of her Master's programme she undertook research project at INDITEX. She was also a warded Gold Medal for 'Best Academic Performance' at NIFT.

She is currently working with TPG Wholesale Pvt. Ltd as an Apparel Retail Buyer in Kids Girls Division responsible for Assortment Planning, Setting Price Architecture, Inventory Planning and Vendor Management.

Janet Laugharne is Professor Emeritus of Language in Education at the Cardiff School of Education. Professor Laugharne's previous roles in the university have included Senior Lecturer in Language Education, Director of the Language and Reading Centre, PGCE Secondary English Coordinator and Ed D (Professional Doctorate) Pathway Leader. Professor Laugharne was Director of Research in Cardiff School of Education from 2000 to 2009, where she worked to build research capacity, also leading on the Education Unit of Assessment for the 2008 Research Assessment Exercise. Professor Laugharne has 12 doctoral completions, and she is currently supervising four research students in the School of Education and the School of Management.

Professor Laugharne completed her first degree in English Literature at St Hilda's College, Oxford, and an MPhil in Comparative Literature (French, German and English) at the same university before training as a teacher at the London Institute of Education and subsequently teaching in Secondary and Primary Schools in London, later returning to Wales to work as a teacher educator. Professor Laugharne has extensive experience of language and literacy education, including in Welsh and bilingual settings, and a long-standing research interest in the learner's voice and in exploring bilingual speakers' metalinguistic knowledge. Her PhD, awarded by Cardiff University in 1998, was in the field of sociolinguistics, examining the oral narratives, in the language domains of home and school, of young Welsh/English bilingual pupils, with data collected in Welsh. Professor Laugharne has collaborated with colleagues internationally on this and related areas in language education, as well as undertaking evaluation work for the Welsh Government.

Donghun "Don" Lee, PhD Associate Professor of Management in the School of Business, Government, and Economics at Seattle Pacific University. Dr. Lee received his PhD in Strategic Management at the University of Pittsburgh and his MA in International Commerce at Seoul National University. He specialises in Strategic Management with topics of strategic alliances, divestiture and innovation. He also teaches in the areas of Strategic Management, Social-Enterprises and the Purpose of Business. Dr. Lee's recent research focuses upon the topic of strategic alliances, Corporate Social Responsibility and issues of online learning. His work has been published in the Journal of Management, Online Learning Journal and Cultural Diversity and Ethnic Minority Psychology (CDEMP) Journal.

Adebimpe Lincoln holds an LLB and an LLM in Commercial Law from Cardiff University and an MBA in International Business and PhD in Entrepreneurship and Business Development from the University of South Wales. She also holds various teaching qualifications in Higher Education. She is a Fellow of the Higher Education academy and an Associate Member of the Chartered Institute of Personnel Development. She has over 12 years' experience in Higher Education and is currently an Assistant Professor in Saudi Arabia. She has held positions in Cardiff University and University of South Wales and was a Senior Lecturer in Law at

Cardiff Metropolitan University. She is the External Examiner for Undergraduate and Postgraduate Law and Professional Practice Programmes at Manchester Metropolitan University.

Dr Lincoln has vast experience supervising research students. She has supervised a wide range of Master's level research including MBA and LLM dissertations. She has also supervised students at Doctoral Level in the area of Entrepreneurship and Corporate Governance. Her research interests lie in the area of Female Entrepreneurship, Small and Medium-Sized Enterprise (SME) sector, Leadership practices of Nigerian Entrepreneurs, Corporate Governance and Board Diversity and Corporate Social Responsibility among Nigerian SMEs. She has published and presented a number of articles on SMEs and female Entrepreneurs in Nigeria.

Kurnia Perdana is a CSR and Sustainability Specialist in a cane sugar plantation company in Central Lampung-Indonesia. He has completed his Master's degree majoring in Corporate Social Responsibility from Trisakti University, Jakarta, in 2013. He found his passion in the field of CSR and sustainability and it brings him to start conducting some international quality studies. Two of his papers were presented at international conferences in Jakarta, Indonesia and London, UK.

Liliane Segura is an Accounting and Finance Professor at the Center of Applied Social Science of Mackenzie Presbyterian University in São Paulo, Brazil. She received her Master's Degree in Business Strategy from the University of São Paulo, Brazil (2003), and her PhD in Accounting and Finance from Mackenzie Presbyterian University in São Paulo, Brazil, and Postdoctoral Study in Accounting and Finance from the Universidad de Salamanca, Spain. She worked as a director and manager in several Brazilian companies for 15 years and now works as a researcher and professor in Mackenzie Presbyterian University.

Patrizia Torrecchia Temporary Research Associate at *Dipartimento di Scienze Economiche, Aziendali e Finanziarie* (Dept. of Financial, Business and Economic Sciences), 'Università degli studi di Palermo', Italy. She holds a Degree in Business and Economics, *magna cum laude*, 'Università degli studi di Palermo', and a PhD in Business Studies, 'Università degli studi di Messina'. She specialises in Accounting (General Accounting Theory, Accounting for Public Administration, Social Accounting and International Accounting) as well as in Accounting History. Additionally, she conducts research on corporate social responsibility themes. She was awarded a 'Università degli studi di Palermo' scholarship for research at Saïd Business School, Oxford, and also from Bonino-Pulejo Foundation (Messina) scholarship for research at 'L. Bocconi' University, Milan. She received S.I.S.R. ("Società Italiana di Storia della Ragioneria") award for *Best doctoral thesis*. She is the author of a number of international conference papers as well as national ones, and she has contributed to several academic books.

Vipul Verma is an alumnus of National Institute of Fashion Technology, New Delhi, India, and pursued Bachelor's in Fashion Technology there. He completed his schooling from KL Arya DAV Public School, Hisar, and was awarded merit certificate. His exposure in garment industry varies from having worked closely with export houses to working with one of the world's largest fashion group, Inditex. He has also taken up projects on Mass Customisation of Apparels, Textile Waste Recycling and Devising and Implementing Quality Inspection Tool in Manufacturing. He has gained experience through internships, while at NIFT, at Denim manufacturing units, export houses and consultancies to liaison offices of retailers. His interest is in the field of innovation, methods improvement and restructuring and ergonomics. He began working as a product development merchandiser at the export house working for fast-fashion global retailer. He is currently working with a start-up label in the fashion industry, handling the accessories division and also the strategic development of the brand.

Part I
Business and Society

Global Institution of Business? Comparing Role-of-Business Expectations in USA, South Korea, Hong Kong and Singapore

Randal S. Franz and Donghun "Don" Lee

Abstract We examined the structure and content of people's beliefs about the role of business in society. Institutional Theory and global economic integration would lead one to expect cross-cultural alignment and isomorphism regarding the institution of business.

In an effort to find a "global" model, we combined data from USA, South Korea, Hong Kong and Singapore and conducted exploratory and confirmatory factor analyses (EFA and CFA). The results identified a 4-factor model that captured the implicit structure of people's expectations regarding business. The four domains of concern covered environmental, human dignity, community and economic expectations. However, when we conducted multi-group structural equation modeling (MSEM), only two of the four countries conformed to this "global" model. Subsequent EFAs for the non-conforming countries uncovered significant structural differences in the number and composition of factors in their institutional models of business.

In addition, we found significant differences between countries with respect to the content of their institutional expectations. For example, the two countries with statistically-similar institutional structures had significantly different mean ratings on two of the four factors. They were concerned about the same domains—but with different levels of expectations.

Our results paint a complicated picture—on the one hand we found a global model that fit the combined data and was a good fit for half of the countries surveyed, but we also found that there were significant cross-cultural differences in structure and content of the respondents' role-of-business expectations. Not only was there inconsistency between the countries about which CSR domains were relevant to business, but respondents in different countries differed about how they defined the domains. Therefore, managers face a complicated challenge when enacting corporate social responsibility (CSR) practices in a global context. Lacking a single, unifying set of global expectations, we advocate clarity with respect to the local variations regarding the role of business in society.

R.S. Franz (✉) • D."Don" Lee
School of Business, Government, and Economics, Seattle Pacific University, Seattle, WA 98119, USA
e-mail: rfranz@spu.edu; donlee@spu.edu

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1 Introduction

Corporate social responsibility (CSR) has become an increasingly important aspect of firms' activities, influencing the firm's reputation and favorable evaluations from employees and consumers (Aguinis and Glavas 2012). However, managers have realized that simply investing in arbitrary CSR activities does not necessarily benefit the company, as there is a wide range of opinions regarding the CSR activities of firms. Moreover, as firms extend their operations across international boundaries, managers are faced with an increasingly global and local mix of stakeholders, resulting in a complex decision-making environment. Different conceptions of CSR make the manager's task of discerning where, when, and how to allocate a firm's resources to a particular set of CSR activities extremely difficult. Therefore, it might be helpful to understand how cross-cultural contingencies impact CSR activities in the global arena.

Among the global contingencies, a major discussion has focused on the convergence and/or divergence of CSR activities with local expectations when firms operate in multiple countries (Jamali and Neville 2011). At the institutional level, studies have considered the countervailing forces of globalization and local interests. The convergence thesis suggests that companies' CSR activities will converge upon similar practices due to the pressure of common models of organization, consumption, culture, and politics that cut across national borders (Waddock 2008). On the other hand, the divergence thesis suggests that companies' CSR activities will vary by country due to national business systems and local business interests (Matten and Moon 2008). Prior studies, however, have assumed different expectations of CSR and fall short of explaining why and where these external pressures might originate.

Moreover, while culture has been known as one of the most important variables influencing ethical decision making (Rawwas 2001; Rawwas et al. 2005) and that consumer ethics vary among nations (Babakus et al. 2004; Rawwas et al. 2005), there are only a few studies that examine simultaneously whether there is a transnational understanding of CSR and cross-cultural differences of CSR expectations. Namely, while extant studies have considered the countervailing forces of convergence and divergence of CSR activities across national borders, they fall short of examining whether a transnational (or global) model of the role of business overarches the perceptions of CSR while local institutional models exist within the boundary of nations. Another limitation of prior studies is that they have surveyed mostly managers about the perception of CSR on only a selected number of CSR activities (Maignan 2001), and defined CSR based on normative typologies rather than inductively examining how CSR is perceived, resulting in a limited understanding of CSR perceptions in the international arena.

In light of an opportunity to explore contingencies of CSR perceptions, we pose two questions: (1) how can we explain the origins of different CSR expectations; and (2) how does the perception of CSR expectations vary cross-culturally? To address these research questions, we argue that a key determinant of people's CSR opinions is their baseline expectation about the role business ought to play in society. These role-of-business (RoB) expectations become the lens through which people assess a company's actions and by which they determine whether a company is acting responsibly or not (Franz and Petersen 2012). Further, we unravel CSR expectations, examining how there are commonalities and differences cross-culturally. By this, we provide insight on how practitioners can manage CSR activities in the international realm.

Accordingly, our study makes the following value-added contributions. First, by incorporating the concept of the role-of-business (RoB), we expand the theoretical model of CSR by examining people's underlying (latent) conceptions of CSR, rather than a normative and selected list of CSR activities. This enables our study to unpack the argument of external pressures that promote convergence or divergence of international CSR activities. Second, we explore how expectations of CSR vary at the individual level and at the institutional level across countries. Prior researchers have considered CSR at different levels of analysis, resulting in an understanding of CSR expectations that has become highly fragmented (Aguinis and Glavas 2012). We combine micro- and macro-theoretical frameworks by examining individual and institutional differences of CSR expectations in different countries. Third, methodologically using exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and structural equation modeling (SEM), our study follows an evidence-based management approach (Pfeffer and Sutton 2006; Rousseau 2006) rather than a normative approach. Using data from four different countries, we explore whether there is a transnational model of CSR that is shared among countries; whether there are localized models of CSR; and how CSR perceptions vary between countries. Finally, our study uncovers critical knowledge gaps and provides specific directions for future research.

In the following sections, we discuss the concept of role-of-business (RoB) and its relationship with CSR activities, emphasizing that the consideration of RoB unfolds the underlying origins of different perceptions of CSR towards companies. We then pose research questions with regard to RoB expectations among the countries of USA. To answer the research questions, we use structural equation modeling (SEM) and empirically examine RoB expectations among the countries of USA, South Korea, Hong Kong and Singapore. Specifically, we examine whether there are commonalities and differences of RoB expectations in terms of structure and content. Structure refers to whether people in different countries have expectations of business involving the same type of issues (i.e. global vs. local model of RoB), and content refers to whether people in different countries care about similar issues but in different ways.

2 Theoretical Background and Research Questions

Role-of-business (RoB) would be classified as a mediating factor between CSR activities and organizational outcomes (Aguinis and Glavas 2012). By defining people's a priori expectations for what a responsible business ought to be like, RoB shapes people's subjective perceptions and assessments of a company's activities (Franz and Petersen 2012). Therefore, RoB expectations mediate any causal connection between CSR activities and company outcomes by shaping the behavior of individuals (i.e., customers, employees, investors, or neighbors).

RoB synthesizes micro and macro theoretical frameworks by combining institutional theory with role theory. Franz and Petersen (2012) proposed the RoB construct to help explain people's differing opinions regarding companies' CSR activities. Rooted in the macro-level idea of social institutions, RoB is an individual-level construct that captures the internalized institutional expectations people have for business. (i.e., it is a manifestation of the institution of business). It is the lens through which individuals determine an action's "appropriateness" (role-theory) and thereby impute the firm's level of "legitimacy" (institutional-theory)—both of which resonate with the idea of "responsibility." They showed how respondents' perceptions of CSR activities were profoundly shaped by their RoB expectations. RoB expectations establish a standard to which people compare the specific actions of a company. RoB expectations proved to be the primary lens by which people assessed CSR activities explaining dramatically more of the variation in CSR perceptions than a person's relationship to the firm (i.e., stakeholder-group status) or other demographic characteristics. This paper extends the RoB construct by exploring how respondents' RoB expectations compare across countries.

Meanwhile, institutional theory suggests that the pressures for organizational and institutional isomorphism lead to increasing similarity over time (Campbell 2007; DiMaggio and Powell 1983; Suchman 1995). Given that firms operating across borders will invest in CSR activities internationally while considering the expectations of local markets, it is important to consider whether the isomorphism of the expectations of the role-of-business becomes apparent at the transnational level or country level. On the one hand, in an era of global economic integration one would expect the economic institutions between countries to converge onto a single, global institutional model. For example, in terms of consumer behavior, economies of scale of standardized products coupled with a uniformity in consumer tastes will transcend localized differences (Jamali and Neville 2011; Levitt 1983; Ritzer 1993). In terms of business management, it is argued that the external forces of globalization will shape the structure and strategy of firms into a universal model (Chandler 1962). Similarly, the spread of formalized institutions such as the United Nation's Global Compact and CSR consultancies have supported the convergence of CSR activities among firms operating in multiple countries (Jamali and Neville 2011; Waddock 2008).

On the other hand, the divergence thesis suggests that any convergence will be mitigated by the cultural values of local institutions, path dependencies, and the business advantages of differentiation, causing greater divergence of business practices (De Mooij 2010; Hall and Soskice 2001; Jamali and Neville 2011). For example, in terms of consumer behavior, consumers that are provided with greater resources (e.g., rising income) will be able to discern and express their cultural values and identities when making the decision whether or not to purchase products of global brands (De Mooij 2010; Jamali and Neville 2011). In terms of business management, national institutions differ in how they harbor firm structures and decision-making processes—certain institutions allow a broader and consensual form of decision-making while others expect a top-down form of decision-making (Hall and Soskice 2001). As such, the RoB expectations of firms within each country may diverge, reflected in the different CSR infrastructures tailored to the historical, cultural, economic, and political context of each national institution (Jamali and Neville 2011).

Given the arguments of convergence and divergence of international CSR activities with respect to institutional theory, we explore the cross-cultural similarities and differences in people's RoB expectations that reveal the embedded institutional models of business in different countries. It should be noted that it is the *content* of respondents' institutional beliefs about the role of business in society that we examine, rather than the various CSR activities within different national institutions [e.g., institutionalization of CSR practices and strategies (Bondy et al. 2012), differences in CSR orientations (Burton et al. 2000; van den Heuvel et al. 2011)]. Namely, RoB expectations are the underlying expectations—rooted in taken-for-granted institutional models—that shape people's perceptions of companies' CSR activities. As such, we investigated research questions related to both the structure and content of people's RoB expectations. We conceived structure as having two aspects: (1) the number of domains within which people have expectations for business; and (2) the composition of specific obligations within those domains (Carroll 1999). Thus, we propose the following research questions to examine whether people in different countries have expectations of business involving the same type of issues:

RQ1 Are the *domains* of Role-of-Business expectations (i.e., number and nature of factors) consistent across countries (a single, "global" model)?

RQ2 Is the *composition* of each domain of RoB expectations (i.e., the items loading onto each factor) similar across countries?

Beyond identifying which *issues* are salient for people, we examine *what* people in different countries expect of business with respect to those issues. In other words, we explore whether people in different countries care about similar issues but in different ways.

RQ3 Is the *content* of RoB expectations regarding the same domain (i.e., the factor means and standard deviations) similar across countries?

3 Data and Methodology

3.1 Sample and Data

To examine how a person's stakeholder-status (i.e., their relationship to the company) shapes their opinion of specific CSR activities, we asked respondents about their general role-of-business (RoB) expectations. Data for this study were collected in four countries[1]: USA ($n = 552$), South Korea ($n = 476$), Hong Kong ($n = 155$), and Singapore ($n = 156$), with a total of 1339 participants. Subjects were recruited from business classes at universities from each country, following a standard protocol across all study locations. The questionnaires were administered in classrooms by instructors who had received extensive verbal and written instructions. For South Korea, the survey was translated from English into Korean and back-translated by bilingual translators. Surveys were examined by additional bilingual translators, and when translation was difficult or ambiguous, consensus was used to produce the final translation. English surveys were utilized in Hong Kong and Singapore, since the students that completed surveys were fluent in English. Of the participants, 40.9% were self-identified as male, 55.2% as female, and 3.3% as other. Percentages of participants by year in school were 7.3% freshmen, 6.2% sophomores, 9.3% juniors, 15.4% seniors, and 13.2% 5th-year students.

3.2 Measures and Research Methods

The Role-of-Business (RoB) construct was operationalized as the respondent's conception of the obligations every company must fulfill. The questionnaire asked respondents to rate a list of 28 targeted expectations for business. The list of potential obligations covered issues across the spectrum from financial outcomes, employment practices and human welfare, to civic and environmental concerns (See Table 1). A forced-choice scale was adopted to eliminate the "neutral" midpoint (Smyth et al. 2006). The choices ranged from: "I completely agree, this is absolutely essential for business and should be a core concern."; and, "I agree that this is a concern for business, but not its top priority."; to, "I disagree; while this might be nice, it is not the concern of business" and "I completely disagree, this is totally irrelevant to business."

To examine our three research questions, we conducted a series of structural equation modeling (SEM) using software programs MPLUS and SPSS v. 21. First, for RQ1, "Are the domains of Role-of-Business expectations (i.e., number and

[1]We realize that these are not representative samples of their respective countries—so broad generalizations are not warranted. However, we think the findings provide valuable—albeit limited—insight into the respondents' institutional models of business.

Table 1 Role-of-business items

Using the following scale, please indicate how you would rate the following activities with respect to your expectations for ALL business enterprises: (1 = completely agree; 2 = I agree; 3 = I disagree; 4 = I completely disagree). *Every company has an obligation to. . .*
Respect employees' values and beliefs
Protect the health and safety of workers
Guard the privacy of employees and customers
Comply with all local laws and regulations
Honor the cultural values and religious traditions in communities where it operates
Pay its share of taxes/royalties
Promote justice and human rights
Insure that their suppliers are not engaged in abusive labor practices
Provide employment that is justly compensated
Preserve the global ecosystem
Clean up and repair damage to natural environment
Protect and defend native habitat and wilderness
Limit adverse impact on local environment
Consume organic and/or recycled raw materials if available
Utilize resources efficiently in order to reduce waste
Provide an aesthetically pleasing work environment
Give employees a voice in corporate decision-making
Create jobs in poor countries
Sponsor the Arts
Develop the skills of employees
Support local schools and universities
Participate in the political process
Give a percentage of net profits to charity
Invest in the economic development of communities where it has a presence
Help solve the world's chronic problems (e.g. Poverty, disease and suffering)
Maintain profitability
Increase the wealth of shareholders
Produce products and/or services

nature of factors) consistent across countries (a single, "global" model)?" we conducted an exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to see whether a global model emerged with respect to the Role-of-Business. We then analyzed the combined data from all four countries to search for a single, "global"[2] model of Role-of-Business expectations. Specifically, we conducted a parallel analysis (O'connor 2000) to determine the number of factors and concluded that there were four underlying factors for the global model. To assess validity and reliability, we conducted an exploratory factor analysis (EFA) using direct oblimin

[2]We realize that with just 4 countries our results can hardly be classified as global; so we use the term "global" (in quotations) to acknowledge this fact.

as a rotation method; given that there was no a priori theoretical reason to believe that the factors were orthogonal (Tabachnick and Fidell 1996). Based on the EFA, we conducted a confirmatory factor analysis (CFA) to test the factor structure of the model. Fit indices, including RMSEA, CFI, TLI, and SRMR were used to assess model fit. Next, to confirm the single model, we conducted a multi-group factor analysis among USA, South Korea, Hong Kong and Singapore. The final step was to examine the "local" models of Singapore and Hong Kong. In order to do this, we ran factor analyses separately for Hong Kong and Singapore.

For RQ2, "Is the composition of each domain of RoB expectations (i.e., the items loading onto each factor) similar across countries?" a configural invariance model was specified that evaluated whether the number of factors and pattern of indicator-factor loadings were equivalent across groups (Brown 2012).

Lastly, for RQ3, "Is the content of RoB expectations regarding the same domain (i.e., the factor means and standard deviations) similar across countries?" we compared group means on the latent variables (factors) using structured means analysis (Dimitrov 2006).

4 Results

4.1 Research Question 1: Global Versus Local

As aforementioned, to examine RQ1, "Are the domains of Role-of-Business expectations (i.e., number and nature of factors) consistent across countries (a single, "global" model)?" we conducted an EFA and CFA to test and confirm the structure of a global model. A model that is a good fit would have: an RMSEA valueclose to 0.05 or lower, CFI close to 0.95 or over, TLI close to 0.95 or over, and SRMR close to 0.05 or lower (Hu and Bentler 1999; Kline 2011). By these criteria, the "global" model fit the data well [χ^2 (71) = 243.04 at p = 0.00; RMSEA = 0.04 with a 90% confidence interval of 0.04–0.05; CFI = 0.95, TLI = 0.94; SRMR = 0.04]. The factors, individual item loadings, and reliabilities are listed in Table 2. Based on the specific items comprising the four factors, the dimensions (i.e., "domains") of the "global" model were labeled: Human Dignity, Eco-stewardship, Community Participation, and Economic Productivity. The average variance extracted (AVE) values were all above 0.5, indicating discriminant validity among the subscales. For the EFA, we found a single model that was a good fit for the data from all four countries.

Next, to confirm the single model, we conducted a multi-group factor analysis among USA, South Korea, Hong Kong and Singapore. In particular, since the global model was found to fit the *combined* data, the next step was to confirm that the global model was a good fit *in each country*—or, that the global was model invariant across the four countries of our study. Therefore, a series of model comparisons were made between a less restrictive model and a nested model using the rescaled chi-square

Table 2 Exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) factor loadings for "global" model of role-of-business

Factors and items	Mean[a]	SD	EFA Loading	CFA[b] Loading	AVE[c]	Alpha[d]
Factor 1: Human dignity (5 items)	1.52	0.40			0.50	0.71
Protect the health and safety of workers	1.34	0.51	**0.89**	**0.86**		
Guard the privacy of employees and customers	1.34	0.52	**0.79**	**0.77**		
Respect employees' values and beliefs	1.52	0.60	**0.66**	**0.69**		
Insure that their suppliers are not engaged in abusive labor practices	1.73	0.69	**0.64**	**0.66**		
Honor the cultural values and religious traditions in communities where it operates	1.67	0.63	**0.58**	**0.52**		
Factor 2: Eco-stewardship (4 items)	2.05	0.56			0.51	0.75
Protect and defend native habitat and wilderness	2.24	0.74	**0.84**	**0.80**		
Preserve the global ecosystem	1.88	0.70	**0.77**	**0.79**		
Clean up and repair damage to natural environment	2.01	0.77	**0.63**	**0.63**		
Consume organic and/or recycled raw materials if available	2.07	0.73	**0.59**	**0.61**		
Factor 3: Communityparticipation (2 items)	2.25	0.65			0.60	0.75
Give a percentage of net profits to charity	2.22	0.73	**0.99**	**0.79**		
Support local schools and universities	2.27	0.72	**0.62**	**0.76**		
Factor 4: Economic productivity (3 items)	1.69	0.49			0.51	0.70
Maintain profitability	1.59	0.64	**0.85**	**0.84**		
Increase the wealth of shareholders	1.94	0.70	**0.71**	**0.70**		
Produce products and/or services	1.55	0.65	**0.56**	**0.58**		

Notes: Responses were evaluated in RoB data from N = 1339 business students from USA, South Korea, Hong Kong, and Singapore

[a]Mean of 14 items where each item is measured on a 4-point Likert scale, 1 = completely agree, 4 = completely disagree

[b]Tests of model fit for CFA: χ^2 (71) = 243.04, p = 0.00; RMSEA (90% CI) = 0.04–0.05; CFI = 0.95, TLI = 0.94; SRMR = 0.04. Factor loading scores from CFA significant at $p < 0.01$ unless otherwise noted as non-significant (ns)

[c]Average Variance Extracted

[d]Cronbach's alpha reliability measure of internal consistency

difference test employing scaling correction factors (Muthén and Muthén 2001). As shown in Table 3, the global model was found to fit for USA [χ^2 (71) = 165.19 at $p = 0.00$; RMSEA = 0.05 with 90% confidence interval of 0.04–0.06; CFI = 0.95, TLI = 0.94; SRMR = 0.04] and South Korea [χ^2 (71) = 143.99 at $p = 0.00$; RMSEA = 0.05 with 90% confidence interval of 0.04–0.06; CFI = 0.93, TLI = 0.92;

Table 3 CFA results for the invariance test of role-of-business by country (USA, South Korea, Hong Kong, Singapore)

	χ^2	df	$\Delta\chi^2$	Δdf	RMSEA	RMSEA CI90%	CFI	TLI	SRMR
Global model	243.04***	71			0.04	0.04–0.05	0.95	0.94	0.04
USA	165.19***	71			0.05	0.04–0.06	0.95	0.94	0.05
South Korea	143.99***	71			0.05	0.04–0.06	0.93	0.92	0.04
Hong Kong	115.21***	71			0.06	0.04–0.08	0.89	0.86	0.06
Singapore	167.14***	71			0.09	0.08–0.11	0.77	0.70	0.08
Model 1 (Configural)	300.76***	142			0.05	0.04–0.05	0.95	0.93	0.04
Model 2 (Metric invariance)	321.11***	152	20.29*** (Model 1&2)	10 (Model 1&2)	0.05	0.04–0.05	0.95	0.93	0.05
Model 3 (Partial metric invariance)	312.39***	151	9.46*** (Model 2&3)	1 (Model 2&3)	0.05	0.04–0.05	0.95	0.94	0.05
Model 4 (Scalar invariance)	474.79***	161	176.15*** (Model 3&4)	10 (Model 3&4)	0.06	0.06–0.07	0.90	0.89	0.06
Model 5 (Partial scalar invariance)	315.78***	155	185.18*** (Model 4&5)	6 (Model 4&5)	0.05	0.04–0.05	0.95	0.94	0.05
			3.39 (Model 3& 5)	4 (Model 3&5)					

Notes: ***$p < 0.001$; A good fit would have: an RMSEA valueclose to 0.05 or lower, CFI close to 0.95 or over, TLI close to 0.95 or over, and SRMR close to 0.05 or lower. Models 1–5 were tested among USA and South Korea

SRMR = 0.04]. However, Hong Kong did not converge to the global model [χ^2 (71) = 115.21 at p = 0.00; RMSEA = 0.06 with 90% confidence interval of 0.04–0.08; CFI = 0.89, TLI = 0.86; SRMR = 0.06] and Singapore showed a poor fit with the global model [χ^2 (71) = 167.14 at p = 0.00; RMSEA = 0.09 with a 90% confidence interval of 0.08–0.11; CFI = 0.77, TLI = 0.70; SRMR = 0.08]. Thus, while there indeed exists a "global" model of RoB expectations across all four countries, two (USA and South Korea) showed a good fit to the "global" model, while the other two did not show a good fit.[3]

The next step was to examine the "local" models of Singapore and Hong Kong. In order to do this, we ran factor analyses separately for Hong Kong and Singapore. Based on the parallel analysis (O'connor 2000), we concluded that there were three underlying factors for Hong Kong and four for Singapore. To assess validity and reliability, we conducted an exploratory factor analysis (EFA) using direct oblimin as the rotation method; given that there was no a priori theoretical reason to believe that the factors were orthogonal (Tabachnick and Fidell 1996). The factors, individual item loadings, and reliabilities for both countries are shown in Table 4. Hong Kong showed a 3 factor model, with the factors of Human Dignity, Community Participation, and Economic Productivity. Note that Eco-stewardship did not emerge as a factor for Hong Kong. Singapore showed a 4 factor model, with the same factors (but not the same composition of items) of the "global" model. Thus, the answer to Research Question 1 is that there is indeed a "global" model, but the two countries of Hong Kong and Singapore show a stronger local model rather than conforming to the "global" model.

4.2 *Research Question 2: The Composition of RoB Expectations of USA and South Korea*

To examine RQ2, "Is the composition of each domain of RoB expectations (i.e., the items loading onto each factor) is similar across countries?" we conducted analyses to compare invariance of the "global" factor model for USA and South Korea, the two countries that conformed to the "global" model. A configural invariance model was specified that evaluated whether the number of factors and pattern of indicator-factor loadings were equivalent across groups (Brown 2012). All parameters were freely estimated across USA and South Korea with the first item of each factor fixed to one and the factor mean was fixed to zero for identification in each group. As shown in Table 3, the configural model (Model 1) had good fit [χ^2 (142) = 300.76 at p = 0.00; RMSEA = 0.05 with 90% confidence interval of 0.04–0.05; CFI = 0.95, TLI = 0.93; SRMR = 0.04]. The data-model fit suggested that the factor model and the pattern of indicator-factor loadings were comparable across USA and South

[3]Hong Kong and Singapore had a sample size, despite smaller than USA and South Korea, adequate enough so as not to bias the results of the multi-group factor analysis (Kline 2011).

Table 4 Exploratory factor analysis (EFA) factor loadings for role-of-business, Hong Kong and Singapore

Factors and items	Hong Kong		Singapore	
Every company has an obligation to…	Loading	Alpha	Loading	Alpha
Factor 1: Human dignity		**0.82**		**0.70**
*Guard the privacy of employees and customers**	0.70			
Protect the health and safety of workers	0.69		0.51	
Insure that their suppliersare not engaged in abusive labor practices	0.64		0.60	
Respect employees’ values and beliefs	0.54		0.65	
Honor the cultural values and religious traditions in communities where it operates	0.50			
Pay its share of taxes/royalties	0.45			
Promote justice and human rights			0.62	
Invest in the economic development of communities where it has a presence			0.44	
Factor 2: Eco-stewardship				**0.70**
Preserve the global ecosystem			0.74	
Protect and defend native habitat and wilderness			0.69	
Limit adverse impact on local environment			0.59	
Utilize resources efficiently in order to reduce waste			0.38	
Factor 3: Community participation		**0.82**		**0.75**
Sponsor the arts	0.99			
Create jobs in poor countries	0.67			
Help solve the world’s chronic problems (e.g. poverty, disease and suffering)	0.63		0.58	
Support local schoolsand universities	0.58		0.73	
Give a percentage of net profits to charity	0.51		0.75	
Participate in the political process	0.51			
Factor 4: Economic productivity		**0.70**		**0.74**
Increase the wealth of shareholders	0.88		0.55	
Maintain profitability	0.54		0.70	
Produce products and/or services			0.43	

Notes: N = 155 in Hong Kong and N = 156 in Singapore
*Italicized items were included in the “global” model

Korea, and thus a series of model constraints were applied in successive models in order to ascertain how the models differed.

Next, equality of factor loadings across USA and South Korea was examined in a metric invariance model (Model 2) where all factor loadings were constrained to be equal across USA and South Korea and other parameters including intercepts of factor indicators were allowed to vary. Although the metric invariance model fits the data well as shown in Table 3 [χ^2 (152) = 321.11 at $p = 0.00$; RMSEA = 0.05 with 90% confidence interval of 0.04–0.05; CFI = 0.95, TLI = 0.93; SRMR = 0.05], a chi-square difference test revealed that this model is significantly different from the configural model [$\Delta\chi^2$ (10) = 20.29, p = 0.03]. Thus, referring to the modification indices, the factor loadings on the item "protect the health and safety of workers" were allowed to vary across countries, which is the partial metric invariance model (Model 3). As a result, the fit for Model 3 was [χ^2 (151) = 312.39 at p = 0.00; RMSEA = 0.05 with 90% confidence interval of 0.04–0.05; CFI = 0.95, TLI = 0.94; SRMR = 0.05], and a chi-square difference test confirmed the metric invariance across countries [$\Delta\chi^2$ (1) = 9.46, p = 0.00]. Therefore, factor loadings were invariant across USA and South Korea with the exception of one item.

Model 4 examined the intercepts of factor indicators in a scalar invariance model, where all factor loadings and item intercepts were constrained to be equal across groups. Factor means in the group of South Korea were also estimated with those in the group of USA being the reference (set to zero). The scalar invariance model fit the data less desirably, although acceptably [χ^2 (161) = 474.79 at p = 0.00; RMSEA = 0.06 with 90% confidence interval of 0.06–0.07; CFI = 0.90, TLI = 0.89; SRMR = 0.06]. Moreover, a chi-square difference test revealed that this model was significantly different from the partial metric invariance model, Model 3 [$\Delta\chi^2$ (10) = 176.15, p = 0.00]. This means that the constraints of the intercepts across groups result in a significant decrease in fit relative to the partial metric invariance model. Examination of modification indices suggested a point of localized strain such that the model fit would be significantly improved by allowing the intercepts for six items ("Respect employees' values and beliefs," "Protect the health and safety of workers," "Honor the cultural values and religious traditions in communities where it operates," "Clean up and repair damage to natural environment," "Give a percentage of net profits to charity," and "Maintain profitability") to differ between groups. A subsequent partial scalar invariance model (Model 5) was thus estimated with the six intercepts permitted to vary and exhibited a good fit [χ^2 (155) = 315.78 at p = 0.00; RMSEA = 0.05 with 90% confidence interval of 0.04–0.05; CFI = 0.95, TLI = 0.94; SRMR = 0.05]. The partial scalar invariance model (Model 5) fit significantly better than the full scalar invariance model (Model 4) [$\Delta\chi^2$ (6) = 185.18, p = 0.00], and the partial scalar invariance model (Model 5) did not fit significantly worse than the partial metric invariance model (Model 3) [$\Delta\chi^2$ (4) = 3.39, p = 0.49]. The superior fit of Model 5 indicated that despite the comparability of the global model for USA and South Korea, there were still significant differences between the countries in the composition of the factors. Moreover, comparing the composition of items in Table 4 also suggested that while the factors might address similar domains of concern, those domains were defined in different ways in the countries of USA and South Korea.

Table 5 Structured means analysis of comparing group means on factors (USA & South Korea)

Factors	Factor mean (USA)	Factor mean (South Korea)
Human dignity	0 (0.00)	0.10 (0.09)
Eco-stewardship	0 (0.00)	−0.42*** (0.08)
Community participation	0 (0.00)	−0.16* (0.08)
Economic productivity	0 (0.00)	−0.05 (0.09)

Notes: *$p < 0.05$, ***$p < 0.001$; USA set as reference group (mean = 0); standard errors in parentheses

4.3 Research Question 3: Level of RoB Expectations Between USA and South Korea

Given the different structure and composition of factors for Hong Kong and Singapore, direct comparisons of the content of their expectations were not possible. With regard to the two countries (e.g., USA and South Korea) that conformed to the "global" model, we compared group means on the latent variables (factors) using structured means analysis (Dimitrov 2006). USA was chosen as the reference group (mean = 0) and South Korea as the comparison group. By doing so, the difference between the two group means on the factors equals the mean of the comparison group on the construct. As shown in Table 5, the factor means for Eco-Stewardship and Community Participation were significantly lower for South Korea compared to USA (−0.42, $p < 0.001$; and −0.16, $p < 0.05$, respectively). There was no statistical difference between South Korea and USA in means for the other two factors (Human Dignity, Economic Productivity). This means that, as a group, the South Korean respondents felt that businesses have a greater obligation for environmental and community concerns than the respondents from USA. While the two countries might share the same *structure* of institutional expectations for business (i.e., common domains of concern), the *content* of those expectations was different.

5 Discussion and Conclusive Remarks

Using data from USA, South Korea, Singapore, and Hong Kong, we cross-culturally compared respondents' institutional expectations for business. We tested whether there was a "global" model that fit the data across all four countries, or whether each country had its own, "local" institutional model of business. Running exploratory and confirmatory factor analyses (EFA and CFA) with the combined dataset revealed a 4-factor model that was a good fit for the combined dataset. Comprised of 14 RoB items, we found that people's expectations for business coalesced into 4 domains of concern: economic, environmental, community and human-dignity, which is consistent with previous CSR research (e.g., Carroll 1999).

In order to confirm whether the global model was a good fit for each country, we ran multi-group confirmatory factor analyses comparing the unconstrained country models with the 4-factor global model. Results showed that the global model was a good fit for only two of the four countries—USA and South Korea. It was not a good fit for our respondents from Singapore or Hong Kong. These results provided partial support for the idea that there was a trans-national institution of business.

In order to unpack the institutional models in Singapore and Hong Kong, we ran separate exploratory factor analyses for each country. The results revealed interesting similarities and differences. For example, Singapore had a 4-domain model, while Hong Kong's model incorporated only three domains. While there were substantial overlaps between the factors in these local models and the "global" model, there were also sufficient differences to preclude the global model from being a good fit for either of these countries. The most striking finding was the fact that virtually none of the environmental RoB items were included in the Hong Kong model. Environmental considerations were not a factor in defining business obligations for our Hong Kong respondents, which resonates with Burton et al.'s (2000) finding that non-economic responsibilities were much less important to students in Hong Kong.

Beyond the different number of factors, when we compared the composition of domains (i.e., the items comprising each factor) we noticed substantial similarities and differences between countries. For example, within Hong Kong's Community Participation domain, only two of the six items overlapped with the "global" model. In addition to giving a percentage of profits to charity and supporting local schools and universities, our Hong Kong respondents also expected businesses to sponsor the arts and participate in the political process. Moreover, they were also expected to help solve the world's chronic problems and create jobs in poor countries. This was a much more expansive vision of community participation than was reflected in the global model. Similarly, for the human dignity domain, the Hong Kong respondents added concerns about companies paying their fair share of taxes. Interestingly, for the economic domain the expectations that firms "produce a product or service" was not included. As already mentioned, no concern for eco-stewardship was included in the model.

For Singapore, the four domains seemed quite similar to the "global" model. However, upon closer inspection it was apparent that there were different emphases within three of the domains. While the economic domain contained the same items as the global model, in the community participation domain, Singaporeans added an expectation that businesses will take action to help solve some of the world's chronic problems. They defined community in a much broader, more global manner. With respect to the environmental domain, the Singaporean respondents substituted "limit adverse impact" and "utilize resources efficiently" for the "global" model's "clean up and repair damage" and "consume organic and/or recycled raw materials." This reflected a minimizing-impact vs. cleaning-up-damage mindset—or to use *cradle-to-cradle* language, more of a "be less bad" ethos (McDonough and Braungart 2010). Finally, the human dignity dimension exhibited a stronger, rights-based orientation. Beyond respecting people's values, guarding their privacy, and protecting the safety and labor-practices of workers, Singaporean respondents expected businesses to promote justice and human rights, and actively invest in the economic development of communities where they do business. More than respecting human dignity, these items reflected a stronger concern with human rights. Together, these similarities and differences in the composition of domains across countries showed, at least partially, that the composition of each domain of RoB expectations is similar across countries.

While the USA and South Korean respondents shared the same 4-factor model, structured means analysis revealed that the content of their expectations within the four domains was somewhat different. Their group-mean scores on two of the four factors were significantly different. Respondents in South Korea expressed stronger expectations in both the environmental and community domains compared to the respondents of USA. There was no statistical difference in expectations for the economic and human dignity domains. This is potentially problematic because the shared institutional structure could lead people to assume that they share similar expectations about business within these domains—common concerns (i.e., domains) do not necessarily imply shared expectations.

One other comment regarding the content of expectations can be made with regard to the factor means and standard deviations for the "global" model (Table 2). Overall, in the combined data, respondents expressed stronger support (i.e., lower mean factor scores) for companies' human dignity and economic productivity obligations than for eco-stewardship or community participation (1.52 and 1.69 vs. 2.05 and 2.25, respectively). Some domains also exhibited more agreement among respondents than others. Our respondents expressed a wider range of opinions (i.e., higher standard deviations) regarding corporate environmental and civic obligations than humanitarian and economic obligations (0.56 and 0.65 vs. 0.40 and 0.49, respectively).

Our study carries several limitations. First, while the findings revealed some intriguing similarities and differences, we cannot generalize the findings to the whole countries. Further studies can add more samples from diverse countries to better approximate a global model of RoB expectations. In addition, periodic re-sampling would allow for longitudinal assessment of changes in institutional expectations to examine whether the expectations are converging or diverging and at what rate. Finally, if unpacking the structure and content of institutional expectations for business proves useful for facilitating international CSR management, then perhaps we should consider parallel analyses for other social institutions (i.e., government, school, church, family, etc.) These all seem to be institutions in flux and rife with conflict and misunderstanding. Articulating and surfacing the unspoken assumptions beneath these misunderstanding could help facilitate communication and resolution.

Our study provides a view into the institutional complexity regarding the global practice of business. While there were glimmers of a cross-national "global" model, it has yet to become institutionalized in every country. Overlapping institutional expectations ought to facilitate international trade and partnerships, but differences between countries warrant caution with respect to further integration and coordination. When it comes to helping companies enact responsible business practices and governance structures, it is vital to understand the institutional expectations for which they will be held accountable. Our research exposed the difficulty of assuming a shared understanding of the role requirements for business. There was no one-size-fits-all model of global corporate social responsibility. Without a strong, global institution of business, multi-national managers will need to be aware of, and sensitive to, the "local" variations not only in the structure (i.e., domains) of business expectations, but in the range of issues and opinions regarding each domain. Thus, we contend that *clarity* is more important than *similarity*. People can adjust to playing by different rules as long as they know what those rules are. Problems result when we *assume* we are playing by the same rules when in fact we are not. Institutions lend themselves to such taken-for-granted behavior. Our findings suggest that this is not a wise global business strategy.

There is much work to be done unpacking the taken-for-granted expectations people have for business. As Hofstede (2001) compared countries on five fundamental cultural dimensions, we envision somewhat similar studies with respect to the institutional expectations for business. When it comes to CSR, it behooves business people and companies to be active in the debate within each local and global jurisdiction to define and clarify the baseline expectations for business. The problem is in assuming that we all mean the same thing when we talk about responsible business.

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Justifying CEO Pay Ratios: Analysing Corporate Responses to Bloomberg's Listing of Standard & Poor's 500 Pay Ratios

Manuel Castelo Branco and Catarina Delgado

Abstract This study analyzes Standard & Poor's 500 Index top 250 companies' responses to Bloomberg's disclosed calculations of CEO pay ratios. The results suggest that CEO pay ratios, CEO compensations and average worker compensations do not seem to be related to the decision to respond. They also indicate that many of the corporations have adopted a strategy of avoiding the issue or deflecting attention from it by either choosing not to respond or criticizing the technicalities of the calculation of the CEO pay ratios. Corporations that responded largely conceptualize and communicate the rationale for high executive compensation in performance-driven language.

1 Introduction

Executive compensation is an increasingly popular theme in both the popular press and the scholarly literature (Boyd et al. 2012). Although most of the current chief executive officer (CEO) pay debate focuses on its rapid rise over the more recent decades, CEO pay has been a highly controversial issue in the United States (US) at least since the beginnings of the twentieth century (Holmberg and Umbrecht 2014). Notwithstanding, it has been the dramatic increase in CEO pay levels over the past few decades that propelled intense debate regarding how the pay levels of top executives compare with those of rank-and-file employees. Lazonick (2009, 2014) speaks of an "ongoing explosion of executive pay" in the US that has been occurring since the 1970s.

M.C. Branco (✉)
Research Centre on Accounting and Taxation, Observatory of Economics and Management of Fraud (OBEGEF), Faculty of Economics, University of Porto, Rua Dr. Roberto Frias, 4200-464 Porto, Portugal
e-mail: mcbranco@fep.up.pt

C. Delgado
LIAAD/INESC-TEC, Faculty of Economics, University of Porto, Rua Dr. Roberto Frias, 4200-464 Porto, Portugal
e-mail: cdelgado@fep.up.pt

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Mishel and Davis (2014) report that whilst the CEO-to-worker compensation ratio in the US was 20-to-1 in 1965 and 29.9-to-1 in 1978, it grew to 122.6-to-1 in 1995, peaked at 383.4-to-1 in 2000, and was 295.9-to-1 in 2013. In 2012 the average compensation for the 500 highest-paid CEOs in Standard and Poor's ExecuComp database (drawn from company proxy statements) was $30.3 million (Lazonick 2014).

Recent evidence on the disparity between what the CEOs of large companies are paid and what their companies' average workers make enable us to compare the case of the US with that of other developed countries regarding 2012 (AFL-CIO 2013). Whereas in the US the average CEO makes 354 times more money than the average employee, in Germany the difference is of 147 times. In other countries the difference is smaller: 104 times in France; 89 in Sweden; 67 in Japan; 53 in Portugal; 48 in Denmark; 36 in Austria; 28 in Poland.

Kiatpongsan and Norton (2014) compared actual, estimated and ideal pay ratios of CEOs to unskilled workers in 16 countries, finding that in all of them the ideal and the estimated CEO pay ratio was significantly lower than the actual ratio. In the case of the US, they found that the actual CEO pay ratio (354:1) is substantially higher than the estimated ratio (30:1), which in turn exceeds by far the ideal ratio (7:1).

Public and investor concerns have arisen in consequence of supposedly excessive levels of CEO pay. Some suggest that these high levels of pay come at the expense of shareholders who are the owners of companies, and may also provide incentives for CEOs to take excessive risks (OECD 2009). Others discuss whether executive compensation packages in financial services companies may have contributed to the most recent financial crisis (Gregg et al. 2012). Others still analyze CEO pay against the backdrop of the excessive level of inequality in the USA and other countries (Mishel and Sabadish 2012; Bivens and Mishel 2013).

More importantly, many organizations around the world openly criticize CEO pay practices and engage in some sort of fight against these. For example, in the US several organizations have been extremely vocal in their criticisms of executive compensations. At the forefront of this criticism are organized labor organizations, such as the case of the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), and business ethics and corporate social responsibility-related organizations, such as the Interfaith Center on Corporate Responsibility (ICCR) (Hemphill and Lillevik 2009). Moreover, these organizations have designed devises to assist in restraining excessive CEO compensation packages: AFL-CIO created the PayWatch Webpage (www.PayWatch.org); the ICCR is known to have filed shareholder resolutions in publicly-traded corporations protesting CEO compensation packages (ibid.).

In the wake of the most recent global financial crisis, the US congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010 (North and Buckley 2011). In addition to outlining a series of reforms pertaining to the oversight of financial institutions, capital markets and products, investor and consumer protection, the Dodd-Frank Act also requires substantial changes regarding executive compensation arrangements (ibid.). To address some of the concerns pertaining to CEO pay scales, the Dodd-Frank Act has namely introduced reporting requirements for publicly traded companies to disclose the median of the annual total compensation of all employees (except the CEO) and the ratio of CEO compensation to median employee compensation. However, only very recently the Securities and Exchange Commission (SEC) proposed rules introducing the requirement of disclosure of these items of information for publicly traded companies.

Justifications for the high levels of executive compensation have been offered by many, including representatives of the corporations. Research on the justifications offered to the public by corporations is scarce (Crombie and Tan 2012). The few studies analyzing this issue focus on corporate documents such as proxy statements (Zajac and Westphal 1995; Wade et al. 1997; Crombie et al. 2010) and annual reports (Crombie 2009; Point and Tyson 2006; Crombie and Tan 2012). We add to this scant literature by analyzing corporate responses to third-party disclosure of CEO pay and CEO pay ratios. Following Crombie (2009), a central assumption of this study is that the remuneration logics used in practice are consistent with and perhaps derived from academic theories and philosophies.

Recently, Bloomberg has calculated CEO pay ratios for Standard & Poor's 500 Indextop 250 companies and offered a chance to the companies of responding. A table with the ratios and the companies' edited comments was reported (http://go.bloomberg.com/multimedia/ceo-pay-ratio/). We use this data to analyze some characteristics of the companies that responded and the main remuneration logics used in their responses.

We use a lens of analysis based on legitimacy theory. This theoretical frame is widely used in the research on corporate communication practices (Cho 2009). The findings of this study suggest that many of the corporations have adopted a strategy of avoiding the issue or deflecting attention from it by either choosing not to respond or criticizing the technicalities of the calculation of the CEO pay ratios. They also indicate that corporations largely conceptualize and communicate the rationale for high executive compensation in performance-driven language.

The remainder of this paper is organized as follows. The next section offers a brief review of some literature related to executive pay and specifies our hypotheses. The section thereafter describes the data source and the methodology used. Section 4 presents the main findings. Section 5 offers a discussion of results and some concluding remarks.

2 Background and Hypotheses

Many of the most prominent management scholars have offered interesting critical perspectives on the issue of CEO remuneration. Drucker (1977) has been one of the earlier and more vocal authors raising concerns over the inequality of high disparities between executive and rank-and-file employees. At the time, he considered that a CEO pay ratio of 25:1 would be "well within the range most people" in the

USA considered “proper and indeed desirable” at the time. Moreover, he considered a “business responsibility” to “develop a sensible executive compensation structure” (ibid.). Seven years later, Drucker (1984) reiterated his opinion by asserting that the compensation of a small group of people at the top of a minute number of giant corporations “offend the sense of justice of many, indeed of the majority of management people themselves”, and suggesting a 20:1 ratio. More recently and much more radically, Mintzberg (2009) contends that “executive bonuses—especially in the form of stock and option grants—represent the most prominent form of legal corruption that has been undermining our large corporations and bringing down the global economy.”

These opinions are demonstrative of the pervading discomfort over executive compensation levels which exist among academics. Some speak of frustration amongst academics and practitioners caused by the foundering of attempts at documenting consistent and robust relationships between executive compensation and firm performance (Devers et al. 2007). Others refer to existing divisions between academics, with some of them considering that CEOs deserve the high remuneration packages they get, whilst others underline the lack of rational bases for them (Tosi et al. 2000). In effect, it is not difficult to find a divide between scholars who argue that the market for managerial talent is working correctly and CEOs are not overpaid (Core et al. 2005; Kaplan 2008, 2013), and those who consider otherwise (Bebchuk et al. 2002; Walsh 2008; Posner 2009).

Two major types of rationales for the existence of astonishingly high levels of executive pay predominate in the literature: the optimal contracting approach and managerial power approach (Dorff 2005). Whereas the proponents of the former view, which is the dominant view in academic research on the topic, argue that pay arrangements are set by a board of directors that aims to maximize shareholder value and arise as the result of optimal contracting in a competitive market for managerial talent (Murphy and Zábojník 2004; Gabaix and Landier 2008; Kaplan 2008), according to the advocates of the latter view executives use the power they possess to influence their own pay to extract rents from firms (Bebchuk et al. 2002; Walsh 2008). Combs and Skill (2003) analyze similar types of rationales under the headings of human capital and managerialist explanations for executive compensation.

The level of discomfort among practitioners and policy makers is not lesser than that existing among academics. One of the more newsworthy events regarding the debate on CEO pay scales has been the March 2013 popular referendum in Switzerland to control executive pay, which resulted in 68% of Swiss voters voting favorably to a law imposing strict limits on executive compensation. Nonetheless, in a subsequent referendum, occurred in November 2013, little over 65% of voters rejected a concrete proposal of the highest salary not exceeding by more than 12 times the lowest wage. More recently, in the USA, the Rhode Island state Senate passed a bill in June 2014 giving a preference in state procurement to companies whose CEOs do not make more than 32 times the pay of their lowest-paid full-time employee.

On August 5, 2015, almost 5 years after the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into federal law, the Securities and Exchange Commission (SEC) approved a final rule requiring a publicly traded company to disclose the ratio of the compensation of its chief executive officer (CEO) to the median compensation of all other employees. Companies must first begin to provide this information for the first fiscal year beginning on or after January 1, 2017.

Already in 1997, James Cotton, at the time law professor at Texas Southern University and former IBM's securities attorney, defended that public U.S. firms should disclose CEO-to-worker pay ratios as a way to advance fairness in the compensation of executives, managers, and employees (Cotton 1997). According to Smith and Kuntz (2013), Cotton may have been the first to propose mandatory disclosure of the CEO pay ratio.

The issues of equity (paying according to performance) and equality (treating people the same way regardless of their performance) (Rost and Weibel 2013) are usually addressed when discussing CEO pay. Research (in particularly in finance and strategy) has analyzed CEO pay practices mainly by drawing on economic efficiency arguments, explaining CEO pay by its relationship to company performance or by its dependency on labor markets, thus considering equity as the appropriate norm in the case of CEO pay (ibid.). The issue of what constitute justifiable compensations for CEOs in the eyes of stakeholders at large remains largely undiscussed in the literature (ibid.).

There is the issue of what justifications are used, namely by corporations, to legitimize the high executive compensation levels. These justifications may be termed "remunerations logics". Remuneration logics have been defined by Crombie et al. (2010) as systems of reasoning which organizations and their actors use to explain or justify remuneration practices to themselves and others. They can found in corporate documents such annual reports, proxy statements and press releases, as well as in regulations and codes of practice (Crombie 2009). Thus far, few studies have analyzed how justifications for executive compensation are disclosed in corporate documents (Zajac and Westphal 1995; Wade et al. 1997; Point and Tyson 2006; Crombie 2009; Crombie et al. 2010; Crombie and Tan 2012).

Zajac and Westphal (1995) analyzed proxy statements of 352 US listed companies pertaining to the period 1976–1990. Wade et al. (1997) analyzed proxy statements of 266 US listed companies from 1992. Point and Tyson (2006) analyzed remuneration policies in the 2002 annual reports of 23 listed companies in the banking and pharmaceutical/chemical industries from UK, France, Germany and Switzerland.

Crombie (2009) examined remuneration logics used to justify executive remuneration practices in regulations between 1991 and 2008 as well as the 1998 and 2007 annual reports of companies in Australia, New Zealand and the UK. Based on these analyses as well as on previous literature, Crombie (2009) developed a list of remuneration logics, which has been subsequently used and further developed by Crombie et al. (2010), who analyzed remuneration policies in 1998 and 2007 proxy statements of the 50 largest US listed companies. These remuneration logics are presented in Table 1. This list was also adapted by Crombie and Tan (2012) in their

Table 1 Remuneration logics, examples and key-words (adapted from Crombie 2009; Crombie et al. 2010)

Remuneration logics	Explanations or justifications	Examples from annual reports	Examples from proxy statements
Achievement	*Definition*: The CEO's remuneration should be based on the achievement of financial objectives. *Keywords*: (1) Achieve; (2) Corporate or Financial; and (3) Goal or Objective	"In 1998 the bonus scheme was structured such that the bonus payable was equal to 10% of basic salary for the achievement of budgeted EPS targets and 20% for the achievement of more stretching EPS targets." (British Aerospace 1998, p. 34)	". . .compensation. . . for executive officers includes. . . annual cash bonus, which is based on the achievement of Company financial and individual goals." (Time Warner 2007, p. 42)
Agency	*Definition*: The remuneration practices should align the interests of the CEO with those of the shareholders. *Keywords*: (1) Align; and (2) Interests	"The company believes this shareholding strengthens the alignment of senior executives with the interests of shareholders and puts their own remuneration at risk to long-term company performance." (Fletcher Building Ltd. 2007, p. 49)	"Stock options are granted by the Company. . . to align the interests of employees with those of the stockholders." (Intel 1998, p. 19)
Appropriate	*Definition*: The CEO's remuneration or remuneration practices should be appropriate. *Keyword:* Appropriate	"Also, the Committee recognizes the need to structure remuneration packages to incentivize and reward an appropriate balance between long and short term performance. (British Aerospace 1998, p. 32)	"In the opinion of the Committee, Exxon has an appropriate and competitive compensation program." (ExxonMobil 1998, p. 37)
Consultant	*Definition*: Independent advisors should assist in formulating executive remuneration policy or practices. *Keywords*: (1) Independent or External; and (2) Consultants or Advisors	"Directors are satisfied that they have received independent advice that this constitutes an appropriate remuneration package for the role of chief executive officer." (Fletcher Building Ltd. 2007, p. 45)	"All amounts were determined by the Committee, assisted by its independent compensation consultant" (3M 2007, p. 45)

(continued)

Table 1 (continued)

Remuneration logics	Explanations or justifications	Examples from annual reports	Examples from proxy statements
Contribution	*Definition*: The remuneration practices are designed to reward the CEO's contribution to corporate performance. *Keywords*: (1) Contribution, Influence, Effort, Merit, Impact or Delivery; and (2) Corporate performance (or similar)	". . .and where each is well rewarded for their contribution to the success of the business." (Sainsbury 1998, p. i)	"The. . . philosophy [is] to provide. . . rewards based. . . on the individual's contribution to the Company" (Gap Inc. 1998, p. 15)
Experience	*Definition*: The CEO's remuneration is dependent on his/her experience. *Keyword*: Experience		"The objective of base salary is to provide fixed compensation. . . that reflects his or her job. . . experience. . ." (Walt Disney 2007, p. 19)
Fairness	*Definition*: The CEO's remuneration or remuneration practices should be fair. *Keywords*: Equitable, Fair, Reasonable, or Not Excessive	"For 2007, the Committee is looking at ways of operating the existing remuneration framework in line with the following key principles: . . .and • reward performance on a fair and equitable basis." (Sainsbury 2007, p. 37)	"Exelon's shareholders are best served when we can successfully recruit and retain talented executives with compensation that is competitive and fair." (Exelon 2007, p. 33)
Human resources	*Definition*: The remuneration practices should attract and retain a skilled CEO. *Keywords:* Attract, Retain, Select, Secure or Recruit	"The company's remuneration strategy aims to attract, retain and motivate high calibre employees. . ." (Fletcher Building Ltd. 2007, p. 46)	"The objective of Motorola's executive compensation program is to attract and retain key executives" (Motorola 1998, p. 13)
Market	*Definition*: The CEO's remuneration should be competitive. *Keywords:* Competitive, Market, or Comparable	"Executive Directors' salaries are reviewed each year by the Committee and adjusted to reflect the performance and the competitiveness of salaries relative to the market." (British Aerospace 1998, p. 34)	"The core principles that underlie our approach to compensation are that NEO compensation should: be externally competitive. . ." (Chevron 2007, p. 49)

(continued)

Table 1 (continued)

Remuneration logics	Explanations or justifications	Examples from annual reports	Examples from proxy statements
Motivation	*Definition*: The remuneration practices should motivate the CEO. *Keywords*: Motivate, Encourage or Incentivize	"These enhancements aim to strengthen the motivation of executives to produce superior performance." (Commonwealth Bank of Australia 2007, p. 52)	"...we must motivate and reward them [executives] to build long-term stockholder value." (Qualcomm 2007, p. 23)
Pay for performance	*Definition*: The CEO's remuneration should be related to corporate performance. *Keywords:* (1) At risk, Performance based (or -related), Variable; and (2) Compensation, Pay or Remuneration	"Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focused..." (Commonwealth Bank of Australia 1998, p. 126)	"We design our performance-based compensation so that differences in performance will result in significant differences in the compensation our executives receive." (McDonalds 2007, p. 24)
Performance measurement	*Definition*: The CEO's remuneration should be dependent balanced set of performance measures. *Keywords:* (1) financial and nonfinancial; or (2) qualitative and quantitative		"the Management Development and Compensation Committee... evaluates a broad range of both quantitative and qualitative factors" (GE 2007, p. 19)
Responsibility	*Definition*: The CEO's remuneration is dependent on his/her level of responsibility. *Keyword*: Responsibility		"Base salaries for executives are initially determined by evaluating executives' levels of responsibility" (Wallgreen 1998, p. 11)

analysis of how Telecom Corporation of New Zealand Ltd justified its CEO's remuneration, via its 2009 annual report and minutes from the annual general meeting, and how the media and public reacted to the announcement of Reynolds' remuneration .

Dowling and Pfeffer (1975), Lindblom (1994) and O'Donovan (2002), amongst others, inspired Cho (2009) in developing a lens of analysis based on legitimacy theory referring to three communication strategies for responding to legitimacy threatening events:

- Image enhancement, referring to endeavours to appear legitimate through disclosure of self-praising information about commitments and accomplishments.

- Avoidance/deflection, having to do with efforts to appear legitimate by redirecting or deflecting attention from specific issues to other related (or - non-related) matters. Among the examples of avoidance/deflection strategies one counts abstaining from communication, avoid threatening topics and silencing opposing voices.
- Disclaimer, involving attempts to appear legitimate by denying responsibilities.

Our expectation is that companies which emerge more negatively depicted from a public scrutiny of their executive compensation schemes are more likely to offer some sort of justification for them. Hence, we hypothesize that:

H1 Companies with higher CEO pay ratios, higher CEO compensations and lower average worker compensations are more likely to have responded.

In the case of the justifications offered by companies regarding CEO pay ratios, we expected that the human resources logic (suggests that the level and form of executive remuneration must be sufficient to attract and retain highly skilled managers), the agency logic (mainly concerned with the alignment of executives' interest with those of the shareholders), the performance logics (the pay-for-performance, contribution and achievement logics) and the market logic will be dominant. Our hypothesis is that:

H2 The remuneration logics most used by companies in their responses are likely to be based on efficiency arguments.

3 Methodology

The empirical analysis reported in this article relies on data recently disclosed by Bloomberg. Bloomberg has calculated CEO pay ratios for Standard & Poor's 500 Indextop 250 companies and offered a chance to the companies of responding. A table with the ratios and the companies' edited comments was reported (http://go.bloomberg.com/multimedia/ceo-pay-ratio/). Based on this data, we will analyze:

1. Whether there are differences between the companies that have responded and their counterparts in terms of sector, CEO pay ratios, CEO compensation and average worker compensation;
2. What are the main remuneration logics used by companies in their comments to the ratios disclosed by Bloomberg.

Of the 250 companies, only 62 (25%) responded (see Table 2). First, using non-parametrical statistical methods, we investigate whether there are significant differences between the companies that have responded and their counterparts in terms of sector, CEO pay ratios, CEO compensation and average worker compensation. Second, we analyze the comments to identify the main typesremuneration logics used.

Table 2 Responses by sector

Industry	No. companies	%	Average of pay ratio	Average of CEO pay & benefits	Average of Avg. worker pay & benefits	No. responses	%
Communications	16	6	402.88	25.60	24,477.88	2	13
Consumer discretionary	49	20	403.06	15.88	30,516.57	9	18
Consumer staples	32	13	315.53	13.10	37,494.06	12	38
Financials	40	16	282.35	17.71	57,463.18	9	23
Health care	21	8	211.90	12.85	60,613.38	5	24
Industrials	28	11	319.64	18.65	53,233.04	9	32
Materials	17	7	282.59	15.78	52,744.53	5	29
Technology	33	13	333.76	20.00	52,824.30	9	27
Energy & utilities	14	6	285.36	18.88	60,347.29	2	14
Total	250	100	315.23	17.61	47,746.02	62	25

4 Findings

4.1 Characteristics of the Companies that Responded

The companies included in the sample are classified according to industries using Bloomberg's classification system. However, given that Utilities has only one company we decided to consider Energy and Utilities has a single industry. This classification system comprises the several sectors which are considered in Table 2 Consumer discretionary is the industry which presents the largest number of companies (49 companies and 20% of the total), followed closely by Financials (with 40 companies and 16% of the total). Technology and Consumer staples are the sectors which follow in terms degree of importance (each of them representing 13% of the total). The industries with smaller representation are Energy & Utilities and Communications (respectively, 14 and 13% of the total).

There are some differences between the rates of response of the different sectors (Table 1). The sector Communications and Energy & Utilities seem to have been less prone to respond (only 13 and 14% of the companies, respectively, have responded). The sector with higher percentages of response were Consumer discretionary and Industrials (38 and 32%, respectively). The sector Communications presents the highest average of CEO pay and benefits, the lowest average of worker pay and benefits and the second highest average of pay ratio.

In order to test the relations between the decision to respond and CEO pay ratio, CEO compensation and average worker pay, the non-parametrical Mann-Whitney U test was used. Results are presented in Table 3. Results suggest that no significant

Table 3 Mann-Whitney U test for all sectors

		CEO pay ratio	CEO pay	Avg. worker pay
Mean rank	Responded	129.62	130.21	122.09
	Not responded	124.14	123.95	126.03
Mann-Whitney U		5572.5	5536	5616.5
Asymp. Sig. (2-tailed)		0.605	0.554	0.668

Table 4 Mann-Whitney U test for sectors communications and materials

		CEO pay ratio		CEO pay		Avg. worker pay	
		Communic.	Materials	Communic.	Materials	Communic.	Materials
Mean rank	Responded	2.000	19.94	2.00	18.00	7.50	14.62
	Not responded	9.43	11.921	9.43	12.84	8.64	14.66
Mann-Whitney U		1.0	36.5	1.0	54.0	12.0	82.5
Asymp. Sig. (2-tailed)		0.039	0.016	0.039	0.121	0.742	0.882

relation between the decision to respond and the three variables referred above exists.

Taking into account the possibility of the decision to respond having been made bearing in mind the position of the firm within its sector, we decided to re-run the Mann-Whitney U test for each sector to see whether those companies with the highest CEO pay ratio and CEO compensation and lowest average worker pay relative to their sector-peers would be more likely to respond. Only in the case of the sectors Communications and Materials some statistically significant relations were found (see Table 4). In the case of the Communications sector, findings suggest the existence of a negative association between the variables CEO pay ratio and CEO pay and the decision to respond. Given that this result implies that companies with lower CEO pay ratios and CEO pays were more likely to have responded, it does not support H1. However, these results should be interpreted with extreme care given that only 2 of the 16 companies operating in this sector have responded. In the case of the Materials sector, only the association between the variable CEO pay ratio and the decision to respond was statistically significant. Companies with higher CEO pay ratio have been found to be more likely to respond, partially supporting H1.

Nonetheless, overall, our results offer no support for H1. Companies that responded seem to have no distinctive characteristics when compared with those that have not responded.

4.2 Remuneration Logics Used in the Responses

Regarding the type of the responses, we have detected that the responses include one or more of the following six strategies (see Table 5):

1. contesting the numbers or the methodology;
2. noting the alignment with shareholders' interests (agency logic);
3. attracting and retaining tot talent (human resources logic);
4. noting that CEO and/or company compensation levels are in line with that of peers (market based logic);
5. emphasizing the performance-based nature of CEO compensation and/or compensation policies of the company (pay for performance logic); and
6. underlining the relation between CEO compensation and his/her performance or the company's performance (contribution and experience logics).

Eleven responses (18%) contest the numbers or the methodology. The response of Simon Property Group Inc. is one of the more vocal in doing this: "The outdated and incorrect figures being used, together with a flawed methodology, result in a distortion that is insulting to our employees. By treating an 8-year, non-cash all equity grant that does not even begin to vest until 2017 as a single year's compensation, the survey creates a completely misleading result and makes any comparison meaningless."

There are 32 (52%) responses drawing attention to the aspects of performance (pay-for-performance logic) and or noting that compensation levels are in line with that of peers (market logic). Two of these responses also use the human-resources logic. It is the case of Nike's response. The spokeswoman of this company mentioned that: "The compensation package is meant to attract and retain top talent, reward business results and individual performance. The bulk of the salary is incentive based and tied to future financial results of Nike, which in turn maximizes shareholder value." The spokesperson of Target Corp. declared that: "We place a priority' on providing comprehensive pay and benefits for all of our

Table 5 Types of response

Type of response	No.	%
Contesting the numbers or the methodology	11	18
Noting the alignment with shareholders' interests (agency logic)	5	8
Attracting and retaining tot talent (human resources logic)	2	3
Noting that CEO and/or company compensation levels are in line with that of peers (market based logic)	13	21
Emphasizing the performance-based nature of CEO compensation and/or compensation policies of the company (pay for performance logic)	26	42
Underlining the relation between CEO compensation and his/her performance or the company's performance (contribution and experience logics)	6	10
Not classified	10	16

team members that often exceed the external market. Our executive compensation programs are competitive with companies of our scale and complexity' and are designed to attract, retain and motivate a premier management team."

Seven (11%) of these 32 responses combine the performance logic with references to the comparison of the CEO's compensation with compensation at a peer group. An example of a response emphasizing the performance-based nature and mentioning the use of benchmarking is that of Plum Creek Timber Co. The spokesperson of this company mentioned that: "The process for determining CEO compensation includes benchmarking with other organizations in our industry, as well as at a select group of REIT5 and other S&P companies. A portion of our CEO's compensation is composed of long-term incentives, which are based on company performance."

Five (10%) responses use the contribution logic and 1 (2%) the experience logic. Of these, one also uses the market logic. It is the case of Philip Morris, whose spokeswoman asserted that: "Mr. Camilleri's performance-based compensation package is in line with his peers. Under his leadership, PM continues to not only outpace its competitors, but generated a total shareholder return five times that of the S&P 500 during the last 5 years." The response of FedEx Corp combines performance logic with the experience logic: "Mr. Smith's compensation is closely aligned with the performance of FedEx. It reflects is experience in the transportation industry and his role in promoting the company and resolving the governmental barriers it has faced worldwide." The others use only the contribution logic.

Another interesting finding is that of the 62 responses, 20 (32%) referred to shareholders/stockholders and none to stakeholders. Of the responses referring to shareholders/stockholders, only 3 mention shareholder approval of the CEO compensation (2) or discussion of said compensation with major shareholders (1). For example, Wells Fargo & Co. added to the emphasis on the performance-based nature of CEO compensation the following reference: "For two consecutive years, 96% of shareholders voted in favor of the company's executive compensation plan." Only 5 of the responses referring the shareholders/stockholders use the agency logic (2 of them use only this logic), by underlining the alignment of incentives with shareholder/stockholder interests (4) or the increasing value to them (1). The remaining responses mention in some other way the notions of shareholder return (9) or value to the shareholder (3).

The motivation logic is used in only 3 responses (5%). The remaining 10 responses (16%) could not be classified into one of the categories alluded to above. For example, the spokesman of Northrop Grumman Corp. stated that: "Compensation for Northrop Grumman executives is established by the compensation committee of Northrop Grummans board of directors, and is clearly defined and enumerated within the company's recently filed proxy." Another example is that of Republic Services Inc., whose spokesman asserted that: "Don Slager's total compensation for FY 2012 was approximately $5.4 million. Republic is proud to provide solid, well-paying jobs to approximately 30,000 employees."

5 Discussion and Concluding Comments

Although we hypothesized that the companies more likely to have responded were those with more need to justify the high level of CEO pay—those presenting higher CEO pay ratios, higher CEO compensations and lower average worker compensations—, overall our results offer no support for these relations. Only in the case of the Materials sector H1 was partially supported.

It may be the case that in sectors that are highly scrutinized by the media and the public at large because of important social or environmental impacts, the decision to respond is made having also into consideration this sort of issues. The only sector in which an association between the CEO pay ratio and the decision to respond was found is one of such sectors—Materials (it includes chemicals, paper and metals).

However, not responding may be a strategy of response. In terms of a legitimacy theory, not responding may be viewed as a communication tactic of avoidance (Cho 2009). By using this tactic the company chooses not to enter any public discussion in the wake of a legitimacy threatening event. According to O'Donovan (2002, p. 359), an "avoidance approach implies a management style of secrecy, a do-nothing approach or an attempt to buy some time". One of the sectors in which fewer companies have responded is another sector with important social and environmental impacts—Energy (it includes Oil and gas).

Although not having environmental and social impacts of a similar magnitude, the Communications sector, which has been the sector with the lowest percentage of companies having responded, includes some of the more immediately recognizable companies. Because of their activity, companies of this type are also likely to take into consideration their overall visibility when taking the decision of responding.

Regarding the remuneration logics used by companies in their responses, our findings show that the majority of them rely on economically guided language to justify high CEO pay ratios. These findings support H2. Responses are primarily based on efficiency arguments and this mirrors in some way what happens in the literature on CEO pay from the finance and strategy disciplines, which has analyzed CEO pay practices mainly by drawing on economic efficiency arguments, explaining CEO pay by its relationship to company performance or by its dependency on labor markets, thus considering equity (paying according to performance) as the appropriate norm in the case of CEO pay (Rost and Weibel 2013).

A significant percentage of the 62 responses (18%, 11 responses) contest the numbers or the methodology. In terms of a legitimacy theory, we interpret this type of response as a communication strategy of avoidance (Cho 2009). Contesting the numbers may be interpreted as an attempt to appear legitimate by redirecting or deflecting attention from the issue at hand.

Besides equity, the issue of equality (treating people the same way regardless of their performance) could have also been addressed when discussing CEO pay (Rost and Weibel 2013). This issue was not addressed in the corporate justifications of CEO pay analyzed in this study. Similarly to what happens in the literature on CEO pay, the issue of what constitute justifiable compensations for CEOs in the eyes of stakeholders' at large (ibid.) is largely undiscussed in corporate responses.

Further work is necessary to examine corporate responses in other media, such as websites, annual reports or sustainability reports, to discover if corporations use the same type of response in different media of communication. Other interesting direction of further research is the analysis of the reactions of stakeholders (through survey or focus groups) to the justifications of high level of executive compensation offered by corporations.

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The Banality of Good and Evil: Ethics Courses in Business Management Education

Mary Godwyn

Abstract This research explores how ethics is taught in various business management programs, how programs differ from place to place, and how differences are reflective of the larger cultural values pertaining to business practices. I apply Hannah Arendt's theoretical framework as a heuristic device to examine interviews with business school faculty, students, and graduates from 13 different countries. Arendt's analysis contends that most individuals are likely to become unthinking followers, carried away by the momentum of the ethical standards manifest in their immediate social surroundings, regardless of what those standards are. Arendt suggests that when individuals apply critical scrutiny, this process can be short-circuited. Her theory is supported by several sets of experiments and endorsed by the data gathered here about beliefs on how ethics and diversity should be taught in business schools.

1 Introduction

Current economic, environmental, and demographic changes offer an unprecedented opportunity to redefine business ethics and re-examine the goals of business education and of business practices. Engaging a variety of cultural perspectives is an essential component of any ongoing evaluation of theory and practice. In this research, which is intended to result in a book-length manuscript, I interview business school faculty, students, and graduates and review pedagogy, curricula, and course materials to explore how business management educators around the world are responding to the growing diversity in student populations and the dual crises of environmental destruction and lack of ethical stewardship from much of the corporate community.

The focus of this paper is on the theoretical interpretation applied to the interview data gathered so far. I employ Hannah Arendt's concept of the banality of evil as a heuristic device to examine interviews with business school faculty, students, and graduates from 13 different countries. Arendt's analysis contends that

M. Godwyn, PhD (✉)
Babson College, Wellesley, MA 02481, USA
e-mail: mgodwyn@babson.edu

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most individuals are likely to become unthinking followers, carried away by the momentum of the conventional standards manifest in their immediate social surroundings, regardless of what those standards are. To obviate that outcome, Arendt suggests that individuals apply critical scrutiny, that is, that they apply multiple and conflicting perspectives to analyze conventional practices and the assumptions underlying them. Her theory is supported by several sets of experiments conducted by other authors and endorsed by much of the new data presented here about beliefs on how ethics and diversity should be taught in business schools.

2 Methods

Through examination and comparison of course materials and through interviews with business faculty, students, graduates, I explore how business school curricula is influenced by the larger cultural values, how programs differ from place to place, and how the experiences of business students might affect normative business practices resulting in the distribution of wealth, opportunity, and prestige in the global economy. I use qualitative methodology to analyze these narratives of business school culture. Included in interviews are respondents from the US, Canada, the UK, China, France, Denmark, Italy, Germany, Turkey, New Zealand, Australia, Lebanon, and India. When possible, I made on-sight visits to schools and conduct participant observation by attending classes. Other times, interviews are conducted by phone or video conferencing.

The data collection methods are surveys, observation, and in-depth interviews. In addition, I review curricula and course materials including business ethics texts, business cases, and syllabuses. An iterative process is applied to emergent themes to search for key words and patterns (Charmaz 2001; Yin 1984). In relating the interview data, I attempt to "convey the subjective realities of those studied" (Emerson 1983, 105) as those realities are described to me. Qualitative sociological research in the traditions of Max Weber and Herbert Blumer holds that human behavior can only be understood from the individual respondent as she/he is interpreting and constructing meaning in each social situation (Levin 1994, 50). Therefore, narratives that unfold in conversation and reflect on experiences are not separate from the experiences themselves; instead, experiences are negotiated, constituted, and reconstituted by the narratives told about them. The narrative approach in this study helps reveal how individuals make sense out of their experiences of business school and in business culture while also illuminating the larger social, cultural, economic, and political underpinnings of business practices (Miller 2005, 6).

I use open-ended questions tailored to elicit narratives: the interviewer listens and responds by asking for clarification of the respondent's descriptions of her/his experiences. In this way, the interactional and relational approach creates another opportunity for the respondent to develop interpretations and build on existing narratives. In adherence to grounded theory (Charmaz 2001; Emerson 1983), themes are identified in course materials and in interviews using an iterative process. All interviews are recorded and transcribed.

In addition to the focus on business ethics courses, I investigate whether and to what degree ethical theories and practices are incorporated into business management education generally and whether and to what degree a diversity of values and worldviews are represented in course materials, and in student and faculty member populations. I pay special attention to discourses around gender, nationality, race, and culture. Finally, I focus on whether and how alternative and critical perspectives function within business schools, how business schools are adjusting to increasingly diverse populations, and how they are addressing the mounting anxiety about the balance among economic, ethical, and environmental concerns.

3 Right and Wrong: Theories About Why People Do Bad and Good Things

> The sad truth is that most evil is done by people who never make up their minds to be good or evil—Hannah Arendt (1971, 438).

> Why do people do bad things in business? I can tell you from a business owner's perspective; it's usually because I haven't thought it through. Should I apologize or just go on? Business goes on. That's the harsh, harsh reality. They haven't thought it through or put themselves in the position of the hire. It's not personal; it's just the business decision that needs to be made. It's the nature of the beast—Recent Graduate of a U.S. Business School.

> What demands would I place on a factory manager in China—to give me cheap products or to challenge society? At the end of the day—give me my t-shirt—Business Faculty Member at a UK Business School.

Finding a theoretical organization for the interview data from this research presented a challenge. The data spanned different populations (business school faculty members, students, and graduates) from many different countries and cultural backgrounds. As the interviews progressed it became clear that regardless of how little respect they might be granted in the larger educational context, an incredible amount of thought, effort, and emotional commitment went into teaching and attending business ethics courses. Given this, one key question arose: how and why do business practices frequently stray so far from the ethical standards envisioned and embodied in business ethics classes?

Discussions of business ethics—and codes of conduct generally—must necessarily include discussions of unethical, deviant, and criminal behavior as well. Hannah Arendt's concept of the "banality of evil" provides an ideal vehicle for analyzing how individuals act within the social context that informs ethical standards. In high-status groups, such as the business community, these standards might be different from but also tacitly endorsed, and even protected, by the larger social culture. Arendt first coined the term "the banality of evil" (1963) to explain both the complexity and simplicity of Adolf Eichmann's crimes against humanity. Arendt writes that Eichmann's defense held that "under the then existing Nazi legal system [Eichmann] had not done anything wrong;" what he was accused of were not crimes, "but acts of state. . .for which you are decorated if you win and go to the gallows if you lose" (2006, 21–22). Compare this description of Jeffrey Skilling, the infamous former CEO of the Enron Corporation, from a fellow graduate of his alma mater, Harvard Business School (HBS):

> When Skilling visited HBS, he was greeted as a hero, given standing ovations and hotly pursued by professors wanting to write fawning cases about him and his marvelous money-making machine. Beneath him, inside Enron, were scores of other Harvard MBAs built in his mold. When everything was going well, they were geniuses. When it all collapsed and Skilling went to jail, the reputation of the school suffered (Broughton 2008, 157).

Advancing a sociological thesis, Arendt insists that if we want to understand seemingly inexplicable immoral behavior we must see beyond individual ethical agency to the social system where the behavior is rooted. To understand how heinous acts can escape critical scrutiny and become normalized and routine, and how individuals who perform them might feel no compunction, but instead take pride in and be rewarded for their behavior, we must recognize that ethical standards are not immutable and innate; they are dynamic and arise within and rule over particular social contexts.

Arendt disavowed the fantasy that great evil is usually committed chiefly by exceptional social outliers: criminal geniuses, psychopaths, and fanatics. She wrote that most people are loath to admit "that an average, 'normal' person, neither feeble-minded nor indoctrinated nor cynical, could be perfectly incapable of telling right from wrong" (Arendt 2006, 26). But just as Arendt demonstrated that evil behavior is so banal, ho hum, and bland, that it is so interlaced with the daily experiences of all people that it no longer draws attention to itself, so, too, good behavior is equally mundane, common, and expected that we hardly take notice. In both circumstances, the authority of socially endorsed standards empowers people with a degree of strength and conviction that far exceeds their individual capabilities. So powerful is the haven of conventional behavior, it serves to dull critical scrutiny and creates a momentum that replaces a sense of individual responsibility and individual vulnerability. Depending on the social context, behavior might be defined as great villainy or great heroism. As Arendt notes, ordinary individuals routinely reach these extremes.

> There are no dangerous thoughts; thinking it-self is dangerous—Hannah Arendt (1971, 435).

> I personally believe the bigger the money we earn for ourselves the lower the values. I work with American partners, and basically what has happened is, we have stopped thinking. Jeff Skilling must have taken business ethics at Harvard. He learned ethics. But I believe the thinking stops—Faculty member at an Indian Business School.

Arendt's thesis was initially so controversial, and is still so frightening, because it seems to defy reason. However, I suggest, it defies a basic cultural assumption present in most Western societies: that individual free will, rational consideration, and inherent compassion, the essential traits we associate with being human, will automatically produce ethical conduct for most people, most of the time. Arendt forces us to acknowledge what a flimsy premise this is. In fact, her analysis contends that most individuals, including ourselves, are more likely to follow standards manifest in the immediate social surroundings, regardless of what those standards are, than we are to evaluate and challenge convention through critical examination.

In an attempt to apply experimental method to this issue, an American contemporary of Arendt's, Stanley Milgram, conducted one of the most well-known sets of psychological experiments testing obedience to and defiance of authority. Like Arendt, Milgram was fascinated and horrified by how one of the most egregious examples of evil behavior, the systematic extermination of millions of people, could be accomplished "with the same efficiency as the manufacture of appliances" (Milgram 1963, 371). In his groundbreaking study, he found that 65% of his subjects were willing to administer what they believed to be dangerous and severe shocks to innocent people. That is, if the subjects were instructed to do so by lab-coated experimenters holding a clipboard—in other words, those whom the subject presumed to have the authority, expertise, and status of a scientist.

Part of the overwhelming fascination with people willing to inflict such harm is how rarely their behavior is predicted. When Milgram asked Yale college students and some of his colleagues to predict the rate at which dangerous and severe shocks would be inflicted on others, "All respondents predicted that only an insignificant minority would go through to the end of the shock series." (Milgram 1963, 376). The estimates ranged from 0 to 3%—over 20 times lower than the actual 65%.

The context of the Milgram's experiments is important to note. During that time (1963–1974), the United States was a dominate world power involved in the Cold War with the U.S.S.R. The economic strength of the United States was largely attributed to scientific prowess, technological implementation, and bureaucratic hierarchy. These cultural elements were assumed to be essential to organization, progress and economic advancement. In this context, hierarchy was largely accepted as efficient and benign rather than questioned as either unfair or irrational, and scientific experimentation, even when verging on the barbaric, was deemed necessary to advance knowledge and improve human lives.

The common interpretation has been that those subjects in Milgram's experiments who agreed to shock the victims were acting unethically, that they were analogous to the Nazi's following orders to kill innocent people. But following orders is, in cases where the authority resonates with the solidarity, the very identity, of the individuals, often perceived by individuals as acting ethically, even altruistically. This concept of mechanical solidarity is expounded in *The Division of Labor in Society* (1893), a classic sociological text authored by one of the founders of the discipline, Émile Durkheim. Mechanical solidarity describes the unthinking obedience to social convention and authority. Solidarity is the unifying connection among individuals that determines the strength of cohesion in any particular community. It gives the sense of belonging, of working for a greater cause, of tapping into a wealth of energy larger and more powerful than any single individual.

Communities define ethical action. At times these definitions differ radically from any given individual's own standards and can threaten the safety of individuals, as they do when societies require civilians to become soldiers. It is the solidarity gained from group membership that creates and maintains the momentum needed for individuals to subordinate their own safety or their own beliefs to the larger conventions. It is clear when watching film clips of Milgram's experiments, the subjects inflicting the shocks were under a tremendous strain and showed visible discomfort. They were not gleefully imposing pain on others, but instead willing to endure pain themselves in order to maintain their membership in a community that respects and cooperates with modern scientific inquiry and therefore deserves to reap the benefits of its discoveries.

According to Durkheim, membership in groups is not a rational choice and the strength of group coherence is not based on cognitive scrutiny of its tenants and conventions. Instead, individuals are motivated to join groups by powerful feelings of identification, trust, and emotional attachment. Therefore, the conventions of the group often escape rational, critical scrutiny and are followed without much thought. These conventions become a type of ideology. Eichmann and Skilling were exceptional then only in their particular devotion to the goals of their chosen ideology and their success in contributing to those goals.

In fact, Eichmann described himself as an "idealist," someone who is willing to put the purity of a cause before his or her own feelings. He famously claimed he would even kill his own father should the Third Reich require it (Arendt 2006, 42). Similarly, Milgram's subjects believed they were jeopardizing the lives of those who were receiving shocks, but most subjects continued to administer harm in order to serve a larger social ideal: the scientific goal of the experiment. Arendt explains, "The perfect 'idealist,' like everybody else, had of course his personal feelings and emotions, but he would never permit them to interfere with his actions if they came into conflict with his 'idea.'" Eichmann reported "as for his conscience, he remembered perfectly well that he would have had a bad conscience only if he had not done what he had been ordered to" (Arendt 2006, 25).

Therefore, individuals make the sacrifice of their individual judgment, and any conflicting feelings, ethics, and morals they might have, so they can experience and contribute to a cause larger than themselves; this provides them with the safety and power of the group. Whether this self-sacrificing behavior is defined as heroic or unconscionable depends on the social context.

Muhammad Yunus, economist and winner of the 2006 Nobel Peace prize, reminds us that those who make business decisions are judged as being "irresponsible" if they act in line with a personal set of ethics dictating they chose public good over private profit. One fundamental idea of capitalist business practices dictates that when immediate, short-term profit for a private company is at odds with social benefit, profit must come first. Share-holder interest rather than public good is the ethical standard of the corporate community. Yunus writes:

> Since managers of a business are responsible to owners or shareholders, they *must* give profit the highest priority. If they were to accept reduced profits to promote social welfare, the owners would have reason to feel cheated and consider corporate social responsibility as corporate financial *irresponsibility* (Yunus 2007, 17, emphasis in the original).

Though it seems that those corrupt CEOs like Jeff Skilling also act against the interest of the shareholders, given the frequency of malfeasance, it is not clear that individual gain at the expense of company stability is always inconsistent with the business community standards—as long as the CEO does not get caught. As Broughton explained, Skilling was touted as a hero and given standing ovations at HBS. Skilling achieved the goal of fabulous personal wealth, as well as shareholder profit. He was hailed at HBS and became role model—until he was indicted. Reflecting on CEO compensation, Broughton writes, "It was one thing for a good CEO to pay himself well for a job well done. But increasingly, in the United States and Europe, mediocre CEOs paid themselves as if they were sports superstars or technology entrepreneurs, essentially robbing shareholders to do so" (2008, 162). Here we see the standards of the community dictate that compensation for CEOs is no longer dependent on value to the stockholder, but tied to the personal wealth of the executive.

As in the example above, some communities are individualistic; that is to say, the members value personal gain above all else and are, paradoxically, admired within the community should they be successful at maximizing their own self-interest. Identification with the cause, with the values of the group, even if this cause is individual achievement, empowers each member with the strength far greater than themselves. So, when classes at Harvard applauded Skilling's duplicity, Skilling was not only vindicated for his crimes by a high status community, but celebrated for them, which likely made him more bold and aggressive in his pursuit of ever increasing personal wealth. A graduate of a U.S. business school comments:

> You can say it's just business, that it's not personal, but it's always personal. There's a right way to do everything. . .Sometimes that requires sacrifices and that includes doing something wrong.

Arendt believes our best recourse to blind compliance to the conventions of a social groups is ongoing critical examination that engages in constant comparison and cross referencing among social systems, cultures and subcultures, and among theories and practices across time and from place to place. For Arendt "the activity of thinking as such, the habit of examining and reflecting upon whatever happens to come to pass, regardless of specific content and quite independent of results" (1971, 418) is the best insurance against doing evil. The danger is to accept the authority of any single group with smug certainty.

Arendt's position seems to be borne out experimentally. Over the course of a decade, Milgram did a number of permutations of his famous experiment testing variables such as the gender of the participants and the proximity of the subject to those who were receiving (false) shocks. Two of the variations in his experiments are especially relevant here: Experiment 13, where an "ordinary man" rather than a lab-coated experimenter gives subjects the instructions to shock the victim; and

Experiment 15, where two lab-coated authority figures gave the subject contradictory instructions. Each of these scenarios significantly reduced the subject's willingness to shock victims. Milgram had some interesting insights about why.

In the first relevant permutation of the experiment, Milgram replaced the lab-coated experimenter with an "ordinary man" (2009, 93). Since the ordinary man had no trappings of scientific authority, this change had a detrimental effect on the obedience of subjects: only 20% of subjects were willing to administer severe shocks. In this case, the competing social standard of not harming innocent people dominated the subjects' behavior and most refused to comply with the instruction to shock the victim.

Experiment 15, where there are two authority figures giving contradictory commands to the subject, demonstrates the most profound effect on obedience. In this variation, beginning about midway through the experiment and after the subject thinks he has administered several low-level shocks to the victim, one lab-coated authority figure instructs the subject to continue administer increasingly severe shocks while another lab-coated authority figure tells the subject to stop. Milgram explains: "The experimenters appeared as two bosses who disagreed and were equally convinced of the correctness of their respective positions. Rather than arguing with each other, however, the experimenters focused their remarks on the subject. The subject thus found himself confronted with conflicting and equally authoritative commands" (2009, 105–106). In this circumstance, *not a single subject administered a severe shock to the victim*. Milgram reminds us that in every other variation, "nothing the subject did—no pleas, screams, or any other response to the shocks—produced an effect as abrupt and unequivocal" (2009, 107).

Milgram's explanation is that the subjects were "paralyzed" by the conflicting messages of the authority (2009, 107). I disagree. An alternative to Milgram's interpretation is that the subjects were not "paralyzed" by the conflicting authorities, but that the conflict reminded them that they could, and should, respond based upon their own judgment of the situation. In their disagreement, the authority figures demonstrated mutual critique and invited the same of the subject. Perhaps the refusal to shock the victim was not, as Milgram contends, inaction and passivity, but instead a consequence of the critical assessment of the situation. Once the hierarchy was disrupted, as in Experiment 13 where the subject was instructed by an ordinary man, the subjects' self-evaluation resulted in choice among several behaviors and ultimately the decision to identify with the humanistic values of the larger culture, rather than with the pain-inducing subculture of the lab. In fact, in each variation that reduced obedience to the lab-coated authority figures, the subject's critical thinking was ignited, and he used his membership in the larger culture to determine the values he should exhibit in his actions. This underscores Arendt's point that critical thinking, that is, argument, persuasion, consideration, and application of multiple perspectives, is essential for moral behavior. She concludes, "The manifestation of the wind of thought is not knowledge; it is the ability to tell right from wrong, beautiful from ugly. And this indeed may prevent catastrophes" (Arendt 1971, 446).

4 Putting Ethics in Business

> I agree ethics should be woven in. But when it's just about ethics. . .the connection is not always made clearly. Sometimes you can describe it, but unless it's clear, you're thinking, this is BS—like Organizational Behavior. I treated it seriously, but I should have treated it like BS. Students showed up without reading and the discussion is just so general. It seemed like a waste of time and money. In these 'soft' courses it's really easy to turn to general discussions—Graduate of a US Business School.

> [Leadership and Corporate Accountability] was the subject of considerable scorn. For the hard-core financiers, it was precious time taken away from studying derivative structures. For the aspiring entrepreneurs, it had nothing to do with creativity or cash flow. The only ones who looked forward to it were the wafflers, the isolated individuals who loved to just talk and talk about nothing in particular. . .the cases tended to be short, with no numbers to run. They could easily be dealt with lying in bed or in front of a basketball game—Peter Delves Boughton, HBS graduate (2008, 158).

I found a bifurcated world in business ethics. There were students and business faculty who, like the quotes above, held business ethics in very low regard, thought of it as easy, "soft," and inconsequential. Almost as if ethical behavior is what those outside of the business world do. Business people, they seemed to think, were supposed to figure out a way around ethical behavior that would still technically be within the constraints of the law.

Broughton writes:

> The business class had become so used to the rules and language of its own particular game—the bluffing, the subterfuge—which it seemed to have lost sight of the honest, plain-speaking, and plain-dealing that non-business people expected in human transactions. When a business leader spoke of 'off balance sheet accounting,' was he aware that most non-businesspeople immediately thought 'fraud'? (Broughton 2008, 161).

One business faculty member from Australia comments:

> People come to business school because they've already drank the Kool-aid of capitalism. I don't think I've seen any epiphanies. I don't think business schools feel the call for that. That's left for the philosophy departments. I think it comes back to the fundamentals. We don't say, 'You work in an unethical system.' I think it is the macro/micro problem. There is a rules-based ethics here that says, don't get into trouble, don't break any laws. Then there's the personal aspect of how individuals make ethical decisions. But we rarely have truly alternative views. We rarely take on the ethics of capitalism or the ethics of the corporation. We teach ethics within a framework that often endorses unethical behavior according to the larger social code.

One student from China comments:

> I think my ethics class from the liberal arts departments really delved deeper into issues. I think all the humanities, sociology, and philosophy classes I took raised real life cases that are related to business for class discussion. I think those ethics classes were a lot more helpful to me personally because I felt it was a safe and open environment that supports ethical behavior. When in a business class, I feel like the atmosphere was predominantly worshiping good business practices or money making schemes. I like the idea of integrating business and ethics. But personally I feel like ethics is reduced and misrepresented in business class. I think ethics has higher and better purposes that require a more

> comprehensive study of human history, values, and needs. I think pushing ethics in business classes is great but NOT enough for students to truly understand the importance of ethics and make real impact on their behavior.

Another student from China comments:

> When I visit other schools, I think their students tend to think bigger and try to solve some problems for the world from other schools like schools of education, engineering, and public administration. I think business school students tend to think about themselves or how to help their companies to win. People go to business school for professional training and good career. They don't go to reflect on business or reflect on how they could live a better life besides making more money and building a great career.

But there was another side: many of those interviewed took ethics within business very seriously. Their efforts tended to focus on incorporating multiple perspectives into business management education, especially focusing on humanistic processes. One faculty member from the UK explains how she uses art appreciation in business ethics courses as a way to introduce a perspective other than commercial competition with which to examine human relationships:

> I use a lot of art-based perspectives. I thought if people could learn to perceive art they could maybe learn to see the ethical dimensions of things. It was all about bringing in different dimensions. To be able to perceive the different dimensions you are involved in. To see there are many different ways of understanding other points of view to empathize with others, to add depth to our appreciation of the moments we have in organizations. It's not only about decisions, but how we are together, and how we build relations with one another. It's all about relationality. It's only in relation to others that we need ethics. That is why I think using art and music so that people can step into those spaces and engage together rather than compete against one another.

A faculty member from the US asks students to view their behavior in business from other contextual lenses such as from the viewpoint of a family and community member:

> Most students don't know what their integrity is. So I ask them to take themselves out of business and imagine themselves in another system. For instance, they were asked to imagine a system where their social relationships are not based on commerce or competition or commercialism but on love, devotion, family, loyalty, commitment. You see the student's whole face change and they say, 'Oh shit. This means I can't make money. I can't be in business.' When you take the money out of it or the capitalism out of it, they realize they can't behave that way and still have integrity. And I try to get them to see what really matters: what your boss thinks or what your grandmother or what your community thinks of you. And get them to think about what does trust mean? If your boss doesn't trust you or your coworkers think you're a fink, you don't have anything.

A faculty member from Lebanon relates to students how important it is to challenge the conventional authority of the systems within which we operate:

> My mission is to try to instill a sense of agency and responsibility that exists even within a corrupt system. Students can still have long-term goals of acting ethically. In the long run if everyone else is doing this, bribing, etc., in order for Lebanon to be a player in the region and eventually globally, we have to start respecting the rules of the game of exchange. Students often eventually realize that each individual will have to generate the ability to be critical of the legal system. They will have to criticize what is seen as being good or legal.

> Often students will take a utilitarian point of view, but for the good of their communities. It is awesome! The students really inspire me! When you are around human tragedy it actually makes it easier not more difficult to talk about ethics and to act from the power of doing the right thing. There is a certain amount of freedom you feel when you are under siege. Even in the peaceful times in a developing nation there is a lot of chaos because you don't have an infrastructure; you don't have dependable government, but here in Lebanon more than in Canada or the US there is a certain freedom in the chaos.

Each of these faculty members introduces different perspectives and uses these perspectives to critique system conventions. This resonates with Arendt's theory of the centrality of critical thinking to ethical behavior, and also with the concept of Shared Space pioneered by Hans Monderman, a Dutch traffic engineer. Shared Space is a concept of urban traffic design that removes traffic signs and lights and instead depends on the attentive judgment of drivers to navigate and share the road with pedestrians, cyclists, and animals. Shared Space was meant as a corrective to the usual complacent, mechanistic and automatic dependence on following traffic signs and signals. Monderman thought this dependence on taking orders lulled travelers into a false sense of security that actually caused more accidents. In a Shared Space model, drivers must cooperate in real time with one another through communication such as eye-contact and hand signals. This replaces the rule-bound, and sometimes adversarial relationships among those who share the road. It also reduces car accidents by about one half. By changing the social context, Monderman changed the behavior.

In an interview with Monderman, Tom Vanderbilt writes, “Traffic signs, for Monderman, were an invitation to stop thinking, to stop acting on one's own volition. In streets designed to safely handle the actions of the riskiest participants, everyone slips into riskier behavior” (2008). And echoing Arendt, Monderman contends, “When you want people to develop their own values in how to cope with social interactions between people, you have to give them freedom” (Vanderbilt 2008). Monderman further explains, “I don't want traffic behavior, I want social behavior” (Vanderbilt 2008). Business behavior, governed by rules forged within the context of competitive commercial exchanges, is also not always consistent with social behavior.

5 Conclusion

Hannah Arendt's theory of the banality of evil; that is, that ethical behavior among ordinary people can be eroded away and diminished over time under the weight of unexamined social conventions, is borne out in Stanley Milgram's experiments on compliance with authority, and on the implementation of Hans Monderman's idea of Shared Space as well as in the research-in-progress on business ethics presented here. Those I interviewed who were struggling to revitalize business ethics courses were doing so in agreement with Arendt's emphasis on critical thought: they were offering alternative perspectives to students wherein the precepts of corporate capitalism were being questioned and critiqued rather than routinely accepted.

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Ethics, Values and Corporate Cultures: A Wittgensteinian Approach in Understanding Corporate Action

Friedrich Glauner

Abstract All ethical behavior is tied to consciousness, i.e. the possibility of aware self-directed action. Corporations do not carry within themselves any kind of consciousness which could serve as a self-imposed guiding principle for corporate actions. Therefore corporations cannot be viewed to be ethical entities. If corporations cannot be considered to be ethical entities, the question, how ethical behavior could be entrenched in corporate actions has to be answered without recourse to moral guiding principles. Before asking how ethical norms could affect corporate action, we therefore have to ask on what grounds corporations do function. This leads us to the question of the systems-theoretical function of corporate cultures. Corporate cultures are the driving forces which constitute corporations as living social systems. As such they work like a funnel. The truly lived and prevalent values in corporate cultures filter the corporate perception of reality. Thereby they define, which problems are anticipated and which solutions will be developed. How these solutions are placed in the market then is itself an expression of the corporate culture. Corporate cultures thus do not only serve as self-referential flywheels for corporative perception and action, but influence also the gain or erosion of the stock of social capital, out of which corporations gain strength and focus. Insofar as they lived values of corporate culture serve as self-referential guidelines for individual actions, they function as frames of reference for corporate actions. From a functional point of view vivid corporate values work similar to consciousness in psychological systems. They organize the rules and rationales of corporate actions. Grasping how corporate cultures function is therefore grasping the way out of the fly-bottle of corporate ethics. The design of corporate cultures and CSR is not a question of corporate ethics, but of future viability. Since gaining future viability is an integral aim of all corporations, this aim must entail the development of values that fosters corporate resilience and sustainability. In this strive for future viability corporate values take the part which ethical values take in our self-understanding.

F. Glauner (✉)
Cultural Images, Grafenaschau, Germany

Weltethos-Institut/Global Ethics Institute at the University of Tübignen, Tübingen, Germany
e-mail: friedrich.glauner@culturalimages.de; glauner@weltethos-institut.org

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They guide and trigger corporate action. Thus it is the design of corporate cultures and not claims for corporate ethics which decides about the future viability of corporations.

1 The Realm of Corporate Ethics

If we want to found a feasible understanding of corporate ethics we face two problems. Firstly we must establish an understanding how corporations do solve ethical dilemmas by following their true nature of being social systems. Secondly we must find an argument, why ethical behavior should be the rationale of corporations.

In this paper I want to give a brief outline on how both problems can be tackled.

1.1 Ethical Dilemmas

Ethical dilemmas arise from different situations that share the same structure. An individual has to choose between various sets of actions, each of them understood to be good according to opposing frames of values. Ethical conflicts can thus be defined as conflicts which arise, if one has to choose between alternative actions heralded to be good according to opposing frames of values. But how can conflicts between opposing frames of values be settled? A philosopher would argue, 'by appeal to ethics', i.e. to ethical paradigms which serve as guidelines for selecting the proper values as frames of reference for individual actions. A politician, judge or lawyer might say, 'by reference to laws set by community'. Most ordinary people after all would argue cynically 'by sheer means of power'.

Since we do not have the intention to be cynical and since the appeal to laws set by people itself rests on a value biased understanding of how social life should be organized, we have to answer the question how conflicts between opposing frames of values could be settled from a philosophical point of view. This leads us to the question, whether there is a neutral and noncircular way—i.e. a view unbiased by its own values—from which conflicts between competing values frames could be settled.

Asking this way the answer is "no". And why is this 'no' necessary? Well, this is due to the very fact that already our understanding of ordinary language rules out that there could be a neutral view from outside to settle disputes between different meanings. As Ludwig Wittgenstein argues in his 'Philosophical Investigations' there is no view from outside language from which we could define which use of a word is the proper one. So, if we want to understand the meaning of a word, we necessarily need to refer to the actual practice of speaking. Following this premise, the rules of language speak for themselves (Wittgenstein 1989a/4: 40, 1989b/1: 124). Instead of asking how to found meaning, we need to acknowledge that in the process of getting drilled into a specific language we get trained into a specific form of life. We can only grab the meaning of meanings by gaining an understanding on the familiarities and differences in which certain words are used. Since in this understanding no language is prior to another one, the total of all languages resembles to a vast set of games interwoven in one big fabric that consist of different patterns of family resemblances.

What holds true for our understanding of meaning is even more valid when it comes to understanding the way values work. What is regarded as valuable or not and what is regarded as the content of a specific value can be answered not from a neutral point of view, i.e. from outside, but only from within a specific form of life. Thus, it seems that the dilemma of conflicting values cannot be settled at all. Now, how does this understanding affect our notion of ethics?

The fact that ethical dilemmas arise from the value biased nature of actions leads us to the philosophical dilemma with ethics. Ethics as a philosophical discipline understands itself as they strive to define 'law like' conditions which serve to found ethically sound behavior. Solving ethical dilemmas therefore needs a neutral instance outside, above and beyond the object level of conflict, from which the conflict could be settled. In western tradition this instance is the conscious self, as it is expressed by our understanding of 'personhood', personal rights and obligations. As Immanuel Kant puts it in his 'Critique of practical Reason', it is the 'moral law within me'—'me' being understood as the conscious and enlightened self which is governed by the laws of reason—which serves as the point of Archimedes, from which moral dilemmas have to be settled. Following Kant, we derive from the laws of self-governed reason an understanding that every person is an end in itself. This understanding leads us to the understanding of freedom and responsibility, i.e. universal rights and obligations as pinpointed by Kant in his categorical imperative. According to it, one should act only according to the maxim that what one does should become a universal law one impinges on oneself too. The laws of self-governed reason thus serve as guiding line to what to do or not to do.

But does this 'law' serve us when we face ethical dilemmas? And even harder, could it serve at all as a principle or must we adopt another stance in understanding, how and why we act when we act in confrontation to ethical dilemmas. This may be best explained in practice. In Fred Zinneman's famous film 'High Noon' all characters are confronted with individual ethical dilemmas. To our present purpose the conflict of Amy is the most interesting one. She is an outspoken Quaker and pacifist since her brother and father got shot trying to settle a fight among thirds with the best of intentions. As she gets married to Will Kane, the moral upright town marshal of Hadleyville, she urges him to put down his badge of duty. Right after complying with her wish the wedding guests get informed that Frank Miller, a coldblooded killer who got arrested by Kane 5 years ago, will hit Hadleyville by train at noon. All friends urge the couple to depart. On their way into the planes Kane decides to return to Hadleyville. As he wants to take up the fight by organizing a civil defense group anybody he asks for support ducks away. Only a drunkard and a youngster offer to support Kane, which he refuses in view to the situation. As he does not receive the support he had asked for, Kane takes up the fight all alone. In a crucial moment of the shootout Amy sights through the rear window of the Marshal office that Kane will be set up in an ambush by one of Frank Millers men. Standing in the rear of the killer she cannot warn Kane. To help and save him she shoots the gangster into his back.

The ethical dilemma of Amy takes the form of all classical tragedies. No matter how she acts, she becomes guilty. For our present argument it is not important how she opted to act and whether we could argue for this option on ethical grounds, but in which way she chose to act. Amy apparently solves her ethical dilemma not by appeal to some higher and neutral instance from which she could argue in favor to kill or not to kill the gangster, but according to her deep entrenched feeling that she had to act as she did.

The way Amy solves her personal dilemma draws us back to the line of argument put forward by Wittgenstein. When we act in situations that imply ethical conflicts our reasoning comes to an end, the end defined as actions that speak for themselves. With view to Amy's reaction to her ethical dilemma Fred Zinneman draws the picture that Amy acted upon the values of love, trust, honesty, courage and liberty. Thus his film is a parable on the deeply entrenched connection between freedom and personal responsibility. It highlights the individual as the sole instance of ethics.

1.2 Corporate Ethics: A Wooden Metal

If the referral to one's own values is the basis for solving ethical dilemmas the concept and practice of corporate ethics is under double jeopardy.

Firstly, we have to acknowledge, that corporations lack the crucial element that hinders them of being considered as ethical beings. In opposite to psychological beings, such as humans, corporations do not dispose of any consciousness, which would trigger and steer corporate actions in situations of ethical dilemmas. For clarification, let us have another look at Amy. If we interpret 'High Noon' as a parable on how to solve ethical dilemmas by appeal to personal responsibility, Amy acted upon values that push her to fight for freedom in a personally responsible mode. Thus her actions are supported by her awareness of what she feels to be obliged to do. Even though we are mostly blind with regard to the values which govern our actions, we draw to our consciousness and ask us what is right or not in ethical dilemmas.

It is this skeptical scrutiny against our own day-to-day values, in case of Amy her opting against her prevalent pacifistic Quakerism, what I would call *the ethical stance*. It obliges us to stay skeptical towards self-defined obligations, scrutinizing in crucial moments for ourselves, what we do and why we do it. It thereby prevents us to be caught in some cage of religious or totalitarian delusion. According to this critical stance *the basis for ethics is not the pledge to finalized values which serve as referential frames for our actions, but foremost our skeptical scrutiny in asking, whether our values serving as frames of reference for our day to* *day practices serve us well when we have to choose between rivaling sets of values such as in situations of ethical dilemmas. And it is exactly this critical consciousness which any corporation is lacking.*

The lack of something comparable to consciousness within corporations is the first reason why corporations cannot be viewed to be ethical entities. But there is a second even stronger argument. It draws its force from the cybernetic nature of corporations. Corporations are social systems. As living systems they are born out of the end to yield benefit. Leaving aside the discussions, whether in modern business theory this beneficial function of corporations is shortsightedly narrowed down into a one-dimensional understanding of yielding profit or not, it is clear that for yielding sustained benefit corporations must yield profit to stay afloat. 'Staying afloat' thus is the primary intention of corporations as living systems. Thus 'yielding profit' is all in one the core value, the core driving force and the core self-referential guide line for triggering corporate actions. Therefore all corporations seem to opt 'naturally' for those actions, which yield greatest benefit for their individual survival aims.

It is this survival mode which most often prevents corporations from acting in so to speak more ethical ways. And even if they acted more ethically this would not mean that they act as ethical entities. This can be shown again in situations of ethical dilemmas. As example might serve the legal but to most of us rather unethical decision to close and transfer a business unit thereby laying of vast majorities of the work force just for the reason that at the new site the corporation can surpass costly compliance rules which govern the corporate actions at the present site. Corporations which have such an opportunity mostly vote for what serves best their aim to stay afloat, i.e. they would opt for closing the existing site and move to the new one. We therefore have to conclude that like the reproduction modes of all other non-psychological social systems the cybernetic mode of corporate action is neither ethical nor unethical but non-ethical by heart, i.e. they act in view to what serves them best. If the best of actions turns out to be ethical too—this is a 'nice to have' but not the core driving force in option.

2 Future Viability and Corporate Cultures

If corporations cannot be viewed to be ethical entities the question arises how then CSR and ethical behavior can be anchored within corporative actions. To answer this question I get back to the cybernetics of corporations as living social systems.

Seen in a cybernetic perspective, the core rationale of all corporate actions aims at yielding profit to stay afloat. But is this understanding of corporate aims correct? Is yielding profit the real and only end or is it not rather a means to another end? So let us take a closer look. Why and for what purpose stands yielding profit at the center of corporate actions? We find the answer, if we ask what a worst case scenario of corporate actions would be. Well, this would be a corporation obliged to quit the market by constraint, i.e. by bankruptcy. Yielding profit therefore is the means to prevent bankruptcy. If this is the rationale behind all efforts of yielding profit we then can deduct the complete cybernetic logics of corporate actions. This logic follows a time-line downwards from short to long term driving forces which determine the aim, focus and tonus of corporate actions in such a way that it leads to sustained future viability.

– The core driving factor of corporate actions consists in gaining strengthened corporate future viability.
– Corporate future viability is secured if corporate actions serve to sustain staying afloat and independent.
– Staying afloat and independent is secured if corporations yield enough profit to foster and develop.
– Yielding profit to foster and develop a corporation is secured, if corporations balance out risk, growth and revenue.
– Balancing out risk, growth and revenue is secured, if corporations develop marketable benefits.
– Developing marketable benefits is secured, if corporations develop competitive advantages on the base of which beneficial products and services can be marketed.
– Developing competitive advantages is secured, if corporations develop core competences.
– Developing core competences is secured by a corporate culture that fosters continuous efforts in striving for excellence.

If we understand this logic we have to conclude that it is the corporate culture being prevalent in a corporation which sets the core frames of reference for corporate actions.

Three brief arguments serve to outline, why then it is the arena of corporate culture and not the arena of ethical discussions, where questions on CSR have to be settled thereby sustaining a full understanding of what future viability of corporations consists in. The first argument draws on the necessities and drawbacks in building social capital to gain corporate flexibility. The second argument shows the fact, that contrary to the individual consciousness of people corporate culture can be steered and developed with rational means by utilizing, what is called "values cockpits" (Glauner 2013). The third argument finally focuses on the social-psychological fact, how people react to the values of those social systems a part of which they are and how it can be utilized in building lean, focused and vigorous corporate cultures.

3 Social Capital and the Strive for Corporate Flexibility

Having a look at globalized markets corporations are confronted with four megatrends: Firstly, the continuous acceleration of all business processes, secondly, the dissolution of boundaries between once separated markets and services, thirdly, the dissolution of business models by means of new media, and fourthly—and in consequence of global competition—the loss of unique features since all products and services can be copied in shortest periods of time.

With view to these megatrends corporations must fulfill two seemingly opposing tasks. On the one hand they must establish structures which allow them a quick change. On the other hand they have to develop a deeply entrenched, stable and non-copyable distinctiveness delivering benefits in order to stay afloat.

Corporate cultures serve as nexus to bridge these opposing challenges. This becomes clear, if we look at workforce in modern business. The acceleration and dissolution of all business processes leads to the erosion of social capital that ensures the efficiency of corporations function (Richard Sennett 1998, 2006). This is due to the fact, that the corporate organization of work flows splits the life of individuals more and more into discontiguous episodes. As these cannot be fitted anymore into a coherent sense regarding the whereabouts of one's personal life, working becomes more and more bereft of meaning.

This mechanism can be proofed if one looks onto the annual figures on employee loyalty being raised by institutions like Gallup. If we take the figures raised for Germany in the year 2012, 24% of all employees do not show any loyalty to the corporations they work for thus working close to a destruction mode. 61% just do the job without keen motivation being indifferent to their job and to their corporation as well. Only 15% claim to be highly motivated to work with bride and effort for 'their' company.

This meager output has to be seen in the context of corporations whose workforce claims to over 90% that they will do anything necessary to keep their company on the right track. Among other best practice cases the multinational toolmaker Hilti AG or the European based drug store chain dm drogerie market could serve as examples.

If we look at the reasons for the high performance in workforce loyalty, Hilti and dm share one feature. Like all other companies, which show loyalty and motivation figures significantly above market average, they are built upon a strong corporate culture. This culture combines a truly lived openness to new developments, markets and products with a radical stance towards seeing the individuals working in the company as the core driving factors for success. Employees, workers, customers and stake holders are not regarded as means to fulfill the aims and ends of a corporation but rather as the true ends of corporate actions. In view of Hilti or dm corporative actions should serve the people. This respects people being ends themselves in corporate actions, i.e. with personal interests to be regarded and cared about.

Companies that develop a corporate culture in order to raise true benefit and value added to the people can surpass the paradox of modern business development. They foster sustainable social capital to gain more flexibility. This is due to the fact that the development of a due corporate culture brings about the time, space and meaning which are necessary to develop sustainable social capital. The development of sound social capital then brings about the security that promotes motivation. This motivation in turn guides individuals to excel, thereby fostering the flexibility corporations need to develop.

4 Corporate Cultures and Values Cockpits

If corporate cultures serve as the core factor to sustained future viability of corporations the question arises, how this factor can be steered and measured. If we look into the relevant literature, as for example Peter Senge's 'Fifth Discipline' (Senge 1990) or Jim Collins 'From good to great' (Collins 1994), we do not find a clue. The same holds true if we look into Balanced Score Card or EFQM Models for measuring corporative performance (Neely et al. 2002; Müller-Stevens and Lechner 2003).

That it seems that there is no coherent way to define, steer and measure corporate values stems from our understanding that all talk about values is itself values biased by heart. We therefore could argue that all talk about cultures and values keeps being stuck in subjective preferences all of them void of objective foundation. This line of thought rests on three arguments. The first draws onto the circularity of all talks about values and cultures, i.e. the fact that like language we are always bound to specific perspectives being sustained by our different forms of life. The second argument draws onto the fact that since we cannot leave this circle, differences in judging whether certain values would serve better than others cannot be settled on neutral grounds. Both create the third argument. It claims that due to the fact that all talk about values lacks final objectivity we cannot feasibly conceive how corporate values affect the economic performance of corporations at all.

Again it is Wittgenstein who can serve as guide in dealing with the argumentation that all talk about values is circular and cannot be founded on neutral and objective grounds. If we follow him in his understanding of meaning and language, we do not need to found final values in order to understand the logics of values games and how values games are being played. If we understand the game and how it is played we can—as with all other games too—set up measuring systems to steer single moves and strategies and to measure success. Such measuring systems have to be set up in four steps.

In the first step corporations have to define the core benefits they do deliver in order to gain future viability. These core benefits can be defined as the leading corporate values around which the business model of a corporation is built. Hilti might serve as an example. The values to drive their core benefits in delivering high end tools and services to their customers are integrity, courage, teamwork and commitment. They focus on the core benefit that forms the business model of Hilti, i.e. serving the customer. In gaining an understanding that integrity, courage, commitment and teamwork are the driving forces to 'go the extra mile' the unrestrained commitment to these values forms the basis for Hilti's exceptional success.

If a corporation has a clear view on its leading values which sustain its business model it has to define all process values to be prevalent in the corporation in a second step. Process values are values that govern the dealings among the people being involved in corporate actions. They represent the core of the corporate culture since they define in which ways people interact with each other. Process values ought to be selected in such a way, that all corporate actions strengthen the leading values which define the business model. With view to strong process values dm drogerie market is an example. All processes and interactions within dm are guided by the core principle of respecting the other as an end in himself. Thus all interactions are guided by the principles of transparency, propriety to the situation, personal development and personal insight as key driver for individual action and personal responsibility. As with Hilti dm invests continuously in developing their values as core principles of action. Both share thereby an understanding, that this investment in the individual persons is the driving force of their success.

In a third step all values having been identified in the first and second step have to be broken down into fulfillment conditions. Fulfillment conditions are visible instances which serve as an explanation, whether a specific action is compliant to a specific value or not. With reference to Wittgenstein's argumentation on rule following fulfillment conditions are visible instances of proper compliancy to which we can point when explaining a rule. The crucial task in setting up values cockpits consists therefore in pinpointing such visible fulfillment conditions which can serve to everybody as an index to determine compliancy. To give an example: quite different corporations define 'efficiency' to be one of their core values. However, efficiency can serve only to be a process value if it is defined with view to the business model, i.e. the core values of a corporation. So let us translate efficiency into "as much and as fast as possible". This interpretation would fit the meaning of 'efficiency' to business models in the markets of high profile computing or bulk logistics. We therefore would have to define fulfillment conditions that clarify visibly what is meant when we say "as much and as fast as possible". If we translated efficiency as "as thoroughly as possible" or as "with least bad yield", efficiency would suite running a nuclear power plant or manufacturing high tech optics or other precious but easily damageable products. Here then too we would have to define fulfillment conditions which clarify visibly what we understand in each interpretation of efficiency. Fulfillment conditions thus are the visible points of reference to which we point when we explain the meaning of a specific value. With view to this role of fulfillment conditions it gets apparent, that each interpretation rests upon completely different rules and games. This leads us to understand, why properly executed cultures lead to a non-copyable distinctiveness.

If the definition process of corporate values and fulfillment conditions is thoroughly conducted, corporations can set up a measuring system to steer the development of the corporate culture. The design of such a system rests on 360° feedback cycles in which corporations determine, whether and to which extent the defined values are lived within the corporation. By iterating these feedback cycles one can measure not only the degree how strongly a specific value is prevalent but also how consistent the corporate culture is and what development it takes.

The values cockpit is thus a neutral instrument applicable to very different values. It serves corporations to steer the development of a consistent, distinct and highly individualized corporate culture from within.

4.1 The Socio-Psychological Foundations of Compliancy

Human beings are by heart social beings. We all are living in social systems. Only from them we derive an understanding of ourselves, our counterparts and the world we are living in. As social beings all human action refers to social norms, i.e. to the expectations a social systems imposes onto the individual.

This can be utilized in forming corporate cultures. Following Paul Watzlawick's interpretation regarding the findings of Solmon Asch we have to conclude, that all individuals share a deep entrenched need to stay in harmony to the group he or she is living in. This holds even true if the strive for harmony stands in conflict with personal convictions. Watzlawick and Asch show that most people are ready to sacrifice their personal convictions in order to comply with the group in harmony. (Watzlawick 1976; Solmon Asch 1955, 1956).

The fact that obviously most humans skip their personal convictions, in order to comply with the social systems they are part of, is secured by an analysis of warfare behavior that was conducted by the historian Sönke Neitzel and the sociologist Harald Welzer (Neitzel and Welzer 2011). During World War II the British forces secretly recorded more than 150,000 conversations between German soldiers imprisoned by the allied forces. Most of them spoke openly to each other about having participated in atrocities and war crimes against civilians. In analyzing their motivation for those activities Neitzel and Welzer found out that most soldiers did not act out of personal conviction but what they thought to be expected of them. Even when specific actions stood in explicit conflict with their personal values most soldiers complied with the assumed expectations of the system and not with their personal convictions.

If humans tend to act in compliancy according to the referential frames of values being imposed by the social systems they are living in it becomes clear, why it is corporate culture where the battle for ethical behavior has to be fought. And here we can argue for CSR even without relying to ethics at all. This is due to the fact that corporate culture is the basis for sustained future viability which can be developed by rational means without begging for ethical argumentations.

How then and according to which principles should a corporate culture be set up? Again we find the answer in the logics of corporate action. If all actions are bound to the final end raising corporate future viability we can deduct from this that all proper and sustainable corporate cultures have to be based on three guiding principles:

1. To raise future viabilitycorporations must develop values, which foster a corporate culture, open to change and keen to deliver benefits and value added to the complete chain of stakeholders.

2. The development of corporate values has to be conducted by people who consequently follow the understanding, that future viability rests on a corporate culture which is devoted to openness and fostering sustainable benefits.
3. The entrenchment of corporate values has to be understood as a continuous process of developing and steering the corporate culture with rigor and consequence.

From the three argumentations we can conclude: as corporations are non-ethical living systems within these systems corporate culture takes the position, consciousness takes in human beings. Both steer and guide individual actions. Thus the development of a due corporate culture must be understood to be the non-psychological equivalent to the development of a due human conscience. The development of corporate cultures thus serves as the non-ethical equivalent to consciousness in ethics. The corporate culture must be understood as the 'as if'--ethical instance to which corporations refer to when they act in situations of ethical dilemmas. Our way out of the philosophical fly-bottle in ascribing ethical behavior to non-psychological entities like corporations thus leads to the understanding, that it is the corporate culture and its function within the logics of corporations as living systems, which fosters CSR and so to speak ethical behavior of corporate actions.

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Part II
Corporate Governance

Corporate Governance Regulatory Framework in Nigeria: The Offerings and Challenges

Benjamin J. Inyang

Abstract Corporate governance is only recently emerging as a concept and attracting serious public commentaries and policy academic discourse in Nigeria, following the failed bank syndrome of the 1980s. The corporate failures of recent times in both developed and developing countries and the world economic crises of 2008 gave further impetus to the development of corporate governance codes, to regulate corporate behaviour and to ensure responsibility, integrity, transparency and accountability in the management and control of companies to maximize stakeholders' benefits. Nigeria has a fair share of corporate governance crises prompting her continuing efforts to develop corporate governance codes to regulate and instill responsible behaviour in industry operators. The paper seeks to present a critical analysis of the corporate governance regulatory framework in Nigeria and examine the offerings of the industry-specific codes of corporate governance. It further identifies the challenges arising from the multiplicity of corporate governance codes and suggests the way forward. The study adopts the methodology of documentary and historical analysis of the relevant literature. Several concerns have been raised about corporate failures in Nigeria and these have attracted a plethora of public commentaries and academic discourse. The research finds that the multiplicity of corporate governance codes induces conflict of interpretation in the system; regulatory mechanisms to enforce good corporate governance are weak and inefficient; and the voluntary nature of the industry-specific codes affected compliance. Based on these findings, the paper recommends, among others, the strengthening of the enforcement mechanisms of the regulatory institutions, developing more effective mechanisms for monitoring compliance, making the codes mandatory and the development of a National Code of Corporate Governance to cover all industries and sectors of the economy.

B.J. Inyang (✉)
Faculty of Management Sciences, University of Calabar, Calabar, Nigeria
e-mail: benji1955.unical@yahoo.co.uk

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1 Introduction

Corporate governance has recently evolved as an engaging subject of serious public policy and academic discourse in Nigeria. The renewed interest in corporate governance reforms in the country is coming in the trail of the failed bank syndrome of the 1980s, the corporate failures of recent times in both developed and developing countries and the world economic crises of 2008. Stakeholders to corporate organizations are increasingly mounting pressure on corporate entities to adopt or adhere to acceptable standards of behaviour in their business operations and to meet stakeholders' expectations responsibly.

Companies are therefore required to assume an obligation of public trust to act in a manner that protects the public interest and to make full and fair disclosure of corporate information including financial performance (Inyang 2009). Modern corporations must follow the triple bottom line reporting of Elkington (1997) by disclosing their economic, social and environmental performance for enhanced quality decision making. The corporations are a vital part of society and as corporate citizens, they are expected to contribute to the health and wealth of society and protecting and sustaining the environment.

Corporate governance aims at promoting corporate transparency and accountability in the management of corporate entities. The responsibility for ensuring good corporate governance rests entirely with the board of directors and top management of the organization. Elebute (2000: 10) notes that "the responsibility for corporate performance, enhancing shareholders value and reliable financial reporting resides first and foremost at the corporate level".

Recent happenings in the Nigerian corporate world have raised concerns about the effectiveness of the corporate governance reforms and the regulatory framework. The board of directors' and top managements' performance of their fiduciary duties and their ethical disposition are being called to question following the incessant corporate failures, in most private organizations. Onuoha et al. (2013) observe that corporate failures in the advanced and developing countries have their roots in negligence or deliberate unethical behaviour of the boards and top managements of corporations. The regulatory mechanisms of corporate governance in the country appear to be defective in handling the challenges of corporate governance.

This papers sets out to meet the following objectives:

1. To present a critical analysis of the corporate governance regulatory framework in Nigeria;
2. To examine the offerings of the industry specific codes of corporate governance and
3. To identify the challenges arisen from the multiplicity of corporate governance and suggest the way forward.

The paper is divided into eight sections. The introductory section is followed by the literature review. Section 3 is the methodology while Sect. 4 presents the history of corporate governance in the country. The regulatory framework of corporate governance is treated in Sect. 5 and the challenges of corporate governance discussed in Sect. 6. The seventh section presents the imperatives of good corporate governance while the last section concludes the paper.

2 Literature Review: Understanding the Concept of Corporate Governance

Corporate governance as an evolving concept has been defined differently by scholars. Wilson (2006) noting that the concept of corporate governance is nebulous simply defines it as the manner in which corporations are directed, controlled and held to account. He argues that effective leadership of corporations will ensure wealth creation for society and in a systematic manner. Corporate governance refers to the broad range of policies and practices that the board of directors uses to manage the affairs of corporate organizations to fulfill their fiduciary responsibilities and create stakeholders value in society. Inyang (2004: 163) considers it as "a system by which the organization or company directs, manages and controls the business of the company to enhance corporate performance and corporate responsiveness to shareholders and other stakeholders". Onuoha et al. (2013: 27) consider corporate governance as "concerned with the processes, systems, practices and procedures, the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationship that these rules and regulations determine or create and the nature of those relationships". Corporate governance is based on the principles and values that guide a corporate entity in the conduct of its day-to-day business and how to serve the interest of stakeholders.

A common denominator in the definitions of corporate governance is the concern for the wealth and health of corporate entities and the creation of stakeholder values through responsible corporate leadership. Thus the goal of governance is responsible, honest and transparent operation of corporate entities in the best interest of all stakeholders. The core requirements of good corporate governance are therefore responsibility, integrity, transparency and accountability.

Responsibility Being accountable for something or to a person. Every right to act implies a responsibility to act with fairness and reasonableness.

Integrity This is uprightness or honesty. This is concerned with the principle that an organization or its key personnel conducts it in accordance with standard principles and values consistently as it carries out its activities and dealings with all stakeholders.

Transparency Reporting clearly and accurately, so as to command respectability and credibility. Transparency concerns:

(a) The principle of openness and consistent application of due process.
(b) Voluntary disclosure of relevant and sufficient information to all parties.
(c) Promote fairness, trust, credibility and reputation.

Accountability Being answerable to others for one action. It is stewardship responsibility owed to a constituency or stakeholder or shareholder. Accountability emphasizes:

(a) The principle that corporate can no longer act independently.
(b) Companies and their key personnel accountable not only for economic performance, but also for the environment and their social and ethical conduct.

The corporate entities that accept and adhere to these tenets would achieve good corporate governance. According to Kwakwa and Nzekwu (2003) good corporate governance is necessary to:

(a) Attract local and foreign investors and assure them that their investments will be secured and efficiently managed in a transparent and accountable process.
(b) Create competitive and efficient companies and business enterprises.
(c) Enhance the accountability and performance of those entrusted to manage corporations.
(d) Promote efficient and effective use of limited resources.

Yahaya (2003) adds that good corporate governance enhances the adoption of best management practices in order to promote sustainability.

3 Methodology of Study

The paper adopts the methodology of documentary and historical analysis of the relevant literature. Several concerns have been raised about corporate failures in Nigeria and these have attracted a plethora of public commentaries and academic discourse.

4 History of Corporate Governance in Nigeria

Corporate governance is an emerging concept in Nigeria and therefore its historical development is quit recent. The provenance of corporate governance system in Nigeria is traceable to the Companies and Allied Matters Act (CAMA) 1990, which replaced the Companies Act 1968. This legal framework has its root in the British colonial legislation, the UK Companies Ordinance of 1922 and the subsequent UK Companies Act of 1948.

The Companies and Allied Matters Act (CAMA) 1990 and with subsequent modifications over the years has remained the principal statute regulating companies in Nigeria. The Act made provisions for greater and effective participation and control of the affairs of a company and greater accountability by the board of directors. In other words, the Act made general provisions on the administration of companies registered in Nigeria.

Even at this formative period corporate governance did not emerge as a distinct concept. The concept began to gain momentum and recognition following the publicized world corporate failures Enron (2001), WorldCom (2002), Marconi (2001), HIH Insurance (2001), Parmalat (2003) and Volkswagen (2005). In Nigeria we experienced major collapse in the banking sector with 26 banks liquidated in 1997 and in 2006 Cadbury (Nigeria) was involved in the falsification of the company financial statements. Quite recently, the boards of directors of eight banks were sacked by the Central Bank of Nigeria for gross insider abuse and mismanagement of their banks' funds. Some other bank directors are being prosecuted for corporate malpractices. A survey carried out by the Securities and Exchange Commission (SEC) of Nigeria in April 2003, showed clearly that corporate governance was at a rudimentary stage, as only 40% of quoted companies including banks had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of financial institutions' distress in the country (CBN 2006).

These failures prompted the government, like in many other countries, to review the corporate governance practices to ensure that companies entrench good corporate governance in their operations by improving corporate behaviour and creating value for stakeholders. To ensure good corporate governance, the government and the professional bodies initiated governance reforms through the invocation of corporate governance codes which supplemented existing corporate laws.

Corporate governance codes are documents which state the rules and procedures for governing and managing corporations (Dabor and Adeyemi 2009). The corporate governance codes therefore state categorically, the rules, principles and best practices for governing the corporate entities properly and responsibly to achieve maximum performance to serve all stakeholders. It is in this view that Aguilera and Cuero-Cazurra (2004: 417–418) consider the code of governance as:

> a set of 'best practice' recommendation regarding the behaviour and structure of the board of directors of a firm... designed to address deficiencies in the corporate governance system by recommending a comprehensive set of norms on the role and composition of the board of directors, relationship with shareholders and top management, auditing and information disclosure, and selection, remuneration and dismissal of directors and top managers.

The historical development of corporate governance in Nigeria is therefore concerned with the evolution of corporate governance codes. The Table 1 charts this history beginning from the enactment of CAMA 1990 through the industry-specific codes of corporate governance to the current phase of crafting the new code to reflect best practice.

Table 1 Main codes of corporate governance in Nigeria

S/N	Types of code	Year	Issuing authority	Objective/focusing of code
1.	Companies and Allied Matters Act (CAMA)	1990	Federal government (CAMA 1990)	To effectively manage and control the affairs of companies. The corporate affairs commission (CAC) was set up to monitor CAMA as the principal statute regulating companies in Nigeria. Main focus: – Accountability – Transparency – Responsibility to shareholders and stakeholders – Greater and effective participation and control of company affairs
2.	Code of corporate governance for banks and other financial institutions in Nigeria	August 2003	Bankers' committee	To improve corporate governance in the financial sector and avoid financial distress. Main focus: – Board of directors: structure, appointment, remuneration and performance assessment – Risk management – Relations with shareholders – Financial disclosure – Audit committee
3.	Code of best practices for public companies in Nigeria	October 2003	Securities and Exchange Commission (SEC)	To ensure accountability and transparency in all public companies in Nigeria. First code issued by a regulator. Main focus: – The board of directors: structure, responsibilities and procedures – Shareholders' rights and privileges – Audit committee

(continued)

Table 1 (continued)

S/N	Types of code	Year	Issuing authority	Objective/focusing of code
4.	Code of corporate governance for banks in Nigeria post consolidation. (Industry-specific and mandatory)	2006	Central Bank of Nigeria (CBN). (2006 CBN Code)	To address poor corporate governance and create a sound banking system in Nigeria. Main focus: – Industry transparency – Equity ownership – Criteria for appointment of directors – Board structure and composition – Risk management and internal control – Zero tolerance for conflict of interest – Auditing and financial reporting systems
5.	Code of corporate governance for licensed pension operators. (Industry-specific)	2008 (2008 PENCOM Code)	National Pension Commission (PENCOM)	To guide pension fund administrators and pension fund custodians following the pension reforms with private sector involvement in pension fund management. Main focus: – Provides for minimum corporate governance requirements and to ensure that governance policies are entrenched in the companies
6.	Code of good corporate governance for the insurance industry in Nigeria. (Industry-specific)	2009 (2009 NAICOM)	National Insurance Commission (NAICOM)	To ensure sound corporate governance practices in the insurance industry. Main focus: – Transparency – Accountability – Responsibility – Enhanced shareholders value

(continued)

Table 1 (continued)

S/N	Types of code	Year	Issuing authority	Objective/focusing of code
7.	Code of corporate governance in Nigeria	1st April 2011 (2011 SEC CODE) Replacement to 2003 SEC Code	Securities and Exchange Commission (SEC)	To address weaknesses and improve the mechanism for enforceability of the code and promote good corporate governance practices by public companies in Nigeria. Main focus: – A comprehensive code aligning with international best practices. – Minimum expected standards of corporate governance of public companies in Nigeria. – Promotes greater compliance by companies
8.	Financial Reporting Council of Nigeria act 2011 (FRCN in July 2015 commences the process of evolving a national code of corporate governance for all sectors of the economy—exposing the draft legislation to public hearing)	7 June 2011 (2011 FRCN Act)	Financial Reporting Council of Nigeria (Federal government of Nigeria)	Directorate of corporate governance of the financial reporting council of Nigeria provided in the act to develop principles and practices of good corporate governance in companies. Main focus: – Makes far-reaching provisions regarding the operation of companies in Nigeria and providing mechanism for periodic assessment of the code – Promotes public awareness about corporate governance principles and practices – Establishes links with regional and international institutions engaged in promoting corporate governance – Promotes sound system of internal control – Organizes and promotes workshops, seminar and training in corporate governance issues

Source: Author's research

5 Regulatory Framework of Corporate Governance

The effectiveness of corporate governance depends largely on the regulatory framework that is operational in a country. This framework constitutes the corporate governance mechanisms which are the processes and systems by which a country's company laws and corporate governance codes are enforced to enhance shareholder value. These mechanisms incorporate the means for monitoring compliance by corporate entities (Reed 2002). Nnadi (2006), adds that corporate governance mechanism is meant broadly to imply the entire set of incentives, safeguards and disputes resolution processes used to control and co-ordinate the actions of various stakeholders or self-interested parties interacting together. According to Adewale (2013), the effectiveness of a country's corporate governance mechanism depends to a great extent on the regulatory framework and public governance systems that are in place.

Interestingly, the existence of the many corporate governance codes or mechanisms as discussed above does not translate into good corporate governance in Nigeria, like in many other countries. For example, there was significant renewed interest in corporate governance practices in the United States of America following the high-profile collapses of a number of large firms, such as Enron Corporation and MCI Inc. (formerly WorldCom). This led to the passage of the Sarbanes-Oxley Act in 2002 which is aimed at restoring public confidence in corporate governance by making it mandatory for public liability companies to adopt and report on compliance to the Act. Also of note, are the collapses of such listed companies as Robert Maxwell Group, Polly Peck, BCCI and Coloroll in the United Kingdom in the late 1980s and 1990s.

The many corporate scandals that have occurred in developed economies of the world apparently cast light upon the poor corporate governance practices in the developing countries of Africa, Asia and South America. The OECD (2000) argues that in the Twenty-first century, economic stability and prosperity of corporate organizations would depend on the strengthening of capital markets and the development of strong corporate governance systems or mechanisms. In Africa for example, between 1961 and 1994 South Africa was cut off or isolated from the global economy as a result of apartheid and domestic business regulations, laws and corporate governance practices were not only weak but did not meet international standards. With the collapse of apartheid regime in South Africa in 1994 the country began to develop international business relations with the outside world, hence the need to develop sound corporate governance code. The King Report 1 on corporate governance was published in 1994 and updated in March 2002 as King Report 11 and again updated in March 2010 as King Report 111, all of which have helped to entrench good corporate governance practices. Afolabi (2015), notes that the existence of these codes in South Africa helps in attracting more investors who are driving the economic development in the sub-region.

The many corporate failures in Nigeria is a pointer to the ineffectiveness of corporate governance mechanisms. The apparent weaknesses of these mechanisms and the problems of monitoring and enforcement have contributed to poor corporate governance. In fact, there is general lack of institutional capacity to help promote and facilitate compliance to the codes of corporate governance. This is in addition, to the multiplicity of industry-specific codes which induce conflict of interpretation in the system as well as affect compliance. There is need to correct the inadequacies of self-regulation by companies and industries and provide a robust national corporate governance code.

It is pertinent to state briefly the roles of the different institutions which are saddled with the responsibility of ensuring effective corporate governance, management, control and accountability of public companies in Nigeria.

1. **The Role of Government**: This is essentially to provide the legal framework for company formation, define the parameters of business activities, monitor their operations to conform with established standards and meet the obligations to all stakeholders and the society at large (Inyang 2009). The main legal instrument or framework for corporate governance is CAMA 1990, which governs company law in the country.
2. **The Role of Corporate Affairs Commission (CAC):** This commission is established under Sect. 1 of CAMA 1990, to take responsibility of overseeing the regulation and supervision of the formation, incorporation, registration, management and winding up of companies.
3. **The Role of the Securities and Exchange Commission (SEC**): This is the apex regulatory organ of the capital market. The primary role of SEC is to create a conducive investment climate and attract foreign investors into the country. The commission is in the forefront of propagating good corporate governance by introducing corporate governance code to ensure accountability and transparency in public company management.
4. **The Role of Central Bank of Nigeria (CBN):** This is the apex institution in the banking industry, promoting monetary stability and a sound financial system, acting as a banker and financial advisor to the federal government and a bank of last resort. It plays enormous role in developing codes of good corporate governance in the banking sector. The industry-specific code of CBN which has the force of law, prescribes a minimum standard which individual banks must meet (Inyang 2009).
5. **The Role of National Pension Commission (PENCOM):** The Pension Reform Act 2004 (which was repealed in July 2014 and now known as Pension Reform Act 2014) introduced defined contributory pension system with individual accounts being privately managed by Pension Fund Administrators and Pension Fund Custodians. The PENCOM provides minimum corporate governance requirements and to ensure that the operators of the pension system adhere to good corporate governance practices. This is industry-specific code.
6. **The Role of National Insurance Commission (NAICOM):** The commission is saddled with the responsibility of ensuring sound corporate governance practices in the insurance industry. It emphasizes the need for industry operators to display

high level of transparency, accountability and responsibility and enhance shareholders value.

7. **Role of Financial Reporting Council of Nigeria (FRCN):** This is the latest corporate governance framework in the country. The Financial Reporting Council of Nigeria Act 2011 sets up the Director of Corporate Governance to develop principles and practices of good corporate governance in companies. The provision of corporate governance is quite expansive and one would expect this would have major impact on the principles and practices of corporate governance in Nigeria. Ofo (2013) considers the Act as a groundbreaking legislation vested with enormous powers in respect of the regulation of companies operating in Nigeria. For the first time in the country Financial Report Council of Nigeria Act 2011 makes express statutory provision vesting responsibility in respect of governance on a regulatory body. Ofo (2013) further notes that all other regulatory bodies which have been exercising authority over companies on corporate governance matters got their powers on corporate governance by inference and their authorities on corporate governance are implied.

The Financial Reporting Council of Nigeria (FRCN) has recently drafted the National Code of Corporate Governance (NCCG) and exposed it to public hearing in July 2015, and this is a major and comprehensive step towards legislative enactment on corporate governance. This code covers three sectors—private sector code, public and not-for-profit sector codes. The FRCN as the national co-coordinating body is responsible for all matters pertaining to corporate governance in the country and its mandate includes among other functions the following:

1. To promote the highest standards of corporate governance;
2. To provide public awareness about corporate governance principles and practices;
3. To promote sound financial reporting and accountability based on true and fair financial statements duly audited by competent independent Auditors;
4. To encourage sound systems of internal control and information system control to safeguard stakeholders' investment and assets of public interest entities.

This development is bound to improve governance practices in the country. The harmonization and unification of all the different sectoral or industry specific codes with their conflicting and non-mandatory provisions would pave the way for a more encompassing corporate governance code of practices, with their mandatory compliance and robust monitoring mechanisms. According to Demaki (2011), good corporate governance without undue proliferation of codes is fundamental to corporate profitability, risk reduction and foreign capital inflow.

6 Challenges of Corporate Governance in Nigeria

Corporate governance in Nigeria is facing enormous challenges and this is obvious from the plethora of corporate governance codes that have been developed by the government and the different institutions, at different times in the evolution of our governance system. Some of the challenges in the system are inadequate capacity and incompetence, weak regulatory environment, high level of endemic corruption and the culture of non-compliance.

The Central Bank of Nigeria in the 2006 CBN Code of Corporate governance for banks highlighted these weaknesses in our governance system and these to a large extent are found in other companies in the country. The weaknesses are:

– Disagreement between board and management giving rise to board squabbles.
– Ineffective board oversight functions.
– Fraudulent and self-serving practices among members of the board, management and staff.
– Overbearing influence of chairman or MD/CEO especially in family controlled businesses.
– Non-compliance with laid-down internal controls and operational procedures.
– Ignorance of and non-compliance with laid down rules, laws and regulations guiding business enterprises.
– Passive shareholders.
– Poor risk management practices resulting in large quantum of non-performance credits including insider related credits.
– Abuses related to firm's source of funds in terms of overdrawing them.
– Sit tight directors even where such directors fail to make meaningful contributions to the growth and development of the firm.
– Succumbing to pressure from other stakeholders, for example, and shareholder's appetite for high dividend and management quest for high remunerations.
– Technical incompetence, poor leadership and weak administrative ability.
– Inability to plan and respond to changing business circumstances.
– Ineffective management information system and external environmental influences.

This catalogue of challenges, seem to permeate the Nigerian corporate world. For example in 2008 Cadbury (Nigeria), a subsidiary of foreign multinational company was involved in the falsification of financial statements to mislead investors and shareholders. Such cases of inaccurate reporting and non-compliance with regulatory requirements as well as falsification of financial records by corporate organizations lead to corporate collapses. These corporate problems are not unconnected with greed of board of directors and top management. Halliburton, Siemens and Sagen—all major multinational companies operating in Nigeria were meshed in corporate scandals involving bribe given to government functionaries to secure contracts, etc. The lack of internal control mechanisms to provide, checks and balances against the oversight responsibility of the board of directors, lead to corporate failures in many of these companies.

Lack of shareholder activism has been identified as a serious challenge of corporate governance in the Nigeria. The reactive stance of my shareholder groups or associations tends to undermine the development of good corporate governance. The Nigerian corporate collapses, according to Adewale (2013), emphasize the weakness in shareholders involvement. Adewale (2013: 73), further captures this sorry state of affairs thus:

> The information asymmetry between shareholders and management of these corporations is vast. As a result of the seemingly obscure nature of business with false financials, provided for making investment decisions; and the lack of information arising, shareholders know so little, and can do so little, more often than not. The Nigerian governance code provides shareholder involvement through annual general meeting.

In the United Kingdom for example, the corporate governance code puts a bridge to the information asymmetry between the shareholders and the boards of directors in organization. This is not very apparent in the Nigerian case and more so, when such information is rather obscure.

The research on the effectiveness of shareholders activism is apparently inconclusive. Some studies (Del Guercio et al. 2008; Grundfest 1993) see shareholder activism as a powerful tool to influence corporate behavior while others (Norden and Strand 2011; Sjostrom 2008) do see it as having no effective in bringing about change in corporate behavior. Alford and Signori (2014) suggest the need to adopt a virtue ethics approach to provide a more complete picture and understanding of the activist-business relationship.

In fact, shareholder activism is an important prerequisite for effective corporate governance and accountability in Nigeria (Inyang 2009). Shareholder activism with strong regulation would bring about the needed system-wide improvement in corporate governance in the country.

The enforcement mechanisms put in place for effective monitoring of corporate entities *vis-a-vis* corporate governance practices are rather weak. In other instances culprits of corporate misdeeds are not brought to book or sanctioned as a deterrent to others.

The multiplicity of corporate governance codes is also another challenge. The conflict of interpretation exists between industry-specific codes and the general codes of corporate governance because the former has a stricter regime of discipline on members than the later. Ofo (2013) cites the shortcoming of the multicity of corporate governance codes regime as relating to the resolution of conflicts in the provision of the 2011 SEC Code as an example. While the industry-specific codes are compulsorily applicable to the companies operating in their respective sectors, the 2011 SEC Code is ambivalent on its superiority over the industry-specific corporate governance codes. Rather, it provides that where there is conflict of interpretation between its provisions and those of any of the industry-specific codes on any issue, the corporate governance code with the strictest provision on the issues prevails.

The Financial Reporting Council of Nigeria Act 2011 is however put in place to resolve such conflict of interpretation in corporate governance system. The ground-breaking legislation sets the agenda for improved corporate governance practices in the country and to bring the governance system to international best practice standard. The Financial Reporting Council of Nigeria plans to issue a National Code of Corporate Governance which all organizations are expected to comply with. The new code will therefore unify existing corporate governance codes promoted by the primary regulators—Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC). In fact, in January 2013, the Ministry of Industry, Trade and Investments inaugurated the committee on National Code of Corporate Governance. The committee has since started work. What is obvious from this development is a paradigm shift in corporate governance practices in Nigeria. The evolving National Code of Corporate Governance to cover the entire sectors of the economy with it robust provisions would usher in good corporate governance system.

7 Imperatives of Good Corporate Governance

A legion of corporate governance weaknesses or challenges has been identified in the Nigerian governance system. To restore trust and confidence in the system or country, it is imperative that prevailing mindsets, attitudes and approaches to the governance of corporate entities must change in the following critical areas:

1. Leadership and values—Put in place principled leadership who understand their responsibility to stakeholders and have high ethical values of triple bottom line, focusing on shareholders' value, community trust and environmental protection.
2. Competent and independent board of directors—This is to ensure long term success of the organization and responsible for checks and balances.
3. Internal control and procedures—These must be regularly reviewed by the board to ensure the adequacy of scope and in meeting emerging challenges.
4. Reporting and accessibility to information—This is a critical requirement for good corporate governance. Information must be accurate, sufficient and relevant and readily available to stakeholders.
5. Risk management—Design a robust procedure for the identification and evaluation of actual or potential risk. This is same with developing a procedure for termination, transfer, mitigation or acceptance of each risk.
6. Internal audit—The internal audit function should have the capacity to identify and monitor significant risks, the system should also provide quality assurance on internal control and risk management procedures. The respect and co-operation of both board and management is essential.
7. External audit and statutory reporting—Put in place mandatory tools for communicating performance, plans and strategies to shareholders. The annual report must represent objective description of the company's operating and

financial status. The external auditors must show professional ethics, be responsible to shareholders, avoid conflict of interest.

8. Compliance and enforcement—Good corporate governance needs to be anchored on a credible, fair and coherent legal regulatory framework that will provide sufficiently for strict compliance and enforcement. The system needs to be strong, voluntary, self-regulation and an informed/alert stakeholder activism.

8 Conclusion

Corporate governance is an emerging concept which is concerned with the management and control of corporate entities to create shareholders value. The corporate failure of recent times has helped to rekindle interest in corporate governance discourse. Nigeria has her fair share of corporate failures and this prompted the country to evolve many codes of corporate governance to tackle corporate misdeeds.

There are many challenges facing corporate governance system in the country. Some of these challenges are inadequate capacity and incompetence, weak regulatory environment, high level of endemic corruption, the culture of non-compliance and the multiplicity of corporate governance codes. The shift in paradigm towards developing a National Code of Corporate Governance by the Financial Reporting Council of Nigeria would help improve the governance system in the country and bring it to international best practice standard.

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Board Composition and Corporate Governance Mechanisms in the Nigerian Banking Sector

Adebimpe Lincoln, Oluwatofunmi Adedoyin, and Janet Laugharne

Abstract As a result of recent corporate failures the unique role played by directors has come under tremendous scrutiny and has led to legislation excerpts codifying director's duties and responsibilities. It is clear that director's ability to fulfill their responsibilities has an impact on shareholders, investors and the public, indeed on all stakeholders. The position in the Nigerian scenario is far from clear cut mainly because information available are largely the result of anecdotal evidence and limited empirical study. The central aim of this research is to engage in a critical analysis of the board structure in Nigeria with particular attention being paid to the perception of various stakeholders on board composition and corporate governance mechanisms in the Nigerian banking sector. The study raises interesting findings in relation to boards in the Nigerian context. In particular the study shows that boards are not fulfilling their role and responsibilities to the extent of the standards laid down in the applicable laws and codes. The findings show problems hindering sub-committees from efficiently and effectively fulfilling their role and responsibilities include appointments based on favouritism, personal contacts and majority shareholders, lack of independence of sub-committees, lack of relevant qualifications, lack of time commitment, non-implementation of recommendations made by sub-committees to the board and the propensity for bribes offered by banks in some instances which compromises the independence of regulatory supervisors. The study makes an empirical contribution to the growing body of literature in this area thereby providing a theoretical perspective on which future research and policy initiatives can be developed.

A. Lincoln
University of Liverpool, Liverpool, UK
e-mail: lincolnadebimpe@gmail.com

O. Adedoyin • J. Laugharne (✉)
Cardiff School of Management, Cardiff, UK
e-mail: tadedoyin30@hotmail.com; jlaugharne@cardiffmet.ac.uk

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1 Introduction

The board of directors is considered as the "lynchpin" of corporate governance (Gillan 2006). It is the primary internal mechanism in improving corporate governance in firms and is responsible for the firm's decisions and its performance in order to maximize shareholder wealth and protect the interests of stakeholders (Brennan 2006; Tricker 2012). Good practice dictates that effective boards provide strategic vision, monitor management and act transparently to ensure full accountability to shareholders and stakeholders (De Andres and Vallelado 2008; Pathan and Faff 2013). In highlighting the importance of their role Weisbach (1988) states that the board is the shareholders' first line of defense against incompetent management, the board of directors leads and controls the firm and has a fiduciary responsibility to act in the best interest of the shareholders. Certainly, on this basis, not only the leadership of the board but the board itself is of pivotal importance to the health, in a business sense, of the company. Consequently, the purpose of the board is to ensure the firms prosperity by collectively directing its affairs, whilst meeting appropriate interests of its shareholders and relevant stakeholders. Recent global financial crisis necessitates the presence of high-performing boards. According to Epstein and Roy (2006) high-performing boards comprise of highly qualified executive teams providing superior strategic guidance to ensure firm growth and prosperity and ensure accountability of the firm to its stakeholders. The composition of the board is a significant determinate on whether the firm can successfully meet its role and responsibilities. According to the UK Combined Code (2010) the role of the board is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables effective assessment and management of risk. In order to effectively meet its objectives, the board is encouraged to have regular meetings and also ensure appropriate and clearly defined reporting procedure are in place for the board of directors and sub-committees (Mallin 2013).

The board is considered even more important as an internal governance mechanism in the banking sector, since banking fiduciary responsibilities extend well beyond shareholders to depositors and regulators (Macey and O'Hara 2003). This view is also echoed by bank regulators and policymakers, for example, the Basel Committee on Banking Supervision (BCBS 2010) identifies the board as an essential part of a bank's regulatory reform including increasing the monitoring efficiency of management within firms. The role of boards as a mechanism for corporate governance in banks is also vital in light of complexities such as limited competition, intense regulation, and higher informational asymmetries prevalent in the banking sector. De Andres and Vallelado (2008) analysed the effectiveness of boards in monitoring and advising managers in the banking industry and found that banks with boards that are more effective in monitoring and advising management are better governed. Furthermore, Francis et al. (2012) state that the role of boards is ever more important at times of crisis as their actions would be more visible in terms of the risk exposure of the bank and its overall performance. According to the BCBS (2010) the role of the board includes approving and monitoring overall business strategy, taking into account the bank's long-term financial interests, its exposure to risk and its ability to manage risk effectively. Furthermore, boards approve and oversee the implementation of the bank's overall strategy, its internal control system, its remuneration policy and other corporate governance framework. The BCBS (2010) emphasize that the board should take account of the legitimate interests of shareholders and other relevant stakeholders and should ensure that the bank maintains an effective relationship with regulatory bodies. Wong (2011) notes that despite considerable reforms over the past two decades, boards have been criticized recently for failing to properly guide strategy, oversee risk management and remuneration packages, manage succession planning and carry out other essential duties. He puts forward significant recommendations including the establishment of core building blocks such as appropriate board size, well-functioning committees, proficient company support, and professionally-administered board evaluation. Mallin (2013) also argues that the metrics for evaluation should be relevant and linked to inputs, such as attendance at board meetings, and outputs, such as stock price. She opines that a balanced scorecard is an appropriate tool for director evaluation.

2 Board Appointment, Size and Composition

The UK Corporate Governance Code (2012) recommends that appointments to the board should be based on a formal, rigorous and transparent process. Furthermore such appointments should be based on merit, using objective criteria with due regard taken to ensure that all appointees are provided with sufficient time to discharge their responsibilities effectively. To ensure that directors have adequate time to devote to the position several national codes have recommended the maximum number of firms an individual can hold a directorship position, as this can interfere with the performance of the board (OECD 2004). For example, the UK Corporate Governance Code (2012) states that the board should not agree to a full time executive director taking on more than one executive directorship in a FTSE 100 firm nor the chairmanship of such a firm. Furthermore, in some countries such acts are criminalised, for example in Italy Article 36 of Decree Law No. 201 (2011) states that it is illegal for an individual to hold more than one seat on a board in a financial institution operating in the same sector or market.

The size of the board of directors is argued as a prerequisite in achieving effective corporate governance (Jensen 1993; Yermack 1996; Dalton et al. 1999). There is a bone of contention among academic researchers in relation to the effectiveness of small and large board sizes. For example Pathan and Faff (2013) assert that firms with smaller boards perform better. Tanna et al. (2011) on the other hand opine that a larger board size contributes to technical and profit-oriented efficiency. From an agency theoretical perspective, the smaller the size of the board the more effective it is. Large boards are perceived to impair the control and monitoring functions of the board (Yermack 1996; Dalton et al. 1999).

Furthermore, an individual director's ability to acquire information and monitor management is lower in large boards, thus allowing opportunistic behaviour by managers (Jensen 1993). The stakeholder theoretical perspective contends that larger boards are necessary for the firm as boards have the dual role of monitoring and advising management (Coles et al. 2005). Larger boards are considered as being more effective in promoting better decision-making and ensuring harmony between the firm and its stakeholders. A larger board is also more likely to have greater influx of skill and expertise to monitor the actions of management effectively (Cohen et al. 2002; Hanniffa and Hudaib 2006). Board structure is driven to an extent by the scope and complexity of the firm's economic environment (Coles et al. 2005; Walker Report2009; BCBS 2010). For example, the BCBS (2010) avoids recommending an optimal board size suggesting instead that the decision should be made based on the size, complexity and geographic scope of the bank.

The effectiveness of the board in carrying out its function is dependent on its independence from management. As independence of the board cannot be observed, board composition is of considerable importance (Monks and Minow 2003; MacAvoy and Millstein 2003; Nordberg 2011). Board composition is usually measured in terms of insider (executive directors), outsider (non-executive director) and CEO-chairman separation or duality. Therefore differing board structures play an important role in determining the economic benefits to shareholders and stakeholders, especially as board structures are not homogenous across countries (Aguilera 2005). Appropriate attention must be given to the composition of the board. Board composition is said to have a direct impact on firm activity consequently it is vital to have a well-balanced and qualified board (Klein 1998). According to Walker (2009) the emphasis is on ensuring that there is a mix of directors with different personalities and backgrounds, all of whom must effectively work together. Boards need to be reflective of the firm's ownership and the wider social environment however selection criteria should be primarily based on merit and should comprise of a proportionate mix of qualified individuals (Van der Walt and Ingley 2003).

3 Board Independence and Non-executive Directors

Corporate governance codes have recently focused, *inter alia*, on director independence (Lincoln et al. 2013). Ritchie (2007) is of the opinion that the idea of independent directors is promoted because it is thought to improve company performance through superior corporate governance but he goes on to say that many studies have placed a question mark on that assumption. The question of director independence has become important in both the US arena as well as in the UK in light of recent corporate collapses around the globe. In the US Section 301 of the Sarbanes-Oxley Act of 2002 which came into being in response to the corporate scandals of the time such as Enron, requires companies to have audit committees composed entirely of independent directors (Lincoln et al. 2013). In the UK

Sections 171–173 of the Companies Act 2006 sets out the duties and standards required of directors with particularity, including a duty to act within his powers, to promote the success of the company, to exercise independent judgment and Section 175 states that directors must avoid conflicts of interest. Complementary to the Companies Act 2006 the Cadbury code (1992) and the Combined Code (2010) also emphasize the need for director independence. So it is clear that the independence of directors is considered to be important on both sides of the Atlantic and in all systems which follow their pattern or which in their corporate governance codes are influenced by these jurisdictions (Lincoln et al. 2013).

The Cadbury Committee Report 1992 states that it is essential that there should be a strong independent element on the board as such recommends the inclusion of Non-Executive Directors who bring independent judgment to bear on issues of strategy, performance, resources including key appointments and code of conducts. Non-executive Directors (NEDs) are a fundamental foundation of an effective board and good corporate governance as they are custodians of shareholder and other stakeholder interests (Duchin et al. 2009; Mallin 2013). NEDs are members of the board who do not hold any executive management position in the firm. According to the Walker Report (2009) the role of NEDs is to ensure that there is an effective executive team in place, participate actively in the decision-taking process of the board and exercise appropriate oversight over execution of the agreed strategy by the executive team. The role of NEDs has two dimensions. Firstly NEDs act as a control mechanism of the executive directors by ensuring that no one individual person or groups can unduly influence the decisions of the board. Secondly, it lessens the conflict of interest among stakeholders in particular shareholders and regulators and contributes to the overall leadership and competitive performance of the firm (De Andres and Vallelado 2008; Mallin 2013). However, there have been criticisms against the duality of roles of NEDs. For example, Ezzamel and Watson (1997) argue that there is an inherent conflict in these two roles because NEDs are expected to monitor and advise executive directors. Randoy and Jenssen (2004) argue that there is less need for NEDs to monitor management in highly competitive industries than in less competitive ones. They opine that high levels of competition increases the pressure on the board to adequately perform.

Some observers view a high proportion of NEDs on the board with scepticism. For example the stewardship theory rejects the notion of NED dominance on boards, arguing that a majority of executive (inside) directors ensures superior performance of the firm (Donaldson and Davies 1994; Muth and Donaldson 1998). Goodstein et al. (1994) opines that a higher proportion of NEDs may stifle strategic actions while Baysinger and Butler (1985) argue that it leads to the excessive monitoring of management. Stewardship theorists such as Donaldson and Davies (1993) argue that a majority of executive directors provide the depth of experience, technical expertise and ease of communication needed for effective board functioning as NEDs are said to lack adequate business knowledge to make them effective (Patton and Baker 1987). NEDs are also thought of as lacking real independence to influence the CEO (Demb and Neubauer 1992). The notion that

NEDs cannot effectively monitor and control agency problems is a central premise of corporate finance research (Berle and Means 1932; Jensen 1993). Empirically, it is notoriously difficult to find reliable evidence that NEDs positively contribute to the performance of the firm with some studies finding small statistically insignificant correlations (Bhagat and Black 2002; Hermalin and Weisbach 2003; Fields and Keys 2003). Rather, the results of many studies have shown that the dominance of NEDs on boards worsens the success of the firm over time (Yermack 1996; Klein 1998). The literature shows that NEDs encounter obstacles preventing their effectiveness. For example Duchin et al. (2009) states that the ability of NEDs to effectively execute their responsibilities depends on them having sufficient time.

4 Separation of the Role of Chairman and CEO

The CEO is the single most influential individual responsible for the overall management of the firm (Wang and Dewhirst 1992). The chairman on the other hand is the leader of the board responsible for its overall functions (BCBS 2010; Tricker 2012). The chairman ensures that the work of the board is conducted efficiently and that the board fulfils its overall obligations. The chairman is mandated to demonstrate the highest standards of integrity and probity and set clear expectations concerning the firm's culture, values, and behaviours, and the style and tone of board discussions. A vast portion of literature favors a split in the roles of the CEO and chairman, while others see no justification for such a separation. Some studies conducted have found that CEO-chairman separation positively affects the firm e.g. contribution to the independence of the board and a reduction to agency costs (Rechner and Dalton 1991; Pi and Timmes 1993; Brickley et al. 1997). Where the leadership of the board is in the hands of separate Chairman and CEO, the perception is that having a Chair who is not a company executive brings fresh knowledge and insight into the board's decision making, providing unique experiences that enhance the board's management capabilities (Lincoln et al. 2013). Sir Adrian Cadbury (2002) explains that the relationship between the CEO and chairman has to be subtle, productive, and personally rewarding to be effective. He emphasizes that the failure to cultivate such characteristics will lead to major corporate problems and considerable personal stress.

5 Improving Governance Administration Through Board Sub-committees and Internal Auditors

Tricker (2012) notes that throughout the commonwealth, corporate governance codes for listed companies, although differing slightly in detail, all call for a number of sub-committees. Various writers state that board sub-committees enable independent directors to meet separately from the board as a whole, in order to fulfill their oversight functions and to delegate board activities to reduce the burden on the board as a whole (Carter and Lorsch 2004; Tricker 2012). Examples of the key functions carried out by sub-committees include ensuring the integrity of financial and non-financial reporting, nomination of board members and key executive directors, and the remuneration of the board. Boards have developed a practice of forming committees intended for specific purposes. The number of committees varies from firm to firm and in some countries a number of committees may be a mandatory requirement depending on the sector and prevalent rules and regulations. The most commonly found board sub-committees are the audit, nomination and remuneration committees. While the audit and investor committees are mandatory under most regulatory frameworks, some countries have made certain other committees mandatory. The Sarbanes Oxley Act (2002) in the United States makes the remuneration and nomination committee mandatory. Furthermore in the banking sector there are two additional committees equally as important as the aforementioned sub-committees, namely the risk committee and the ethics/compliance committee. As the function of these sub-committees is to enhance the decision-making of the board by preparing and providing a report of its deliberations and findings, the number and nature of sub-committees established within a bank depends on the size of the bank and its board, the nature of the business of the bank, and its risk profile (BCBS 2010). Internal auditors are also important in driving good corporate governance agendas as they bring an independent, objective and constructive perspective to the firm. They also ensure effective operation of the organization's risk management, governance, and internal control processes. Furthermore, internal auditors deal with matters fundamentally important to the survival and prosperity of the firm, which entails looking at financial risks and statements and considering wider issues such as the firm's reputation, growth, impact on the environment, and employee relations (Mallin 2013).

6 Nigerian Perspective on Board Appointment, Composition and Internal Auditors

Sanusi (2010a) and Okpara and Kabonjo (2010) in their study on the barriers and challenges inhibiting effective corporate governance in Nigeria found that the some boards lacked independence, directors often failed to make meaningful contributions to safeguard the growth and development of the bank and had weak ethical standards and the board committees were often ineffective or dormant. Furthermore a lack of commitment, qualification, and corruption on the part of board members was reported as a key challenge for corporate governance development. In Nigeria the CBN Code (2006) mandates all banks to have a board of directors which exercises oversight functions with a degree of independence from management and shareholders. The CBN proclaims that only knowledgeable individuals with proven integrity in business and financial matters should be nominated on boards. The SEC Code (2011) also advocates this as it recommends that members of the board should be individuals with upright personal characteristics, relevant core competences, entrepreneurial spirit, and possess a sense of accountability and integrity. The CBN Code (2006) does not expressly bar multiple directorships, that said its Circular No.BSD/DO/CIR/VOL.I/2001/11 dated May 31, 2001 disallows multiple directorships by stating that no one person should hold directorships in more than two banks. This provision was further restricted by section 19(2) of BOFIA (2005) which disallows banks from appointing an individual who is already a director in another bank or is a director of a firm entitled to exercise voting rights in excess of 10% of the total rights of all shareholders in the bank. The SEC Code (2011), on the other hand, places no limit on the number of concurrent directorships. However, it does acknowledge that concurrent service on too many boards may interfere with an individual's ability to discharge his responsibilities. The CBN Code (2006) and SEC Code (2011) prohibit CEO/Chairman duality within listed banks, recognizing the negative effect of family-controlled banks in the sector, prior to the mandatory banking consolidation which took place in 2006, the Code equally states that no two members of the same extended family should occupy the position of Chairman and that of CEO or executive director of a bank at the same time. The SEC Code (2011) is more stringent as it recommends that no more than two members of the same family should sit on the board of a public firm at the same time. According to the CBN Code (2006), the size of boards should not be more than 20. The SEC Code (2011) on the other hand does not specify a maximum board size as it recognizes that the board should be of a sufficient size relative to the scale and complexity of the firm's operations. The CBN Code (2006) is silent on the minimum size of a bank's board, the SEC Code (2011) recommends that it should not be less than five.

The CBN Code (2006) and the SEC Code (2011) advocate for the presence of more non-executive directors (NED) than executive directors (ED) on the board of a bank. The provision of the CBN Code (2006) requires the presence of at least two non-executive directors on the board. The SEC Code (2011) on the other hand, recommends the presence of one independent director on the board. As the provision of the CBN Code (2006) is stricter than that of SEC, listed banks have to have at least two independent directors on their board. Furthermore, the SEC Code (2011) recommends that an individual director should be free of any relationship with the firm or its management that may impair, or appear to impair the director's ability to make independent judgment. To ensure that the board effectively performs its oversight function and monitor the performance of management, the CBN Code (2006) and SEC Code (2011) advocate that the board should have a minimum of four meetings in a financial year. To ensure that the board effectively fulfils its duties and responsibilities some tasks have to be delegated to board sub-committees. In addition to the statutory audit committee required by CAMA (1990), the CBN Code (2006) requires that every bank should have as a minimum, a risk management committee, audit committee, and a credit committee. The SEC Code (2011) on the other hand recommends that a firm should establish a governance/remuneration committee, a risk committee and such other committees as the board may deem appropriate depending on the size, needs or industry requirements of the firm. While board directors constitute a vast majority of committee members the CBN Code (2006) bars the chairman of the board from serving simultaneously in his or her capacity as a chairman and a member of any sub-committee so as to ensure the independence of these committees. Furthermore, the CBN Code (2006) and SEC Code (2011) state that the internal control system within each listed bank should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of each bank. According to the Codes, part of the internal control function of a bank is the presence of internal auditors. In order to ensure that the internal auditors perform their function they should be individuals of high integrity, independence and competence (The CBN Code 2006; SEC Code 2011).

7 Research Design and Methodology

The study utilised a mono method approach to data collection involving the use of semi-structured interviews with various stakeholders in the Nigerian banking sector. An understanding of how corporate governance works in practice was gleaned better through interviews with those in charge of these practices or those that have a relationship with these banks. Interviews are the most common qualitative research instrument. Given the nature of the research questions and the subjectivity of some of the concepts under study, interviews were considered critical to the research aim and objectives of this research. The semi-structured interviews were carried out in Lagos State. Lagos was selected as the study location due to the fact that it is the cultural capital of Nigeria and West Africa, with a population of over seven million from various tribal, cultural and religious backgrounds. A total of 16 semi-structured interviews were carried out representing four interviews with each stakeholder group i.e. four bank managers, four regulators, four shareholders and four reporting accountants (i.e. accounting and auditing firms). In arriving at an appropriate sample size, various academic perspectives on research methodology were considered. For example Guest et al. (2006) opine that 12 interviews should suffice for a research where the aim of the study is to understand commonalities between fairly homogenous groups. According to Creswell (2007) where the sample population is heterogeneous and the research question is comprehensive 25 to 30 interviews should be sought. Saunders et al. (2012) caution that a sample size should be dependent on the ability to gain access to the sample, coupled with the time constraints of the study.

The selection of cases is based on the role and functions of these stakeholder groups in corporate governance in Nigeria. Due to lack of data in which a definitive sample frame could be drawn, purposive non-probability sampling was adopted to identify appropriate participants for the semi-structured interviews. Snowball sampling was also adopted as an ancillary sampling technique to derive access to other interviewees. According to Saunders et al. (2012) if no suitable sample list exists, a sampling frame can be compiled as long as it is unbiased, current and accurate. Therefore to overcome the difficulties, official statistics was obtained from the websites and annual reports of the study bank between 2011 and 2012. In addition the researcher utilised the bank branches as an avenue to gain access to the stakeholders. To ensure reliability, the semi-structured interview questions were based on sound theoretical underpinning derived from the corporate governance and accountability literature. The interview protocols were sent to the interviewees prior to the interviews in order to aid their preparation (Bryman and Bell 2011). The interviewees were guaranteed anonymity and confidentially that their names will be excluded from the study and in future presentations or publications. This is because the participants in the study include top ranking officials in the Nigerian banking sector. During the empirical fieldwork for the semi-structured interviews no leading questions were posed to the respondents to avoid bias (Sewell 2008). Furthermore, to increase the validity of the interviews conducted, the interviews were tape-recorded and supplemented by note taking. The selection of cases chosen for this part of the study is based on the role and functions of these stakeholder groups in corporate governance in Nigeria. To ensure that the anonymity of participants are further protected and to ensure the flow of the analysis, each stakeholder group is given a pseudonym i.e. shareholders = S 1–4; managers = M 1–4, auditors and accountants = A 1–4; and regulators = R 1–4.

8 Analysis of Findings and Discussions

8.1 The Board of Directors and Duality

All interviewees were asked whether board of directors were perceived as good internal mechanisms to ensure good corporate governance in banks, including their role in ensuring full and effective oversight of executive management. All interviewees agreed the boards of directors are important internal mechanisms of corporate governance. Furthermore the interviewees agreed that the presence of a capable and competent board of directors which exercises its oversight functions of monitoring banks and executive management with a degree of independence from executive management and majority shareholder can ensure that good corporate governance are practiced in banks. As R3 notes that "*the board of directors is important as they help with the alignment of executives and other employees with the interests of the owners of the bank. They resolve some ethicalissues as they* *curtail the opportunistic behaviour of executives and are responsible for the oversight functions of bank*". This finding is in line with various studies carried out by the OECD 2004 and BCBS 2010 which posit that the primary internal mechanism to improve corporate governance is the board of directors. The finding is also in line with the study by De Andres and Vallelado (2008) who state that best practice dictates that effective boards provide strategic vision, monitor management and act transparently to ensure full accountability to shareholders.

In recent times there is renewed focus on duality namely the combined role of CEO/chairman of the board. Research evidence suggests that combining the role of the CEO and chairman enables the individual occupying such a position to establish strategic influence and power that may intimidate other directors which in turn constricts the power, authority and stakeholder orientation of the firm (Lincoln et al. 2013). This view is supported by an auditor interviewee (A3) who states that the head of the board of directors should be a chairperson and that the role of the CEO and chairman should be separated. He states that this ensures that one person does not have unfettered powers in banks and to also ensure that the board is able to effectively carry out its oversight function of monitoring executive management, which ensures that checks and balances are present in the discharge of its role and responsibilities. This result is in line with research conducted by Rechner and Dalton (1991) who found that firms that separate the roles of chairman and CEO consistently outperformed the firms that combine the roles. In addition, Pi and Timme (1993) concluded that the concentration of decision-making and decision-control in banks with a combined leadership structure led to ineffective internal monitoring. It also supports the recommendations of the OECD (2004) and the BCBS (2010) who argue that separation of the roles helps achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision-making independent of management. Furthermore, this is in line with CBN Code (2006) and SEC Code (2011) recommendations which prohibits CEO/Chairman duality within banks.

8.2 Factors Influencing the Selection of Executive and Non-executive Directors

A lack of commitment, qualifications, and corruption on the part of board members are part of the challenges inhibiting corporate governance development in Nigeria (Okpara and Kabonjo 2010). There is evidence to support the view that corporate governance in many banks in Nigeria failed during the 2009 crisis because many directors did not have the requisite qualifications to ensure full and effective oversight functions (Sanusi 2010a, b). The common factors influencing the appointment processes of directors in the Nigerian banking sector include ownership structure (i.e. majority shareholders), personal contacts and favouritism. As S4 argues, "*despite the best efforts of the CBN, the appointment of directors is still* *not based on integrity and merit. Regardless of the provisions of corporate governance in the CBN Code and regardless of what it wants to achieve it cannot really do in a Nigerian context. There are still quasi family settings in the banking sector*". Another shareholder interviewee, S1 notes "*most banks in Nigeria are owned by very few individuals through proxies even though they are mostly publicly quoted. These few more or less dictate the direction in which the bank goes. So even when you have a board of directors, they are not independent. It is these few shareholders that determine their appointment and tenure*".

The interviewees also emphasised personal contacts and favouritism as factors which heavily influences the appointment processes in the Nigerian banking sector. All interviewees agree that the Nigerian environment is characterised by strong-family connections and social relationships, and the culture of favouritism heavily embedded in tribalism. An auditor interviewee (A1) states: *The way the individuals are appointed on the board shows a lack of strong corporate governance in Nigerian banks. Majority shareholders put people they can manipulate at the helm of power and it is still happening. You get siblings and other family members being given high positions within banks just because of their close relationship with the majority shareholders.* A shareholder interviewee S1 states *"with the exception of a few banks, hardly do you find a situation where the nomination of either the executive or non-executive directors is based on merit. It is a function of who you know for most banks. This is why I believe that the board of directors of most Nigerian banks are like rubberstamp for those who actually dictate what a bank does. It is hardly based on merit and so once an individual is appointed they need to listen to whoever was involved in their appointment. This essentially means that there is no independence on the board of most banks*". A regulator interviewees R1 also notes that "*appointment to the board of directors should not be based on personal contacts and favouritism. Unfortunately for us it is*". The interviewees were asked to provide suggestions on ways to improve the process of the selection of board members, specifically what qualities individuals should possess to be considered as directors. The interviewees suggested the following that the following qualities should drive the appointment of directors in the banking sector namely experience and expertise, knowledge of business and financial matters, sufficient time to discharge the role and responsibilities expected from the position, ability to contribute to the success of the bank by way of connections with external stakeholders and possessing a good reputation.

8.3 The Size of Executive Directors and Non-executive Directors

The interviewees emphasised the importance of establishing the proportion of Executive Directors (EDs) and Non-Executive Directors (NEDs) on the board. All the participants, with the exception of one interviewee, agree with the provisions of the CBN Code (2006) which stipulates that there should be more NEDs than EDs on the board. As an auditor interviewee (A3) states: *The provision of the CBN Code regarding more non-executive directors than executive directors on the board is a masterstroke in the right direction.* A manager interviewee (M1) expressed that a board dominated by NEDs ensures that checks and balances occurs and that opportunistic and reckless decisions by executive management is curtailed. He states that the structure in his bank is such that there is a mix of EDs and NEDs but that the NEDs constitute two-third of the entire board. This, he argues, ensures that NEDs can ensure proper checks on the activities of executives. This argument is in line with the recommendations by the CBN (2006) and SEC Code (2011) which advocates for the presence of more NEDs than EDs on the board of directors. It is also in line with the recommendations by the Walker Report (2009) which states that NEDs ensure that there is an effective executive team in place, it participates actively in the decision-taking process of the board and exercises appropriate oversight over execution of the agreed strategy by the executive team. NEDs are a fundamental foundation to an effective board and good corporate governance as they are custodians of shareholders and other stakeholder interest (Mallin 2013).

A shareholder interviewee S2 asserts that a board with more NEDs will only be effective if the NEDs appointed on the board possess relevant banking experience as the peculiarities of the banking sector, especially in terms of risk management, demands competence and subject matter experts. This is in line with the findings by Ezzamel and Watson (2005) who argue that emphasis should be placed on the guidance and training of NEDs so as to ensure that they possess the appropriate knowledge and skills to be effective. In addition, some interviewees opine that the proportion of EDs on the board should be determined by the size of the bank. For example, A4 states the discussion of the size of the board should revolve around a debate on the proportion of EDs and NEDs on the board as opposed to an argument about the optimal size of the board of directors. As he explains: *I don't think there is an optimal board size. Is a small board more effective given its ability to make time-sensitive decisions more quickly? Or is a large board more effective given its diversity of competencies and experiences? I don't know because there is no scholarly consensus on this matter as some studies have found a positive correlation between a bank's board size and performance whereas some have found a negative correlation.* There is no one-size fits all approach regarding governance structures. The inclusion of an adequate number of NEDs should be proportionate to the size of the bank, its business and its domicile (OECD 2004; De Andres and Vallelado 2008; Abor and Fiador 2012).

A manager interviewee M3 had a dissenting opinion as she recommends that boards should be dominated by EDs. She argues that NEDs lack the expertise to fulfill their role and responsibilities and are more interested in the perks of the position. However, she does concede that NEDs are important to the growth and development of banks as she recognises the resources they can contribute to banks (e.g. connections to stakeholders) and the importance of their oversight functions on executive management. She notes that "*...there should be more executive* *directors than non-executive directors because executives are in charge of the day to day activities of the bank. They really understand what is happening in the bank. Non-executives on other hand are dormant. They are only interested in sitting allowances and other perks for sitting on the board. To be honest, I don't really see the importance of these non-executive directors. Whether they are independent or not, it doesn't matter because they don't do any work anyway*". This is in line with stewardship theorists who reject the notion of NED dominance on boards, arguing that NEDs lack real independence to influence the CEO and lack adequate business acumen to be effective (Demb and Neubauer 1992). It is essential that the chairman of the board and the company secretary ensure that NEDs obtain information needed for them to fulfill their role and responsibilities. As an auditor interviewee (A1) posit: "*There should be a way of ensuring that non-executive directors fulfill their role by ensuring that they have as much information as executive directors for them to be effective*". This recommendation is in line with studies that have demonstrated that the effectiveness of NEDs in their primary function of monitoring and advising management is based to a large extent on information asymmetry between EDs and NEDs (e.g. Adams and Ferreira 2007; Harris and Raviv 2008). It also supports the recommendations by various national and international codes/principles (e.g. UKCGC 2012) which advocate that pertinent information should be provided to NEDs in a timely manner.

8.4 Independent Non-executive Directors

Aguilera (2005) asserts that institutional investors have a strong preference for independent boards as the rationale is that they are more likely to behave in the interests of shareholders than managers. This is also in line with research work by Munisi et al. (2014) who found that when government ownership is dominant, there is a need for INEDs on boards. All interviewees apart from a manager interviewee (M3) agreed that INEDs are important. As a regulator interviewee (R3) notes, "*there should be more independent non-executive directors on the boards and less executive directors who have affiliations to majority shareholders and dominate the board. This is the real problem because these majority shareholders already employ the CEO. If these majority shareholders are able to control these independent non-executive directors, it effectively means that they control both management and the board*". Furthermore, the interviewees advocate for the presence of INEDs as they believe that these directors will ensure that sub-committees are efficient especially in the nomination and remuneration of executives, as they are not motivated by remuneration in the same way other directors are as a result of their independence. A shareholder interviewee S2 states "*the presence of more independent directors will ensure that sub-committees ask relevant questions and challengeother members of these sub-committees especially in the nomination of directors. I also feel that the presence of independent directors will shake things up in the remuneration of directors because at the moment* *remuneration is heavily skewed. So I feel that the number of independent directors currently advocated by the CBN is too few. At the moment most members of the sub-committees are non-executive directors. These non-executive directors get financial benefits as a result of their position*". This is in line with the findings by the OECD (2004) who argue that INEDs ensure that the evaluation and performance of the board is handled with an objective view. It also argues that they can play an important role in the areas where the interests of firm, management and shareholders can diverge such as executive remuneration and succession planning.

Furthermore, majority of the interviewees believe that an increase in the number of INEDs will ensure improvement in corporate governance practices of Nigerian banks. An auditor interviewee (A1) notes that "*there should be more independent directors than the specified two as expressed by the CBN Code. An increase in the number of independent directors will ensure that fewer independent directors are compromised. This will curtail some of the reports that we have heard that independent non-executive directors are losing their independence by obtaining loans from banks and not paying back and the bank subsequently deeming these loans as bad debt*". A shareholder interviewee (S3) also states "*the number of independent directors instructed by the CBN is not sufficient. There has to be a majority of independent non-executive directors in Nigeria for the corporate governance practices of banks to get better. I don't know why the CBN is not pushing for more independent directors considering most Nigerian banks are listed and most shareholders of banks are passive. In an environment like ours, there is a compelling reason for more independent non-executive directors on the board because you establish a platform that essentially protects the interests of the owners of banks*". This finding is in line with research carried out by the Walker Report (2009). According to the report, banks with effective NEDs appeared to be in a better position in the aftermath of the financial crises than banks whose strategic decision-making was determined by long-entrenched executives with passive NEDs. It also supports the findings of Tanna et al. (2011) who found that higher proportion of NEDs in banks has a robustly positive and significant impact on all measures of efficiency.

The regulatory interviewees stated that the CBN is lobbying for the FRC to specify a minimum of four INEDs in the proposed code of corporate governance for listed firms in Nigeria. The interviewer in turn posed this to all other interviewees and most interviewees agreed with this proposal. All the auditor interviewees were aware of this proposal and agree with the increase in the minimum number of directors. An auditor interviewee (A1) states "*there should be more independent non-executive directors on the board. I hear through the grapevine that the proposed corporate governance code for public companies says that companies, including banks, should have at least four independent non-executive directors. I advocate this move because independent directors are true representatives of the general public*". Although most interviewees agree that INEDs are important and as such the minimum provisions of the CBN Code (2006) should be increased, some expressed doubts about the extent of the independence of these directors. They also expressed their doubts about the mechanisms in place to ensure that the independence of these directors are protected and maintained.

A shareholder interviewee (S2) notes "*if we truly implement the extra distinction of independence, you will see that the vast majority of individuals chairing the sub-committees and its members are not independent. Essentially you will find that a majority of non-executive directors in Nigeria are not independent*".

In addition, a regulator interviewee (R2) stated that although an increase in the number of INEDs would improve corporate governance practices, he argues that the current provision of a minimum of two INEDs is more realistic as it can be implemented by banks. He argues that establishing the independence of these individuals is difficult. He states "*there should be more independent non-executive directors than executive directors on the board. . .It is a tough job for the criterion of the independent non-executive directors to be observed. How do we know if these so called independent directors are truly independent? They might be employed as independent but this independence might subsequently be eroded*". Furthermore, another regulator interviewee (R3) raised some doubts as to whether the current provision of two INEDs will be increased in the proposed code by the FRC as banks already find it difficult to appoint directors based on merit and establish the independence of such individuals. He states "*I would like to see the number of independent directors increased. I would personally argue that the more independent non-executive directors there are the more effective the boards will be. However, it will be difficult getting banks to agree to an increase in a minimum provision because of the onerous criterion we put in place to establish the independence of the person yet emphasising that the person chosen must be knowledgeable and that such a person has to be approved by us. But I know that the more we have on the board, the better the system will be as it will make the board function better*". This finding is in line with research work carried out by Cooper (2007) who identifies that the recurring challenge in Africa is the ability to ensure that boards take independent decisions as fiduciaries of the forms and not as rubberstamps of controlling shareholders. The challenge in Africa is to increase the pool of technically competent directors and develop strong audit committees (Adegbite et al. 2012).

8.5 Sub-Committees and Internal Auditors

Although the board retains accountability and responsibility for the performance and affairs of the bank, the board can effectively fulfill its role and responsibilities, deal with complex and specialised issues and use its expertise to formulate strategies for banks by delegating some of its role and responsibilities to sub-committees. Indeed, the CBN Code (2006) and the SEC Code (2011) stipulate that banks set up as a minimum a risk management committee, audit committee, the credit committee and remuneration committee. While the interviewees acknowledge the importance of sub-committees in banks, most of the interviewees, however, state that the most important sub-committee is the risk management sub-committee. A shareholder interviewee (S2) refers to the 2009 crisis where bad lending decisions coupled with a lack of a robust risk management system in place led to the near-collapse of the banking sector. In addition, a regulator interviewee (R2) notes that "*any board of director's worth their salt should be concerned with the implementation of good corporate governance especially risk management. Risk management should be watchword rather than banks waiting to comply with codes they should develop their own limits and triggers in conjunction with the rules issued by us*". This finding is in line with the recommendation by the BCBS (2010) who advocates for the presence of risk sub-committees in banks. It states that the risk sub-committee is responsible for advising the board on current and future risk strategy, and for overseeing senior management's implementation of this strategy. From a Nigerian perspective, it is in line with the findings by Sanusi (2010a, b) who found that the banks that failed during the 2009 crisis lacked appropriate risk management frameworks. He argued that risk management committees were ineffective in identifying the risks building up in the system which eventually contributed to the 2009 Nigerian crisis. A regulator interviewee (R2) suggests that the proposed code by the FRC should specify a provision that stipulates that listed firms should have an ethics committee. An auditor interviewee (A4) also recommends the presence of an ethics committee he notes that matters of ethics in Nigeria "*are embedded in the audit sub-committee... if ethics is to be brought to the fore, it may not be out of place to have a separate ethics committee because the audit committee focuses on financials which is about numbers and not behavioural issues. The soft psychological issues around ethics are not appropriate for the audit committee to deal with. So I think an ethics committee should be recommended as a sub-committee to be present on banks to ensure that unethical practices are checkmated*". This recommendation is in line with the provision by the BCBS (2010) which advocates that banks set up an ethics/compliance committee to ensure that banks have the appropriate means for ensuring proper processes are followed during decisions taken by the board and provides oversight of the compliance function by ensuring that the board complies with laws, regulations and internal rules.

Interviewees also expressed their dissatisfaction with the factors influencing the appointment of the members of sub-committees in Nigerian banks i.e. ownership structure (majority shareholders); personal relationships and favouritism. An auditor interviewee (A1) noted thus "*most sub-committees at the moment are just puppet committees. They are appointed to these positions because there is a scratch my back and I will scratch your back ideology. Most of these non-executive directors are appointed to because there is a requirement by the CBN that these sub-committees should be mostly comprised of non-executive directors. So they are appointed to these positions as they will get the perks on the job such as sitting allowance and then so they are the puppets of the executive directors...they are not effective*". The challenges with simply appointing individuals to fulfill the regulatory provisions stipulated by the CBN have been identified by a regulator interviewee (R4) who notes that this creates an environment where the right calibres of individuals are not appointed. For example, in the context of the effectiveness of the audit sub-committees in banks, an auditor interviewee (A3) opines that audit sub-committees in Nigeria are supposed to be a line of communications between the board and external auditors but they are failing in their role as they are mere spectators. A regulator interviewee (R2) argues that if the appointment of members of sub-committees is not based on integrity and merit, it creates a situation where these individuals can be ineffective whilst being aptly remunerated through sitting allowances, directors' fees and reimbursable expense, which can create a situation where they misuse their positions by fraudulently siphoning the assets of banks. Furthermore, interviewees assert that the requirement by the CBN Code (2006) and SEC Code (2011) that most of these sub-committees be comprised mainly of NEDs is in line with mechanisms to ensure good corporate governance, however they opine that this does not translate within the Nigerian context. The interviewees argue that the members of these sub-committees are the puppets of executive management and majority owners, which they considered likely, diminished these sub-committees from fulfilling their expected role and responsibilities. Using the statutory audit sub-committee as an example, an auditor interviewee (A4) notes that the committee is ineffective as it is composed of individuals who are not knowledgeable in accounting and financial matters, and are thus inadequate. He further states that "*the structure in place for the audit committee is defective in the sense that they are not independent. They are a rubber stamp because they are under the control of management and majority shareholders*".

An auditor interviewee (A1) however states that the role and responsibilities of the sub-committees were clearly defined and that members are aware and exercised their role and responsibilities according to the applicable codes of corporate governance and the terms of reference provided by the board without any overlap or conflict with the role and responsibilities of executive management and the board. He notes that "*the audit committee is responsible for ensuring that the banks comply with all relevant policies and procedures both from the regulators and as proposed by the board. Its major functions include the approval of the annual audit plan of the internal auditors, review and approval of the audit scope and plan of the external auditors, review of the audit report on internal weaknesses observed by both the internal and external auditors during their respective examinations of the records of the bank. I believe that audit committees in banks have been performing these roles a satisfactory manner*". However, a manager interviewee (M1) asserts that the effectiveness of sub-committees is also determined by majority shareholders. For example he notes that direction of succession planning, which is crucial to the growth and longevity of any bank, is determined by the majority shareholder in one of the major banks in Nigeria. As he opines "*The only bank that has been run properly from the beginning is Zenith Bank and it is because of Jim Ovia who is a majority shareholder in the bank and was the CEO of the bank. When his tenure came up, you will discover that the present CEO, Godwin Emefiele was an executive director when Jim Ovia was the CEO of the bank. So he was groomed by the Godfather of the bank. So you see there was succession planning in the corporate governance structure in place at the bank. This needs to be present in* *more banks*". Consequently the interviewees argue that the effectiveness of sub-committees depends on the terms of reference provided by boards.

A manager interviewee (M3) also notes that it is unrealistic for the regulatory authorities and stakeholders to demand that the sub-committees, including boards, fulfill their role and responsibilities with the same efficacy as "world class" directors found in the Western World as she claims that these expectations only makes Nigerian sub-committees incompetent and ineffective as they mask deficiencies so that they are in parity with international standards. She states "*The Nigerian structure is different from the structures found in advanced economies. So when they set these sub-committees and task them with world class objectives it is very unfair because we all know we are not world class. I believe that some things that they expect these sub-committees to achieve are not attainable. All these expectations just make them more incompetent than they should really be. Take our audit committee for instance, the CBN expects our banks to be audited in a world class way but you and I know that the audit report cannot be relied on because they mask all the deficient areas so that they can match up to international standards. It is these obstacles that the sub-committees cannot work through*". The interviewees were asked to provide recommendations for enabling the effectiveness of sub-committees in Nigerian banks. Their recommendations include the inclusion of more knowledgeable INEDs with no connections with the bank, the appointment of directors based on the provisions set in the codes of governance and provision of training in order for directors to be able to fulfill their role and responsibilities. The recommendation for more INEDs on sub-committees finds supports in the study carried out by various writers. For example Adegbite et al. (2012) who found an absence of a large pool of potentially qualified candidates with sufficient and desirable human capital to act as truly independent directors and as members of the statutory audit committee. The findings by Abiola (2012) also show that audit committee is not effective in discharging their oversight functions in Nigerian banks. Consequently he recommends that more financially qualified individuals are needed in the audit committee. An auditor interviewee (A1) notes that to checkmate a situation where sub-committees are not fulfilling their role and responsibilities, the CBN should consider ensuring that banks establish a committee whose function should be to act as a conduit between banks and the various regulatory bodies. He opines that the existence of such a committee will ensure that a proactive measure exists so regulatory bodies are also able to detect distresses before they occur rather than the current position where measures are implemented in the aftermath of a banking crisis or scandal. He also opines that this will mitigate the current situation where supervisors, who are sent to assess banks, are compromised.

The findings obtained in relation to internal auditor's shows a general consensus among the interviewees that internal auditors are not up to the standards specified by the applicable codes of corporate governance as they lack integrity, independence and competence. For example an auditor interviewee (A1) notes "*the internal audit function as fair at best because management/executive directors can have an overriding influence on them. So it is difficult for the internal audit function within the bank to blow the whistle and expose detrimental risks being pursued by* *executives*". Another auditor interviewee (A3) asserts that internal auditors should not report directly to the MD/CEO. He recommends that they should report to the entire board and the audit committees. He argues that if internal auditors report only to the MD/CEO there is a higher chance that the consequences of bad decisions will not be discovered in time to take preventive action or mitigate the risk. Another auditor interviewee (A4) concurs with this assessment as he states: "*the internal audit function is weak because it is designed to protect the interest of management because of the reporting lines between the internal auditors and the CEO. The collapse of some banks a few years ago was attributed to weak internal audit structure within these banks*". This is in line with the recommendations by Mallin (2013) who argues that key measures should be present to ensure that the reporting lines are effective and independent thus allowing internal auditors to perform their tasks effectively. According to Mallin (2013), the head of the internal audit should meet privately with the board and the audit committee without the presence of management thereby reinforcing the independent and direct nature of the reporting relationship. From a Nigerian perspective, this is in line with the provisions of the CBN Code (2006) which states that the head of the internal auditors should report directly to the audit committee but must forward a copy of relevant reports to the MD/CEO.

9 Conclusion

The study has sought to provide the perception of various stakeholders on board composition and corporate governance mechanisms in the Nigerian banking sector. From the findings which emerged, it can be argued that the conclusions drawn from studies in the developed world do not necessarily apply to the situation in Nigeria which has peculiarities that distinguish it from the outside world generally and from the First World particularly. The study raises interesting findings in relation to boards in the Nigerian context. In particular the interviewees who took part in the study assert that boards are not fulfilling their role and responsibilities to the extent of the standards laid down in the applicable laws and codes. The interviewees also indicated their dissatisfaction with the performance of the sub-committees and internal auditors in Nigerian banks. The findings from the interview carried out with the various stakeholders show that three factors influence the appointment processes of boards in the Nigerian banking sector namely ownership structure (i.e. majority shareholders); personal contacts and favouritism. The findings also show that the factors that influence the appointment of members of sub-committees determine whether they are under the control of management and majority shareholders. Sub-committees are not discharging their accountability by fulfilling their role and responsibilities and monitoring the activities of executive management. Problems hindering these sub-committees from efficiently and effectively fulfilling their role and responsibilities include appointments based on favouritism, personal contacts and majority shareholders, lack of independence of sub-committees, lack of relevant qualifications, lack of time commitment, non-implementation of recommendations made by sub-committees to the board and the propensity for bribes offered by banks in some instances which compromises the independence of regulatory supervisors. The findings also show a need for internal auditor independence and accountability in order to ensure integrity. The study has several limitations first, the study utilized convenient sampling in identifying participants who took part in this study, due to the lack of data in which to draw any meaningful sample frame for the study. Second, the study focus is on Lagos State and may not be representative of other States in Nigeria. Prevalent socio-cultural practices in Nigeria makes conducting research challenging. This is reflective of the collective nature of the cultural setting in Nigeria; as such personal contacts were invaluable in obtaining initial access to the participants. Future research may focus on issues across different States in Nigeria and also utilize a mixed method approach to data collection.

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Corporate Social Responsibility, Shared Territorial Governance and Social Innovation: Some Exemplary Italian Paths

Mara Del Baldo

Abstract This paper explores the development of territorial social responsibility, a form of governance cultivated through the diffusion of corporate social responsibility strategies which are promoted by networks of local actors—public and private, for—and non-profit—who come from the same territory and whose policies are oriented towards sustainable development.

Departing from the different models that explain diffusion of CSR principles, tools and practices—taking into consideration the different patterns of private and public actions in the European context—the paper addresses the attention on the specificity of the Italian model for spreading CSR, based on a multiplicity of projects tied at a local level. The work integrates the results of an intensive literature review with longitudinal empirical research. Within a constructivist paradigm, a deductive-inductive research approach has been followed. First, drawing from the literature review, a conceptual framework has been proposed; then it has been applied to the investigated phenomenon. Secondly, the analysis of the Rimini's (Emilia Romagna Region) experience ("PercoRSI" project)—a pathway promoted by a plurality of public and private actors, who find that social cohesion and relationships are the drivers in the construction of shared territorial governance—allows us to evaluate that policies for promoting CSR and sustainability at a meso-level are not effective when they are not coherently fostered by regional authorities together with local private actors. Consequently, the model of shared territorial governance represents an innovation in support of public policies that can be replicated in other regions relying on specific contextual factors.

1 Introduction

Corporate Social Responsibility (CSR) can be seen as a framework within which new ways of collaboration between companies, governments and civil society can lead to the development of innovative mechanisms for governance based on

M. Del Baldo (✉)
Department of Economics, Society and Politics, School of Economics, University of Urbino Carlo Bo, Via Saffi, No. 42, 61029 Urbino, Italy
e-mail: mara.delbaldo@uniurb.it

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partnerships and shared projects (Nelson and Zadek 2000; Fox et al. 2002; Richter 2004; Warner and Sullivan 2004; Midttun 2005; Albareda et al. 2004, 2008; Reed and Reed 2009). The EC underlines the role of public authorities and other stakeholders and emphasizes the importance of national and sub-national CSR policies. Local and regional authorities are encouraged to support the development of CSR, especially amongst SMEs (small and medium-sized enterprises), and to partner with companies to better address problems such as poverty and social inclusion (EC 2011, 12). In this context, the theme of local public-private networks for a sustainable development emerged, enriching the international debate by focusing on the importance of collaboration among non-profit organisations, companies and public administrators (Toro et al. 2010) who work together to construct a responsible, fair trade market and a more civil society, which begin at the local context.

In the last years, there have been diverse turns of thought in academic literature re-evaluating the local dimension both in terms of "public governance", CSR and in terms of territorial competitiveness.

On the one hand, changes in the concept of "public governance" (Kooiman 1993) has helped distinguish the diverse levels in which such a concept can be applied: macro (state or society); meso (networks at local level—communal, provincial and regional) and micro (single organizations) (Hutton 2002). Both practitioners and scholars have become increasingly interested in the shift from new public management to the public value approach that represents a paradigmatic break from the traditional model of public administration (Hood 1991; O'Flynn 2007). Moreover, in a more fragmented system of government, a range of non-governmental bodies participates in the delivery of public services (Rhodes 1997). The enduring competitive advantage in global economy is often heavily local, arising from concentrations of specialized skills and knowledge and institutions. Geographic, cultural, and institutional proximity leads to special access, closer relationships, better information, powerful incentives, and other advantages in productivity and innovation (Porter 1998). The increase of public and private "mixtures" (comprising the social private) renders the boundaries between public and private more fluid, and the progressive construction of networks creates a democratic and poly-corporate universe (Teubner 2000) in which institutional configurations are not reducible to classical dichotomies. Public goods can be created from social practices instead of from policies, or from policies that assume the form of socio-institutional processes such that businesses for and not profit (Zamagni 1995, 2007). The passage from government to governance implies the shift to interactive planning, multilevel forms of cooperation, to coordination among multiple responsible actors, and is based on trust, cooperation and transparency.

On the other hand, the debate on private corporate governance, nourished by the diffusion of CSR and of the application of stakeholder theory (Freeman 1984; Freeman et al. 2010) redefined the business' roles in the socio-economic context, attributing a central relevance to the relationships with the diverse stakeholders.

Moreover, within the field of local and regional economic policy, territorial competitiveness has become one of the foundations of mainstream "entrepreneurial" approaches to local economic development (Harvey 1989) which emphasize place-specific assets, innovation networks and endogenous learning capacities (Storper 1997; Cooke and Morgan 1998; Von Malmborg 2003). Researchers of different domains within the social sciences have recognized that regions represent an important perspective of analysis, because political, social and production processes and interactions take place there (Giddens 1998; Harvie 1994; Tomaney and Ward 2000). As a consequence, regional analysis must become far more central to research and policy formulation in competitiveness and economic development. Therefore as many of the essential determinants of economic performance appear to reside in regions, national policies are necessary but not sufficient and much of economic policy should be decentralized at the meso level (Porter 2003).

Based on these premises the present study focuses on Italian local governmental initiatives to promote CSR, sustainability and social innovation through public-private networks.

The paper is divided into three main parts. The first one presents a literature review, which analyzes the theme of territorial governance, focusing on the level of involvement of public-private networks and the characteristic features of the "Italian approach" to promote CSR and sustainable growth, which is interpreted as specific model of territorialsocial responsibility. The second, after introducing the methodology, presents the evidence of a case study and a discussion on the most relevant emerging issues. The final part summarizes the main theoretical and empirical implications of the present research and offers insights on further investigation.

2 Literature Framework

2.1 Possible Approaches in Territorial Governance

Studies on governance applied to the territory make it possible to distinguish three main approaches.

Among a first model (bottom-up process) a territorial strategy is the result of a combination of activities carried out by a number of local actors playing a significant role. The decision-making process thus becomes collaborative and employs tools such as round tables, multi-stakeholder forums, focus groups, assemblies and other instruments to encourage participation, as well as formal planning mechanisms (Jamal and Getz 1995). The criteria for such choices not only take into consideration economic effects, but also social, cultural and environmental impacts. In such a model usually a subject (typically from the public sector) tries to maximize the involvement of the local community. This model, which is found in the diffusion of CSR and of sustainability strategies in Italy, is increasing in importance, especially in cases where the stakeholders in the territory wish to emphasize the social benefits and those connected to the development of cohesion in the local community. It is based on a bi-directional approach (Grunig and Hunt 1984; Grunig 2002) of governing relationships among participants, and aims to foster cohesion and social capital by rendering all the actors active parts of the decision-making process, putting listening and the shared values at the center (Spence and Schmidpeter 2003; Gerencser et al. 2008).

For a "community-based" planning, co-operation requires participants to recognize the high level of interdependence in territorial planning and management, and the benefits which can result from joint actions, a specific willingness to implement the decisions made by the community. The involvement of key players—such as the local public institutions, entrepreneurs and trade associations, organisations of citizens—capable in turn of involving the various stakeholders, is fundamental for the process success. And, even before this, the success of the initiative strictly depends on the development of a shared vision and common objectives. As the following empirical data reveal, the bottom-up model of governance is particularly suitable in areas with a variety of stakeholders and no dominant subject, focusing on a plurality of different kinds of economic, social and environmental activities. In these contexts the key governance processes can be led by local public institutions, but also by firms, non-profit organisations, and local civic stakeholders. Typically these conditions are to be found in territories such as Western Europe and are particularly prevalent in Italy.

Conversely, the planned strategy approach follows a typically top-down logic (Simmons 1994) and is suited to contexts where territorial development is led above all by private actors (especially large, typically transnational firms) motivated by economic interests aiming for a return on their investment, and there is a marked difference in the distribution of power among the various stakeholders. The key governance processes are led by private bodies and the role of the public sector is one of mere support. Typically these conditions characterize territories such as North America.

Lastly, a third approach—the "synergistic model" (Stokes 2008)—is conceptually situated between the other two. It starts from the premise that there is no single model, but that it is possible to combine the aims and priorities of the two previous ones. Territorial governance attempts to reach a balance between the needs of different actors: the public actors, the enterprises, the local community and combines structured community consultation mechanisms (of the bottom-up type) with a top-down type, attributing same weight, in the decisions, to the economic and non-economic aims.

2.2 Governmental European Approaches for Developing CSR

Individual EU member-states have developed diverse "CSR-oriented governance" strategies, or, in other words, different approaches to CSR according to the different models of public action in the European context (Aaronson and Reeves 2002; Albareda et al. 2008; Fifka 2012), since they come from different political perspectives and different organisational structures (Gribben et al. 2001; Midttun 2005). According to the Albareda et al.'s classification (2007), "the policies enforced by different European States to promote CSR can be divided into four ideal models, which tend to reflect their respective welfare conceptions" (Lombardo 2010: 55).

A first approach, termed the "Nordic model" or "Partnership model" is diffused in Denmark, Sweden and Norway. These countries are characterized by a far-reaching welfare approach. Here rules and instruments of soft regulations have been introduced helping primarily companies (but also other players) adhere to principles and values such as transparency and accountability.

A second one, called the "Business in the community" model, is used in the United Kingdom. This approach has been historically adopted to solve problems such as social exclusion and poverty and has become part of a public strategy where CSR practices' promotion means a fundamental contribution to the sustainable development of the Country. The British central government exercised a strong role in coordinating various CSR initiatives, even though many are between institutions of local strategic partnerships. Moreover, governmental action promotes CSR through fiscal incentives for companies.

A third model, known as the "Sustainability and citizenship model" considers companies as political players and citizens. Used in Germany and France, this approach requires that companies behave in compliance with existing rules and maintain virtuous relationships with their local communities and with the environment, in order to take an active part in social development. The governmental action promotes CSR in the framework of a strategy aiming at enhancing companies' involvement. CSR initiatives are seen as strategic for the effectiveness of governmental action in the field of sustainable development.

Finally, in a fourth model, used in Spain, the so called "Agorà model", CSR promotion is mainly carried out through spreading CSR values and principles in political debate (diffuse by political power representatives), involving as many social players as possible (multi-stakeholders approach). The Spanish governmental action in the field of CSR is wide and structured, even if predominantly oriented towards the non-profit sector and not to for-profit businesses. A specific governmental body (Consejo Estatal de RSE) plays a leading role in issuing reports and carrying out studies, drawing an annual report to the Government, constituting an Observatory on CSR and cooperating with other similar councils at the international level.

2.3 The "TerritorialSocial Responsibility" Approach: The Case of Italy

The bottom-up logic is the Italian way to diffuse CSR and sustainability strategies. In fact in Italy local and regional governments played the largest role in promoting CSR. These actions gave birth to significant initiatives that include SMEs strongly embedded in their respective socio-economic local environment (the so called "territorial companies", Del Baldo 2010). SMEs play a primary role in socio-economic development, which renders the Italian case similar to the German context. Nevertheless, the central government does not play a leading role, and thus it often falls to the local government, interlocutors and partners of the firms, their associations, social and civic institutions and organizations whose CSR and sustainable development strategies are centered on the local dimension or that of the territory. This territorialsocial responsibility model can therefore be interpreted as an original approach founded on the rediscovery of social cohesion and values shared by economic, social and institutional actors within the same territory (Del Baldo and Demartini 2010; Del Baldo 2014; GBS 2009). The pathway is triggered by private actors (firms), public actors, or non-profit organizations ("third sector") in accordance with their particular local contexts and its efficacy depends on the presence of a solid network with clear values, and on sharing ethical principles already embedded in the territory, which facilitate the convergence of diverse protagonists' expectations, forces, advantages and objectives.

At the anthropological and social level, similar pathways are shared and diffused in diverse local contexts (municipalities, provinces, regions) where constitutive elements of a logic of social responsibility and sustainability are "genetically" present as it exists the availability of every actor, single or associated, to consider themselves a part of this social group and not only part of the economic, productive, or financial environment. Often the literature introduces concepts such as "vocation", "spirit of the place", or "genius loci" (Cipolla 1990). Generally speaking, diverse researchers, historians, sociologists and economists have emphasized the active role, in Italy, of the entire local society which has characterized the economic model of the so called "Third Italy" after the Second World War (Bagnasco 1981). Among them, Putnam (1993) underscored the importance of a diffuse associative social fabric in creating social cohesion and promoting political and administrative efficiency. Trigilia (1986) built on the role given to political subcultures (Catholic and social-communist) in promoting less conflicting relationships between labor and capital. Fuà (1988) revealed how the objective of reconciling competition and cooperation have safeguarded social cohesion, and, at the same time, guaranteed the growth of a diffuse economy.

The sharing of values and behavior patterns—creating a climate of collaboration and dialogue and to establish a set of relationships between different actors—generate the relational infrastructure of the territory, its capital context, able to express the intangibles, distinctive and difficult to reproduce elsewhere and to generate socio-economic development. This territorial capital reminds to the concept of social capital conceive as a set of beliefs, values, norms, traditions and attitudes that drive the behavior of individuals and organizations belonging to a definite community (Nahapiet and Ghoshal 1998). Social capital is a special component of structural regional capital (Schiuma et al. 2005, 2008; Lerro and Schiuma 2009) that comprises the knowledge assets related to the soft infrastructure of a region which are the result of the dynamic interdependencies linking regional actors. The social dimensions represent fundamental factors affecting the value creation capabilities of a region, being related to the stakeholders' social dynamics taking place within a local system and including values, culture, routines, behaviors, networking, identity, and atmosphere. In those regions where the sharing of values and behaviour patterns create a climate of trust and collaboration, the routes of sustainable development are based on the capability to take part to (as well as to activate) networks which include several actors: institutions—municipal, provincial and regional authorities; enterprises; trade and entrepreneurial associations, consumer and non-profit organisations; universities; chambers of commerce, banks, etc. These networks, whose goals are to promote a model of sustainable economic growth, are assets of the territorial Relational Capital which is the result of territorial public-private networks (Demartini and Del Baldo 2014).

Numerous scientific and policy contributions have outlined the importance of the formal and informal relationships among the different regional stakeholders to activate and sustain value creation dynamics (Becattini 2004; Brusco 1982; Piore and Sabel 1984; Storper 1997). Some researchers linked the diversity and the cooperation of the local networks with the theories about the organizational learning, underlining the importance of the cognitive processes involving the different actors of a network (Nonaka and Konno 1998). This approach is strongly based on the concept of a "learning region", which considers the ability of a local system to evolve strictly related to its capacity to sustain a continuous learning process (Maillat and Kebir 1999).

Veneto, Tuscany, Emilia Romagna and Marches Regions represent CSR-driven Italian territorial governance experiences in action. The study of these pathways is relatively recent, and a complete analysis of the projects developed in the last years and those that are in course does not exist (Peraro and Vecchiato 2007; Perrini et al. 2006; Matacena and Del Baldo 2009; Del Baldo and Demartini 2012). The afore mentioned regions present the following similarities: (1) the prevalence of SMEs, which represent over the 98% of the total businesses and a high concentration of companies who present excellent examples of providing economic and social well-being of their community; (2) a local public administration which is particularly sensitive to its citizens' quality of life and to the themes of CSR and sustainability and (3) a leading/important role of cooperative and non-profit organizations.

In the following section the conceptual framework will be applied to a selected case study relative to the Italian local project named "PercoRSI" which offers an interesting laboratory to study how a pathway promoted by a plurality of public and private actors acts as a driver in the construction of a sustainable-oriented shared territorial governance and the promotion of social innovation (Osburg and Schmidpeter 2013; Habisch and Loza Adaui 2013).

3 The Case of Rimini: The PercoRSI Project

3.1 Methodology

We focused our analysis on an initiative of territorial governance promoted in the province of Rimini (Emilia Romagna Region). This Region was selected because it is emblematic of the Italian context and is of particular interest for two main reasons:

1. The presence of numerous different actors (small-sized and large companies, non-profit organisations, co-operatives and consortia) who present excellent examples of providing economic and social well-being of their community.
2. A local (communal, provincial and regional) public administration and a local Chambers of Commerce which are particularly sensitive to its citizens' quality of life and to the themes of CSR and sustainability, and since 2004 have begun paths of CSR evolved in a territorial social responsibility model which will be analyzed below.

The empirical study was developed according to a qualitative approach and a case study methodology (Yin 1994) for the dual objectives of detailing the principle characteristics of the phenomena, and to both understand and analyze the dynamics of a given process (Eisenhardt 1989).

The analysis was based on information collected during 5 years (from 2009 to 2014) through more than one hundred in-depth semi-structured interviews as well as informal conversations with public officials from the Provinces, the Chamber of Commerce, representatives of entrepreneurial (industrial, craftsmen, touristic, etc.) associations, entrepreneurs, members of civic and non-profit associations, who are involved in the projects presented below. In addition information were gathered through the analysis of documentary sources (reports, social balance, etc.), as well as of the web sites and the direct observation. The research approach includes the direct involvement of researchers in technical meetings, forums and debates.

In the following, first a narrative description of the selected case study will be presented, then the investigated phenomenon will be interpreted in the light of our conceptual framework (discussion and conclusions).

3.2 "PercoRSI": From Social Responsibility to a Socially Responsible District

Since 2004 the Chamber of Commerce in Rimini has been committed to spreading the principles of social responsibility and consolidating initiatives of various local bodies in the belief that the socio-economic development of an area is strictly tied to the responsiblechoices of its social, civil and economic actors (Sbraccia 2010; Farneti and Padovani 2010). Consequently, in 2008, in association with the non-profit organization "Figli del Mondo" ("Children of the World"), it gave rise to the project "PercoRSI" (Social responsibility Pathways).

The organization, Children of the World is an association for social promotion set up in 2002. Its mission is to raise awareness on themes of CSR through a network of professionals and companies in Rimini. The association has five strategic levers: (1) reflections on the ethical economic culture; (2) promotion, in-house training, announcements about CSR; (3) the creation of a CSR network in the area; (4) the collection and promotion of CSR best practices and (5) the development of relations between enterprises and non-profit associations.

In 2012 the Province of Rimini became a supporting partner of PercoRSI whose objectives are:

– To spread information about corporate and territorialsocial responsibility;
– To promote good practices of social responsibility and to encourage imitation at a local and national level;
– To consolidate and develop the networks created among different actors;
– And to suggest innovative ways of facilitating changes in organisational models towards a responsible economy of the area.

PercoRSI is therefore a network of values, of entities and project aimed at the creation of an Economically Responsible District (EDR) in Rimini which combines economic growth, social cohesion and environmental protection. Over the years the project has involved an ever increasing number of partners: trade associations, companies (small, medium and large of which there are currently over 50), consortia, professional orders (i.e. lawyers and accountants), universities, schools, co-operatives, local public institutions, non-profit associations and many others all from the area.

The structure of PercoRSI is based on a committee of promoters, a board of representatives, activities of connection and communication and the annual assembly of "Children of the World".

The committee of promoters—that regularly meets up and co-ordinate the different activities—brings together the various actors of local governance who, through a process of multi-stakeholders dialogue and engagement, formulates the strategic plan and the guidelines of governance of the Rimini's district.

The committee of representatives is an institutional discussion group which meets at the beginning of the year and gathers all the actors belonging to the project work groups, which collaborate in the various project activities. Its aim is to compare operational proposals and share each year's activities, compare experiences and good practices, involve companies and other local entities in the projects, and to monitor the progress of ongoing activities.

Table 1 The stages in the evolution of PercoRSI

Year	Objectives/contents of the different steps
2008	Basic information—"*to have a minimum common denominator*" (from the 2008 handbook of CSR for businesses) (In-training; workshops, meetings with consultants; conventions, research on innovative themes)
2009	Specific reflections—*"conduct an in-depth examination of CSR"* (with CSR experts)
2010	Good practices—*"from theory to practice"* (practically responsible) (Facilitate activation of activities and good practices; assessment and comparison of good practices)
2011	Towards territorialsocial responsibility—*workshops, clubs and connections of different kinds to share social responsibilityand rethink the territory* (territorial social responsibility)
2012	Territory and partnerships (Thematic workgroups; involvement of different subjects)
2013	Responsible changes and social innovations Network *Connections, territorialcollaborations, public/private networks, non-profit organisations* Responsible innovation *Promotion of new organisational models and projects of social innovation*
2014	Change in the responsible network, open-mindedness, knowing how to co-connect, share, collaborate and co-plan

The connection activities consist in linking the project activities to other local and national projects (i.e. the Sodalitas Social Award[1] and the CSEAR—Study and research centre on social and environmental accounting).

The communication activities of PercoRSI are promoted through press releases, newsletters, brochures, editorial comment and websites and include the annual plenary assembly and conferences aimed at sharing the results of the activities with all the members of the network and at developing cultural reflections on future activities.

The PercoRSI project is constantly evolving, and over the years it has developed diverse levels of action and work approaches (Table 1).

As can be seen in the table, the year 2008 was marked by an explanatory approach, aimed at spreading basic information about CSR especially to trade

[1]For years numerous initiatives developed within the project have been presented to the Sodalitas Social Award, an organisation which had added to its online CSR database, the most exhaustive in Europe, with over 1200 best company practices carried out in Italy. It consists of seven distinct categories: the best programs of CSR aimed at the promotion of human capital and equal opportunity; the best plans of eco-efficiency, the use of renewable energy, eco-compatible productive processes; the establishment of the best partnership and social cohesion program in the community; the best initiatives of cause-related marketing; the best initiatives of social responsibility produced by small and medium companies; the most innovative product or service socially, environmentally and financially responsible produced by companies; the best CSR initiative carried out by local bodies, state or educational institutions.

associations and companies, while the following year (2009) was distinguished by a formative approach and in-depth analysis, through thematic meetings managed by experts in environmental, social and economic sustainability. In the year 2010 another step forward was made toward the formation of a Responsible Economic District in Rimini thanks to a more operational approach based on the implementation of good practices. For this reason, six working groups (named laboratories) were organised, aimed at examining in-depth various themes of CSR: (1) the sustainability of the workplace (actions for an eco-office; primary stakeholders: working environment/ employees); (2) socio-environmentalsustainability (the creation of an international green event; primary stakeholders: the environment and the community); (3) financial ethics (easier loans for employees; primary stakeholders: employees, the local community); (4) the work and life balance (the Working Parents' Open Day; primary stakeholders: employees); (5) the collaboration with social co-operatives for the development of socially useful employment (outsourcing to co-operatives in order to encourage inclusion; primary stakeholders: local communities/suppliers) and (6) the simplified social balance (accountability tools; primary stakeholders: employees/suppliers/the environment/ clients/the local community). Every working group/laboratory, hosted specialist consultants and technicians and took place in a leading company identified as having already experimented a specific CSR action, for a total of 37 promotional CSR initiatives.

In 2011 the executive phase was deepened through a large variety of activities. The trade associations involved in the project developed in a more permanent way (and continue to do so) applications of CSR within the companies consociated with them. In particular, workshops have been set up concerning four thematic areas: (1) local hospitality ("Looking after visitors and the area"); (2) governance for managers and entrepreneurs ("Governing changes through CSR"); (3) the environment ("Energy saving") and (4) human resources and work-life balance ("Family friendly companies: day-care nursery services"). Furthermore, professional theme clubs have been set up, that is, permanent workgroups characterized by the professional homogeneity of its members focused on 6 thematic sectors: accountants ("The simplified Social Balance"), lawyers ("A Responsible legal profession"), teachers ("Social responsibility at school"), organisers of sports and touristic events ("Green event"), dentists ("Dentists working in solidarity"), bankers and financial promoters ("Ethical banking").

In 2012 PercoRSI's activities included, other than thematic workgroups already consolidated in previous years, the creation of special projects in partnership with companies, institutions and other entities (including: Welf-Tourism; Barter, a barter project between companies; "Cut Waste"), the drawing up of a values and commitments charter, and the study of strategies for the creation of a territorial network mark.

In 2013 four thematic areas were identified: CSR and innovation; new models of corporate governance; young people and business; corporations and the common good. In the realm of the first and second areas, attention addressed to companies which were supported in increasing dialogue with external stakeholders. In the context of the third theme actions have been developed aimed at reinforcing the tie between young people (high school students), professionals and businesses through a variety of initiatives aimed at spreading the culture CSR (education about ethical banking and business incubators). The fourth thematic included several activities: responsible building (aimed at socially earmarking an untapped public good); CSR and social cooperation (aimed at promoting social inclusion); responsible lawyers (through the creation of a charity office for people in distress and through training programs in schools). Additionally, an innovative project, named "Quinc" was promoted by the local Chamber of Commerce, the Province of Rimini and the main local trade associations. Quinc consists in an economic network of exchange which seeks to facilitate collaboration and business relations among local companies through non-monetary transactions and multilateral compensation mechanisms of credit and debit. The network currently includes 30 companies in Rimini.

Finally, orientation in 2014 was relative to promote collaborative processes which are essential for responsibleinnovation, based on the following principles:

1. Knowing how to connect (through the setting up of a regional CSR committee to assess forms of promotion and co-planning of common actions and to organise a system of regional indicators to try out as a reward system for socially responsible companies);
2. Knowing how to share (through the CSR co-ordination committee of local network stakeholders, in association with the CRS & social innovation annual national conference (held in Milan) which is a venue for exchanging best practices of sharing economy, such as crowd-funding, co-working and crowd-sourcing);
3. Knowing how to collaborate (through the activity of several groups and laboratories, such us: the "Verso group", aimed to diffuse a simplified social balance among small enterprises; the Ethical banking group, aimed at promoting the knowledge about responsible finance at high schools); the Responsible advocacy group (aimed at promoting responsibility in the legal profession); CSR and school group (aimed at promoting social responsibility at high schools); Social cooperation group (aimed at putting entities in the building trade into the network to carry out initiatives of social importance).
4. Knowing how to co-plan (in order to further develop project such as Quinc and "Riviera Green Passion", aimed at promoting the eco-tourism).

4 Discussion

The PercoRSI experience of regional social responsibility offers several points for reflection.

First, it highlights how the capillary approach based on a cross-sectional and bottom-up logic has contributed to developing an understanding that innovation can only be made possible by collaboration (Holmers and Moir 2007). It has also

Table 2 PercoRSI's path

From	To
Corporate social responsibility	Territorial social responsibility based on local networks
Single good practice	Joint projects
Closed governance	Innovational, opened and shared governance
Centralised management	Participation in management
Individual responsibility	Shared responsibility
Valuing the organisation	Valuing of the person
Individual interest	Common good

redefined scenarios and new challenges for economic, social and environmental competitivity. Resources and ideas increasingly come from synergy and relations with the world outside companies and from their ability to manage processes of sharing and partnerships.

Secondly, the experience highlights the transition towards new organisational models and a shared governance of the network which has been set up by valuing and creating a system for the huge amount of knowledge possessed by different actors.

Moreover, the PercoRSI network effectiveness is tied to three fundamental dimensions (described below)—that is, a network of values, of people and of projects—that generate its capacity to promote innovative path of interaction and create partnership for the common good of the local community.

Network of Values Shared values among the different actors of the project are: solidarity, sustainability, synergy, open-mindedness, innovation, partnership, mutuality, participation, respect. These values nurture social capital, social cohesion, collaboration and trust.

Network of Projects and Network of People Every link in the network represents a small community of learning, a group of people who work on a specific theme related to social responsibility. The network encourages stakeholders' engagement and stakeholder dialogue and involves different groups and skills belonging to the public, private and the non-profit sector, which are capable to generate forms of social innovation.

By involving several realities in the province of Rimini and catalyzing resources and energy, PercoRSI has contributed to raising a sense of territorial rootedness, thereby increasing relations, social cohesion and improving the processes of dialogue and participation. This pioneering project, started before the discussion at a national level of local social responsibility got underway, is highly innovative and dynamic and over the years its objectives have become progressively enriched and adapted. The resulting benefits are felt by the local area, and more generally, by Italian society as a whole as this experimental laboratory traces a path (Table 2) of change which represents a reference point for the entire country.

5 Conclusion

This paper proposes an overview of the process and models of CSR and sustainability diffusion based on the public-private involvement with implications on both the scientific and the operative level. The practical and social implications of this study are to raise awareness of best practices of local governance which are not concretely effective when they are not fostered by local authorities (from the region, province, municipality) together with local private actors (i.e. small and medium enterprises), taking into consideration the influence of local culture, and economic factors shaping the environment in which public-private networks arise. Consequently, the interpretative pattern based on the Italian experience selected as case-study aims to enrich the debate on CSR and territorial governance requiring the specific attention of scholars and the actors involved in the CSR and sustainability development of an area.

Chiefly it emphasizes the concept that a territory is a relational system formed by subjects who share common values and behaviors, and therefore it underscores the need to pay more attention to social interaction perspectives. Territorial social responsibility has the scope of improving the quality of life of the community and inserts itself in the broadest pathways of sustainability that considers the entire local context a primary actor. Participation, integration, dialogue, sharing, social legitimization, governance, are key terms in this context. Social cohesion and social capital are the milestones of CSR and sustainability-oriented networks.

Secondly, the paper underlines the need to propose approaches and tools that are not disconnected from specific local anthropological, cultural and socio-economic dynamics. Thus, a top-down, unilateral process in CSR policies does not seem suitable; nor does an approach primarily based on regulatory public polices (national or international) or directed by leading companies (transnational and multinational firms) without the involvement of the largest part of the socio-economic framework. A circular process between global and local is necessary, placing primary emphasis on the micro level and then combining micro and meso with macro perspectives.

Thirdly, the crisscrossing projects of territorial convergence help realize a model of local welfare across instruments of social cohesion (i.e., multi-stakeholders forums) and subsidiary local governance whose objective is to trig a path of human governance in which participation, co-planning, and dialogue are not merely slogans but the *modus operandi* in actors' processes of creating value.

Consequently, our first proposition is that international and national guidelines[2] suggested by individual states to improve CSR and sustainability are often too "far" from the specific culture, and needs of the diverse local environments. We also propose that there is a need for a "contingent" approach in terms of instruments and actions. Top-down and unilateral processes are always not effective, since they are

[2]See: UNGC (2007) and EC (2001).

disconnected from local social dynamics and consequently does not produce social innovation intended as a novel and a more effective solution to a social problem.

Our second proposition is that local and territorial approaches facilitates the implementation of CSR and sustainability since they allow to meet the needs of the community, to plan initiatives and programs of investment aimed at favoring a long-term socio-economic development and to evaluate concrete results.

Finally, the proposed interpretative model offers some insights for territorial-stakeholders involved in the process of developing an area. In particular, in our opinion, two main points permeate the effectiveness of the projects of territorial social responsibility and sustainability: (i) integrating social and environmental factors in economic decisions fosters innovative solutions to guarantee the sustainability of the territory's development; (ii) the incentivizing of good practices, and the continual interaction with and among the carriers of interest, become important fulcra to increase the competitiveness of an area. Thus, the rise of new local governance and forms of social innovation whose protagonists are members of a localized network can be considered a new form of socio-institutional process based on interactive planning and multilevel forms of cooperation among multiple responsible actors.

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Corporate Governance in Brazilian Companies: The Influence of the Founder in the Financial Decisions

Liliane Segura, Henrique Formigoni, Rute Abreu, and Fátima David

Abstract All over the world, corporate governance is adopting a new process of leadership and simultaneously propagating responsible governance for the welfare of stakeholders. This research has allowed us to identify new directions for future research. It examines the influence of several contextual factors in the framework of the financial decisions, where company has the right to have a transparent accountability, based on the influence of the founder, dispersion and type of ownership, size, economic sector and environment.

The aim of this research is to analyse the influence of the founder in the financial decisions based on the comparability of the level of indebtedness among Brazilian companies managed by its founder and those managed by professionals.

The methodology focuses the theoretical analysis on the literature review about Corporate Governance and Corporate Finance. The empirical analysis is based on econometric analysis supported on the multiple regression model and fixed effects method. The sample includes 356 non-financial Brazilian companies, with accounting data from the period 2004–2009, on a total of 2136 observations.

The results find supporting evidence that lower debt in those companies of the sample in which the founder is the manager of the company and, in contrast, bigger indebted level of the professional manager. Further findings confirm a reduction of the investment level in businesses run by its founder, as well as, their preference for using equity. The founder has quite peculiar biases relation with decision making process. Generally, the founder has a personal need and his or her own interest, is based on the entrepreneurship decisions.

L. Segura • H. Formigoni
Mackenzie Presbyterian University, Sao Paulo, Brazil
e-mail: lilianecristina.segura@mackenzie.br

R. Abreu (✉) • F. David
Guarda Polytechnic Institute & UDI-IPG & CICF-IPCA, Guarda, Portugal
e-mail: ra@ipg.pt

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1 Introduction

In the new process of leadership, Hadani (2007) focus the family role and their position in company strategy. Also, Sirmon et al. (2008) and Zahra et al. (2008) defend the same role played by the family in the strategic decisions of the company and they study the values and culture of the family on the financial decisions. Other researchers show, on the accounting and corporate finance, different decisions making processes (Berens and Cuny 1995; King and Santor 2008) and, especially, those with major shareholders (Agrawal and Nagarajan 1990; Anderson and Reeb 2003, 2004; Gómez-Mejía et al. 2007; Oro et al. 2008).

Concerning with this new process of leadership, the literature review based on the family and their management have been achieving great prominence (Drodow and Carroll 1996). Anderson and Reeb (2003) say that 35% of the 500 largest U.S. companies have family influence. Oro et al. (2008) found that 253 Brazilian companies, among the top 500 presented by *Exame Magazine* in 2005, had fully characterized by the Brazilian stock market and some of them operate under family interference. In the ownership theory, there is an extensive list of public traded companies with founding family control.

Although, many studies have been classified as family companies and the control of households in public companies, in Brazil, there is a lack of papers associated with the ownership of family members (Thomsen and Pedersen 1997), the capital concentration (Stulz 1990) and the capital structure (Modigliani and Miller 1958, 1963).

There are several studies with contributions to biases the manager in the decision making process. Without any doubt, Conlisk (1996), Baker and Wurgler (2002), Kahneman (2003) and Bazerman (2004) reveal that the profile manager has an effect on the financial decisions. Oro et al. (2008) show the relationship between capital structure and operating income observed during several generations of Brazilian companies. In this research, the authors found differences between profitability and capital structure, because of the policies adopted by the family when they manage these companies.

Several researches argue that the founder of the small businesses is responsible for the financial decisions. However, there are studies that defend other perspective. Leavell and Maniam (2009) show the need to growth on the small businesses and had sought foreign debt at the expense of the initial public offer. Winborg and Landstrom (2000) define a strategy concern with the owner not to lose control of the business. The owner would manager, according to these authors, to prefer debt instead on new shareholders. No studies were found that show, however, in Brazil, public companies managed by its founder or the owner family. Also, on the academic research, there is an influence of the debt management in the company.

Given the above, the structure of the research is organized as follows. Section 2 discusses the theoretical framework of the research. Section 3 describes the research methodology with the sample selection procedure, hypothesis and definition of variables. Section 4 presents the empirical analysis and details the econometric analysis. Finally, Sect. 5 presents the main conclusions and discusses the results and limitations obtained on the research.

2 Theoretical Framework

The literature has pointed to evidence on the corporate finance that managers have overconfidence when they tend to make investment decisions and financing that may cause the company value decreases (Thaler and Barberis 2003; Malmendier and Tate 2004; Barros 2005). There are studies that predict the influence of the manager to be a member of a conservative founding family in relation to its capital structure (Fama and Jensen 1983; Demsetz 1983; Shleifer and Vishny 1997). Lee (2011) corroborates these authors. His research discusses the family ownership and his findings shows that the family ownership is less indebted. Also, he claims that family companies seek greater domestic borrowing. Bitler et al. (2005) show lower risk level when the companies have share concentration of entrepreneurs. Oro et al. (2008) found greater use of equity by family companies and lower debt.

Other studies point out to the fact that the residence of the founding family in company decisions tends to increase the debt and, in many cases, the company's risk (Fiegenbaum and Thomas 1988; Anderson and Reeb 2004). The research made by La Porta et al. (1999) surveyed the amount of publicly traded companies in Europe, Latin America, United States and other countries of the world that had the control exercised by the founding families and say there is little empirical evidence on patterns of decision of the owners of large companies. In this research, the authors required to understand the relationship between ownership and control, unlike the approach given by Berle and Means (1932, 1991), whose work claimed full separation of ownership and control in public trade companies. La Porta et al. (1999) seek evidence that, at the current stage of the market, many companies have been related with family control (founding or non-founding).

Demsetz (1983) finds evidence that companies with ownership concentration in the hands of a single owner choose investment projects that are not profitable to serve its own purposes. Shleifer and Vishny (1997) like many other works, show evidence of expropriation of wealth when there is ownership concentration, but not enough to deal with debt. Morck et al. (2000) show the control and the ownership taken for a long period of time generate to the company lower level of performance.

In the literature review, it must highlight the Mosebach (2007) research, because it justifies the payment of taxes related with the founding family control. In companies managed by founding families the effective tax rate is different and Bitler et al. (2005) argue that founders are owners. The authors found that performance improved with the property and the risk level decreased as increased ownership and Burkart et al. (2003), about the pursuit of professional managers by the founder, instead of using his heirs in business management.

Still, on the performance level, McConaughy (1994) says the founding family performs better than other companies. Nevertheless, performance differences with concentration of power were not found. Moreover, founding family shows lower level of debt and risk aversion. So, in summary, it was observed that the founding family has lower beta and when there is a concentration of power, there is higher risk level. The identification of managers is more important than the control, ie, if the manager is a member of a family or has intercourse with her, then he or she can influences decisions. Despite, the professional manager without a relationship, he or she could not influence the decision of the owners (Carlock and Ward 2000).

3 Research Methodology

The methodology used a hypothetical-deductive research, according to the proposed grounds for Popper (1975). It is characterized by the establishment of hypotheses to be tested through empirical research through the observation of the reality. The econometric analysis used hypothesis testing with multiple regressions analysis (Hair et al. 2010; Greene 2012).

3.1 Population and Sample Selection

The data were obtained from different sources, depending upon on the definitions and the nature of variables. A large amount of data on different variables were extracted from the annual reports of the listed companies among those were active, in 2010, on the *São Paulo* Stock Exchange, called the BM&FBovespa (Bovespa 2014). This year (2010) has been chosen, because, it is before the effects of the economic and financial crises all over the world, and it produces more stable data. The data has been collected from Divext, Foreign Disclosure ITR/DFP/IAN CVM, which are available for Brazilian companies that trade their shares on the BM&FBovespa.

Additionally, the data comprise with names of the founder and till the fifth-largest founder, Chairman of the Board (CB), Chief Executive Officer (CEO) and Chief Financial Officer (CFO), during the period from 2004–2009. This information has been collected from the annual report and other web-based information from each company. Due to limitations on the disclosure of companies, many of them did not have data for the period observed. So, it was necessary for the authors, to have an unbalanced panel (IBGC 2007; IBGE 2008; CPC 2008; SEBRAE 2010).

The set of observed companies obtain among those who were active in 2010 in the BM&FBovespa list, as well as, the type of control of the company and the rating of corporate governance of population of 488 financial and non-financial. On the debugging process were excluded those without accounting and overall data. The sample of research is 356 companies, with a total of 2136 observations.

3.2 Hypothesis

This research studies the influence between the founder and the level of debt. In this sense, Agrawal and Nagarajan (1990) show that companies which do not have long-term debt than professional managers are concerned with high liquidity, but the level of bankruptcy decrease (Altman 1984) with higher percentage of founders (22% in companies with no debt against 11% in leveraged companies). This research indicates 27% of managers have some relation to others and 50% of managers have a family relationship. Thus, it is argued that the loss of one member of the founding family is largely recognize in the case of bankruptcy, because these managers lose control of the company and their jobs (Jensen and Meckling 1976).

In this research, the purpose is to study the influence between the founder and debt, by using a rating of the founding manager. The founder manager does not need to be actual company's controller, but he was the shareholder involved in the foundation of the company. It is understood that, as described in Barros (2005), company founders have entrepreneurial characteristic therefore they could present several types of different decisions related with others. Based on these researches, it was possible to draw the following hypothesis:

> There is an influence between the presence of the founder in the board and the level of debt in the Brazilian companies.

3.3 Definitions of the Model and Variables

The model used in this research has been drawn from other researchers, such as: Anderson and Reeb (2003), Barros (2005), Forte (2005), Perobelli et al. (2005), Brito et al. (2007), Soares and Kloeckner (2008). They present the basis to seek the necessary variables and they work with Brazilian companies.

3.4 Econometric Model

The model allows us to analyse the research hypothesis relating with the influence of the founder and several variables. According to Eq. (1), TD_{it} is the company's debt as dependent variable; $FUND_{it}$ is the founder of the company as independent variable, CVj_{it} are the control variables and ε_{it} is the error.

$$TD_{it} = \beta_0 + \beta_1 FUND_{\mathrm{it}} + \sum_{j=1}^{k} \delta_j CV_{jit} + \varepsilon_{it} \tag{1}$$

3.5 Dependent Variable

Total debt [$TD_{i,t}$] is the total debt of company present at Eq. (2) knowing that the current liabilities of company i in year t (CL) plus the non-current liabilities of company i in year t (NCL) divided by the total assets of company i in year t (TA).

$$TD_{\mathrm{i,t}} = \frac{\mathrm{CL_{i,t}} + \mathrm{NCL_{i,t}}}{\mathrm{TA_{i,t}}} \tag{2}$$

3.6 Independent Variable

Founder of the company [FUND]: is a dummy variable (yes = 1; no = 0) to identify the founder of the company. Also, it will identify their position: Chairman of the Board (CB), Chief Executive Officer (CEO) or Chief Financial Officer (CFO). In the analysis of ownership, the authors identify manager, owner and founder. If the variable is equal to one, then the founder of the company carries one of the positions presented, regardless of the number of shares owned. In some cases, the company may be considered as familiar. If the variable is equal to zero, subsequently it is professional manager.

These variables measure the presence of the founder in the board and even verify that among the managers, her or his names which occupy these positions. It was obtained from the annual financial statements of companies, issued by the CVM system and Divext report (BOVESPA 2014). The classification of professional manager or founder has been obtained from the internet research of the companies' websites and news.

3.7 Control Variables

Profitability [$P_{i,t}$] is widely discussed among capital structure researchers as an important variable regarding whether to seek new financing decisions. Greater profitability may indicate a lower level of debt with third parties (Myers and Majluf 1984; Moreira and Puga 2000; Perobelli and Fama 2002; Perobelli et al. 2005; Brito et al. 2007; Soares and Kloeckner 2008). In Eq. (3), the profitability of company i in year t is fraction of the operating profit before the financial result and taxes of company i in year t (OP) by the total assets of company i in year t (TA):

$$P_{i,t} = \frac{OP_{i,t}}{TA_{i,t}} \tag{3}$$

Company size [$CS_{i,t}$] is measured by the natural logarithm of the total assets of company. Knowing that the larger size of the company induce higher level of debt as the literature pointed: Minichilini et al. (2010), Perobelli and Fama (2002), Perobelli et al. (2005), Soares and Kloeckner (2008).

Risk [$R_{i,t}$] is used by Gómez-Mejía et al. (2007), Perobelli and Fama (2002), Perobelli et al. (2005) and Soares and Kloeckner (2008). Also, the undiversified risk managers are defined by Friend and Lang (1988) as the standard deviation of the operating income (before interest and taxes) divided by the total assets, which are used as a proxy for risk. Thus, Eq. (4) is the level of risk of company i in year t as the standard deviation, in the last 5 years, of the operating profit of company i in year t (OP) by the total assets of company i in year t (TA).

$$\mathrm{R}_{i,t} = standard\ deviation\ \frac{OP_{i,t}}{TA_{i,t}} \tag{4}$$

Tangibility [$Tang_{i,t}$] is the variable that evaluates the corporate debt as argued by Brealey et al. (2008). According to Eq. (5) is the quotient of the investment on fixed assets of company i in year t (I) by the total assets of company i in year t (TA).

$$Tan\, g_{it} = \frac{I_{i,t}}{TA_{i,t}} \tag{5}$$

Opportunity growth [$OG_{i,t}$] can be one of reasons why the company makes more money borrowed, then it increases the level of debt (Heineberg and Procianoy 2003; Perobelli et al. 2005; Soares and Kloeckner 2008). It is used by Barros (2005) as an alternative proxy for growth opportunity. According to Eq. (6) is the quotient of the change on the total assets of company i in year t (TA) by the total assets of company i in year t-1 (TA).

$$OG_{i,t} = TA_{i,t}/TA_{i,t-1} \tag{6}$$

Sales growth [$SG_{i,t}$] indicates the need of funding (Brito et al. 2007). In Eq. (7) is the sales growth of company i in year t (SG) represented by the net sales of company i in year t (NS_{it}) divided by the net sales of company i in year t-1 (NS_{it-1}).

$$SG_{i,t} = \frac{NS_{i,t}}{NS_{i,t-1}} \times 100 \tag{7}$$

Free cash flow [$FCF_{i,t}$] is a variable that evaluates the reduction of the corporate debt (Jensen 1986; Perobelli et al. 2005; Soares and Kloeckner 2008). Companies with a larger free cash flow have less debt. Due to this, companies that have availability and make investments tend not to have the tendency to attract funding. The Eq. (8) presents the free cash flow of company i in year t (FCF) as a result of difference between the net profit of company i in year t (NP), minus is the increase in net working capital of company i (*IncreaseNWC* is calculated by the difference in the net working capital in year t-1 and year t) plus the depreciation of the fixed tangible assets of company i in year t (*Deprec)* plus the investment level of the asset of the company i in year t (*Invest).*

$$FCF_{i,t} = \mathrm{NP_{i,t}} - \mathrm{Increase\ NWC_{i,t}} + \mathrm{Deprec_{i,t}} - \mathrm{Invest_{i,t}} \tag{8}$$

Other non-debt tax benefits [ONDTB$_{\mathbf{i,t}}$] is a control of the non-debt tax benefit, which captures all the expenses not related to the company debt, but it may influence the total debt (Barros 2005). Therefore, in Eq. (9), the fraction of the depreciation of the fixed tangible assets of company i in year t (*Deprec)* and the amortization of the intangible assets of company i in year t (Amort) by the total assets of company i in year t (TA).

$$ONDTB_{it} = \frac{Deprec_{i,t} + Amort_{i,t}}{TA_{i,t}} \tag{9}$$

Performance [**Tobin's Q**] is a continuous variable that is represented by Nogueira et al. *(*2007). As shown in Eq. (10) is the fraction between the market value of the shares (MVS) and the market value of debt (MVD) by the replacement value of assets (VRA).

$$\mathrm{Tobin's\ Q} = \frac{VMS + VMD}{VRA} \tag{10}$$

However, due to the difficulty of finding the database market value of debts of Brazilian companies and the replacement value of assets, an approximate model was defined by Chung and Pruitt (1994). As Eq. (11) considers the market value of the preferred shares and common shares (MVS) plus the book value of debt (BVD) by the quotient of the total assets of company i in year t (TA).

$$\mathrm{Tobin's\ Q} = \frac{VMS + \mathrm{BV}D}{TA} \tag{11}$$

The debt of the company is used by Chung and Pruitt (1994) as Eq. (12) details the book value of current debt (BVCD) minus the book value of current funds (BVCF), plus the book value of inventories (BVI) plus the book value of non-current debt (BVNCD).

$$D = \mathrm{B}VCD - \mathrm{BVCF} + BVI + BVNCD \tag{12}$$

Therefore, the performance calculation will be made, according to Eq. (13), knowing that the total assets of company i in year t (TA):

$$Desemp_{it} = \frac{VMA + \left(VCD_{cp} - VCR_{cp} + VC_{est} + VCD_{lp} \right)}{TA} \tag{13}$$

Uniqueness [$\mathbf{SING_{i,t}}$] is a continuous variable, calculated by Eq. (14), in which SING is the uniqueness of the company i in year t, the sales of the company i in year t (S) and the net sales of the company i in year t (NS).

$$SIN\,G_{i,t} = \frac{S_{i,t}}{NS_{i,t}} \tag{14}$$

Sector is identified by a dummy variable according to the sector in which it operates. The sector dummy is represented by a binary variable and it is equal to one if the company operates in the same sector and zero otherwise.

Year is identified by a dummy variable to capture any macroeconomic shocks and possible temporal effects that can affect the company (Barros 2005). The year dummies are represented by a binary variable and it is equal to one in the year observed for company i and zero otherwise.

4 Empirical Analysis

4.1 Descriptive Statistics

Table 1 shows the distribution across 20 economic sectors, using the Bovespa classification (Bovespa 2014). The most representative sector is the electricity (12.64%), followed by construction (8.43%), textile (8.15%) and steel and metallurgy (7.02%).

In Table 2, there is the distribution of the number of companies managed by founder per year. The annual average of the founder in one of the following positions: Chairman of the Board (CB), Chief Executive Officer (CEO) or Chief Financial Officer (CFO) has been identified in 16% of companies of the total of the sample.

The descriptive statistics of the variables of the sample were drawn after winsorization variables at the level of 10%. In Table 3, it can be seen that the average total indebtedness of the sample is high (0.8) and with the variability is high (0.72), ie, there are companies with low debt (0.08) and others with very higher debt (1.52). Regarding profitability, it is observed that is around 13% of the total of revenue. The sample of companies does not have large variability in size (13.43 average with a standard deviation of 1.96), the risk is, around, 0.09 of average with a standard deviation of 0.12. The tangibility shows 0.33 of average and standard

Table 1 Distribution of number of companies by economic sector, 2004–2009

Economic sector	Number of companies	% of total companies
Electricity	45	12.64
Construction	30	8.43
Textile	29	8.15
Steel and metallurgy	25	7.02
Food and beverage	20	5.62
Vehicles and parts	18	5.06
Transport	18	5.06
Trade	18	5.06
Telecommunication	14	3.93
Chemical industry	14	3.93
Mining	8	2.25
Electronics	7	1.97
Oil and gas	5	1.40
Paper and pulp	5	1.40
Machinery industry	5	1.40
Agriculture	5	1.40
Software and data	4	1.12
Non-metallic minerals	4	1.12
Investment fund	1	0.28
Others	81	22.75
Total	356	100.00

Table 2 Distribution of the companies managed by founder per year

Year	FUND (number of companies)	% of companies
2004	55	15.5
2005	58	16.3
2006	62	17.5
2007	61	17.1
2008	60	16.7
2009	60	16.7
Total	356	100.0

deviation of 0.24. Sales growth was 0.14 on average with a standard deviation of 0.32, the free cash flow showed an average of MR$24 and the others tax benefits extra debt had an average of 0.32 with a standard deviation of 0.58.

The Table 4 presents the descriptive statistics subdivided by Professional Management (Group 1) and Founder (Group 2).

In Table 4, the average of indebtedness (0.73 *versus* 0.74), company size (13.06 *versus* 13.58) and tangibility appeared to be lower in the group 1 managed by the founder, then the group 2 managed by professionals (0.29 *versus* 0.34). The average

Table 3 Descriptive statistics of the variables of the sample

Variable[a]	Average	Standard deviation	Median
Total debt (TD)	0.80	0.72	0.61
Profitability (P)	0.13	0.15	0.08
Company size (CS)	13.43	1.96	13.60
Risk (R)	0.09	0.12	0.05
Tangibility (TANG)	0.33	0.24	0.32
Opportunity growth (OG)	1.54	1.87	0.90
Sales growth (SG)	0.14	0.32	0.09
Free cash-flow (FCF)	24,214.21	104,468.99	2006.07
Other non-debt tax benefits (ONDTB)	0.32	0.58	–

[a]Winsorized variables at 10% level

Table 4 Descriptive statistics using professional management *versu*s founder

	Professional management			Founder		
Variable[a]	Average	Standard deviation	Median	Average	Standard deviation	Median
Total debt (TD)	0.74	0.11	0.72	0.73	0.10	0.71
Profitability (P)	0.13	0.15	0.08	0.13	0.16	0.07
Company size (CS)	13.58	2.01	13.79	13.06	1.81	13.28
Risk (R)	0.09	0.11	0.05	0.10	0.13	0.05
Tangibility (TANG)	0.34	0.24	0.35	0.29	0.23	0.29
Opportunity growth (OG)	1.54	1.89	0.89	1.74	1.89	1.20
Sales growth (SG)	0.12	0.30	0.08	0.22	0.36	0.13
Free cash-flow (FCF)	34,598.13	117,332.44	5495.78	5118.96	83,275.49	1272.94
Other non-debt tax benefits (ONDTB)	0.33	0.58	–	0.30	0.59	–

[a]Winsorized variables at 10% level

of the profitability appeared to be equal in both groups (0.13). Indeed, the free cash flow is much lower near MR$ 5 versus MR$35. The company run by the professional management present higher opportunity growth than the founder (1.74 versus 1.54) and the average sales growth (0.22 *versus* 0.12) and the average of the other non-debt tax benefits (0.33 *versus* 0.30). The level of risk slightly increases in the founder than in professional management (0.09 *versus* 0.10).

In summary, from the descriptive analysis of the variables, it is possible to infer that companies managed by the founder present, on average, less indebted, less tangible, and less free cash flow and distribution of debentures. At the same time, it is observed that they have, on average, higher risk, higher sales growth and greater opportunity for growth. At that moment, the multivariate analysis of sample data has taken several tests of the research hypotheses.

5 Multivariate Tests

The relationship between indebtedness and the founder management was analyzed with the research sample and applied the regression method using the Hausman test. This statistical test verifies which of the two tests: fixed or random effects, is more appropriate to the sample. The result of the Hausman test is the probability higher, then Chi^2 is equal to zero, meaning that there are differences in estimation between the two tests applied. The results, based on Hair et al. (2010) and Greene (2012), show that fixed effects method is the most appropriate.

In Table 5, the authors observe the results of the multivariate regression with respect to the explanatory power of the model (R^2). Greene (2012) considers R^2 of 0.5 is relatively high, although any regression models that can fit in the model depend on the theoretical framework. In this model, R^2 obtained 0.3936 and it cannot be considered as a poor model. In this sense, Patten (2002) obtained 0.37992 as relatively higher explanatory power of the model.

Other authors were obtained in the model lower coefficient level of R^2, such as: O'Connor et al. (2002), Hart and Ahuja (1996) show in their lower model coefficients R^2 and these coefficients do not cancel out the feasibility of the models as they have explanatory power, but not predictive. In the case of the social sciences, it should be noted that when the coefficient of determination is low, it does not necessarily indicate that the dependent and independent variables are not related.

Table 5 presents negative and significant relationships between the presence of the founder of the company (−0.315) and, also, between company size (−0.043), the opportunity growth (−0.056) and uniqueness (−1.023) and debt. This shows that businesses managed by its founder have lower levels of debt than professional managers. Positive and significant relationship between risk (0.645), profitability

Table 5 Fixed effects method analysis related with the debt level

Model[a]	Coef.	Std. Error	P > t
Founder (FUND)	−**0.315*****	0.0885824	0.000
Profitability (P)	**0.582*****	0.1022387	0.000
Risk (R)	**0.645*****	0.1389519	0.000
Tangibility (TANG)	**0.414*****	0.1186104	0.001
Opportunity growth (OG)	−**0.056*****	0.0096416	0.000
Sales growth (SG)	0.039	0.0349193	0.260
Free cash-flow (FCF)[b]	0.000	2.71e-08	0.900
Other non-debt tax benefits (ONDTB)	**0.000****	0.0174091	0.003
Company size (CS)	−**0.043***	0.0257402	0.099
Performance (DESEMP)	**0.127*****	0.0258054	0.000
Uniqueness (SING)	−**1.023****	0.404552	0.012
Constant	**1.817*****	0.3421275	0.000

[a]Winsorized variables at 10% level
[b]Millions of euro
*1% Significance level
**5% Significance level
***10% Significance level

Table 6 GMM regression analysis related with the debt level.

Model[a]	Coefficient	Standard Error	P > z
Founder (FUND)	−**0.292*****	0.085	0.001
Profitability (P)	**0.178***	0.108	0.099
Risk (R)	**0.361*****	0.112	0.001
Tangibility (TANG)	0.051	0.187	0.787
Opportunity growth (OG)	−**0.054*****	0.010	0.000
Sales growth (SG)	**0.069****	0.032	0.032
Other non-debt tax benefits (ONDTB)	**0.093*****	0.016	0.000
Company size (CS)	−**0.125*****	0.027	0.000
Performance (DESEMP)	**0.115*****	0.026	0.000
Uniqueness (SING)	−0.055	0.558	0.922

[a]Winsorized variables at 10% level
*1% Significance level
**5% Significance level
***10% Significance level

(0.582), tangibility (0.414), performance (0.127), and non-debt tax benefits of debt (0.000) and the founder.

The authors used the *Generalized Method of Moments* (GMM) as the same method proposed by Arellano and Bond (1991) and Arellano and Bover (1995). The GMM is indicated for cases in which "T" (time variable) is small and "N" (individual variable) is great. This method is suitable when there are independent variables, not strictly exogenous and correlated with the error (Hair et al. 2010; Greene 2012). This panel uses fixed effects method and there are heteroskedasticity and autocorrelation among individuals. Thus, the probability is higher than Chi^2 that is equal to zero, knowing that Wald Chi^2(10) is equal to 142.57.

Table 6 observes a negative and significant relationship were found between company size (−0.125) and growth opportunities (−0.054) and debt in the presence of the founder, confirming what had already been presented in Table 5. Furthermore, the authors found a positive and significant relationship between profitability (0.178), performance (0.115), risk (0.361) and other non-debt tax benefits (0.093). Contrasting with the fixed effects method, there are no correlation between tangibility (0.051), uniqueness (−0.055) and debt.

6 Conclusion

This research has analysed the influence of the founder in the financial decisions based on the comparability of the level of indebtedness among Brazilian companies managed by its founder and those managed by professionals. The research question was:

> There is an influence between the presence of the founder in the board and the level of debt in the Brazilian companies.

Indeed, the answer to the research question is influence by the founder on the financial decisions, in general, and company's debt, in particular.

The empirical analysis used the fixed effects and GMM method which shows the existence of a negative and significant relationship between the founder of the company and level of debt. Thus, it does not reject the null hypothesis and this result corroborates the Combs (2008) research showing that managers of family businesses, even if they are not family members, behave differently with respect to financial decisions.

The empirical analysis based, on this sample, indicates a trend of lower debt in those companies whose manager is the founder of the company. These results are in agreement with family and founder literature. The empirical analysis revealed that some of the behaviours described in the literature can be seen in these results. One of the limitations, it is not necessarily all the results. The fact that the founder tends to manage based on lower debt, it could be explained by overconfidence. At the same time, the family member with dispersed shares could escape to the debt.

Contrary to what is expected from the behavioural point of view, many studies among them Barros (2005), Malmendier and Tate (2004) and Thaler and Barberis (2003), on the empirical analysis used in this research and show no increase in the level of indebtedness to the managers, as evidenced in the literature review, made with Brazilian companies. This result is not necessarily a surprise, because the authors know that there are wide ranges of variables to consider an analysis of this particular type of company. This means that, according to the criteria established for this analysis, the next survey may show different results. So, one limitation, with respect to the research objectives, is the discrepancies results.

Other conclusion involves the founding partner of the company. Information about these professionals is achieved through research via the Internet and it is expected to be quite affordable. However, there are companies that did not provide such information. So, there is a decrease of the database observed. This is another limitation of this research, because there are no sufficient data available to produce researches.

The authors know that the profile of the manager and the company culture can influence the decisions of debt. However, it was not focuses on this research and, therefore, it is understood that even small distortions can be observed. So, these relationships between other variables could be subject to further research.

In the Brazilian companies, it is possible to observe a negative and significant relationship between the founder and debt. This is a very important result for the corporate governance literature and deserves the attention allocated to it.

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Part III
Corporate Social Responsibility and Reporting Corporate Social Responsibility

The Concept of Value Beyond Economics: Social and Philosophical Roots for Corporate Social Responsibility

Massimo Costa and Patrizia Torrecchia

Abstract This paper tries to underline the importance of the concept of value for CSR and then to map the concept of value beyond Economics. In doing this it takes in consideration the Italian literature in a specific time in order to make a first step for a broader research that takes in consideration also other literatures and time.

1 Introduction

As well as in financial accounting, social and environmental accounting, closer to CSR, works with 'measurement' items. Of course measurement for CSR is much more complex than the one commonly used for financial reports for its intrinsic multidimensionality (Nicolosi et al. 2011). But, in both cases, measurement involves, explicitly or implicitly, an underlying concept of *value*. The strength of financial evaluations, is the fact we are able there to reduce to a common basis of evaluation (the 'money') every kind of performance, or—at least—we try to do that. When we move from financial to social domain, we often try to generalize our previous concept of value, but lacking of the uniformity given by the 'money' meter. In our opinion, a theoretical solution to the general problem of measurement could be found if we go under the economic 'surface' of the concept of value. Social value is not only a *generalization* of financial value, but one variant of a more general and deep concept. Value was in origin a philosophical concept. Exploring these philosophical and pre-economic roots of the concept can be useful for a correct 'problem setting' of measurement so in the financial as in the social field. Thus this paper, in the former sections, after a literature review about the relevance of 'value' concept in CSR, focuses on a national literature particularly involved on this discussion about pre-economic 'roots' of value in accounting: the Italian one (Costa and Torrecchia 2012). Afterwards, in the latter section, a theoretical 'problem-setting' is proposed as a general guide for evaluations both for financial and for social/environmental reports.

Sections 1 and 4 are attributable to Massimo Costa; Sections 2 and 3 to Patrizia Torrecchia; the overall idea of research and the reference list are due to the common work of the two authors.

M. Costa (✉) • P. Torrecchia
Università degli studi di Palermo, Palermo, Italy
e-mail: massimo.costa@unipa.it; patrizia.torrecchia@libero.it

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2 The Importance of Value for CSR

CSR has been defined in a lot of different ways. In general, it could be seen as a way for an entity to self-regulate, monitoring its activities to control where they respect the spirit of the law, the ethical standards, and the international norms (Torrecchia 2013). In other words it concerns not only the short term returns but above all the longer term sustainability that involves economic, environmental and social value. The differences in defining CSR implies a seeming contradiction among those who see CSR as a way for improving economic performances and those who see it just as way for improving social benefit that implies in return a detriment of shareholder value.

In general we could say that the main CSR aim is to make positive impacts on the environment, communities, consumers, employees in a word on all stakeholders. In doing this, the perspective changes from a *mono*-shareholder to a *multi*-stakeholder approach.

But how can we know about the entity's attitude to satisfy all the stakeholders' expectations? Being "social accountable" needs a way to check whether social responsibility has been followed and respected. The importance of "evaluating" is then obvious. The problem of evaluating implies to set the more general problem of *value*. Thus, it is necessary to explore the meaning of *value*, as a general concept. The basic assumption is that "value" is not only an accounting concept but a multidisciplinary category that, incidentally for other disciplines, is central for accounting itself.

Investigating the meaning of "value" in the specific *accounting* field implies a *meta*-disciplinary investigation on meaning and methodologies of determining "value". A classic and important topic within the contents of accounting is the "problem of evaluation". But the word/idea of value seems to be a pre-existing concept: it is not made within our discipline but is a "loan word" from other disciplines. The "solution" that can drive to an agreement in scientific community about this complex items is not easy.

The current use of "value" in "evaluation literature" is not completely satisfactory. The main debt is toward economics so it is necessary to study, above all, the economic roots of "accounting value". Economics was concerned very much with the theme of value in classical and neoclassical ages, when first accounting scholars extracted the roots that we are still using, while the economic literature of nowadays neglects a so important subject, perhaps considering it overwhelmed by "price theory". The exploration of economic source of categorial meaning of value reveals deeper sources, this time of philosophic origin. It is for that reason that we have made attempts to locate our scholars in the light of their philosophical predilections. This study reveals unexpected variations of the meaning of value: in accounting literature "value", for example, is nearly always a "quantitative" value, giving hardly ever a space for the "qualitative" side of the same concept emerging from its philosophic ground.

As said, it is necessary to underline the important influence that other social disciplines played onto accounting. However, at least from a historical point of view, accounting "measured" economic resources and—in terms of its own object of study—this brought about more overlaps with economics than other. But "economic" value is a *species* of the *genus* value (Anderson 1966) and, as better lighted by Brown, "economic measures of values are species of the genus *assigned value*, which belongs to the family *value*" (Brown 1984). In this sense, it is important for our aim to look at the real first roots of the concept of value as in the following section.

3 The *AccountingValue* Through Philosophy and Economics: The Italian Answer in the Past Century

In this section, the paper looks for the economic and philosophic roots of accounting conceptions of value, focusing on the main "classic" authors of accounting in the Italian doctrine (from XIX to the first decades of XX century).

We have examined the different authors' backgrounds following both the variables of philosophical underpinnings and economic thoughts to see what the single authors perceived as "value". In this paper we resume the main features of six noteworthy authors: Crippa and Villa for the Lombard School, Cerboni and Rossi for the Tuscan School, Besta and the first Zappa for the Venetian School in his juvenile phase, when he was *only* a member of the Venetian School and not already an "Accounting Revolutionary" (Canziani 1994).

Exploring "value" and "evaluations" in these authors gives evidence, at least, of three strata of the question: a more surface one, related to proper accounting, a deeper one, related to "value" in economics, and a deepest one, related to "value" in philosophy.

Starting with the authors of the Lombard School we can see how they were influenced by economic formulations first physiocratic and then marginalist, considering the problem on a deontological and pragmatic level. Crippa's idea of value refers to the concept of quantity, consequently, the evaluation is seen in terms of quantitative measure. Here the economic theory that seems to have influenced Crippa's work goes back to the classical economists, or perhaps, even to the physiocratics, particularly with reference to the vision of an economic system sustained by natural laws, which on the theme of value is companion to the materialistic vision of an enlightenment type of the same author. His idea recalls the reformulation of Ricardo, who, while accepting the idea that labour confers value on a particular merchandise sustains that it is important to consider not only the present work but also past work, that one incorporated into the capital goods necessary to produce goods in question.

The other author belonging to this School is Villa (1840), according to whom, value is founded on the profit, since "men give a price only to the things that can be useful to them, or from which they obtain some satisfaction, therefore by making useful a thing that was not so before, a value is created".

The measure of value is expressed in "the quantity of money that can be obtained in exchange". The same "idea of value", therefore, is relative because "two values could not be compared without using a conventional measure that is money". As we can see then value is still strongly linked to "quantity".

If we pass to the following Tuscan School, we find it linked to neoclassical economic theories and influenced before by idealism and after by positivism. It considered value as the main object of estimate and mathematical method. In fact, after these works (Cerboni 1886; Rossi 1878), our subject should be compared with the new "scientific" dimension of Accounting, begun by them.

In their work it is possible to note a clear influence of the neoclassical economic theories: the value is assimilated to the "price", and for evaluation, the subject of estimate is used, without giving to accounting the duty and the necessity of an attribution that follows its own suggestions. Cerboni explicitly quoted Walras, declaring his adhesion to the same ideas.

Following Cerbonian thought, Rossi maintained the need to give a philosophical content to the studies of our discipline. Antonio Amaduzzi defined him, in fact, as the "Philosopher of Accounting" (Amaduzzi 2004), but this time firmly oriented to positivism (Costa 2001). In his ideas value coincides with exchange one.

Finally the problem of value is a central theme in the Venetian School. The influence of economic thought goes back explicitly to Ferrara, Gide, Pantaleoni and the American institutionalism. In particular, Besta is the first author to question the *nature* and *cause* of value (Besta 1922). From his theory, of a plainly positivist kind, important studies are derived that culminated in the so called "revolution" of Zappa (Zappa 1926). With Besta, Accounting passes definitely from the formal exposition of the accounting method to the study and the knowledge of values that these accounts must contain and therefore to the treatment of the problem of the values of accounts and of annual reports. Besta reveals his adhesion to the canons of positivism already in the first footnote of his work (Besta 1922), where he quotes Spencer. The economic theories that seem to influence the work this author go back fundamentally to the ideas of Francesco Ferrara, a late classic economist, very important for Italy. Still on the theme of value, it is necessary to mention that Besta reviews other definitions provided by various economists, then to draw his own conclusions. These references are a demonstration of the cultural education of our author. He quotes Ricardo, Ferrara, Gide, Schaeffle, Boccardo, Cossa, Queirolo, Maglione, Schrott, Neumann, Gobbi, Carey, and Minghetti. In particular, he refers to Ricardo and his concept of "production cost" that, as can be seen, will be replaced by that of "reproduction" (sustained by Ferrara).

Besta recognizes that this concept can have different meanings and continues making a distinction between "use value" and "cost value", where the former refers to useful to be hoped for or to the attitude of a given utility to satisfy a desire or a need. The latter, instead, considers the effort made or to be made to achieve this useful.

But the "value" for antonomasia is, in Besta's ideas, the exchange value, that is derived from the comparison between the above mentioned use value and cost value.

Besta also accepts completely the distinction between value and price, as reported in his work. In fact, there were not many economists of his time that used the two concepts in an indistinct way.

We consider here just the first part of his work. In particular, for our purposes, the work of young Zappa taken here into consideration is *Le valutazioni di bilancio* ("Evaluations of Financial Reports") (Zappa 1910) when he had not still adopted the post-positivist and critical epistemological attitudes of his mature works.

The fundamental problem that Zappa asks is that of existence of criteria of evaluation that can be considered general. In the affirmative case, the question is "what are the criteria mostly followed in practice" and "what are the principles suggested by the major writers".

Zappa makes clear that the evaluation cannot be determined in the sense of determination of exchange value; the values of inventory cannot be attributed by procedures that follow purely economic criteria. He specifies that among the criteria of evaluation, none is perfect, none leads to determination of measure rigorously reported and mathematically exact. However, the necessity of the evaluation imposes the fixing of general criteria. Among the various criteria, the author will try to choose the one that, in his opinion, "can ensure for the financial reports that truthfulness that is searched for in vain".

4 A Problem-Setting Approach for Value in Social/ Environmental Reports

The literature survey of above widely witnesses that the correct meaning for *value* is perhaps a more central topic in social than in financial accounting. Our discussion is now ready for appointing our first notes to contribute for an open discussion on this subject.

We do not want, anyway, to put a complete theoretical proposal. We prefer a "problem-setting" approach, which could be preliminary to one or more following "problem-solving" ones, based upon this previous discussion.

As a first point we have to question if the term "measurement", now generally used and unquestioned, is fit for "assigning a value to something". The previous discussion, as a matter of fact, marks a boundary between the relatively *objective* "measurements" of *hard* sciences (length, weight, enumerations, and so on) and the relatively *subjective* "evaluations" of giving a number as a value for resources and claims concerning an entity.

If Accounting deals with translation in "signs", summarized at the end in "reports" (financial or social or environmental they can be), for "transactions and events" of "entities", we could generalize the term "measurement" by means of a preliminary distinction among the different languages we use in this translation.

Thus, we may use:

– merely qualitative signs, not expressed by a common "meter" or a proper "value", i.e. *Description*;
– quantitative and monetary signs (or expressed in other sizes than money, but always representing a tool for comparing heterogeneous resources and claims by means of a "value"), i.e. *Evaluation*;
– quantitative and not monetary signs (physical or different enumerations), where quantity is left not compared by means of a "value", i.e. *Measurement*.

All these three languages could belong to Accounting, but only the intermediate ones are central to it, for enjoying the characteristic of making homogeneous positive and negative resources (properly, resources and claims), then, to explicit the syntactic and algebraic links among the elementary quantitative measurements and qualitative descriptions. Of course these intermediate languages are also intermediate as degree of objectivity, equally far from the complex and extremely subjective languages of description and from the simple and extremely objective languages of measurement.

Then, a proper *genus* concept of value in accounting, does not concern all the recordings and reports, but it is that core number that allows to compare each other positive or negative resources. It is not necessary it is a "monetary" value; it can be a "conventional monetary" value or whatever "conventional" value, that enjoys this basic propriety.

The study of "classical Italian case" witnesses of a *chain*, where the "evaluation method" is based upon an "economic conception" of value, on its turn based on a "philosophical conception" of value and of Accounting itself. Our research is now faced with a conception of "value" that is broader than "economic one" but narrower than "social one". The *chain* could become now, then: philosophical, social, economic, accounting. If the chain is well structured, at the end, the "financial accounting" and "social accounting" variants are only *species* of a common *genus* that justifies logically both.

The concept of value is not in itself neither a proper accounting concept nor an economic or social one; its deepest foundation is to be searched for in philosophic disciplines.

In philosophy the only allowable logical conclusion in such an approach has been value is not a "thing", nor an "attribute", nor a "property", nor a "relation", briefly, value in the "state of world" in a certain sense does not exist (Hall 1952). Really, using the word of the philosopher Kant, value does not belong to "pure reason" but to "practical reason" or to "judgement". Recalling the famous Cerboni's lexicon, we might say it does not belong to the "kingdom" of *true*. It belongs to other branches of human knowledge, not interested so much on "what is" world, but more on "what it should be": value assumes a sense first in ethics (about *good*), but also in aesthetics (about *beautiful*) and finally in social sciences as economics is (about *useful*). Usually we attribute value to an *entity* (a thing, a good, a service, a concrete or abstract condition, a thought, a state of the world until an entity in the strict sense of "business") and its components only if we are able to judge it. And the strongest and deepest of these judges are the moral ones: we "trust", first of all, even without being aware of that, in ethical*values*. Values are then the translation in judgements of our final *ends*. Of course in life there are not just ethical ends. All other ends (that we may recall in terms of "aesthetic" as synonym of pleasant, opportune, fine or similar adjectives) are perhaps grounded on ethical terms. Ethical values do not need other values for themselves; aesthetic values, at the opposite, are secondary judgement and implicitly founded upon the previous ones. After the values on *ends* (about "good" and "beautiful"), we find judgements on *means* (about "useful"). This is the following ring of the chain of value and the domain of proper "social value".

*Social*value can be defined then, as the translation of upper conceptions of value (ethic and aesthetic) in the most operational domain, in one word the translation of "good" in "useful" for one or many stakeholders. Social value is then the "use value", of which economists speak, after translated in the narrower domain of economics in "exchange value" and finally, in accounting, in "evaluations"

Economic value is dealt with only when we finally pass from social "use value" to economic "exchange value". In an abstract world where exchange does not exist, likewise exchange value does not exist. It, then, implies the existence of a basic institution of economy: the *market*. Out of it (primitive or socialist economies, free transfers of money or goods, production of goods not destined to selling as public services are) determination of an economic value becomes, at least, problematic. We might define perhaps a virtual value by means of incorporated labour, but we are not sure this solution is not uselessly dogmatic and really do not understand what an exchange value may be without exchange.

Simpler is the case if we are in an exchange economy. Here it is a ratio, the potential and socially accepted exchange ratio between a good with another good.

Now let us make another step. Let us have not only an exchange or market economy, but also a monetary economy, that is an exchange economy where exchanges are generally not barters but goods against a peculiar good named *money*. Money is but a good, whose utility is to be a mean for exchanges. Introduction of a good generally accepted for payments, however, implies three consequences: value can be accumulated by money and then "survive" beyond the moment of exchange, value now has a "measurement unit" though imperfect, from a heterogeneous and abstract "exchange value" now we have passed to a homogeneous and concrete "monetary exchange value". Accounting itself would not exist without this homogeneity and without the possibility to sum up different goods. Or, better, according to our previous classification, we should get an accounting with "descriptions" and "physical measurements", but without "evaluations", i.e. without its core business.

Below this concept of value we found the concrete methods of accounting evaluations, but these go beyond the scope of our paper.

Our main concern is here to intend which is the proper nature of value in environmental and social reports. We gave above a definition of "social value" as more general than the definition of "economic value". Thus, does the value in CSR belong to the category of social value, directly derived from philosophical and ethical values, or to the category of economic value, strictly an exchange value? We think the term value in CSR is, at least, twofold. In a first approximation we mean a social value generically as a social value, but, in a second a more accounting approximation, we do not abandon at all the goal to express it in a proper exchange value and then in economic terms.

In the first approximation, we think social value in social and environmental reports is to be described by means of physical measurements (enumerations, physical indicators of quality of life, and others) where possible, and by means of rhetoric descriptions (synthesis of subjective and inter-subjective evaluations) where opportune.

But in the second approximation we want to measure flows of benefits (positive) and sacrifices (negative) for stakeholders inside and outside the entity, expressed in monetary terms. We said above that expressing an exchange value where exchange does not exist is a mistake. Then the proper "economic value" inside social and environmental must make reference to a concrete exchange: a past exchange, as in the historical cost approach, or a future exchange (an entry price for substituting an existing resource or an exit price for selling an existing resource) as in the fair value approach. Only if we will be able to supply reliable methods to indicate, for example, the "cost" for repairing a social or environmental damage, or the "saving" from a social or environmental benefit, we could use a *species* of value derived from our common *genus*. Evaluations methods will be "downhill", only technical methods derived from the general adopted approach. If we, for certain respects, will not be able to do so, then this second approximation could be simply misleading.

In every case the passages from ethic values to use values, from these to exchange values—when this is possible—and until the concrete evaluation methods, should always be made explicit and well argued in order the chain of value is transparent for the users of financial as well as social and environmental reports.

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Corporate Social Responsibility Management System: A Beverage Industry Case Study

Rita Almeida, Fátima David, and Rute Abreu

Abstract This research aims to analyse policies inherent to the Corporate Social Responsibility Management System (CSRMS) of a company that produce diet and light beverage, iced teas, juice drinks and bottled waters. This management system is based on Corporate Social Responsibility (CSR) as "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (EC, Green paper – Promoting a European framework for corporate social responsibility, COM (2001) 366 final. Brussels: Official Publications of the European Commission, July 18, 2001: 5), thus it allows the company to develop socially responsible practices (SRP). However, forgetting their real purpose, SRP are, frequently, applied on strict compliance with law, regulations and norms, although social responsibility strategies (SRS) are recognized as crucial to promote the economic and social success and the environmental sustainability.

The methodology of this research focuses on the literature review, which contextualize the CSR, in general, and the CSRMS, in particular, in its various national and international standards. Thus, the research is supported on the Portuguese standards NP 4469-1: 2008—CSRMS, Part 1: Requirements and guidelines for their use (IPQ, NP 4469-1: 2008 – Sistema de Gestão da Responsabilidade Social. Parte 1: Requisitos e linhas de orientação para a sua utilização. Caparica: IPQ, 2008) and NP 4469-2: 2010—CSRMS, Part 2: Implementation orientation guide (IPQ, NP 4469-2: 2010 – Sistema de Gestão da Responsabilidade Social. Parte 2: Guia de orientação para a implementação. Caparica: IPQ, 2010), as well as, on the International Organization for Standardization (ISO) standard 26,000: 2010—Guidance on social responsibility (ISO, International standard 26,000—Guidance on social responsibility. Geneva: ISO, 2010) and on the Social Accountability International (SAI) standard called SA 8000: 2008—Social Accountability 8000 (SAI, Social accountability 8000. New York: SAI, 2008). The empirical analysis is based on the

R. Almeida
Universidad de Sevilla, Seville, Spain
e-mail: rita_almeida81@sapo.pt

F. David • R. Abreu (✉)
Guarda Polytechnic Institute & UDI-IPG & CICF-IPCA, Guarda, Portugal
e-mail: sdavid@ipg.pt; ra@ipg.pt

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case study method that involves a profound knowledge of the reality to investigate a company, using different methods and techniques that fall primarily a qualitative research paradigm, although it does not excluded quantitative.

The results of this research show that the CSRMS implementation and sustainability strategies using the economy, efficiency and effectiveness criteria is the key to economic and social success and the environmental sustainability of the company. Indeed, this research identifies a case study that highlights the strategic approaches followed to recognize the importance of the standard in the implementation of social responsibility practices, as well as, strategies which will increase the engagement of clients and empowerment of consumers. The research proposes for this company a set of guiding principles: for top management, ethics and transparency, value chain, environmental responsibilities, information and communication, and social development.

Indeed, the authors defend, as Mintzberg (Journal of Business Strategy 4 (2, Fall):3–15, 1983), that the standardisation of CSMRS is efficient, because it simplify the company reality. Effectively, disadvantages with co-ordination by standards occur when tasks are complex and the outcome is hard to predict. Thus, standards have a minimum level of routine, such as: SRP and SRS can be guaranteed, because actions at higher levels require other procedures.

1 Introduction

The recognition that the Corporate Social Responsibility Management System (CSGRS) and its sustainability strategy are important to economic success, social and environmental development of the society in which companies are inserted, without which it would not be possible to achieve the same its efficiency and cost-effectiveness, is unquestionable (David et al. 2014). Globalization and demand for greater transparency in business have forced companies to adopt a more responsible attitude and (re)consider their way of action in a society where the welfare of citizens and the uncontrolled consumption are parallel (David et al. 2009). In fact, there is a wide range of companies proving that increasingly corporate social responsibility (CSR) has a significant impact on the pursuit of sustainable strategies.

Thus, this research aims to analyse policies inherent to the Corporate Social Responsibility Management System (CSRMS) of a company from the beverage industry, i.e., that produce diet and light beverage, iced teas, juice drinks and bottled waters. To allow companies to develop socially responsible practices (SRP), Corporate Social Responsibility (CSR):

> is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (EC 2001: 5).

However, forgetting their real purpose, SRP are, frequently, applied on strict compliance with the law, regulations and norms, although sustainable strategies are recognized as crucial to promote economic success, social and life quality, and environmental development.

Methodologically, this research focuses, on the one hand, the literature review to contextualize the CSR, in general, and the CSRMS, in particular, in its various national and international standards. On the other hand, it promotes an empirical analysis based on the case study method that involves a profound knowledge of the reality to investigate a company of the beverage industry, using different methods and techniques that fall primarily a qualitative research paradigm, although it does not excluded quantitative. The research is supported on the Portuguese standards NP 4469-1: 2008—*CSRMS, Part 1: Requirements and guidelines for their use* (IPQ 2008) and NP 4469-2: 2010—*CSRMS, Part 2: Implementation orientation guide* (IPQ 2010), as well as, on the International Organization for Standardization (ISO) standard 26,000: 2010—*Guidance on social responsibility* (ISO 2010) and the Social Accountability International (SAI) standard—SA 8000: 2008—*Social Accountability 8000* (SAI 2008). The company has already implemented an integrated Quality Management and Food Safety System, based on the standards ISO 9001: 2008—*Quality management systems: Requirements* (ISO 2008) and ISO 22000: 2005—*Food Safety Management System* (ISO 2005), respectively, which can provide a strategic view of integration with CSGRS.

Thus, as a research method, the authors used the case study, because it involves a deep knowledge of reality to investigate (Yin 2009), using a first phase to a narrative interpretive method type and a second an empirical, exploratory and longitudinal analysis, following by a factorial analysis. According to Hair et al. (2010), this analysis allows methodologically to summarize the original information (variance) to a minimum number of factors.

Given the above, the structure of the research is organized as follows. Section 2 gives an overview of the international and national standards of corporate social responsibility. Section 3, assuming the case study method, identified the company's stakeholders in accordance with the requirements of the NP 4469-1: 2008 (IPQ 2008) and ISO 26000: 2010 (ISO 2010), relating aspects as mission, vision, and SRP and SRS. Section 4 presents the research method, specifically focus on the empirical analysis. Section 5 analyses and discuss the results obtained on section previously. Finally, Sect. 6 presents the conclusions that are the research corollary.

2 Literature Review

Taking into account the literature review, there are wide ranges of organizations that show social responsibility has more and more significant impact on the society. Internationally, the Organisation for Economic Co-Operation and Development (OECD) has contributed to the debate on CSR, in presenting the principles of Corporate Governance (OECD 1999) and the Guidelines for Multinational

Enterprises (OECD 2000). The OECD promotes that an effective system of corporate governance helps to ensure that companies use their investments efficiently, taking into account the benefit of society in which they operate and their shareholders (OECD 1999). Also, each company defines its attitude in society, to contribute to the balance of the global environment, and its main problem, once accepted the concept of corporate social responsibility, their implementation (Jones 1980). Fundamentally, more transparent disclosure information made by companies lead to better management and helps the society to be more responsible.

At international level, the United Nations have promoted the adoption of a set of values and compliance with ten principles:

- In the area of human rights, specifically: 1. Businesses should support and respect the protection of internationally proclaimed human rights, and 2. Make sure that they are not complicit in human rights abuses;
- In the area of labour standards, specifically: 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. Elimination of all forms of forced or compulsory labor; 5. Effective abolition of child labour, and 6. Elimination of discrimination in respect of employment and occupation, and
- In the area of environment, including: 7. Businesses should support a precautionary approach to environmentalchallenges; 8. Undertake initiatives to promote greater environmental responsibility and 9. Encourage the development and diffusion of environmentally friendly technologies;
- In the area of anti-corruption, including: 10. Businesses should work against corruption in all its forms, including extortion and bribery (UN 2000).

Also the ISO approved the ISO 26000: 2010 (ISO 2010), that provide companies with guidance concerning SRP and SRS that can be used as part of public policy activities. In applying this standard:

> it is advisable that an organization take into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour (ISO 2010: 10).

Within these objectives, although there is no definitive list of principles for social responsibility, this standard defends that organizations should respect the following seven principles: accountability; transparency; ethical behaviour; respect for stakeholder interests; respect for the rule of law; respect for international norms of behaviour; and respect for human rights. Companies rapidly embracing highly sophisticated SRP and SRS to compliance with all these principles.

As a result, several other entities promote more standards giving voice to the society, such as the Social Accountability International (SAI) that publish the SA 8000: 2008 (SAI 2008) whose requirements apply universally, regardless of a company's size, geographic location, or industry sector. The SA 8000: 2008 is:

> to provide a standard based on international human rights norms and national labour laws that will protect and empower all personnel within a company's scope of control and influence, who produce products or provide services for that company, including personnel

> employed by the company itself, as well as by its suppliers/subcontractors, sub-suppliers, and home workers (SAI 2008: 4).

Without no doubt that one of highest contribution happens at European Union Level. The European Union (EU) start this focus with the Green Paper—Promoting a European Framework for Corporate Social Responsibility (EC 2001), which, after a public debate, followed by the communication of the European Commission on Corporate Social Responsibility: A Business contribution to Sustainable Development (EC 2002). Also, the European Commission invited public authorities at all levels, including international organizations, businesses—from SMEs to multinationals—the social partners, non-governmental organizations and all stakeholders' involved or interested individuals to express their views on how to build a framework that dynamically promotes the corporate social responsibility. The European Commission believes in this participation process as key to increase the success of the Social Responsibility and it is determine to seek for feedback on achievements, shortcomings and future challenges (EC 2014).

At the same time, numerous advances has been made at Portuguese Level, for example, the Economic and Social Council (CES in Portuguese) as an advisor body develop insights through their consultation documents in the field of economic and social policies in Portugal. One of these documents, issued an opinion in 2003, on the initiative of responsibility in companies, and proposes to:

> (...) Build a database and a system for processing and dissemination of information with regard to good practice (CES 2003: 26).

In addition, the Portuguese Quality Standard (NP) 4469-1: 2008 (CSRMS—Part 1: Requirements and guidelines for their use), which entered into force in February 2008, came to meet the needs experienced by companies in the definition of a management system for social responsibility, specifying which:

> (...) Requirements of a management system for social responsibility, which allows an organization to develop and implement a policy, objectives and actions consistent, taking into account legal requirements and other regulations which the organization subscribes. Applies to aspects of social responsibility that the organization identifies as those that can control and those who can influence (IPQ 2008: 11).

Two years later, the NP 4469-2: 2010 (CSRMS—Part 2: Implementation orientation guide) shows a company-specific guidance that address:

> each requirement of the NP 4469-1: 2008, in order to explain the reason for its existence; the interpretation of each requirement of the NP 4469-1: 2008 in order to facilitate its understanding; a set of questions that allows organizations to self-diagnose the level of implementation of NP 4469-1: 2008 and degree of operability of Social Responsibility Management System; and evidence demonstrating that allow practices and that will be important in the assessment and audit, in particular for certification (IPQ 2010: 8).

These standards of social responsibility, included in the national strategy for sustainable development (PCM 2007), to meet the needs of the present without compromising the ability of future generations to meet their own needs, advocates the following objectives: prepare Portugal to be a "knowledge society"; sustained growth, global competitiveness and energy efficiency; improving the environment and natural heritage; and more equity, equal opportunity and social cohesion.

Indeed, the success of each country, region or locality necessarily depends on its ability to specialize in what they can make it a comparative advantage, effective and dynamic, resulting from the development and local capacity for innovation. Also, the success of organizations depends on their ability to implement CSR strategies (Giró 2002). In the current global economic situation, it is essential that businesses and other organizations to develop strategies for social responsibility in their day to day, that to be successful in the future has inherent sustainability strategies and create long-term value (David et al. 2010).

These national standards come to meet the social responsibility principles defended by Schaltegger et al. (1996): transparency; accountability; and sustainability. To these, Crowther and Rayman-Bacchus (2004a) added the social contract. Accordingly, companies by combining accountability, in a responsible and transparent manner, with the creation of value and looking for new opportunities, contribute to the sustainable development of society.

According to Gelb and Strawser (2001), the transparency, as a principle, explains that corporate social responsibility makes available more information, not only to comply with legal requirements, but also to voluntarily inform their stakeholders. Similarly Duarte (2008) considers that the CSR should be seen as part of its current management and a way to voluntarily adopt behaviours that goes beyond existing laws. In this respect, Crowther & Rayman-Bacchus (2004b: 241) consider that principle of transparency means:

> the external impact of the actions of the organisation can be ascertained from that organisation's reporting and pertinent facts are not disguised within that reporting. Thus all the effects of the actions of the organization, including external impacts, should be apparent to all from using the information provided by the organisation's reporting mechanisms.

In this line, accountability can be summarized in the concept advocated by Crowther and Rayman-Bacchus (2004b: 240), considering that:

> an organisation recognising that its action affect the external environment, and therefore assuming responsibility for the effects of its actions. This concept therefore implies a quantification of the effects of actions taken, both internal to the organisation and externally. More specifically the concept implies a reporting of those quantifications to all parties affected by those actions.

Therefore, companies are responsible for their decisions and activities, reporting to the managers of companies, legal authorities and, more broadly, to all stakeholders, especially for those who bring actions taken significant negative consequences. In the development of the activities, the correct use of resources increases the discretion of companies in achieving their goals and increases the possibilities of satisfying most needs. So, the business performance depends on the principle of sustainability that for Crowther and Rayman-Bacchus (2004b: 239) is:

> concerned with the effect which action taken in the present has upon the options available in the future. If resources are utilised in the present then they are no longer available for use in the future, and this is of particular concern if the resources are finite in quantity.

Finally, Crowther (2008) considered that companies are disposed to celebrate a social contract with society, to relinquish certain rights in favor of third parties to obtain certain advantages of social order, putting interest of the individual above interest of the collective. When considering society as a set of contracts between its members and those with society, CSR can be seen with what is contractually expected in companies' actions (Moir 2001).

For those reasons, the implementation of a CSRMS requires diagnosis of all possible negative and positive impacts on companies and to promote brainstorms with all stakeholders, other than to require the preparation of an action plan to the adjustable constant development of society. For Guimarães (1984), organizations become socially responsible as they materialize this plan and leverage the genuine desire for participation and change. Despite this achievement involves costs, they can, and should increasingly be seen as an investment in the medium and long term, future generations and short-term strength, reputation and the companies' ability to meet its commitments to continue the viability of its economic and financial performance (Boas and Canabarro 2008).

3 Empirical Analysis

The empirical analysis is based on the case study method that involves a profound knowledge of the reality to investigate a company, using different methods and techniques that fall primarily a qualitative research paradigm, although it does not excluded quantitative. To investigate this further, Porter and Kramer (2006) defend that a substantial portion of company resources must migrate to a truly SRP and SRS. In the changing of this model, the role of corporate governance introduces legitimacy and it improves transparency of the mission and objectives of the company. As consequence, Aras and Crowther (2009: 64) argue that:

> Good governance levels can, for example, improve public faith and confidence in the political environment. When resources are too limited to meet the minimum expectations of the people, it is a good governance level that can help to promote the welfare of the society.

Thus, the company must address social responsibility as an understanding of three policies (see Fig. 1), that emerge as process of social change and increasing opportunities for the firm, aligning in time and space, growth and economic efficiency, environmental conservation, quality of life and social equity based on a clear commitment to the future (Carvalho et al. 2008). According to this, the company under study has:

- vision to be recognized by its distinctive, innovative and superior character in the waters market and non-alcoholic beverage.
- mission to ensure sustainable development of the company, adopting an ethical and responsible business approach. The company produces packaging (containers in PET—Polyethylene terephthalate), captures and bottles spring

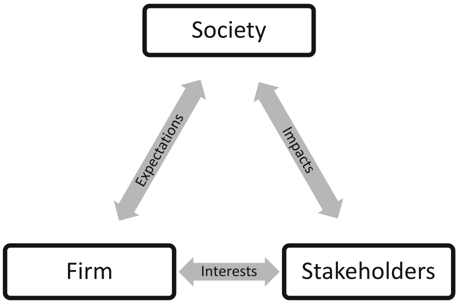

Fig. 1 Relationship between the society, the organization and its stakeholders. Source: own source

water (the water being abstracted 1400 m altitude in the Natural Park of Serra da Estrela—Portugal), bottled spring water, carbonated (in that the spring water is added to feed CO_2) and produces soft (in which the spring water are added ingredients that cause three distinct varieties of products: Ice Teas, non-carbonated fruit juices, and flavored water).

- values, in order to fulfill the mission and to scope the vision, are: 'Quality' improving and adapting the mechanisms of communication and innovation in order to achieve clients trust; 'Credibility' by building relationships based on trust and security to those to whom the company is linked; 'Competitiveness' improving the working methods and the adaptation to new technologies through the optimization of resources available; 'Differentiation', by building a management based on continuous progress with the effort and contribution of all to achieve aims, and the development of innovative products that differentiate the company in the market where it operates.

First, between the society and the firm, because the firm should understand and recognize how its decisions and activities impact on the society and on the environment, as well as, it should understand society's expectations of responsible behaviour concerning these impacts; Second, between the firm and its stakeholders, because a firm should be aware of its various stakeholders and should understand the relationship between the stakeholders' interests that are affected by the organization; Third, between the society and stakeholders, because the expectations of society must fulfill risks and challenges of the environment and collaborate solutions stakeholders. Indeed, although stakeholders are part of society, they may have an interest that is not consistent with the expectations of society (ISO 2010).

In line with the vision, mission and values, the company promotes, in accordance with the requirements of NP 4469-1: 2008 (IPQ 2008) and ISO 26000: 2010 (ISO 2010), procedures to identify its stakeholders (internal and external). As Ioannou and Serafeim (2014), the authors argue for a gradual weakening of institutional CSR logic through the emergence of a stakeholder orientation. Table 1 identifies the stakeholders of a company, based on the internal and external classification and the link, influence, proximity, dependency and representation criteria, which are explained in the subsequent discussion of each stakeholder.

Table 1 Stakeholders identification

	Classification		Criteria				
Stakeholders	Internal	External	Link	Influence	Proximity	Dependency	Representation
Employees	●	●	●		●	●	
Shareholders	●			●	●		
Suppliers		●	●				
Clients (direct and indirect)		●	●				●
Service companies (recyclers, laboratory analysis, company disinfection, hygiene and safety services)		●	●			●	
Competitors		●		●			
Local authorities (municipalities, associations)		●				●	
National authorities: ASAE; IPQ; ACT; APA; IGM; MEE; MAMAOT		●		●			
Business associations		●	●			●	
Professional associations		●			●		
Polytechnics/Universities Institutions		●			●		
Families of employees		●				●	
Syndicates		●					●

Employees The first stakeholder includes human resources that work from top management to operators, consultants and service providers. The employees are selected carefully, because the beverage industry demands constant changes on the technical and legal requirements, as well as, answer to the client preferences for the production of a product from the point of view of food safety. So, it is essential that are guaranteed the working conditions and the employees must be motivated to produce a product with quality in accordance with requirements and safety practices and manufacturing food products. Thus, the company selects its human resources ensuring compliance with constitutional principles and equal rights ('credibility'), researching the excellence of professionals ('competitiveness' and 'differentiation'), according to the positions or functions needed ('quality'). The employees classified as internal and external are selected by the link, proximity and dependency criteria.

Shareholders The second stakeholder respects to the shareholders classified as internal and selected by the influence and proximity criteria that guidance the company's ability to achieve its objectives and its performance, including the 'quality' of their products, in range of their strategic objectives. For this, it is vital that shareholders continue to invest on the company, that impact on the growing of the 'credibility' and the company value in the market.

Suppliers The third stakeholder is suppliers who play a significant role, by the link criteria, because the company needs resources from suppliers to produce their product. The selection of goods/services suppliers is based on the market prospect. Also, the supplier selection must meet the criteria of: price/quality relation; delivery; technical information; warranty and after sales service (only where applicable), to promote the 'quality', 'credibility', 'competitiveness' and 'differentiation' as values of the company.

Clients (Direct and Indirect) The fourth stakeholder is the clients (direct and indirect) that are extremely important for the company, because the company must sale to ensure its sustainability. Clients have been considered an external stakeholder based on the link and representation criteria, for the reason that the 'credibility' of the company is based on clients satisfaction and 'quality' of their products, being essential to maintain them and acquiring new ensuring the 'competitiveness' and 'differentiation' in the water and non-alcoholic beverage market.

Service Companies The fifth stakeholder is the service companies, classified as external, and obtained by the link and dependency criteria, since their services comply with the requirements of quality, environment, food safety, health and safety at work. To meet these requirements, the company works with accredited laboratories to guarantee through their services the company values of 'quality' and 'credibility' and allow the 'differentiation' and 'competitiveness' of its products in the market. Among the services companies are: the recyclers, disinfestations companies; and hygiene and safety services. The company uses the service companies, not only to increase the quality of their final product (non-alcoholic beverage), but also to remove biological or chemical waste products from the Wastewater Treatment Plant (WWTP). These recyclers are critical to recovery waste resulting from the company's activity, as a large proportion of waste is recyclable, for example, the company collected plastic, cardboard, glass, oils and lubricants, and hazardous waste, ensuring 'credibility' and 'differentiation' in concern for the environment. Another example are the disinfestations companies that contributed to increase the product 'quality' and the 'credibility' of clients.

Competitors The sixth stakeholder is the competitor, classified as external, by the criteria that can exert influence on the company, characterizing the company by 'competitiveness' and 'differentiation', values that aim the constant adaptation to new technologies, new working methods and products. To realize continuous progress, it is essential that the company is aware of market trends and trade policies of key competitors, maintaining its strategic position by delivering products with more advantageous features over the competitors.

Local Authorities The seventh stakeholder is the authorities at local level, classified as external, and obtained by the dependency criteria that have on the company, i.e., municipalities, sections of municipalities and associations contributing to local development where the company is insert, collaborate and provide certain services that help the company to maintain the 'quality' of their water resources, cleaning and monitoring its catchment area and the surrounding industrial unit. David et al. (2010) argue that local development should be part of the mission of civil society and it should not be a task the only responsibility of the State, while only requires the availability of resources and encouraging the implementation of initiatives by citizens.

National Authorities The eighth stakeholder is the authorities at national level, classified as external, and obtained by the influence criteria of legal and financial obligations. All these entities are revenants for the company, since the fulfillment of all legal obligations is critical to maintain 'credibility' on a business segment where it belongs. Some of them point out are: Authority for Food and Economic Safety (*Autoridade de Segurança Alimentar e Económica*—ASAE); Portuguese Institute for Quality (*Instituto Português da Qualidade*—IPQ); Authority for Working Conditions (*Autoridade para as Condições do Trabalho*—ACT); Portuguese Environment Agency (*Agência Portuguesa do Ambiente*—APA); and Geological and Mining Institute (*Instituto Geológico e Mineiro*—IGM). Also the ministries: Ministry of Economy and Employment (*Ministério da Economia e do Emprego*—MEE); and Ministry of Agriculture, Sea, Environment and Spatial Planning (*Ministério da Agricultura, do Mar, do Ambiente e do Ordenamento do Território*—MAMAOT).

Professional and Business Associations The ninth stakeholder is the professional and business associations, classified as external, and obtained by based on the dependency criteria. This company is associated with the Portuguese Association of Manufacturers of Natural Mineral Waters and Spring (*Associação Portuguesa dos Industriais de Águas Minerais Naturais e de Nascente*—APIAM), which represents the activity at national and international level to promote, advocate and demonstrate the high standards of 'quality' of natural mineral waters and bottled spring water. Professional associations are also stakeholder external by the proximity criteria, because they provide services for the company such as training services. Indeed, the qualification of human resources is important to the company and essential to update knowledge, guaranteeing its strategic 'competitiveness' in the market.

Polytechnics and Universities Institutions The tenth stakeholder is the Polytechnics and Universities institutions classified as external, and obtained by the proximity criteria, through the proposal for students' internships and the human resources recruitment. These institutions form and prepare future professionals for the labour market, with high technical and scientific knowledge, contributing to the 'quality' of human capital.

Families of Employees The eleventh stakeholder is the families of employees classified as external, and obtained by the dependency criteria, because the company is one of the largest local employers, so it is very important at economic and financial level to the families of employees because they are dependent on the company. The families of employees are crucial to the company best 'quality' of life of employees.

Syndicates The twelfth stakeholder is the syndicate, classified as external, by the representation criteria. The company established good communication practices with syndicates, ensuring based on trust and consequent company ‘credibility’ in compliance with workers’ rights relationship.

Given the stakeholders, their identification is based on the link, influence, proximity, dependency and representation criteria establishes on the NP 4469-1: 2008 (IPQ 2008) that considers measures for closer relationships, motivate participation and ensure the involvement of all stakeholders in the definition of the CSRMS. In parallel, the company must focus on SRP and SRS to increase the excellence of its products and in order to make an apology to the principles of CSR that support the CSRMS; corresponding to the integration of economic, social and environmental dimensions in management decisions, which leads to the existence of responsible conduct to all stakeholders (Bilbao 2008; Dias 2008).

Thus, the authors are witnessing a growing awareness by company on its contribution to sustainable development, to manage their operations in order to consolidate economic growth and increase competitiveness while ensuring the environment protection and promoting social responsibility (Heleno 2008). Latter provides the basis and foundation for a more balanced globalization and greater solidarity with others and with nature resources (Laville and Cattani 2005).

4 Research Method

Based on the proposal of Watts and Zimmerman (1986), the research method aims to satisfy two assumptions: first, the definition of variables from each management process of the company and analyse how they relate logically among themselves in order to understand the empirical phenomena; and second, the definition of substantive hypothesis is that the predictions generated by the analysis. The research hypothesis is:

> The performance indicators of the management process of the company are relevant to the policymaking inherent to the corporate social responsibility management system.

Therefore, the company has implemented an integrated Quality Management and Food Safety Systems, respectively, based on the standards ISO 9001: 2008—*Quality management systems: Requirements* (ISO 2008) and ISO 22000: 2005—*Food Safety Management System* (ISO 2005), both of them provide a strategic start to the CSRMS. Thus, the methodology is presented in a global perspective using a balanced panel data, that consists on ‘n’ indicators [A1, A2, . . ., An] described by a set of evaluation criteria with ‘m’ variables [F1, F2, ..., Fm]. Henceforth ‘F’ will be used to construct the vector of evaluation criteria and the vector [Fj] is the representation of company performance [Aj] against the vector of evaluation criteria [F].

Authors like, Reis (2001), Malhotra (2001), Pestana and Gageiro (2005), and Maroco (2007) consider that factor analysis as an explanatory method of data analysis from a set of partial indicators characterizing a particular phenomenon, identifies underlying the totality of the multiple relationships between indicators key relationships. Given the above, the authors developed a factor analysis of the type 'R', which analyzes variables to identify dimensions that are latent and not easily observable (Hair et al. 2010). Thus, the R-type factor analysis summarizes the original data into a smaller set of core components which are called by PC1, PC2, . . ., PCn and then, it implies a minimal loss of information from the original variables with 'μ' mean, covariance and correlation matrix 'Σ'.

$$\underset{\sim}{X}' = [X_1\ \mathrm{X}_2 ...\ \mathrm{X}_\mathrm{n}] \tag{1}$$

The software used for the analysis is SPSS for Windows® version 22.0. In choosing the methodology, intending to greater total variance, appealed to the principal component analysis. This method of statistical analysis should lead to results not correlated, so if you have used all available methods of extraction Var [PC1] ≥ Var [PC2] ≥ Var [PCq]:

$$\begin{array}{l} PC_1 = a_{11}x_1 + a_{21}x_2 + ... + a_{n\_1}x_n \\ PC_2 = a_{12}x_1 + a_{22}x_2 + ... + a_{n\_2}x_n \\ \qquad\quad ... \qquad\qquad ... \\ PC_q = a_{1q}x_1 + a_{2q}x_2 + ... + a_{n\_q}x_n \end{array} \tag{2}$$

The main objective of the principal components analysis is to reduce the data and to identify a small number of components, which can explain most of the variation in the original variables (Hair et al. 2010). In this analysis, the objective is to use data reduction and thus identify the components that explain most of the variation in the original variables (Pereira 2004). In this analysis, the work of interpretation of results is complex, but it is one of the important tasks of the research analysis, discussion, reasoning and understanding of the generated results (Hair et al. 2010).

Thus, the initial sample consisted of 74 performanceindicators as variables, aligned according to their specificities, with 13 management processes of the company, namely:

- *Document Management Process*—Defines controls needed for identification, storage, protection, retrieval, retention time and disposition of records checks;
- *Infrastructure Management Process*—Ensures proper determination, welfare and maintenance of infrastructure, taking into account the needs and expectations of stakeholders;
- *Nonconformity, Corrective/Preventive Action Management Process*—Ensures that the product does not comply with specified requirements is identified and controlled to prevent its unintended use or delivery;
- *Policy and Strategy Management Process*—Defines the monitoring and development of objectives, as well as, promotion of actions and then revise the management system to improve it and upgrade the system, processes and products;

- *Human Resource Management Process*—Defines the methodology for human resource management to ensure the existence of employees motivated for the proper performance of their duties;
- *Purchasing Management Process*—Defines how to objectively evaluate and select suppliers, according to the results of the assessment of their suitability to supply/provide products/services required;
- *Output Management Process*—plans and executes, under controlled conditions, the production;
- *Logistical Process*—Defines the management method of product in warehouse and distribution, under controlled conditions, ensuring control of inputs and outputs and the availability and supply of the product;
- *Process Customer Management*—Ensures that before a commitment to supply a product to the customer requirements are defined and the requirements of the contract/order than those previously expressed are resolved;
- *Design and Development Management Process*—Sets the Design and Development Process, under controlled conditions, necessary for the specification of a new product or change to an existing product;
- *Management, Monitoring and Measurement Equipment Process*—Ensures that all Management, Monitoring and Measurement Equipment used in the verification and validation of products and processes are effective and efficient in order to ensure the satisfaction of customers and stakeholders;
- *Audit Management Process*—Defines the methodology for planning, execution and follow-up audits of the company, in order to determine the degree of implementation and effectiveness of the Food Safety and Quality Management System;
- *Food Security Management Process*—Aims to define the methodologies to be followed in the area of food safety and Hazard Analysis and Critical Control Points (HACCP).

Since the company falls within the beverage industry and must meet the requirements provided by ISO 22000: 2005 (ISO 2005) and, in accordance with, the hazard analysis and critical control points, in order to communicate relevant information in terms of food security-related products along the food chain, the existence of effective internal communication and, finally, the guarantee that the food safety management system is regularly evaluated with regard to their implementation and efficacy to increase suitability.

5 Results

As Oriol (2002) defends, theory and practice of corporate social responsibility is based on priorities, expectations, attitudes and behaviors of individuals. In this way, there is no doubt that the stakeholders reward socially responsible organizations. For example, the minimization of plastic waste in the company as a variable of

Social Responsibility Policy contributes to environmental sustainability as part of the conscious activity of the impacts of economic development model. Also, Oriol (2002) argues that socially responsible behaviour must be measured through quantitative and qualitative indicators related to internal effects such as employee's satisfaction, and external effects such as client's satisfaction and their relationship with the environment.

The empirical analysis identifies and summarizes into a smaller number of new variables (principal components) not correlated, the information that was contained in the original set of correlated variables, but without lose information contained in the initial set. Malhotra (2001) considers that the principal components analysis takes into account the total variance in the data, being the diagonal of correlation matrix composed of units and full variance introduced in the matrix factors. After the depuration process, to examine the appropriateness of factorial analysis is used the Kaiser-Meyer-Olkin (KMO) statistics as a measure of sampling adequacy and another useful statistics is Bartlett's Test of Sphericity.

On the one hand, the KMO statistics allows comparison with the simple partial correlations between observed variables (Pestana and Gageiro 2005), i.e., compare the correlations between the principal components (Reis 2001). When KMO presents small values indicates that the correlations between pairs of variables cannot be explained by other variables and that factor analysis may not be appropriate (Pestana and Gageiro 2005).

On the other hand, the Bartlett's Test of Sphericity is applied when the data come from a multivariate normal population and can be used to test the hypothesis that the correlation matrix is an identity matrix and its determinant is equal to 1, verifying variables that are not correlated (Maroco 2007). When the level of significance associated with this type of test is less than 0.05 rejects the null hypothesis that the correlation matrix in the population to be the identity, showing that there is a correlation between the variables (Pestana and Gageiro 2005).

Following this, the principal component analysis used a varimax method rotation that transforms coefficients of principal components retained in a simplified structure. The aim is to divide the original set of variables into subsets with the highest degree of independence possible. According to Pereira (2004: 230) using the Varimax method:

> for each principal component, there are only a few significant weights and all others are near zero.

The results of Table 2 show that the KMO statistics presents 0.747, indicating that the principal component analysis have a good level of explanation and there is a positive correlation between variables (Pereira 2004). The Bartlett's Test of Sphericity reached 542.169, for a significance level of 0.000 and 78 degrees of freedom, rejecting the null hypothesis, which allows, once again, to confirm the adequacy of the factor analysis method for the data treatment.

This data treatment was subjected to a principal component analysis, with varimax rotation, and, for each policy selected specific variables weighing with more than 0.50 saturations. CSRMS policies implemented on the company are

Table 2 Statistical tests of the appropriateness of the factorial analysis

Kaiser-Meyer-Olkin measure of sampling adequacy		0.747
Bartlett's test of sphericity	Approx. Chi-square	542.169
	df	78
	Sig.	0.000

Table 3 CSRMS policies implemented on the company

Variable	Quality policy	Social responsibility policy	Trade policy
Satisfaction of orders	**0.894**	0.181	−0.241
Compliance of calibration program	**0.884**	0.200	−0.234
Effective corrective/preventive actions	**0.857**	−0.031	−0.383
Sales growth for the mark "G"	**0.751**	0.264	0.008
Accordance infrastructure	**0.616**	−0.196	−0.001
Sales growth resulting from a new product	**0.486**	0.033	−0.471
Production volume	−0.246	−0.161	**0.813**
Electricity consumption	−0.035	0.096	**0.797**
Water consumption	−0.327	−0.400	**0.606**
Satisfaction of clients	−0.023	**0.870**	−0.021
Satisfaction of employees	−0.080	**0.713**	−0.227
Plastic	0.157	**0.684**	0.270
Compliance of training program	−0.238	**−0.520**	0.262
Explanatory variance	**28.855**	**18.320**	**17.986**

presented on Table 3 that gives the results were obtained three policies, highlighting that the explanatory variance of the first factor amounts to 28.855%, the second factor with 18.320% and the third factor with 17.986%, for a total of 65.17%.

Principal Component 1 The first principal component is identified by six indicators of different processes that guide the CSR management system to increase the 'Satisfaction of orders' with a coefficient of 0.894, the 'Compliance of calibration program' with a coefficient of 0.884, the 'Effective corrective/preventive actions' with a coefficient of 0.857, the 'Sales growth for the mark "G"' with a coefficient of 0.751, the 'Accordance Infrastructure' with a coefficient of 0.616 and the 'Sales growth resulting from a new product' with a negative coefficient of 0.486. All these variables allow to classify this principal component as *Quality Policy*.

Principal Component 2 This principal component is identified by four indicators of different processes that guide the CSR management system to increase the 'Satisfaction of clients' with a coefficient of 0.870, the 'Satisfaction of employees' with a coefficient of 0.713, the use of 'Plastic' with a coefficient of 0.684 and the

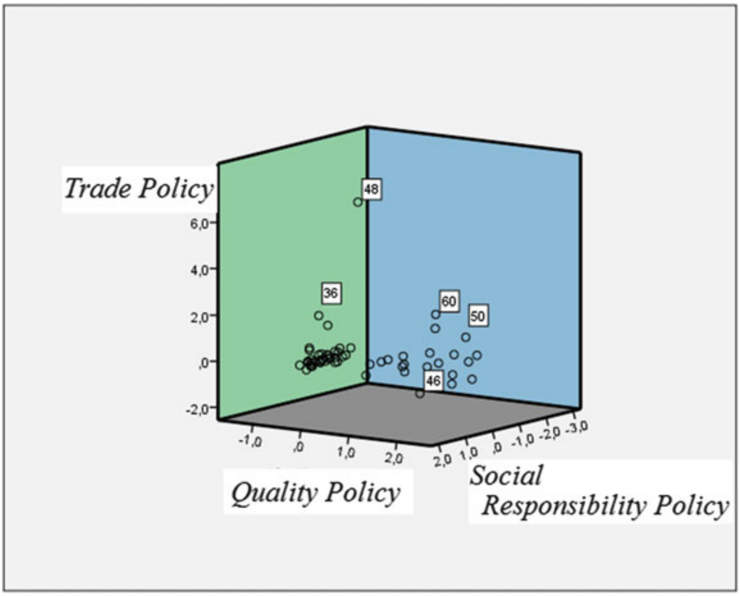

Fig. 2 Spatial distribution of the CSRMS policies implemented on the company

'Compliance of training program' with a negative coefficient of 0.491. All these variables allow to classify this principal component as *Social Responsibility Policy*.

Principal Component 3 This principal component is identified by three indicators of different processes that guide the CSR management system to increase the 'Production volume' with a coefficient of 0.813, the 'Electricity consumption' with a coefficient of 0.797 and the 'Water consumption' with a coefficient of 0.606. All these variables allow to classify this principal component with *Trade Policy*.

Figure 2 shows the spatial distribution of each CSRMS policies implemented on the company and, at the same time, the effects of socially responsible policies—*Quality Policy Social Responsibility Policy* and *Trade Policy* followed by the company.

The *Quality Policy* is related with satisfaction of client's orders, to ensure their loyalty through the compliance of calibration program to ensure products with quality management system within the specifications defined by clients, in which the product excellence is a predominant factor. In this context, the company seeks to implement always effective corrective/preventive actions, with a view to continuous improvement of quality management and food security systems, as well as, the manufacturing processes, taking the worry of ever improving accordance infrastructure to maintain high standards of food hygiene and safety and sales growth of the mark "G—Glaciar". This mark reflects the company's image, from which the marketing margin is greater, in parallel with the sales growth of the mark "D—New Product".

Accordingly, the *Quality Policy* is associated with different concepts and forms. For example, Crosby (1979) emphasizes the quality associated with specifications compliance or requirements compliance of the products or services, i.e., zero defects, in pursuit of ever implementing effective corrective/preventive actions. On the other hand, Juran and Gryna (1988) and Feigenbaum (1991) stress the importance of satisfaction of client's orders, the first authors by fitness for use and the second author by the set of product characteristics. Reeves and Bednar (1994) note that there is no universal definition of quality, but there are different definitions of appropriate quality to different circumstances, with the common point the client. Thus, based on these results, the *Quality Policy* must meet the following aspects:

- Permanent client satisfaction by ensuring production of the quality of products, from the point of view of food security, in accordance with the client requirements, being excellence a differentiating factor;
- Dedication and constant commitment with a view to continuous processes and products improvement, in order to minimize corrective actions;
- Promotion of product sales of the mark "G—Glaciar" in parallel with the mark "D—New Product" to ensure business sustainability.

The *Social Responsibility Policy* is concerned of client's satisfaction, cemented in attracting and maintaining clients, aiming to achieve and enhance the company's competitiveness in the market, ensuring its long-term success in extremely competitive as current, where clients are increasingly demanding. In this context, the client's satisfaction is particularly important in fostering future business for the company, since clients who feel satisfied with a product differentiator and excellence convey his satisfaction, functioning as a positive means of expanding the client portfolio of the company. Moreiras (2010) argues that, actions classified as social responsible carry positive responses from clients, in terms of organizational image and reputation (Herrera and Díaz 2008; Lindgreen et al. 2008; Machado Filho 2002) and clients seem to maintain a certain level of loyalty to organizations that maintain this social investment and become resilient in their consuming habits.

Also, ensuring satisfaction of employees is relevant to the *Social Responsibility Policy* because the employees are essential to the company success and competitiveness, to be partners in their growth and crucial to the continuous improvement of management systems. Accordingly Rangan et al. (2012), the company's code includes requirements that employees are compensated fairly, are not exposed to a dangerous or environmentally unhealthy working environment, and are treated ethically in the workplace. Additionally, the implementation of the training program, through the professional development of employees and implementation of systematic training activities with a view to continuous improvement and lifelong learning, considering the applicability of the same functions performed by employees, contributes to their motivation. To confirm this, the study by Santos et al. (2006) found, like Sousa and Duarte (2009), which most values on the area of CSR promote.

the development of people working in the company" and the major motivation for developing SR practices were "*economic performance*" followed by "*increased workers satisfaction and motivation*.

Therefore, the *Social Responsibility Policy* must take into account the following principles:

- Concern for systematic client's satisfaction and continuing concern for the improvement of working methods to produce a *premium* product;
- Respect the human rights of employees, promoting stability in work and family life, guaranteed work hours, fair pay and conditions of safety and health at work;
- Investment in human resources development, ensuring equal opportunities, rejecting any kind of discrimination, in the continuous improvement of working methods and adapt to new technologies, promoting ongoing training and information of its employees;
- Inclusion of environmental and social aspects in the company's strategic objectives, identifying and managing risks deriving from economic, environmental and social impacts related to its activity, the use of raw materials wherever possible 100% recyclable, pollution prevention resulting from the company's activity, including the reduction of emissions of volatile organic compounds into the atmosphere and reducing the amount of waste and reduced energy consumption.

The *Trade Policy* is linked to the desire to garner more clients and to increase the company production volume and the sales volume, as well as, minimize costs of water and electricity consumption by improving the efficiency and effectiveness of the company's manufacturing processes, which enable the production of more products and units that allow greater sales volume and then being more sustainable. However, Crowther and Aras (2008) argue that client's expectation is not only related with the products cost but it is related to quality, proper production process and environmental responsibility.

The practice of cost-benefit analysis presents several examples, such as: AECA (2000), Solá (2003), and Robbins and Coulter (2005), which considers that resources must be purchased in lower quantity, but with higher quality. So, there is a direct relationship between cost of resources consumed or applied (inputs such as water and electricity) and prices of goods produced (outputs such as bottle of water). Intrinsically, the *Trade Policy* is based on the principles, characterized by a distinctive and competitive advantage:

- Increase sales volume, in the national and international market, through the presentation and dissemination of quality products and excellence, promoting the reputation and sales of the mark "G—Glaciar";
- Development of new products and sales of the mark "D—New Product" that are the client interest to establish commercial partnerships at this level;
- Modernization and company efficiency, including the upgrading of its infrastructure for high performance in the production and minimizing impacts on the water and electricity consumption.

The results allow the authors to conclude that the three policies—*quality, social responsibility and trade*—are relevant for the implementation of a Corporate Social Responsibility Management System and therefore perfectly justified in the strategy of excellence of the company. Indeed, the authors defend, as Mintzberg (1983), that the standardisation of CSRMS is efficient, because it simplify the reality of the company. Effectively, disadvantages with co-ordination by standards occur when tasks are complex and the outcome is hard to predict. Thus, standards bring potentially significant advantages, such as: social responsibility practices can be guaranteed, because actions at higher levels require other procedures which impact on the performance and reduction of risks on the company and on the beverage industry.

6 Conclusions

The results of this research show that the CSRMS implementation and sustainability strategies using the economy, efficiency and effectiveness criteria is the key to the economic and social success and the environmentalsustainability of the company, supported by factors such as leadership, continuous learning, development of partnerships and participation strategy of excellence of all stakeholders.

On the one hand, this research identifies a case study that highlights the strategic approaches followed to recognize the importance of the standard on the implementation of social responsibility practices, as well as, social responsibility strategies. On the other hand, the results show the existence of three socially responsible policies—*QualityPolicy Social Responsibility Policy* and *Trade Policy*—supported for the NP 4469-1: 2008 (IPQ 2008), the NP 4469-2: 2010 (IPQ 2010) and ISO 26000: 2008 (ISO 2008), who advocate the participation of all stakeholders.

By acting in an increasingly complex market, the company needs to outline a strategy of excellence that meets challenges posed by stakeholders at information transparency level. So, it is essential to collect indicators of efficiency and effectiveness that include internal and external variables of the company management systems, with the purpose of evaluating this alignment of the indicators with company decision policy. In this regard, the company must develop better tools to control the efficiency and effectiveness of its activity, and the economic use of resources, with a view to ensure its future sustainability. To do this, the CSRMS should be constituted as to support decision-making tool to guide the company on the path of progress and development, although, according to Santos et al. (2006), there are different perspectives regarding the social responsibility.

However, this research has not been made without limitations. The first relates to the methodology developed, specifically the case study method, which helps to find indicators and the most appropriate management system. But, at the same time, it present problems of generalization. The second relates to the continuous improvement process that is increasingly demanding and, to that extent, the company should undertake behaviours protected by the SR principles in order to adjust their actions to socially responsible behaviour, contributing to competitiveness and welfare of society in which they operate, on an efficient, effective and socially responsible way.

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Choice, Freedom and Responsibility in Public Administration: The Need for CSR Reporting of Core Activities

Paolo D'Anselmi, Athanasios Chymis, and Massimiliano Di Bitetto

Abstract This chapter is a presentation of the Di Bitteto et al. (eds) *Public management as corporate social responisbility: the economic bottom line of government*, Cham: Springer, 2015 book. The main idea of that book is developed through the use of six case studies. We use the case studies as empirical evidence in an attempt to bridge the gap between the mainstream Corporate Social Responsibility literature and the intrinsic characteristics and attributes of organizational structures that make up governments and public administration in order to obtain an all-encompassing articulation of Corporate Social Responsibility that pertain to all organizations. Such is a reformulation of CSR beyond the special programs for social and environmental concerns, a new CSR that identifies the social responsibilities in the core activities of all organizations and worries about the accountability of such responsibilities and impact. We frame then the problem of accountability in public administration and indicate an issue: the issue of CSR of public management. This chapter illuminates a different CSR perspective and sets forth a question rather overlooked in the management and social responsibility literature: is CSR pertinent to public management? The selection of case studies of excellent public management, that is discussed here, through the presentation of diverse perspectives of public management, reveals that social responsibility should be an essential component of public administration techniques.

P. D'Anselmi (✉)
University of Rome Tor Vergata, Rome, Italy
e-mail: paolodanselmi@gmail.com

A. Chymis
KEPE - Centre of Planning and Economic Research, Athens, Greece
e-mail: achymis@kepe.gr

M. Di Bitetto
Italian National Research Council, Rome, Italy
e-mail: massimiliano.dibitetto@cnr.it

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1 Introduction

This chapter is part of an ongoing project on a reformulation of CSR—Corporate Social Responsibility—and its implications for public administration (Chymis 2008; D'Anselmi 2011; Di Bitetto et al. 2013; Di Bitetto et al. 2015; D'Anselmi et al. 2017) and it develops a key step of such project's argument: there is choice in public management and public administration; such choice implies there is freedom as well, and such freedom implies responsibility. Responsibility brings the need for CSR (or simply SR) reporting of core activities of public administration, just like it does for private business.

The collection of case studies in excellent public management that is presented here shows how the variety and discretion of managerial endeavors in public management calls for accountability and responsibility of government and public administration well beyond current legal instruments. Therefore CSR must be brought to bear with government and public administration as well. In government in fact, like in business, management is not a linear process, but it is a process that implies choice, free choice, and therefore responsibility. The cases range in their location from the USA to Central America, from New Zealand to Europe, and they all confirm the complex nature of public management, entailing—among others—complexities such as public-private partnership synergy for disaster recovery, such as the intertwined link between management and new technology and entailing even the spiritual domain of mindfulness at the individual's level. These complexities show how public management implies choice and freedom at all levels. Such freedom implies responsibility, core business—or core activities, if the word business may raise an eyebrow—responsibility in the public sector (government, public administration, State Owned Enterprises), which is not so far theorized in the CSR literature. Nowhere is it theorized that public managers and public employees should be accountable for their work. Better yet: that is theorized at a legal level, but that is not management.

Therefore in this paper we show some of the complexities of the individual cases and from these complexities we infer that public management is a domain of freedom for public employees and public managers. Freedom implies responsibility and such responsibility—in the core business of the organizations of government and public administration—implies the extension of the concepts and precepts of CSR to public administration as well. This is all unknown and uncharted terrain in current discourse, in current democracies. We hardly find trace of awareness of this lack of accountability. Drèze and Sen (2013) do complain about lack of accountability in the public sector in India, but they see it more as a high level political issue; they do not see it as a management problem and a general problem that needs specific foundations. There are of course investigations, congressional hearings, accounting offices that perform the task of accounting for government action, but there is no comprehensive raison d'être for such accountability and above all there is no political awareness in the citizens and in the public and private workers that public management is an important area to be accounted for. There are consequently very few instances of accountability at a lower level, lower than the political level, like CSR reporting by public administration would be, parallel to CSR reporting in private businesses. It is this lack of awareness that we will call, from now on, the "unknown stakeholder" (D'Anselmi 2011; D'Anselmi et al. 2017). Management is neglected, especially public management is neglected and squashed between law and politics. The very distinction between public and private organizations is very often a merely legal one.

From the argument about the logical chain choice—freedom—responsibility, stem three consequences. (1) A philosophical elaboration on the notion of the unknown stakeholder: "A New View to Unveil the Unknown Stakeholder", by Maria Alice Nunes Costa (2015). (2) A link to the theory of bureaucracy: "On bureaucratic behavior", by Andrea Lapiccirella (2015). (3) What is to be done then? "Business-government relations", by Salvatore Pettineo, (2015) is a proposal for an extension of the use of social media to monitor behavior of governments as effectively as they are used to monitor behavior of the corporations. We therefore try to usher a convergence of sciences, so that CSR intersects public management besides intersecting private management, at least the responsibility and accountability part of it. The emergence of a new figure in the stakeholder domain, the unknown stakeholder, creates a bridge between management and CSR in general. CSR "intersects" both private and public management.

Before we proceed there are two expressions that need clarification: the use of the words "government" and "public administration" in this paper as well as the locution "mainstream Corporate Social Responsibility". What is called "government" in the American culture is called "public administration" in the European culture. In the European culture, the word "government" means the cabinet politicians, the ministers or secretaries, the top politicians who govern the executive branch. As we have already been doing, we use both terms "government" and "public administration" interchangeably, as synonyms. We also use the locution "public sector" as a synonym of the same terms. When we use these terms we mean the thousands and thousands of people—millions in many cases—who are government employees, at all levels, including directors, management people, CEOs of the state owned corporations, employees of the central ministries and employees of local governments, all the way down to the level of municipality and village. To give an order of magnitude we are talking of figures in the range of 15% of the employed population. In a country of 60 million people and 23 million employed, such as Italy, we are talking of 3.4 million people only in "hard core" public administration (D'Anselmi 2011). When we include also those who are employed in state owned enterprises, in the monopolistic sectors and in the heavily regulated industries, we reach six million people overall, i.e. more than a quarter the employed population (D'Anselmi 2011).

The second expression needing clarification is "mainstream Corporate Social Responsibility". Mainstream CSR is a notion confined to the for-profit corporations. When we take into consideration the "early" definition of CSR given by the

European Commission (2001), we find CSR belonging only in the social and in the environmental bottom line of corporations: CSR is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". When we analyze this early definition, we realize that it does not take into account the so called triple bottom line reporting definition of CSR. The early European definition is only concerned with the social and the environmental bottom lines. The economic bottom line is not taken into account.

Luckily enough the "renewed" European Commission (2011) strategy for Corporate Social Responsibility includes "some" of the core business: CSR is "the responsibility of enterprises for their impacts on society". And CSR implies:

> Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large; identifying, preventing and mitigating their possible adverse impacts.

Good enough "consumer concerns" have found their way into the definition of CSR. So CSR now takes the economic bottom line less for granted than it used to, since consumer concerns are in the economic bottom line of the organization.

When we speak of the domain of application, nowhere does mainstream CSR concern itself with anything else than the enterprises, the for-profit, privately held organizations. The rest of the organizations that make up the economy and the social fabric are not mentioned at least explicitly, thus, implicitly assuming they are per se socially responsible. It is therefore our intention to broaden the meaning of the term Corporate Social Responsibility to include organizations beyond private corporations, i.e. public enterprises, all government and all bodies of public administration.

2 Developing the Argument: Discretionary Behavior Implies Responsibility

Mainstream CSR implies that corporations are driven by profit maximization, which, in turn, is assumed to be driving corporations against society's broader goals of survival on this planet and social equity and advancement (Chymis 2008; Treviño and Nelson 1995). The implication of mainstream CSR is that profit maximization explains all of the core business behavior of the corporation. The introduction of "consumer concerns" in the 2011 European Commission definition of CSR is a welcome crack in this assumption: it implies that consumer concerns are at least imperfectly taken care of under the profit maximization paradigm. That is the only concession the mainstream definition of CSR does to question the neo-classical micro-economic credo of profit maximization. And in fact the mainstream

CSR assumption, that profit maximization goes against society's broader goals, may not be necessarily true (Chymis 2008).

On the other hand, in mainstream CSR, government or public administration is supposed to be accountable per se. This happens because the normative and the positive points of view overlap in a Weberian view of public administration which assumes that organizationswork as perfect and rational automata behaving exactly as they should on paper (Lapiccirella 2015). In Max Weber's view, the normative and the positive approach are the same, there is no difference between the conditional and the indicative tenses of reality (Lapiccirella 2015). This is very much what is embodied in administrative law and in any law that specifies what government should do. The assumption that the government is accountable per se is based mostly on the Weberian view; alternatively it could be based on the election system: people may assume government as accountable because every four or five years people vote and if they don't like the government, they can change it; so in this sense the government is accountable (at least in part). However the accountability generated by the election system hardly applies to the government as public administration, whereas it may apply to the government as executive cabinet ministers. Elections do not in any case hold accountable all minor and major public organizations that deal with citizens in everyday life such as enterprises/organizations that deal with tax collection, regulation, public education, public health, public works, judicial system, licensing authorities, and every kind of public mechanism citizens as well as businesses transact on an everyday basis.

The view of government as per se accountable runs contrary to the notion of public management itself, because public management is the science of investigating and solving the complexities of public action, and such complexities testify that government is not per se accountable (Moore 2013). Public management is the set of disciplines that recognize the specificity of management in a public environment. We broadly define a public environment as a variety of non-profit, politically driven and tax supported organizations.

When we realize that public management is exactly the opposite of the Weberian view of public organizations, we wonder where the accountability of this complexity is and who asks for it. In practical terms, the answer is: nowhere, nobody. But in reality everybody, everywhere—in a dispersed and un-organized fashion—is asking for an efficient and accountable public management. However there is no actual stakeholder for effective government. Better yet, the stakeholders of effective government are not aware of their stake; they are not clearly identified, nor do they identify themselves. That is why we call them "unknown stakeholders".

We believe CSR can be an answer. The discipline of CSR was in fact exactly designed to fill in the gap of accountability of the wider and unintended consequences of organizations in the private sector. We believe that the same discipline can effectively be extended to organizations of the public sector. That is why we argue that Corporate Social Responsibility should apply to public management.

The question could arise here whether public management should be a piece of CSR or the other way around. That is: should CSR be a piece of public management?

Indeed, CSR could become part of public management. Public management could integrate CSR practices, CSR philosophy, CSR concept in its operation. However we believe these are interdependent disciplines, interacting with one another and intersecting each other. No prevalence of one over the other is implied here.

We also believe there is an opportunistic reason to have CSR intersect public management and this motive is the great attention CSR has gained over the decades. Through CSR and its success in the private sector, attention can be drawn to the unacknowledged responsibilities of the public sector and monopolies, which are usually government regulated, licensed or in any way shielded from market competition.

Public management should, rather than could, be affected by CSR because there is no other place where government accounts for its own positive reality. And government must account for its own reality. That is why CSR in government could even become a needed instrument rather than a voluntary instrument. It is the nature of public organizations (not affected by competition) that makes necessary a mandatory rather than a voluntary accountability. A major component of public organizations accountability is the economic level of responsibility. Citizens need to know how their hard earned tax-money are spent and if the quality of public goods and services is to the level they expect it to be.

However, the aim of our argument is to raise public (i.e. of citizens and businesses) awareness so that they ask for public sector accountability. We do not imagine imposing it. Much like in the private sector, firms that are socially responsible voluntarily, do so because it is to their long run benefit and because it builds and strengthens the trust-relationship between them, their customers and society at large. Similarly, CSR in public administration could help build a better relationship between public organizations and the citizens—tax-payers.

The six cases that we present in this chapter show the degree of freedom that is enjoyed in public management vis-à-vis the Weberian credo that everything is predetermined by law. By a logical grouping (inductive) argument, we then make the statement that if such freedom is in all the instances that are presented here, it is everywhere in public management. Such freedom proves a post-Weberian approach to public management (Lapiccirella 2015), implying that public management is as discretionary as private management and the economic bottom line of public management does indeed exist and it needs to be subject to CSR scrutiny as much as the economic bottom line of business firms.

We also point out that such a point of view has no organized stakeholders in the political and scientific arena. Much of the employed population is an unknown stakeholder (D'Anselmi 2011; Di Bitetto et al. 2013) of effective public management. Unknown means unaware of themselves and ignored by others. The majority of the working population does not demand good public management. They complain and they bear with it. Most people believe the ineffectiveness of public organizations is cultural, i.e. that it is confined to their own country (Putnam et al. 1993). Many people in the world believe they are a unique case and their public administration is worse than all others. We want to raise awareness that this is not the case. Public administrations of all countries are alike. Cultural differences are there, but also many common problems and phenomena are there. Belief in the uniqueness of one's own public administration is part of the problem. This is why we argue for bureaucratic behavior and believe Max Weber's ideal of rational bureaucracy and devoted civil servant is a misleading idealization (Lapiccirella 2015).

3 Analyzing Excellent Public Management from a CSR Point of View

We are now going to present and describe the case studies we use in order to build our argument. Following is a brief discussion of each case history of excellent public management. Then we outline some features of public management revealed in each case that provide clear evidence for the thesis: in public management—as in private management—there is discretionary behavior and creativity which in turn imply choice, which implies responsibility.

The first case study, "Evolution of a Digital Library: Testing the Limits of Universal Collecting at the Library of Congress", by Nancy Eichacker (2015), from the Library of the Congress, is about digital curation at the Library of Congress in Washington, D.C. This case shows government as a leading edge customer, as it performs tasks that are unique and new in the economy. This is not mandated by law. The implementation of the law mandate is filtered by the skills, the knowledge, the office politics and the work effort of those who are tasked with the endeavor at hand.

Also in the text we find expressions like "trial and error", "improve productivity and efficiency", we even find the editing of a "cookbook" as a handbook for a "provisionary moral code", since nothing else is available. We notice that the language and the experience of public management is the same as in private management, it maps uncertainty and arbitrariness as well as professionalism on behalf of those who work in the public sector. No legislator would dare writing of "trial and error" in their legislation, but that's what it takes to implement legislative mandates at their best.

The perspective of our argument is public management as opposed to public policy, as we clarify below. It is however important to recognize that excellent public management and sound public policy go together. In fact a key motivating force of the people at the Library of Congress was their interpretation of the easy availability of wide-ranging information to be an important public good and in fact a pillar of democratic society. They saw their work to be inherently governmental in that no other institution could or would do what the Library was doing on the scale the Library had chosen to do it; this was appropriate work for the government to pursue, even if private partners played a key role.

Mauro La Noce (2015), from the Italian Competition Authority, in the second case study, presents his experience in "Designing a management information system for competition law agencies". This text explicitly speaks of absence of a market to establish the effective value of the institution's services, which significantly complicates the use of terms such as efficiency and effectiveness. The use of these terms is complicated, but it is not made irrelevant, on the contrary the absence of a market mechanism even broadens the field of uncertainty and freedom of choice. The market in fact is an institution that provides information based on supply and demand. The absence of such a mechanism does not convey any information regarding demand and supply of the good or service a public manager decides to provide, hence the uncertainty and freedom of choice.

Josef Leitman (2015), from the World Bank, reviews "Partnership systems to manage post-disaster recovery" in several specific instances, around the world. This case speaks of public-private relationships and it shows there is really no clear-cut border, no division of labor between public and private sector, like it happened in the financial crisis. The financial crisis of 2007 blurred the boundaries between public and private sector, many private sector institutions having been in need for rescue from the public sector. At the same time, many would argue that it was the public sector that initiated the problem in collaboration with central banks, institutions that are not subject to market competition (Boettke 2010).

"Measuring the performance of research organizations", is the fourth case study where Massimiliano Di Bitetto (2015) deals with measure of performance at the National Research Council in Italy. The case shows methods for evaluating scientific work—across the diverse European research organizations—can be very different: either very quantitative or very qualitative. The difference in performance of the diverse organizations must be then in the execution, or implementation, of policies, i.e. in the last lag of performance, the all too human act of doing things, remote from law and regulation, from organizational structure, remote from the governance schemes. This is freedom at its best.

In the fifth case study Athanasios Chymis and Antonis Skouloudis (2015) present a successful example of a country's economic crisis management. Their text—"Far away, so close? Examining the growth potential of Greece through the lens of New Zealand's paradigm"—is about managing economic crises. This is the only case about macro-policy, but we notice how much execution and implementation are important in this case as well. It is very interesting to see why and how transparency and accountability (i.e. CSR) got implemented in an economy as a whole. Institutions, level of political maturity, special interest groups and various stakeholders played a significant role in this development. All different stakeholders decided to forgo short run lobby gains in order to exit the crisis that hit hard and affected all of them as well as to invest in a brighter, more competitive, more transparent and accountable future that would be to the benefit of the whole society in the long run. The lessons we can draw from the New Zealand case could never have been more topical.

The last case, "Mindfulness at Work", by Marco Ghetti (2015) of Mosaic Consulting, Milan, is different from all other cases, as it does not narrate an instance of public management, but it presents a very general instance for all organizations, indeed for all people: the case deals with people working on their own awareness.

This case is presented here because it does not make any specification of the organizational environment it talks about. Mindfulness is for all, private and public workers. People who work in public organizations are in no way different from people working in private organizations. Often we hear that people who work in the public sector should behave more ethically and be more responsible than people who work in the private sector. The need for mindfulness however both in the private and in the public sector shows that there is—and there should not be—any inherent difference between people who work in the public sector from people working in the private sector. This case shows the arbitrariness of individual awareness as an important element of freedom indeed.

We should also take into account the experience of many public managers around the world who after a full career working on programs in government agencies come to recognize the need for application of principles of CSR as self-evident in the public sector. Albeit this claim is the result of informal conversations, we believe it is important to submit it to possible criticism.

There is also a lot common place that needs being made right. In fact in many places of the world we hear that people who are drawn to government work are sometimes slothful, unimaginative, untalented, uninspired, and in no way operate on a wave length anywhere close to CSR. We find however those types are well represented in the private sector as well. Perhaps the distinction is that those types don't make their way into significant leadership roles in the private sector, but may indeed do so in public organizations. Good public managers however do have a pretty nuanced understanding of how difficult it is to get anything important done in government in a sustained manner, of leading and executing important initiatives uninterrupted by the tensions between politics and law, on the one hand, and good intentions and sound practices, on the other hand.

The case studies we chose were not intended to address and analyze the nature of public management; rather, they were written to illustrate problems and solutions in their specific substantive areas. This actually increases their value and adds to the argument of this paper. By bringing together these different cases, we build a greater story, the story of CSR in public management. It is also worthwhile to repeat that since all the case studies represent instances of excellent public administration, in no way it can be argued that the freedom of choice they show in public management was not used with ultimate professionalism, honesty and work effort.

4 Management Is Different from Policy

It is important to point out that we are speaking about public management more than public policy. These are two distinct areas and it is important to try and explicit the differences between these two areas. Issues of public management are somewhat more pervasive and identical across the world, whereas policies are more arguable and difficult to perceive as general across different countries. In the end both public management and public policy may overlap and converge, but it is important here to outline why and where they are distinct.

When we speak in general of government action, we tend to speak of policies: "How much immigration should be allowed? How much should students pay for their higher education? How is it possible to have a more accountable electric power state-owned industry?" The general discourse is focused on policies. The general discourse speaks also of management, but we are unaware of that: we always complain about lines at the post office, to mention one instance of management. We believe government ineffectiveness (where post office is a government bureau) is genetic, inevitable, cultural (we mean of our unique culture in the world), natural, like rain and snow.

Policy is more about politics (and political science): "Is smoke carcinogenic? Is it correct that government prohibits smoke?" Management is about implementation of policies:"Once we have decided that black people have the right to vote, how do we actually allow the black population to perform such right? What is in the way of such right becoming alive?"

Policy is about law and regulation, management is about day by day work in the organizations that are supposed to implement what the law and the regulations say. Policy is macro: "Should we raise the discount rate? Should we raise taxes?" Management is about catching those who do not pay whatever taxes are there to be paid. Management is micro. Policy is about legislatures; management is about the executive branch. There is certainly an overlap, but the distinction is there.

Management therefore is less arbitrary than policy. It is easier to argue about policy: whereas ineffective management is easier to pinpoint. In the end, good management ends up being about policy as well, however, it is important to make explicit the difference between the two areas because public management appears to be a much neglected domain. As we said, management is squashed between law and politics.

It is the very nature of management that has allowed to compare instances in the most varied substantive areas: from natural hazard recovery systems to management information systems, from technology management to research evaluation, from macro-policy to psychotherapy and counseling. Also a variety of disciplines are encompassed by public management: not only Corporate Social Responsibility, but issues of sustainability, ethics and governance are there, as well as government—business relations.

5 The Economic Bottom Line of Government and Effective Reporting

If "CSR is the responsibility for the wider impacts" of work, then we have seen that the impacts of public management work are indeed very wide, therefore they should be accounted for in adequate reports and discussions, which could be called CSR reporting (Muzi Falconi et al. 2014).

The social responsibility (CSR) report of the public sector comprises certain specificities that the Global Reporting Initiative (GRI) itself considers in its Public Sector Supplement to its general guidelines. However we underline we are concerned about public administration, besides state owned enterprises, which is what the GRI concern appears to be. The primary consideration here is that the economic bottom line of a public sector organization ought to follow rigorous detail, even more so than a private company. This apparent paradox is due to the lack of substance in the financial accounts of public administration; such financial accounts in fact certify the legitimacy of expenditure, but do not explain the sense of the organization's activities. On the contrary, a CSR report of a public administration should consider the quantity and quality of work undertaken by the organization—which is, in the end, the "economic bottom line of government", i.e. the place where all government action is accounted for in the most substantial way. This is what would happen in case if CSR were to be implemented in public management.

The public CSR report should also tackle one critical question: assuming that a high quantity and quality of work is performed by the institution, to what extent is the work undertaken by the institution needed? How can the market (i.e. people, businesses) show it appreciates the very existence of this work? In other words, a CSR report that considers the quality and quantity of work, should also say something about the relevance and the cost/benefit of such work. A public CSR report should include benchmarking and try to reproduce virtual competition, by developing measures in order to compare public organizations, within and across countries.

Government financial accounts are a formality: they have a different scope from making sure substantive impact is obtained in society; they have the scope of making sure money is actually available and funds are not managed in violation of administrative rules; administrative rules often times cater to a scope that might be remote from making sure the substantive mission of a government organization is fulfilled. Public organizations provide budget expense estimates and final statements that are strictly controlled on the part of internal comptrollers, and yet all they provide is an account of the correct administration of receipts and expenses. They do not go into detail about the product of the organization. For this reason, the first task of a public CSR report is to define the (social) product of the organization and attempt an evaluation of the organization's efficiency and impact in producing it. The final impact would be the outcome of organizational activities.

When we examine the source of funds of a public organization, such funds are obtained as transfers from the government or received in the form of taxes or tariffs. Contrary to the case of a company that operates on the free market, existence of revenues of a public organization is a very partial indication of a favorable public attitude towards the organization's product, because those revenues are not obtained through the free choice of the public; they accrue from a combination of factors that have little to do with any perceived value of the organization's social impact. Funds may accrue to a public organization from political opportunism or bureaucratic inertia.

A CSR report then must explain what outcomes are obtained by supplying the organizations with public funds. Thus, the CSR report of a public sector organization becomes a central component of the overall political value resulting over time from an election. Only a CSR report provides the quantity and quality of public production. The CSR report is an instrument to ensure the transparency of the main activities of public sector organizations. The economic bottom line thus assumes a broader meaning than its use in the private sector and could, therefore, be called the 'organizational bottom line.'

CSR in the core activities then is the same thing as integrated reporting, joining substance and finance. The "organizational bottom line" is the public sector—public administration—way to deploy integrated reporting. It may be very difficult and arbitrary to write an organizational report in the public sector, but "we do not have to believe that the solution will emerge as soon as we look for it. But we do contend that a solution is unlikely to emerge unless we look for it." (Drèze and Sen 2013).

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Development of an Indicator of Economic, Environmental and Societal Development (IDEES) Concept for SMEs: A Case Study in the Hotel and Restaurant Business Sector

Philippe Callot

Abstract To produce an indicator of sustainable development applicable to the world of business is not a straight forward matter. It appears difficult to find a clear consensus on the relevance or not of particular indicators. The three dimensional aspect of Corporate Social Responsibility (CSR) and Organizational Social Responsibility (OSR) adds to the difficulty of bringing different types of data together to produce a final composite indicator (taking into account economics, societal issues and environmental considerations). The current thesis is based around the work of Boutaud (Développement durable. Quelques vérités embarrassantes, Economie & Humanisme, numéro 363, 2002, décembre) and suggests the use of an indicator based on GRI principles. It also promotes the idea of comparing the economic and societal performance of a company with an environmental indicator calculated using the carbon footprint system known as the "Bilan Carbone"®.

1 Introduction

As the effects of climate change are being experienced in an increasingly tangible way—in a world which has become increasingly globalised, the idea of creating a workable and meaningful indicator applicable to SMEs would appear to have become a necessity. In fact when applied to business enterprises "sustainable development has increasingly come to be described by the term "*Triple Bottom Line*" which involves evaluation of the performance of an enterprise from three different angles: the environmental, [. . .] the social, [. . .] and the economic [. . .]" (Orse 2003). This echoes the sustainable development triptych as defined by the UN World Commission on Environment and Development (CMED 1988). We have based our deliberation on the development of an indicator of sustainability upon this principle.

Performance of corporate social and community responsibility (CSR) should include measurement and assessment of the four following areas: economics,

P. Callot (✉)
ESCEM Group (School of Business & Management), Tours, France
e-mail: s.idowu@londonmet.ac.uk

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societal issues, environment and finally, climactic concerns and impact (Quairel and Auberger 2005). Corporate performance in relation to these issues is mostly the domain of big companies. As Frimousse and Marchesnay (2010: 243) have pointed out, "CSR has to be specially adapted to small businesses and particularly their business heads because socially responsible practices are actually being carried out by them on a daily basis already without the need to impose CSR type regulations and without the need for huge media events and PR exercises". Rather than use the term sustainable development (SD) we have chosen to use the acronyms CSR and OSR throughout this article.

Recently the European Commission suggested a new definition for CSR as being "the responsibility of enterprises for their impacts on society [. . .]" and later "In order to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy, in close collaboration with their stakeholders, with the aim of:

– maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
– identifying, preventing and mitigating their possible adverse impacts" (European Commission 2011: 7);

Global performance, notably of SMEs in the tourism sector, is thus brought up for debate. As highlighted by Berger-Douce, "globally, CSR is in effect the management equivalent of sustainable development" (2008: 260).

Within this analytical framework as set out, we go on to examine the difficulty of applying a measure of global performance to SMEs. Based on economic and social variables, a composite indicator compared directly against the carbon footprint calculation, per unit of consumption (number of clients in a hotel for example), would seem to be workable. Effective and rapid in its implementation and of general applicability, this composite indicator has the advantage of simplicity and seems to us to be particularly suited to SMEs.

Our research model is set out in the Fig. 1.

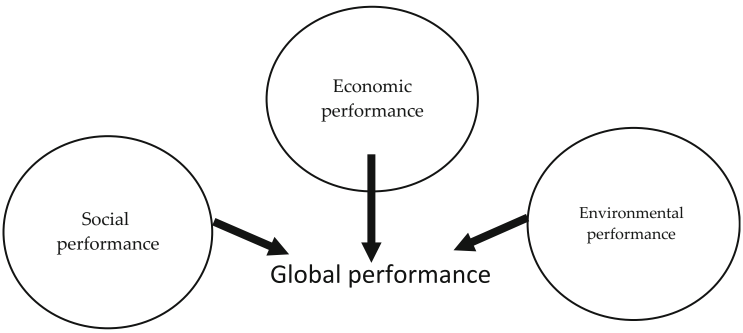

Fig. 1 Research model

Firstly we will deal with the concept of an indicator; secondly we will move on to description of our methodology and then finally set out tentative suggestions for future exploration of the subject.

2 Framework

2.1 Definition of an Indicator

According to Orse, the definition of an indicator is “a quantitative factor which permits characterization of a situation which is in the process of evolving or of an action or the consequences of a particular action, in a manner which evaluates and compares the subject at different stages and at different dates and times. It can however also be a type of indicator or perception, e.g. have a qualitative element about it” (Orse 2003). So, are we talking about an index or an indicator? An index is an instrument used to measure performance and numerical in nature. An indicator is a measurable and objective value or a different kind of variable which allows evaluation of certain changes over a period of time. There is consensus in relation to the meaning of the term “measure”.

In economic terms, a performance indicator can be defined as “a quantitative index which permits measurement of progress achieved in relation to a particular objective” (Key Performance Indicator, KPI).

The function and objective of an indicator is to (1) clarify results or facts arising as a result of a recent past event in order to (2) provide information in the clearest possible way to a decision-maker or to potential users.

We agree with the argument that “the main quality of an indicator is its capacity to take into account in the most precise manner possible, a phenomenon which generally tends to be complex in nature” (Orse 2003: 13). The report then goes on to list the main qualities an indicator must possess such as “they are capable of being adapted, specific, valid, reliable, precise, measurable, comparable (in both time and space), user-friendly and the end result must justify the time and trouble taken to achieve it”. What this brings us to discuss here are the pre-requisites in the sequence of rationality advocated by Simon (1983)—e.g. information, and interpretation of this information. . . In actual fact, information is only important if it is translated and interpreted in such a manner so as to modify managerial practice. A quantitative indicator allows facts to be quantified and results of the particular sample group to be generalized. This is exactly what we hope to produce in management terms: an indicator which is easy to use which produces results which are easy to interpret for the ultimate purpose of developing new management techniques. We have opted to keep and use the term indicator throughout the rest of this research paper.

Once what is referred to as the “critical” aspect of an indicator is established, its development will be deemed to be positive if it is below this critical point and negative if it is above it. For example, the yearly CO_2 emissions indicator per inhabitant in France is 9 tons. Much to the disappointment of those in charge of ecological programs, this quantitative fact has not changed since 1990. Variation is therefore zero. On the other hand, the indicator does enable us to make a comparison in relation to critical points—which is 2 tons per inhabitant per year. In this sense, an indicator provides us with two sets of information. A poor result in relation to the critical point but stability in the long term.

2.2 Notion of Wide-Reaching Responsibilities

According to Orse (2003: 10), the *triple bottom line* is all about taking into consideration environmental impact and social consequences at the same time as evaluating financial performance. In relation to environmental impact, it is a question of “compatibility between the activity of an enterprise and preservation of ecosystems. It includes analysis of the impact of a company and of its products in terms of consumption of resources, production of waste, emissions. . .”.

In relation to social impact, according to Orse this consists of evaluating “the social consequences of the business activity for all its stakeholders—made up of employees (conditions in the workplace, pay, equality and non-discrimination. . .), suppliers, clients (security and psychological impact of products), local communities (nuisance, respect for local culture) and society in general”.

Over and above its contribution to financial performance, economic impact involves “the ability to contribute to the economic development of the locality in which the enterprise has set itself up, and in relation to its stakeholders, respect for the principles of fair competition (anti-corruption measures, restrictive trade practices, market dominance. . .)”.

The concept of *quadruple bottom line* was introduced after the international conference on climate change and reduction of poverty (Davos in 2007). This declaration emphasized the urgent need to introduce legislation to encourage real sustainable tourism to reflect a sense of responsibility—based on the following four pillars (*quadruple bottom line*): the environment, society, economics and climate change. The climate variable is thus added to the three pillars triptych outlined above. Sharpley (2009: 158–159) identifies five main types of mobile capital which are applicable to any size organization in the business of delivering products and services as follows:—natural capital, human capital, social capital, manufactured capital and financial capital.

We propose a similar system, involving four capital types, applied to the tourism sector (Fig. 2). We are ever mindful of course of the Davos pillars.

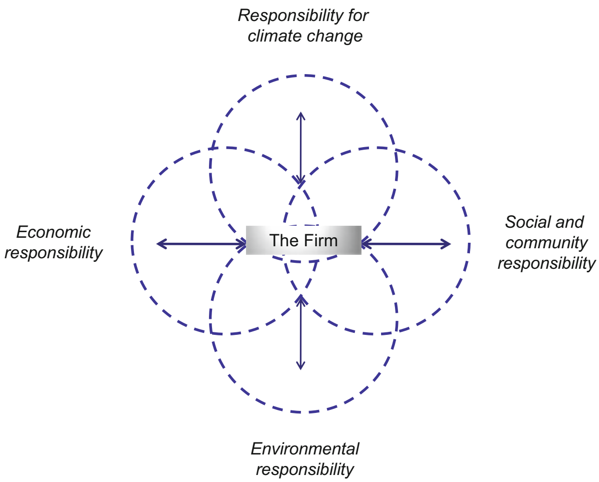

Fig. 2 A business at the heart of wider-ranging responsibilities (adapted from Babou and Callot 2007)

2.3 Principles, Measures and Credibility of Indicators

Chapter 40 of Agenda 21 discusses the combination of the principles of reliability and trust in relation to indicators by reminding us of the need "to produce sustainable development indicators which can constitute a useful basis for the decision-making process at all levels" (Céron and Dubois 2000: 31). We support this aspiration. We favour popularization rather than complexity. These academics remind us that an indicator is first and foremost "a variable which can involve a certain number of values (statistics. . .) or states (qualitative variables) depending on the circumstances (time and space for example in the areas which are relevant to our sector)".

What criteria are environmental indicators expected to meet? Céron and Dubois (2000), in the same vein as Rump (1996), and Rechatin (1997) remind us of the three main principles underpinning these criteria:

1. Quality of data/facts and analytical rigor/correctness,
2. Pertinence in relation to the particular subject to hand,
3. Communication.

The guidelines set out by the *Global Reporting Initiative* (GRI[1]) refer to other principles. The 'completeness' principle is an example for instance which emphasizes reporting boundaries (economic, social), whilst at the same time allowing stakeholders to evaluate business performance during the period of *reporting*. The indicator we propose is in line with this principle. In fact the boundary is a known entity (an SME) in a particular sector (tourism) and a specific branch of it (namely

[1] www.sommetjohannesburg.org reporting Global. 2000–2006, Guidelines for "sustainable development reporting", version 3.0, GRI.

the hotel, restaurant business sector). We address individual subject areas in the same way—economic issues are looked at through the intermediary of a specific *scoring* system; societal issues via workplace practices as well as a questionnaire on CSR; environmental issues via a carbon index (set up by the French Environment and Energy Management Agency—Ademe).

'Reliability' is another reporting principle. This involves the reliability of quantitative information which depends on scientific methods used to collect, compile and analyze data (p. 15). This corresponds to the first criteria used by Céron and Dubois.

'Clarity' (p. 16) presupposes that the report presents information which is comprehensible, easily accessible and capable of being easily put into practice by all stakeholders. Clarity corresponds to the criteria of communication mentioned above with emphasis on the popularization of a company's message or at least ensuring that the message is understood by as many people as possible. Finally there is the principle of 'stakeholder inclusiveness'—to the extent that they are known entities (principle described above).

3 Mobilization of Indicators

3.1 Ecological Footprint

The concept of ecological foot printing dates back to 1996 (Rees and Wackernagel 1996). It involves the delicate balance between individual human consumption and the resources required to produce the goods we consume (habitat, food, public amenities/collective services, transport). Ecological foot printing "represents the surface area of land and sea required to produce resources consumed by a given population and to assimilate waste produced by this same population. Resources consumed may emanate from productive surfaces situated outside the land occupied by a particular population" (Bovar et al. 2008: 68). These authors go on to explain that footprinting is an environmental indicator—not a global one because it doesn't take into account social or economic factors. The footprint is expressed in terms of global hectares and, with mindful of sustainability, the average global figure per person is fixed at 1.8 hectares (2003).

This is a synthetic indicator of sustainability which attempts to represent a given reality in the most accurate way possible (Boutaud and Gondran 2009). It is a key two-stage process: an inventory of the whole of the necessary and/or available data; and the normalization of this data in order to produce an aggregate to be expressed by a common unit of measurement. These are the complex hypotheses central to carbon footprinting calculations (Wackernagel et al. 2005).

3.2 Carrying Capacity

The concept of ecological footprinting is similar to another system which already exists within the tourist industry, namely carrying capacity. Both systems attempt to address an issue which has moved from "how many people can one feed and sustain, to how many people can maintain their lifestyles and methods of consumption in a manner which is ecologically sustainable" (Codur and Véron 2005). Carrying capacity is "an advanced warning composite measurement tool applied to key factors which influence the ability or capacity of a site to support different levels of tourism" (Céron and Dubois 2000: 38).

The concept of carrying capacity in the tourist industry is a recent concept. It has developed in response to the phenomenon of mass tourism (Deprest 1997). It was not around in the days before easy access to travel by the masses. Some academics have proposed the concept of tolerable change (Mowforth and Munt 2007) which is along the same lines as sustainable growth. As a result of the economic downturn, ecological impact can be relegated to second place and the cursor of the "sustainable carrying capacity limit" can be increased. The question which then arises is that of the balance to be established between the capacity for production of the ecosystem and social equity. Despite its relevance, this tool does not correspond to what we are seeking to produce: a global performance indicator applicable unit for unit within a particular domain.

4 From CSR to OSR

Corporate Social Responsibility (CSR) "consists of commitment by a business to developing and evolving within an ethical framework in order to participate in economic development and contribute to the improvement of the quality of life of its employees, the local environment and to wider society in general"[2]. According to the ISO 26000 standard, social responsibility is defined "as the contribution of the latter to sustainable development" (Afaq 26000 2011: 3). The term "an organization" is used here in preference to "an enterprise". It is more general and encompasses both market and non-market forces within an economy. ISO 26000 recognizes the fact that "the response of each individual organization in terms of social responsibility will be unique to itself". Given the contingent and turbulent conditions of the business world, an entity's sphere of activity, context, background history, workplace culture and finally, the psychological profile of its business leader, should be seen as variables capable of being adjusted or tweaked. CSR, now renamed OSR presupposes an implicit commitment to shared action.

[2]World Business Council for Sustainable Development, 1997.

5 Global Performance… Efficiency, Efficacy and Environmental Responsibility

We now move from purely economic performance to the concept of “global” performance “which is taken to include the impact of the activities of a business in relation to internal and external stakeholders—globally, on a social level” (Capron and Quairel 2006: 9). We take the work of Boutaud (2002) as a starting point—later confirmed by Boutaud and Gondran, in 2009. This work focused on the question of “sustainable” development and the relationship between sustainability deemed to be weak (the neo-classical approach) and strong sustainability (the eco-systemic approach). These are the principles involved in relation to the initial definition which appeared in 1987 in the Bruntland Report in which sustainable development was described as a development which “must meet the needs of the present [and of the poorest in society][3] without compromising the ability of future generations to meet their own needs”.

Taking this work as a starting point, we have imagined the implementation of a indicator which is able to compare the economic and social performance of a business with its environmental performance (Babou and Callot 2010). Boutaud believes there is a link between the indicator of human development (IDH) in a given country and the ecological footprint of its inhabitants. The work of Rees and Wackernagel (1996) makes this same assessment of ecological footprinting. The conclusion established as a result of observation and monitoring of numerous countries illustrates that “no nation has been able to achieve the high level of development (0.80) aspired to and at the same time remain below the threshold for environmental sustainability” (Boutaud 2002: 5).

The ecological footprint is calculated on the basis of de 1.8 hectare/per inhabitant as set out in the work of Rees and Wackernagel (1996).

As an example and in relation to sustainable tourism indicators, Céron and Dubois (2000) recommend that the construction of indicators must have a solid scientific basis (consensus on the relevance of choices selected to be agreed by experts) and equally be based on sound and reliable data. In order to test our approach, for the past 4 years we have been using a *scoring* formula specially adapted for SMEs.

Why? Because continuation for a business showing increasing performance levels, presupposes an ability to reabsorb existing difficulties as well as an ability to anticipate and adapt to change—on the part of management. What we are talking about here are indicators of managerial anticipation and forethought. In this way “continuation for a business is in effect the efficient deployment of vigilance on the part of the business head” (Holder et al. 1984: 14).

[3]Quotations added hereby ourselves, given that the initial definition previously mentioned includes this wording.

6 Research Questions

Our research questions focus on the elements highlighted above. How are we best able, in a particular sector of the SME market e.g. the hotel–restaurant sector, to assess the global performance of those involved? How can we make accessible data which is both varied and complex in terms of extent and accessibility? How to interpret pedagogically that which is currently still not measurable?

7 Presentation and Results of the Pre Test

7.1 Methodology

The inductive approach we use is deliberately pedagogical. What is involved here is a constructivist process which involves the development of theories/concepts, or the study of that which is not (Le Moigne 1990). In addition to evaluating economic performance, companies will be able to compare their results, and improve the economic, social or environmental aspects of their business as the case may be. They will thus achieve a vision of their global performance.

By using a scoring method, we have opted for a solid approach to the issue. In fact a score "is a mark based on the measure of a few different criteria which are simple to measure and deemed relevant to the process of either predicting performance or behavior of the business under evaluation" (Bobot and Voyenne 2007: 92–93). We are thus concerned with the criteria of exactitude and clarity. In relation to the social part of sustainable development we have based our work, originally, on a questionnaire to address the issue of awareness of CSR (30 questions). This questionnaire is a European Commission document[4] even today we must reconsider this questionnaire and rely on another document the SD 21000 (Afnor 2006). Indeed, this questionnaire is not relevant (bias, including standing answers).

With these two tools we hope to obtain an indicator firm sustainability (IFS). We will then compare this indicator with the carbon footprint of the number of clients used in the group surveyed (hotel clients for example). At the current time of writing, the Bilan Carbone® would seem to be more "accessible" than ecological footprinting. This method has been popularized and is handled throughout France by Ademe.

The methodology we used was as follows:

1. Find SMEs in the sector which already have a working carbon footprint inventory and which are willing to participate in our research project;

[4] http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/campaign/documentation/download/questionaire_fr.pdf not available actually.

2. Collect and record:
   a. The inventories and test results,
   b. The number of clients who have used the hotel and the restaurant throughout a year,
   c. The Bilan Carbone® or footprint of the participating establishment throughout the exercise;
3. Administer the CSR questionnaire;
4. Record data collected;
5. Analyse data results (in relation to each unit, comparison between units and between countries);
6. Present these results to the business head of participating enterprises with suggestions as to implementation to suit.

7.2 *Initial Analysis*

We examined a company's risk of failure using the scoring method implemented by Yves Collongues (1977). This approach first used by Altman (1968) was then extended to different sectors thereafter (Conan and Holder 1979), and used by the 'Banque de France' (Holder et al. 1984).

We have retained Collongues's Z1 function adapted to SMEs as follows:

$$Z1 = 4.9830 R_1 + 60.0366\, R_2 - 11.8348\;\; R_3$$

Or

R_1 = Cost of personnel/Value added

R_2 = Financial cost/Turnover (excluding tax)

R_3 = Working capital/Total balance

The critical values here are the following: if $Z1 > 5.455$ the business is considered to be failing (failing according to Collongues's approach) and if $Z1 < 5.455$ the business is considered to be healthy.

The three zone detection system (see Fig. 3), attained from the distribution of scores amongst failing and healthy businesses, has enabled us to extract this mark as a "zone" comprising both healthy businesses (below this figure) and failing businesses (above this mark).

We group the probability of failure around the Z1 score with the choice of standard deviation at each level (Table 1).

In relation to CSR we have worked initially on the basis of the European Commission's "awareness questionnaire".

We attributed marks to the criteria. 29 questions on the Likert scale (5 levels) were involved. The questions were related to workplace politics (4 questions),

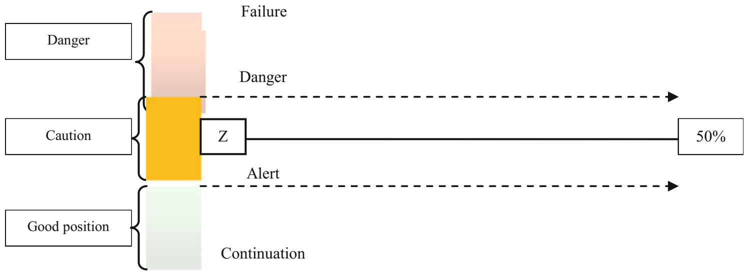

Fig. 3 Representation of the Z1 function obtained as a result of the scoring technique carried out on the business

Table 1 Conversion of score, likelihood of failure and correspondance
Economic indicator of value score

Value of score	Likelihood/probability of failure (%)	EI mark
>11.30	100	0.00
11.30	95	0.05
10.65	90	0.10
10.00	85	0.15
9.35	80	0.20
8.70	75	0.25
8.05	70	0.30
7.40	65	0.35
6.75	60	0.40
6.10	55	0.45
5.45	50	0.50
4.80	45	0.55
4.15	40	0.60
3.50	35	0.65
2.85	30	0.70
2.20	25	0.75
1.55	20	0.80
0.90	15	0.85
0.25	10	0.90
≤0.40	0	1

environmental issues (7 questions), the market (6 questions), the local community (5 questions) and finally the inherent values of the business (7 questions). A final question, number 30, was relevant to the mark awarded for global performance and was selected by the business head for each pillar of this performance. This final question was not included in the final CSR score in view of the potential bias which it might have created. There were thus 30 questions designed to test or understand the awareness of CSR of the business head.

The “indicator firm sustainability” can therefore be expressed to be:

(Economic indicator × 0.5) + (CSR indicator × 0.5) = Indicator of firm sustainability

We then took the decision on an arbitrary to discuss, to award the same weight to the two indicators. In order to take into account the efforts made by the company throughout the whole of the assessment period, a simple arithmetic average between 0 and 1 was calculated and used. Statistically we needed to validate this model or not, on the basis of specially adapted tests such as analysis of the variation against several factors in order to “understand the effects of each of the qualitative variables, but also the effects produced as a result of a combination of these variables” (Crauser et al. 1989).

8 Pre Test

Three businesses were selected for the pretest stage—two of which are hotel–restaurants with different tourist classifications and ratings (company numbers 1 and 3), the third is a group of separate entities involved in the restaurant/hospitality sector (2). The finance and accounting figures set out below are per thousand €. The Z scores reflect application of the formula mentioned above (Tables 2, 3 and 4).

We comment as follows on the above results and figures.

The average Z1 scores of the three companies over the 4 year period are as follows: company 1 = 5 ($\sigma = 0.37$), company 2 = 2.56 ($\sigma = 1.91$), company 3 = 1.38 ($\sigma = 0.47$). We can therefore retain these averages for companies 1 and 3 and then use the last 3 years results for company 2. These Z scores correspond to an EI mark of between 45% and 50% for company 1, between 25% and 30% for company 2 and between 15% and 20% for company 3.

The corresponding marks are therefore:

Companies	Mark
1	0.525
2	0.725
3	0.825

This approach allows us to determine every quickly the origin of problems encountered by a company or conversely to see the reasons for healthy performance in a company. In company 1 the ratio of personnel costs (expenses included) to value added is too high in relation to professional criteria (95% against 60%).The figures for company 2 illustrate that although there is also a strong ratio of personnel costs to value added—particularly in 2007—the company achieves a higher score

Table 2 Assessment of the scores of company 1

Economic indicator (EI)	2007	2008	2009	2010
Personnel costs	227	232	345	370
Value added	251	260	338	387
Financial costs	4	4	4	8
Turnover (Excluding tax)	421	469	583	691
Working capital	6	1	36	−2
Balance sheet total	369	389	507	379
Ratio R1	0.9044	0.8923	1.0207	0.9561
Ratio R2	0.0095	0.0085	0.0069	0.0116
Ratio R3	0.0163	0.0026	0.0710	−0.0053
Z1 score	4.88	4.93	4.66	5.52

Table 3 Assessment of the scores of company 2

Economic indicator (EI)	2007	2008	2009	2010
Personnel costs	1149	1084	1141	1292
Value added	1212	1271	1481	1741
Financial costs	5	1	2	3
Turnover (excluding tax)	2550	2491	2723	3104
Working capital	−10	92	272	166
Balance sheet total	713	791	941	1037
Ratio R1	0.9480	0.8529	0.7704	0.7421
Ratio R2	0.0020	0.0004	0.0007	0.0010
Ratio R3	−0.0140	0.1163	0.2891	0.1601
Z1 score	5.01	2.90	0.46	1.86

Table 4 Assessment of the scores of company 3

Economic indicator (EI)	2007	2008	2009	2010
Personnel costs	172	214	215	220
Value added	385	394	315	326
Financial costs	6	2	1	1
Turnover (excluding tax)	678	724	647	679
Working capital	40	88	73	100
Balance sheet total	486	504	494	521
Ratio R1	0.4468	0.5431	0.6825	0.6748
Ratio R2	0.0088	0.0028	0.0015	0.0015
Ratio R3	0.0823	0.1746	0.1478	0.1919
Z1 score	1.78	0.81	1.75	1.18

as a result of a high balance sheet total (with the exception of 2007). This company demonstrated a 3.20 increase in its scores over the 4 year period.

Regarding the numerous biases of the European CSR questionnaire, we are currently unable to evaluate the CSR process further and only one of the companies has actually produced its own carbon inventory.

9 Limitation of Work Carried Out and Further Research

We intend to continue with our exploration of the topic in order to prove the relevance of elements retained. The indicator we put forward respects the principles and recommendations as to what constitutes a good indicator. The approach is pedagogical in that it seeks to highlight and clarify global performance elements within the enterprise sector. Two difficulties arise here. Economic data is accessible relatively easily but the CSR approach creates other problems however. Bias can be created as illustrated by the "standing" answers provided by the contributors. Some biases exist in the European questionnaire and we definitively reject to evaluate this index with it. The second problem is in finding and working only with companies which have already created a carbon inventory (Bilan Carbone®) or had one set up for them.

10 Conclusion

Our work set out to test whether or not it was possible to compare a composite indicator (based on economic and social issues) with the carbon footprint for each unit examined. The first hurdle to overcome is the need to have access to primary data which can often be sensitive in nature. Tax and accountancy information for the companies in question should not normally be problematic for the three last exercises. Equally, the administration of the CSR questionnaire should normally not present too many problems if we consider the SD 21000 approach (balance between social issues and managerial practices with a grid of items and a scale from 1 to 5).

But the approach can only be effective if the company has implemented its own carbon inventory (Bilan Carbone®) successfully. This is the second and most significant drawback in terms of successfully reaching a conclusion to our research. In relation to hotel or restaurant client numbers, this inventory, in relation to environmental factors, would enable us to measure the efforts made either in terms of benchmark achievements or responsible awareness, in order to obtain an improved result.

We highlight the pedagogical dimension of our work here in relation to small scale structures (SMEs) in a specific industry sector. Our proposal sets out a radically different approach based on the three pillars of sustainable development.

A wider sample group representative of businesses in the sector (to include integrated chains, independents, different sizes and categories...) could test the robustness of our model.

This is the challenge for our current research. It is equally possible to envisage extending our research proposal to other countries—starting off with businesses in the same sector. We believe our approach is thus capable of general applicability and adaptation.

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Corporate Social Responsibility in Indian Apparel Industry

Archana Gandhi

Abstract Indian apparel manufacturers see several benefits of Corporate Social Responsibility (CSR). At the same time, they clearly face steep challenges in its implementation. From the perspective of the participants, the challenges tend to outweigh the benefits. The short term expenses, misperceptions about the financial benefits of CSR and the additional burden of implementing CSR-related policies and activities tend to overshadow perceptions of the long-term benefits.

CSR activities currently seen in the Indian apparel industry are primarily people focused, society-focused or environment-focused. However, most CSR activities focus on employee welfare, including teaching employees about health and safety awareness, creating opportunities for community building, and providing general education to employees.

Employee retention is very high in socially responsible Indian firms as compared to non CSR firms, largely because CSR plays a crucial role in overall employee satisfaction, which translates to worker loyalty and low turnover.

Employee retention and commitment are not the only potential benefits of CSR in the Indian apparel industry. CSR can also enhance a company's image. Although it is a long-term benefit, being socially responsible can build a company's social reputation and help it to gain others' trust. Buyers do not hesitate to do business with these companies, since it is difficult to find socially responsible firms in India.

1 Apparel Industry

The clothing industry is labour-intensive and it offers entry-level jobs for unskilled labour in developed as well as developing countries (Nordås 2004). Job creation in the sector has been particularly strong for women in poor countries, who previously had no income opportunities other than the household or the informal sector. Moreover, it is a sector where modern technology can be adopted even in poor countries at relatively low investment costs. These technological features of the industry have made it suitable as the first rung on the industrialization ladder in poor

A. Gandhi (✉)
National Institute of Fashion Technology, New Delhi, India
e-mail: archana.gandhi@nift.ac.in

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countries, some of which have experienced high output growth rate in the sector (Examples are-Bangladesh, Sri Lanka, Viet Nam and Mauritius).

1.1 Indian Apparel Industry

India's apparel exports are embedded within a strong domestic textile industry. Unlike many import substituting countries whose textile and clothing sectors originated with export-oriented apparel assembly in the 1970s and 1980s, gradually linking backwards into textiles in a small number of cases, the development of India's textile industry preceded the rise of its apparel sector. India has an extensive fibre base, largely in cotton, and though organized in much smaller average unit sizes compared to firms in other supplier countries, its production capacities and raw material availability are second only to China's (Roy 2009). With a 13% share in the global production of textile fibres, India is the third largest global producer of cotton yarn, the second largest producer of silk, and the 5th largest producer of synthetic fiber/yarn. It is one of a few developing countries today (along with China, Turkey, parts of Eastern Europe and Pakistan) with a fully developed textile value chain extending from fibre to fabric to garment exports.

The textile and garment industry in India is one of the oldest manufacturing sectors in the country and is currently its largest. The textile and garment industry fulfils a pivotal role in the Indian economy. It is a major foreign exchange earner and, after agriculture, it is the largest employer with a total workforce of 35 mn.

As India's apparel firms compete for market share in a world where timely deliveries, low costs, variability and quality are critical, the proximate availability of good quality textiles is a major benefit. The biggest names in apparel are sourcing directly from India (e.g., Gap, Banana Republic, ZARA, Nike, Reebok, Galeries Lafayette, Tommy Hilfiger, Abercombie and Fitch, Marks & Spencer, Bloomingdales).

India is generally seen as one of the lowest cost apparel producers globally. India's poor productivity has always undermined its labor cost advantage. Even in the early 1990s when Indian apparel exports were growing rapidly, India's productivity lagged behind most of the major exporters of apparel. Thus, even aside from the rigidities introduced by some of India's labor laws, low labor costs have never automatically added up to low production costs or low unit costs in Indian apparel.

Studies indicate that Rs. 1 Crore (USD167500) of exports of apparel create 85 jobs which include 32 tailors, 32 inline personnel and 21 indirect jobs like designers, merchandisers, quality controllers, junior & middle level managers etc. With Rs. 1 Crore investment in an apparel manufacturing factory, 500 direct and 200 indirect jobs are created. The apparel sector is estimated to employ over

7 million workers directly and 25 million indirectly out of which 50% are in the export sector.[1]

Several studies have shown that garment industry has a low entry barrier and many people move from agriculture into garment industry over a period of time.

One of the examples is from Tirupur garment cluster. The turnover of labour is high in Tirupur and there are no permanent workers.[2] In most of the cases workers come from villages in neighbouring districts, get recruited as unskilled workers in any of the workshops and gradually increase their skill through on-the-job training. They generally possess or have some ties to agricultural land in their native places and go to work in the field during sowing and harvesting seasons. This provides them with a source of extra income apart from their agricultural lands.

This has helped reduce unemployment, predominantly seasonal unemployment which was common amongst agricultural labourers. Further it has improved the socio-economic status of households by improving the family income and in turn holding out a chance to access education and healthcare for their families.

2 Social Concerns and Initiatives

Providing employment to a large labour force brings with it issues of working conditions, health and safety and minimum wages. The export manufacturing firms all over the world have seen falling prices and pressures from international apparel retailers to reduce prices further. Such forces have direct impact on labour as labour costs are a substantial component of the overall garment costs.

While all manufacturing companies are supposed to follow the rather archaic labour laws, many companies have found ways to flout the laws which lead to exploitative practices.

It be would important to mention here that not all companies are like that. There are examples of many apparel manufacturing, retailing companies which are benchmarks in the industry for good labor practices; and there are many companies who go beyond the framework of the law to ensure people who work with them, get their due, are well looked after and are able to sustain themselves in this industry.

International apparel retailers and brand owners sourcing from India and NGOs have also played a significant role in ensuring compliance of the law of the land.

A factory in Chennai working for a large American footwear/leatherwear brand provides day care for the children of its workers. Women appreciate the benefit of leaving their children in a safe environment, while they work their shift at the factory, and enjoy the opportunity to visit their children when they are on break. This brand-owner has also a clean water project close to one of their factories' in India, in a community where residents have long suffered from waterborne

[1] Imparting Skills, Improving Lives in Apparel Sector: Dr.DarlieKoshy, DG & CEO, ATDC & IAM.

[2] Garments Industry In India-Lessons from Two Clusters by Satyaki Roy (2009).

illnesses. Located near the factory and a school, a water tower guarantees that local children stay healthy and alleviates families of the expense of payment for water that has been transported over long distances.[3]

In April, 2010 Ethical Trading Initiative (ETI) led on establishing an international multi-stakeholder forum to share good practice, develop an agenda for collective dialogue with government, and work towards a common set of principles for responsible migrant worker recruitment and employment.

ETI statistics show the increasing awareness amongst apparel manufactures as to the importance of running an ethical business as well as appreciating the work force:

In 2010, a total of 267,307 hours of training were delivered to 91,170 supplier staff. Some 79,033 workers were trained. A number of companies are starting to develop projects aimed at tackling the root causes of workers right's violation and addressing broader socio-economic challenges.

As part of British retailer Marks & Spencer (M&S) "Plan A" commitment to become the world's most sustainable retailer, the company is setting out to train 500,000 workers at their suppliers' factories by 2015. The goal is to better educate them on their rights and responsibilities while also broadening their knowledge on more basic skills like financial literacy.[4]

[5]"DISHA"—Driving Industry Towards Sustainable Human Capital Advancement launched by Apparel Export Promotion Council (AEPC) has taken up the task of qualitative assessment of Indian garment manufacturers as regards social practices. The important focus of DISHA project was to that the companies who have complied with social compliances requirements as per international standards. Some of the compliance norms in the industry are—Prohibition of child/forced labour, Non-discrimination, Proper working environment, Proper wages and working hours.

3 Women Workers in Indian Garment Industry

The garment industry has had a hand in the empowerment of women as well. Despite the hardships of migration, the women feel liberated from the strong traditional community structures and regulations. Once these women are free from the community control and in order to support their families financially in a new place, they pick up jobs. Garment industry provides options of such jobs as most of the employees in the thread cutting and inspection areas are women. Since they are earning members, their position becomes stronger vis-à-vis the husband, family and community. In the village even though they would work in the fields, their work is just be an extension of their domestic responsibilities and not earning money.

[3]http://www.guardian.co.uk/sustainable-business/timberland-better-life-factory-workers-children

[4]http://corporate.marksandspencer.com/documents/publications/2010/planacommitments2010

[5]http://indian-garment-industry.tumblr.com/

There are numerous examples throughout the industry which illustrate how the workers and the employers have mutually benefitted from various social welfare schemes. The workers report a better and safe work environment while the employers retain their workers on loyalty basis in return for the services provided to them.

Workers in a company recount the situation of one female worker who is covered by Employees' State Insurance (ESI) as a result of codes. Her husband came to the unit to distribute sweets because the expenses of delivering their baby are covered by ESI and he didn't realise that the monthly deductions would pay off so well. Other workers report similar situations.

Some suppliers report that the incidence of abuse has been reduced because of codes. One reported a change, with less verbal abuse and sexual harassment of female workers by male employees and supervisors (e.g. loitering around women's toilets, shouting). This used to be a problem, but workers can now report issues to auditors and the problem had stopped.

Male and female permanent salary workers report that there has been a marked improvement in their living conditions. They say the factory premises are clean and that inspired to keep their homes clean as well.

CSR Initiatives in Apparel Industry

In June 2013 executives at ABC company—a leader in the branded garments segment in India revised the company's corporate social responsibility (CSR) strategy in order to provide it with a more structured approach to CSR. This revised strategy comprises of—economic environmental and social aspects.

The economic aspects of company's corporate social responsibility (CSR) strategy relate to the way in which the company conducts its business.

ABC has adopted "good governance policy" and employs a corporate legal team which advises it on legal matters and helps it to comply with statutory and regulatory requirements.

In addition, the company employs a corporate legal team which advises it on legal matters, such as the creation of licences for trade, and helps it to comply with statutory and regulatory requirements relating to its business practices.

The environmental aspects of ABC's CSR strategy relate to the impact which the company's operations have on the environment. The company follows an environmental management system as set out in ISO 14001. The ISO 14001 environmental management system provides ABC's stakeholders, customers and consumers with assurance that the company is actively measuring, and working to reduce, the impact which its operations have on the environment.

Also, the company is a member of the Sustainable Apparel Coalition—a trade association comprising a group of leading apparel and footwear brands, retailers, NGOs, manufacturers (Textile Outlook International 2014).

4 Social Aspects of Indian Apparel Industry

Considering that apparel industry is a labour intensive industry, lot of efforts are being made by buyers, manufacturers, NGOs and trade establishments to work towards the welfare of the labour in India.

A study on the Work Life of Garment Workers in Export Units of Delhi National Capital Region (NCR) was undertaken (Singh and Mathur 2013), to assess the work life of garment industry workers and to understand what workers appreciate about their work and the areas where improvements are required.

The data was collected using a questionnaire consisting of open ended questions. A 15 minute personal interview session towards the end of the meeting with some of the workers was carried out to collect data on incidents. The workers were asked to narrate work related incidents which they felt formed an important part of their life.

The study covered male and female workers (49:33). Majority of the sample size was in the age category of 18–30 years. 74% were married workers with 50% of these supporting their children's education.

Majority of male workers had farming and labour work as alternate working option at the time of joining this industry. The garment industry provided them with a working condition better than both, hence; more than 95% were satisfied and happy to join the industry.

The study showed that working conditions form a very important factor for workers while deciding their work options. 37% reported quitting their job because of poor working conditions and nearly 50% cited a good working environment as the reason why they would like to continue in their present factory. Behaviour of supervisors and facilities provided are also among the top few reasons cited to continue working in the same organisation. Providing the workforce with better facilities and well equipped working conditions helps in better retention of workers. Many workers working in the same organisation for a long time reported getting a considerably higher salary than basic wage. Those who work overtime said, they did it willingly, in order to earn more money. All the workers report overtime an advantage.

When asked about other facilities apart from salary provided by the company, about 95% of the surveyed workers reported ESI, Provident Fund, good canteen facility and the availability of clean, cold drinking water at all times as additions they were happy about.

89% of the surveyed workers, report that they were fairly confident that their organisation will provide them with loan in case of emergencies. This shows worker's faith and confidence in the company and indicating a healthy relationship between the company and the workers. All workers surveyed were immensely satisfied with the level of lighting, drinking water, washroom facility, cleanliness and canteen facility. When asked for reasons as to why they wanted to continue working in the current organization, nearly 50% mentioned—good working environment as the main reason.

51% of the sample work force reported, of being able to educate their children as their major achievement since taking up a job in the garment industry closely followed by financing their own or a relative's marriage (31%).

While, workers may not be fully aware of the benefits they are entitled to, be it monetary or otherwise, a few workers reported not knowing about ESI scheme. Workers engaged in thread cutting, spreading and cutting rarely receive training to upgrade their skills or learn new ones. This results in stagnation and working on the same post for a long time, at times more than 7–8 years.

Even though a majority of the workers have no savings, they have been sending their children to school. Apart from monetary benefits, workers are provided training on personal health and growth. According to some, they learn how to grow and succeed in personal life from these. The health training sessions do not stop at first aid but extend to talking about various diseases like dengue and how they can stay safe. Sessions on anti TB drugs and harmful effects of tobacco are also organised. Workers who attend these, found them useful. But, it is apparent that there is still a vast majority of workers who have never attended any training sessions. Despite the management's efforts, there is a major gap in this area. Workers need to be talked to and told how beneficial these training sessions are. Several confessed to not taking part in them willingly.

5 Initiative of Factories

To ensure that social initiatives of companies reach the workers, there is a lot of effort by companies on capacity building programmes aimed at improving compliance to social standards in garment factories. The factory workers must be made aware of the various codes of compliance.

A study undertaken by Tewari (2013), highlighted the areas where factories still need to work further to improve upon awareness of workers regarding social compliance. Fourteen garment factories in Delhi-NCR were surveyed for the study.

13 out of the 14 factories had a policy in line with the codes of conduct as per the law of the land. In seven factories the company policy was not entirely displayed, or not displayed in the vernacular language. In majority of the factories, the workers were trained on the company policy. Nearly all (13 of 14) factories gave training related to the work profile. One factory did not feel the need to do so, and reason being that most of their employees were trained previously in other companies and they do not encourage hiring new workers.

In 50% of the factories, training related to up-gradation of skills was not given. Most factories have identified new ways of training. This progress can be mapped over eight factories, where two have conducted trainings using new methods.

Only 4 of the 14 factories were in the process of collecting worker feedback post training. The rest of the factories still need to work in this area.

As regards employee feedback, 10 of the 14 factories take measures towards collecting feedback of the training and induction programmes.

All the factories record employee feedback through complaint boxes, suggestions, committee meetings.

Three factories had started the process of recording exit interviews with workers, and three more had established the procedure but not begun implementing it.

The procedure for internal audits was found to be in force in 10 of the 14 factories. Out of these 10, two factories have established the process but have not yet begun conducting internal audits. Rest of the factories follow a procedure of conducting internal audits.

Majority cases were found to cover areas like health and safety, workers' rights and responsibilities in their internal audits. Of the 14 factories, 12 factories took corrective and preventive action on complaints/grievances of the workers.

6 Conclusion

Many organisations implemented the code of conduct because of pressure from buyers and other stakeholders. Over a period of time these organisations realised the benefits of good practices viz., happier workforce leads to better product and hence better revenue and profits. The industry is now going beyond the boundaries of what buyers want and implementing strategies to keep the work place conducive to workers.

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Part IV
Sustainability and Financial Performance

The Impact of Sustainability Practices on the Financial Performance: Evidence from Listed Oil and Gas Companies in Nigeria

Abubakar M. Dembo

Abstract This paper seeks to examine the relationship between corporate sustainability practices and three corporate financial performance measures (return on equity (ROE), return on capital employed (ROCE) and price earnings ratio (P/E)), of listed Nigerian oil and gas companies between 2008 and 2010. Data collected was tested through two models and the results indicate positive relationship between Sustainability practices and corporate performance. The implication of this is that the causation may run on both directions. That is, better corporate performance may lead to improved sustainability practices. Also, better sustainability practices may lead to improved corporate performance. These results are consistent with prior empirical studies.

1 Introduction

Corporate organisations are operating in ever more complex systems that are subjected not only to commercial and economic pressures but also social and environmental pressures from governments, shareholders, investors, creditors, suppliers, civil societies, consumers, managers and workers.

Some of these influences are external to a company, such as explicit government requirements or more general expectations of social legitimacy (DiMaggio and Powell 1983; Wood 1991). Other influences on social performance are internal to a company, often reflecting the commitments of key managers (Greening and Gray 1994; Miles 1987). Corporations' responses to expectations of responsible behaviour can also vary (Oliver 1991). In some cases, pressures for social responsibility may generate meaningful changes that are integrated into the regular affairs of the company. In other cases, as argued by Meyer and Rowan (1977) corporate responses to pressures for responsible behaviour tend to be "window dressing," responses that can be easily decoupled from normal, ongoing organizational activities.

A.M. Dembo (✉)
University of Bedfordshire, Luton, UK
e-mail: abubakar.dembo@beds.ac.uk

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This study investigates the evidence within the context of Nigerian oil and gas companies the link between corporate performance (CP) and sustainability performance (SP) that has been viewed as vicious cycle whereby an improvement in the former has positive impact on the latter and vice versa.

An organisation is said to be socially sustainable when it internalise social costs, maintain and grow the capital stock. Kaptein and Wempe (2001) argue that socially sustainable companies are those that are seen to be fair and trustworthy by all stakeholders.

The following sub-section discusses the aims and objectives of the research work. Section 2 contains the literature review. Section 3 explains the methodology of the study. Section 4 explains the analysis and result to date. Conclusion is provided in Sect. 5.

2 Literature Review

2.1 Sustainability

According to Dobson (1996) Sustainability is a term that has been used and interpreted in substantially different ways. Crane and Matten (2007) said the most common usage of sustainability is in relation to sustainable development, which is defined by (WCED 1987) as cited by Bebbington and Thomson as "development that meets the needs of the present without compromising the ability of the future generations to meet their own needs".

The concept of sustainability has been broadened to not only include environmental considerations, but also economic and social considerations (Elkington 1998) as cited in Crane and Matten (2007). Elkington advocated the Triple Bottom Line (TBL) as it represents the idea that business does not have just one single goal—namely economic value, but that it has goals that includes environmental and social values too.

The basic principles of sustainability from the environment perspective concern the effective management of physical resources so that they are conserved for the future. The economic concept would focus on the long term economic performance of the entity itself, and whilst the key issue in the social perspective is social justice.

2.2 Evolution of Corporate Sustainability Practices

The theoretical framework of Sustainable practices evolved between 1972 and 1992 through series of international conferences and initiatives. The first major international gathering to discuss sustainability at the global scale was the UN Conference on the Human Environment, held in Stockholm in 1972. One of the recommendations led to the establishment of the UN Environment Programme (UNEP) as well as the creation of numerous national environmental protection agencies at the national level. In 1980, during the World Conservation Strategy (collaboration between the International Union for the Conservation of Nature, the World Wildlife Fund (WWF), and UNEP) which aimed to advance sustainable development by identifying priority conservation issues and key policy options was formed also from the Stockholm conference recommendations.

The UN established the World Commission on Environment and Development (WCED) in 1983 headed by the Norwegian Prime Minister Gro Harlem Brundtland. The commission was made up of representatives from both developed and developing countries, it was charged with the responsibility to address the growing concern over the "accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for economic and social development". In 1987 WCED, in a publication *Our Common Future* (or the Brundtland report) that provided a stark diagnosis of the state of the environment the most commonly used definition of sustainable development: "Development that meets the needs of current generations without compromising the ability of future generations to meet their own needs" (WCED 1987, p. 45) as cited in Drexhage and Murphy (2010) was produced. The Brundtland report provided the direction for the 1992 Earth Summit in Rio that laid the foundations for the global institutionalization of sustainable development. According to Keating (1993) as cited in Dyllick and Hockerts (2002), it was that summit that brought the widespread acceptance of politicians, business leaders and NGOs that none of the three problems (economy growth, social equity and environment degradation) can be solved without the solving the other two.

The Earth Summit adopted the *Rio Declaration on Environmentand Development* and Agenda 21, a global plan of action for sustainable development. According to Drexhage and Murphy (2010) the Rio Declaration contained 27 principles of sustainable development, including principle 7 on "common but differentiated responsibilities," which stated: "In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. At the Summit developed countries acknowledged the responsibility that they have to bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command." Also contained therein is the Agenda 21 which have 40 separate chapters, setting out actions with regard to the social and economic dimensions of sustainable development, conservation and management of natural resources, the role of major groups, and means of implementation (Drexhage and Murphy 2010). In Agenda 21, developed countries reaffirmed their previous commitments to reach the accepted UN target by contributing 0.7% of their annual gross national product (GNP) for developmental assistance, and to provide favourable access to the transfer of environmentally sound technologies in particular to developing countries.

2.3 Development of Corporate Sustainability Practices

Since the meeting of 1992 at Rio, a number of important international conferences on sustainable development have been held—including the 1997 Earth Summit+5 in New York and the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg. These conferences were primarily reviews of progress. Drexhage and Murphy (2010) argue that a number of positive results had been achieved, but implementation efforts largely had been unsuccessful at the national and international level.

Due to the flexibility nature and universal adoption by governments, international organisations and civil organisations of Sustainable development has transitioned from being an interesting yet at times contested ideal, to a concept that enjoys widespread support. This had allowed various stakeholders to adapt the concept to their own purposes. This strong point, however, is also a weak point because various interpretations have led to disorganisation and compromised implementation.

Notwithstanding the confusion, sustainable development has been incorporated into the operations and governing mandate of many international organisations, among them includes the World Bank (2010), which has affirmed a commitment to "sustainable globalization" that "enhances growth with care for the environment"; the International Monetary Fund (IMF 2010), with a commitment to "sustainable economic growth"; as well as the World Trade Organization (WTO 2010) which endeavours to contribute to sustainable development through the pursuit of open borders and the removals of barriers to trade. Sustainable development is also a prominent component of the Millennium Development Goals (MDG), which have been widely endorsed by national governments and the world's foremost development organizations since they were adopted at the Millennium Summit in 2000.

According to UN (2010), when the Millennium Declaration was adopted the signature countries agreed to attain eight Millennium Development Goals by 2015. The eight goals included: halving extreme poverty, halting the spread of HIV/AIDS, providing universal primary education, eliminating genderdisparity in education, reducing the under-five mortality rate, reducing the maternal mortality rate and achieving universal access to reproductive health, developing a global partnership (to address the needs of the poorest countries, to further an open non-discriminatory trade system, and to deal with developing country debt); and ensuring environmental sustainably (by integrating sustainable development into country policies and programs, reducing biodiversity loss, improving access to safe drinking water and sanitation, and improving the lives of slum dwellers) as cited in Drexhage and Murphy (2010).

In addition, as a response to the Agenda 21, many local authorities have implemented the local Agenda 21 actions plan aiming at local sustainability (Keating 1993). During, the Tony Blair regime, he mandated local authorities to produce their own local Agenda 21 strategy before the year 2000. Many success stories at business organisation level have been recorded and managers of

Table 1 Payoffs of improved sustainability performance

Financial payoffs	Reduced operating costs, increase revenue, lower administration costs, lower capital costs and stock market premiums
Customer-related payoffs	Increased customer satisfaction, product innovation, market share increases, improved reputation and new market opportunities
Operational payoffs	Process innovation, productivity gains, reduced cycle times, improved resources yields and waste minimisation
Organisational payoffs	Employee satisfaction, improved stakeholder relationships, reduced regulatory intervention, reduced risk and increased learning

Source: Epstein (2008) pp. 251–252

businesses have accepted sustainability practices as a requirement for doing business (Crown et al. 1987; Hedström and Swedberg 1998; Holliday 2001) as cited in Dyllick and Hockerts (2002). Also according to SustainAbility (2010) as cited in Dyllick and Hockerts (2002) numerous businesses have incorporated sustainability, appointed corporate sustainability officers and produced sustainabilityreports.

2.4 Benefits of Sustainability for Corporations and Society

Research has shown considerable evidence of the measurable payoff of sustainability initiatives on businesses as well as their stakeholders. Businesses have so many reasons for being socially-attentive. But beyond the many bottom-line benefits outlined below, businesses that adopt sustainability practices also benefit the society at large even though the initiatives are driven by regulatory requirements. According to Epstein (2008), increasing number of companies are noticing decrease in operating costs and increase revenues. Epstein continued that recent studies have shown strong and positive link between corporate performance and good sustainability policies. Some of the documented payoffs of improved sustainability performance as illustrated by Epstein (2008) are in tabular form in Table 1.

Therefore, this study will investigate the relationship between sustainability practices and corporate performance, and if so, what is the direction of the causal relationship for Nigerian companies.

3 Corporate Performance

Financial performance can be defined as a measure of how well a company uses its resources to generate revenue over a given period of time. It can be said to be a company's achievement in terms of its profitability over time. Profit is the excess of a company's generated income over its expenses. It is generally seen as the most important indicator of a company's performance (Powell 2005). Resources used by companies to make profit is directly or indirectly generated from the society where they operate. Therefore, it can be argued that business organisations should play an active role in their environment.

Stakeholder theorist, according to Preston and O'Bannon (1997) believed that meeting the needs of various stakeholders will eventually lead to favourable financial performance. Similarly, Cornell and Shapiro (1987) as cited in Preston and O'Bannon (1997), argued that failure to meet the expectations of the stakeholders will bring about fears in the market and this will increase the risk premium of the company and will results in increase costs and lower the profit. Profits depend to a large extent on reputation which in turn depends on how the company is seen to act in a socially responsible way (Henderson 2009). Cornell and Shapiro (1987) as cited in Preston and O'Bannon (1997) continues the argument by saying that by serving the implicit claims of stakeholders enhances the reputation of the company in such a way that there is positive impact on the financial performance and vice versa. In addition, Epstein (2008) asserted that increasing shareholder value is a key objective of most businesses and managers have recognised that shareholder value is improved by creating value for employees, suppliers, customers, community and other stakeholders. Solomon (2007) claimed that ignoring the needs of stakeholders can lead to lower financial performance and even corporate failure. He illustrated that a company that is well managed is likely to have a good environmental management system and high levels of stakeholder dialogue and engagement. And any company with bad stakeholder relations could be characterised by poor management and consequently poor financial performance.

In a recent survey by Accenture in 2012 that covers eight markets around the world to explore the relationship between sustainable business and commercial growth, many companies are placing the stewardship of environment and society at centre stage of their operations which made them to be better placed to improve their reputation, comply with regulations and reduce costs (Accenture 2012).

However, Aupperle et al. (1985) in their paper "An empirical examination of the relationship between corporate social responsibility and profitability" maintained that social responsible activities may siphon the company's resources and capital and placing it at disadvantage when compared to those compared to less socially responsive companies. It has also been argued that management pursue their own personal objectives to the detriment of shareholders and other stakeholders (Weidenbaum and Vogt 1987). In the same way managerial opportunism according to researchers like Alkhafaji 1989; Posner and Schmidt 1992 as cited in Preston and O'Bannon (1997) leads to pursue of personal managerial objectives in the context of compensation schemes linked to short term profit that leads to negative relationship between financial and social performance. This means when financial performance is high, managers attempt 'to cash in' by reducing the expenditure on social activities in order to take the advantage of increasing their own short term personal gains. And when, financial performance is weak, managers do attempt to justify the results by engaging into noticeable social activities.

One might suggest that shareholder value analysis provides an incentive for sustainability managers to pursue investment opportunities to create shareholder value. Therefore, by identifying and including broader and longer-term social and environmental impacts that affect corporate profitability into a single performance measures like shareholder value analysis, management can improve the likelihood that a business sustainability objectives will be pursued.

Specifically in measuring the corporate performance of a company, the information provided by a company in its financial statement is used. Such information is analyzed by its users and some conclusions are drawn about the corporate performance of the company. The most important technique used in analyzing financial statements is Ratio Analysis, which involves the calculation of accounting ratios (Melville 2008). An accounting ratio is the relationship of one figure in a set of financial statement to another and they are of different types. For the purpose of this study, Return on Equity (ROE), Return on Capital Employed (ROCE) and Price Earnings (P/E) ratios will be considered and this is used to evaluate whether the company has succeeded in making an acceptable level of profit.

It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures. In order to fulfil the objective of analyzing the impact of sustainability practices on the financial performance of companies, researchers' opinions on sustainability practices and corporate performance have been reviewed.

4 Sustainability and Corporate Performance

Sustainability is understood to be an organizational tool that leads to a more effective use of resources and as a result has an impact on the corporate performance of the company.

According to Perrini and Tencati (2006), the capacity of a firm to continue operating over a long period of time, depends on the sustainability of its stakeholder relationship. The stakeholders of the business include the owners, employees, customers, suppliers, government, competitors and others that are directly or indirectly involved in the business or affected by its policies.

There are a number of studies that seeks to test the relationship between sustainability and corporate performance, the studies adopted different methodologies that revealed variety of results.

According to Freeman (1994); Waddock and Graves (1997) and Dong-Shang and Li-Chin (2008) argued that positive relationship with key stakeholders improves the corporate performance of a business. This is because good stakeholder relationship increase the satisfaction of the parties involved which, in turn, improves the profitability of the business. Equally important is Ameer and Othman (2012) findings that shows that the higher corporate performance of sustainable companies has increased and has been sustained over the periods 2006–2008, 2006–2009, and 2006–2010, respectively. They claimed that return of assets, profit before tax and cash flow from operations have consistently increased over the period 2006–2010. Furthermore adopting sustainability practices in the long-run will lead to improved corporate performance of the firm (McWilliams and Siegel 2001).

However, various researchers have questioned such positive impact. Preston and O'Bannon (1997) argue that managers tend to pursue short-term policies that focus on financial result instead of long term social issues. It was noted that such actions were carried out by recently appointed managers to acquire greater seniority. In addition, Aupperle et al. (1985) as cited in Prior et al. (2008), also argued that managing relationships of a wide set of stakeholders with differing objectives can result in an extremely rigid and resource-consuming organization. This, in effect, may damage a firm's financial performance because differing (sometimes conflicting) objectives could delay the decision making process in the organization. Similarly, Jones (1995) as cited in Prior et al. (2008) questioned the practices of managers. He added that such practices are aimed at satisfying stakeholders' interests but leads to the detriment of the company's financial results.

Again, Kasum and Osemene (2009) argued that high performance in sustainable development would be to reduce profitability and Sneirson (2009) found that the pursuit of profits have stood in the way of achieving sustainability.

These mixed results arise due to the constant problem of measuring sustainability and its impact on corporate performance. This complexity provides a further room for a new study which this research aims to address.

5 Research Methodology

5.1 Research Design

The way in which research is conducted may be conceived of in terms of the research philosophy which is a belief about the way in which data about a phenomenon should be gathered, analysed and used. The two philosophies of research approach identified are: positivist and interpretivist. For this study, the positivist paradigm will be adopted and the methodology would focus on quantitative approach comprising of collecting and analysing quantitative. The normal process for the positivist is that research is usually based on a deductive approach, testing of theory through development of hypotheses and collection of data (Saunders et al. 2011).

5.2 Data and Sample Selection

In the beginning, this study selected the top 50 companies in terms of market capitalization and liquidity on Nigerian stock exchange. A total of 18 financial services companies were removed because of their specific core business. Two companies

Table 2 Variables measures

No	Variable	Measure	Study
1	Sustainability performance (SP)	Support for educational institutions; health establishments; community projects such as the building of roads, markets; help to disabled and less privileged persons and promotion of sports	Fauzi et al. (2007), Aras and Crowther (2008)
2	Corporate performance (CP)	Return on Equity (ROE), Earnings per share (EPS) and Price Earnings ratio (P/E)	Bragdon and Marlin (1972), Waddock and Graves (1997), Poddi et al. (2009), Ahmed et al. (2012)
3	Control	Size, debt and industry	Waddock and Graves (1997), Dierkes and Preston (1977), Trebucq and D'Arcimoles (2002), Fauzi et al. (2007), Poddi et al. (2009), Yang et al. (2010)

without the financial data of 2008 were removed from the sample leaving a sample size of 30 companies. The names of the companies are listed on the Nigerian Stock Exchange.[1]

The secondary data was collected from published annual reports and account of the sampled companies between 2008 and 2010. The Corporate Annual Reports (CAR) for these companies was obtained from the NSE and the respective company's web sites. Information on the financial variables used was collected from CAR of the companies. So also information on corporate social performance was collected through content analysis by examining the annual reports and web sites of the companies as used by several studies (Abbott and Monsen 1979; Anderson and Frankle 1980; Aras and Crowther 2008; Ahmed et al. 2012).

The sample companies were separated into two categories; oil and gas companies and non-oil and gas companies. Afterwards, t-test was conducted to determine if there is difference between the two categories of companies with respect to their ROE, EPS and PE ratio based on the data collected from the CAR. The method of analysis is that of regression to establish the relationship.

5.3 Measures

Table 2 shows the variables and their measures as used in the study.

[1]http://www.nse.com.ng/DataProducts/Indices/Pages/NSE-50.aspx

5.4 Measure of Sustainability Performance (SP)

Unlike UK, there is no SP rating for Nigerian companies. In order to arrive at a measure of SP as stated earlier, the researcher used information on the CARs and along with the Corporate Social reports on the web sites based on the work of Fauzi et al. (2007). SP for each company was assessed on a scale of 0–2 for each rating by the researcher.

If a company did not report anything on CG and CSR activities on the CAR and website, we gave it a score of 0 rating indicating no concern.

If a company reported in the CAR the CG activities only, we gave it a score of 1 rating indicating notable concern.

If a company reported CSR activities only, we gave it a score of 2 rating indicating major concern.

5.5 Measure of Corporate Performance (CP)

According to Ahmed et al. (2012) measures of corporate performance generally falls into two categories: investors returns and accounting returns. This study used three accounting measures: Return on Equity (ROE), Earnings per share (EPS) and Price Earnings ratio (PE) to measure corporate performance. Waddock and Graves (1997) used return on equity (ROE), return on assets (ROA) and return on sales (ROS) to measure the linkage between financial and social performance. Poddi et al. (2009) used both investors and accounting returns to determine whether corporate social responsibility (CSR) affect the performance of firms. Bragdon and Marlin (1972) in their work Is pollution profitable, they used EPS to determine if the 17 companies pollution control and profitability are compatible. Finally, Ahmed et al. (2012) used ROA, EPS and PE ratio to find the nature of the relationship between CSR and corporate performance (CP).

Information on ROE and EPS were obtained from the CARs and PE ratio was calculated based on data from NSE and CARs.

5.6 Control Variables

Three variables: size, debt ratio and industry are used as control variables because they affect both SP and CP (Waddock and Graves 1997).

Size: According to Waddock and Graves (1997), size is relevant because evidence shows that smaller companies may be less socially responsible than large companies.In this study, total sales have been used to define a company's size based on the work of Crown et al. (1987) and Patten (1991) as cited in Poddi et al. (2009).

Debt ratio: Poddi et al. (2009) used debt ratio considering the important role of indebtedness to performance of companies. Studies of Myers (1977) and Jensen and Meckling (1976) as cited in Poddi et al. (2009) have shown that there is positive relationship between leverage and SP because "firms tend to increase their social information in order to reduce rising monitoring costs from high leverage".

Industry: Research by Dierkes and Preston (1977) has shown that industry could affect social performance because of their economic activities. Dummy variables can be used to control performances that vary from one industry to another (Fauzi et al. 2007). In this study, the dummy variable 1 was assigned to oil and gas and variable 2 for non-oil and gas companies.

5.7 *Propositions*

It is imperative to state the propositions to be used in the study based on the literature as follows;

Proposition 1: Better corporate performance (CP) results in improved corporate sustainability performance (SP).

Proposition 2: Improved corporate sustainability performance (SP) leads to better corporate performance (CP).

The propositions utilised quantitative method, accounting measures of ROE, EPS and PE ratio were used and with the use of regression analysis the causal relationship between the SP and CP was established.

5.8 *Model Specification*

Following the work of Waddock and Graves (1997), Trebucq and D'Arcimoles (2002), Fauzi et al. (2007) and Yang et al. (2010) the study employs regression analysis.When CSP as dependent variable the equation is

$$SP_i = \alpha + \beta_1 CP_i + \beta_2 SIZE + \beta_3 RISK + \beta_4 IND + \varepsilon \tag{1}$$

when SP is the independent variable and CP is the dependent variable is as shown below

$$PERF_i = \alpha + \beta_1 SP + \beta_2 SIZE + \beta_3 RISK + \beta_4 IND + \varepsilon \tag{2}$$

where

$PERF_i$ = corporate performance of firm i (measures of accounting profits)

SP_i = a proxy for corporate sustainability practices of firm i (based on dummy variable as no quantitative measure of SP in Nigeria)

$SIZE_i$ = a proxy for the size of firm i
$RISK_i$ = a proxy for the "risk" of firm i (debt ratio)
IND_i = industry of firm i (dummy variable)

5.9 Analysis

The results of the t-test are summarised in Tables 3, 4 and 5. From Table 3, we can see that the ROE of the oil and gas companies are lower when compared with against the non-oil and gas companies. Thus, we can say that non-oil and gas companies have perform better than the oil and gas companies. However, the t-test does not support this observation. This leads to accepting that the means are equal.

Table 3 Return on equity

	Oil and gas	Non-oil and gas
Sample size (valid N)	6	24
Mean	30.12	30.60
Sample test		
Mean difference	−0.48417	
t-test statistic	−0.040	

Decision: Do not reject the null hypothesis

Table 4 Earnings per share

	Oil and gas	Non-oil and gas
Sample size (valid N)	6	24
Mean	989.72	794.88
Sample test		
Mean difference	194.8429	
t-test statistic	0.180	

Decision: Do not reject the null hypothesis

Table 5 Price earnings ratio

	Oil and gas	Non-Oil and gas
Sample size (valid N)	6	24
Mean	4.4137	16.1188
Sample test		
Mean difference	−11.6871	
t-test statistic	−0.717	

Decision: Do not reject the null hypothesis

Table 4 shows the result of EPS of oil and gas companies are higher when compared with that of the non-oil and gas companies. However, the analysis did show no statistical difference between the two groups. Thus, the null hypothesis is accepted.

Table 5 indicates the result comparing PE ratio between the oil and gas companies and the non-oil and gas companies. The result shows that PE ratio of oil and gas companies are lower when compared with that of non-oil and gas companies. However, the t-test is not significant as such we can say statistically the two groups are not different from each other. Do accept the null hypothesis.

5.10 Descriptive and Regression Analysis

Table 6 is the listing of the industries, the dummy codes and the average SP ratings. Table 7 is the descriptive statistics of all the variables used in this study. To test the prepositions, regression analysis was used based on the work of Waddock and Graves (1997), McWilliams and Siegel (2001), Trebucq and D'Arcimoles (2002), Fauzi et al. (2007) and Yang et al. (2010) by using SP as dependent variable with the measures of corporate performance as independent variable, while controlling for size, debt level and industry on the first preposition. On the second preposition corporate performance measures were used as dependent variable and employing SP as independent variable while controlling the same variables also as in the work of Waddock and Graves (1997), McWilliams and Siegel (2001), Trebucq and D'Arcimoles (2002), Fauzi et al. (2007) and Yang et al. (2010).

As shown in Table 6, there are differences in the ratings among the industries with the lowest rated industry being Non-oil and gas at 1.38 and highest rated being the Oil and Gas at 1.67. From this result it is clear evidence that the oil and gas industry have more concern of SP impact, but still all the two groups fall under notable concern of SP impact to the community.

Table 7 shows the descriptive statistics of SP index, CP measures and control variables (DE and SIZE). The mean of the SP index is 1.42 and the standard deviation (SD) is 0.56 for the 30 sampled industries. For CP measures the mean and SD of ROE is 29.93 and 27.35 respectively, for EPS it is 9.71 and 26.21 respectively and for PER it is 13.51 and 55.14 respectively. While the mean and SD for the control variables DE and SIZE are 42.60 and 43.36 and 72,716 M (N) and 76,618 M (N) respectively.

Table 8 shows correlations with 2008 financial data and 2009 SP. The data used is also used for the model that test SP as the dependent variable against financial measures as independent variables. The result shows that there is significant correlation at $\alpha = 0.05$ level for financial measure ROE only. Table 9 shows the correlations between 2010 financials as dependent variable, 2009 SP and 2009 control variables as independent. The data was also used to test preposition 2. The result shows no significant correlation between 2010 financial measures and 2009 CSP at $\alpha = 0.05$.

Table 6 Industries in the sample

Industry	Code	N	SP	Min.	Max.
Oil and gas	1	18	1.67	1	2
Non-oil and gas	2	72	1.38	0	2

Table 7 Descriptive statistics

Variable	N	Mean	S.D
SP index	90	1.42	0.56
ROE	90	29.93	27.35
EPS	90	9.71	26.21
PE	90	13.51	55.14
D/E	90	42.60	43.36
SIZE	90	72,716 M (N)	76,618 M (N)

Table 8 Correlation matrices: correlations with 2008 financial data and 2009 SP

	SP	ROE	EPS	PE	DE	SIZE
SP	1	0.444*	0.249	0.101	0.010	0.359
ROE		1	0.210	0.340	−0.068	0.097
EPS			1	0.016	−0.026	0.094
PE				1	0.088	0.134
DE					1	0.329
SIZE						1

*$P \leq 0.05$

Table 9 Correlations with 2010 financial measures, 2009 CSP and 2009 control variables

	SP	ROE	EPS	PE	DE	SIZE
SP	1	0.200	0.252	−0.107	−0.198	0.351
ROE		1	0.137	−0.130	0.487**	0.058
EPS			1	−0.327	−0.29	0.170
PE				1	−0.119	−0.245
DE					1	0.083
SIZE						1

**$P \leq 0.01$

Table 10 presents the regression analysis results when SP was used as dependent variable and measures of corporate performance as independent variable, while controlling for debt and size. The result did show significant effect only with financial measure ROE on SP but none with the other two measures. This result is in agreement to the findings of Waddock and Graves (1997) who found positive relationship from a sample of American firms between ROE and SP. The result also shows that there is no significant relationship between SP and SIZE; SP is negatively associated with debt-to-equity ratio in all the three models. This result is also

Table 10 Regression analysis using 2009 SP as dependent variable and 2008 financial data as independent variable

Dependent variable: Corporate sustainability performance			
Independent variable	ROE	EPS	PE
	0.007*	3.731E-8	0.0001
Control variables			
Debt/equity	−0.001	−0.001	−0.001
Size	2.571E-9	2.690E-9	2.947E-9
R Sq	0.303	0.188	0.146
Adj R Sq	0.192	0.058	0.010
F	2.723	1.449	1.071

*$P \leq 0.05$

Table 11 Regression analysis with 2010 corporate performance as dependent variable and 2009 SP with 2009 control variables

	Dependent variable		
	ROE	EPS	PE
Independent variable: SP	15.334*	673.88	−0.821
Control variables			
Debt/equity	0.356	0.641	−0.024
Size	3.775E-9	2.689E-6	−1.646E-8
R Sq	0.383	0.073	0.110
Adj R Sq	0.284	−0.075	−0.033
F	3.873	0.494	0.771

*$P \leq 0.05$

consistent with that of Waddock and Graves (1997) that found no relationship between the SP and SIZE and SP is negatively related to debt ratio. However, this study result is not consistent with that of Trebucq and D'Arcimoles (2002) on French firms. Hence, this result do support *preposition 1* for Nigerian companies, which posits that better corporate performance results in improved SP, we can therefore conclude that an increase in corporate performance do leads to an increase in corporate sustainability performance.

As shown in Table 11, the result does show significant relationship when profitability is measured by ROE support that financial measure does depend on SP. This result is not in conformity with Waddock and Graves (1997) that did not found significant relationship when ROE is used as the measure. Hence, the Nigerian data does support *preposition 2*, which posits that improved SP results in improved corporate performance, we can therefore conclude that corporate performance measured by ROE does depend on SP.

6 Implications of the Results

The discoveries of this study are important because they confirm a positive relationship between the SP and CP in a different operational setting than hitherto tested. These results from a developing economy, supporting evidence from a developed economy.

The finding of this result support that sustainability practices do depend on the performance of company and the indication of that association is positive. This means the findings support the slack resources theory which, according to Waddock and Graves (1997) firms that have potential slack resources from healthy performance may perhaps have the liberty to finance SP. The findings of this analysis are in support of the good management theory. That is, the result shows that CP also depends on good SP. This suggests that doing well in social performance may be linked to good management practice by the firms.

7 Conclusion

This study evaluates the relationship between corporate sustainability performance and corporate performance and identifies the direction of the causal relationship for Nigerian companies. For Nigerian listed companies, two models were tested as in the works of Waddock and Graves (1997), Trebucq and D'Arcimoles (2002), Fauzi et al. (2007) and Yang et al. (2010). The result indicates positive effect of SP on corporate performance is in conformity with the works of Waddock and Graves (1997); Cochran and Wood (1984) and Poddi et al. (2009). This findings lead to accepting the two prepositions which means that the causation may run on both directions. That is, better corporate performance may lead to improved SP. Also, better SP may lead to improved corporate performance. In conclusion, this Nigerian result is consistent with that of U.S. corporations based on the work of Waddock and Graves (1997).

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Design and Development of Ergonomic Workstation for Pregnant Workers in Readymade Garment Industry

Noopur Anand, Archana Gandhi, Vipul Verma, and Sarablin Kaur

Abstract Fashion has, in its own way been a major agent of change in today's world. The feminization of the labor force in the garment manufacturing setups also covets for the change in the areas of workplace safety, gender empowerment and equality. With such a large number of female apparel workers of mid-age who may become pregnant, a realistic recognition of the unique needs of the pregnant worker is beginning to emerge. This research explores the problems faced by the pregnant workers and identifies the problem areas as large abdomen causing progressive postural problems, backache, impairment of dexterity, agility, coordination and balance. Interviews with expectant workers led to a realization that majority want to work till their third trimester. They work continuously for around 4 hours a day. Most felt fatigue after 1–2 hours of working. Nordic Discomfort Questionnaire analysis resulted in high discomfort scores in lower back, foot, upper back and shoulder in the descending order. REBA (Rapid Entire Body Assessment) established that pregnant workers for operations of inspection, thread trimming and packaging are under very high risk and need change in workstation from standing to sitting. Work stations designed for them, have a table with a 10° inclination and an oval cut in front to accommodate the abdomen and a chair with rocking base having shin support. Both were found comfortable by workers.

1 Introduction

The textile and apparel industry is one of the leading segments of the Indian economy and the largest source of foreign exchange earnings for India. This industry accounts for 4% of the gross domestic product (GDP), 20% of industrial output, and slightly more than 30% of export earnings. (Vern Simpson 2001). The

N. Anand • A. Gandhi (✉) • V. Verma • S. Kaur
Department of Fashion Technology, National Institute of Fashion Technology, New Delhi, India
e-mail: archana.gandhi@nift.ac.in

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textile and apparel industry employs about 38 million people in more than 60,000 units, making it the largest source of industrial employment in India. Studies have shown that 94% of total women workers work in informal sector (Geetika et al. 2011). India's garment industry employs about eight million workers, of which 70% are women (Preuss 2013). A significant number of them are pregnant while on job and face many discomforts because of long hours of working quite many of them are in standing posture. It is not only uncomfortable, it also poses threat to pregnancy. A study- Miscarriage and Occupational Activity: A Systematic Review and Meta-Analysis regarding shift work, working hours, lifting, standing, and physical workload, was conducted (Bonde et al. 2012) to evaluate the risk of miscarriage due to prolonged standing and long working hours. It indicated that those who stood for more than 8 hours have a metarisk of 1.26 of miscarriage than those who stood >3 hours/day. Another analysis showed that the adjusted odd ratio (OR) for pre-term birth of pregnant workers standing more than 6 hours per day during work was 1.26 and for women standing for 2–6 hours per day and less than 2 hours per day are 1.06 and 1 respectively. (Saurel-Cubizolles et al. 2004)

Naeye and Peters (1982) reported that the mean birth-weight of newborns at term was lower when mothers worked in a standing position. Prolonged standing at work has been associated in epidemiological studies with lower extremity (LE) discomfort (Ryan 1989) varicose veins, (Tuchsen et al. 2005) progression of carotid atherosclerosis (Krause et al. 2000) and complications of pregnancy (Ha et al. 2002).

Given a large population of mid-aged female workers who may become pregnant or are pregnant in garment manufacturing setups with a prone and disadvantaged position, very little has been done to address their ergonomic needs during pregnancy.

2 Methodology

The study was conducted to design a special ergonomic workstation for expectant workers. The methodology of the study was in three steps in Table 1.

3 Current Status of Pregnant Workers in Indian Garment Industry

A questionnaire based survey of management as well as workers who were pregnant was conducted (10 garment factories) in Tirupur and Bangalore.

The objective of the management questionnaire was to understand the average age, distribution pattern of women workers in the factory and number of pregnant

Table 1 Methodology of the research

Literature review
• Ergonomic risk factors in pregnancy
• Body changes in pregnancy
• Study of sitting and standing pastures in pregnancy
• Prolonged standing and adverse pregnancy outcomes
Primary research
• Management survey: to study female worker demographics and managements responsiveness to workplace pregnancy
• Expectant worker interview: to assess the tasks performed, working conditions, ergonomic limits and problems at workplace
• Body map and discomfort analysis using Nordic questionnaire
• Postural analysis using Rapid Entire Body Assessment (REBA) for various operations
• Anthropometric measurements of pregnant women for workstation design
Workstation design
• Identification of workstation to be redesigned
• Designing & development of prototype options for re-engineered workstation
• Comparative comfort evaluation analysis of workstation prototype options

workers. It also aimed at understanding management's responsiveness to maternity health and workplace safety.

The key findings were:

- 79% of the total workforce was female workers, in Sewing, Finishing and Packaging departments in descending order.
- 89% of the female workers were married and 53% of the female worker population was in the age group of 21–30.
- On an average there were 4% workers in each factory of which 62% were still working and were in their 2nd trimester and 38% on maternity leave. Women preferred to work till mid of third trimester i.e. 8th month of their pregnancy.
- The pregnant women were moved either to the thread trimming section or inspection by the management.
- Almost all factories provide Employee State Insurance facility and periodic Health checkups, though some factories confessed to having policy of not hiring pregnant women workers. Two of the respondent factories had unique identification mark like a cap, flags, etc. for pregnant operators to address their special needs.
- Working days for pregnant women are same as that of non-pregnant female workers—6 days per week.
- None of respondent factory ever redesigned workstation for pregnant workers.

Another questionnaire was designed for the pregnant workers in the factory to assess the tasks performed, working conditions and problems at workplace for pregnant workers. Twenty pregnant workers with mean age of 27.2 years (s.d. 3.23) were interviewed to conduct this experiment out of which 8 were from sewing department and 12 from finishing department.

The findings indicated that majority of women prefer want to work till 8th month of pregnancy. The pregnant workers like regular workers work 9 hours daily with breaks of 2 times per shift excluding tea and lunch breaks. The continuously expected stretch of work is for 3 hours and almost all felt fatigue after 1–2 hours of working. The major problem faced by the pregnant workers in the finishing department was increase in reach distance (reach out to the garments they are checking, trimming threads) due to growth in the abdominal depth during pregnancy leading to bending /twisting. This problem increased as the pregnancy progressed. Also prolonged standing was found to be a major concern. The results indicated that the workers from the finishing department faced more problems and fatigue as compared to the ones from sewing.

To assess the discomfort faced by pregnant workers in a more specific and objective way, Nordic Discomfort Analysis was done in the both Sewing and Finishing departments.

4 Nordic Discomfort Analysis in Sewing and Finishing

The Nordic Musculoskeletal Questionnaire (NMQ) was developed from a project funded by the Nordic Council of Ministers (Kuorinka et al. 1987). The aim was to develop and test a standardized questionnaire methodology allowing comparison of pain/discomfort in different parts of the body, it's severity and interference with the ability to work.

Fourteen pregnant workers (6 from sewing and 8 from finishing) with mean age of 27.2 years (s.d. 3.23) were interviewed to conduct this experiment. The subjects were asked to mark the parts facing discomfort on a body map and its severity.

In Nordic questionnaire, questions were asked about any kind of ache, pain, and discomfort in various body parts labeled on a body map as shown Fig. 1.

For every body part, three scores were collected—Frequency of pain (on an increasing scale of 0–4), Magnitude of pain (on an increasing scale of 1–3) and Interference with ability to work (on an increasing scale of 1–3). A discomfort score was calculated for each part (right body parts distinguished from left) using the formula:

$$\boldsymbol{Discomfort\ Score}(\boldsymbol{D.S.}) = \boldsymbol{Frequency\ Score} \times \boldsymbol{Magnitude\ Score} \times \boldsymbol{Interference\ Score}$$

And the average for each part was calculated using below formula:

$$\boldsymbol{Part\ wise\ average\ discomfort\ score}: = \frac{\sum_{n=1}^{x,y} Discomfort\ Score(D.S.) for\ respective\ part}{x, y}$$

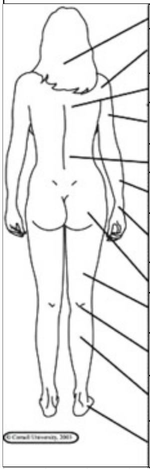
Nordic Questionnaire

Name:

Operation performed:

Month of pregnancy:

Age:



		During the last work week, how often did you experience, ache, pain, discomfort in:					If you experienced ache, pain, discomfort, how uncomfortable was this?(On a scale of 1-3)			If you experienced ache, pain, discomfort, did it interfere with your ability to work?			In which areas did you experience ache, pain or discomfort before pregnancy and how uncomfortable was it?		
		Never	1-2 times last week	3-4 times last week	Once every day	Several times every day	Slightly uncomfortable(1)	Moderately Uncomfortable(2)	Very Uncomfortable(3)	Not at all	Slightly interfered	Substantially interfered	Slightly uncomfortable(1)	Moderately Uncomfortable(2)	Very Uncomfortable(3)
NECK		☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
SHOULDER	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
UPPER BACK		☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
UPPER ARM	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
LOWER BACK		☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
FOREARM	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
WRIST	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
HIP/BUTTOCKS		☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
THIGH	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KNEE	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
LOWER LEG	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
FOOT	(Right)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
	(Left)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Fig. 1 Nordic body discomfort questionnaire

x = Sample size of pregnant sewing operators = 6; y = Sample size of pregnant finishing operators = 8.

The chart in Fig. 2 shows the comparison of discomfort scores calculated for various parts between sewing and finishing operations. As it can be clearly seen that for every part except for neck/thigh/hip, the discomfort is more in finishing operation (inspection, thread trimming, packing) which is a standing operation. The discomfort is at peak for Lower back and feet. Lower back pain is because of increasing lumbar lordosis (Simone 2008). As the gravid uterus enlarges, weight gain is concentrated in the lower two-thirds of the trunk causing center of gravity to shift anteriorly, which leads to a tendency to fall forward. To restore the center of gravity, progressive lordorsis occurs when the women unconsciously arch their upper body back over the pelvis and lower extremities.

The discomfort score of foot also draws concern. During pregnancy, body fluids increase in order to nurture both mother and baby. As the body tissues accumulate and retain fluids swelling is experienced. Also the growing uterus puts pressure on the mother's pelvic veins and vena cava (the large vein on the right side of the body that carries blood from lower limbs back to the heart). The pressure slows the return of blood from legs, causing it to pool, which forces fluid from the veins into the tissues of feet and ankles.

This established the fact that the standing operation in pregnant workers in finishing operation posed maximum risk. This became the focus of the study.

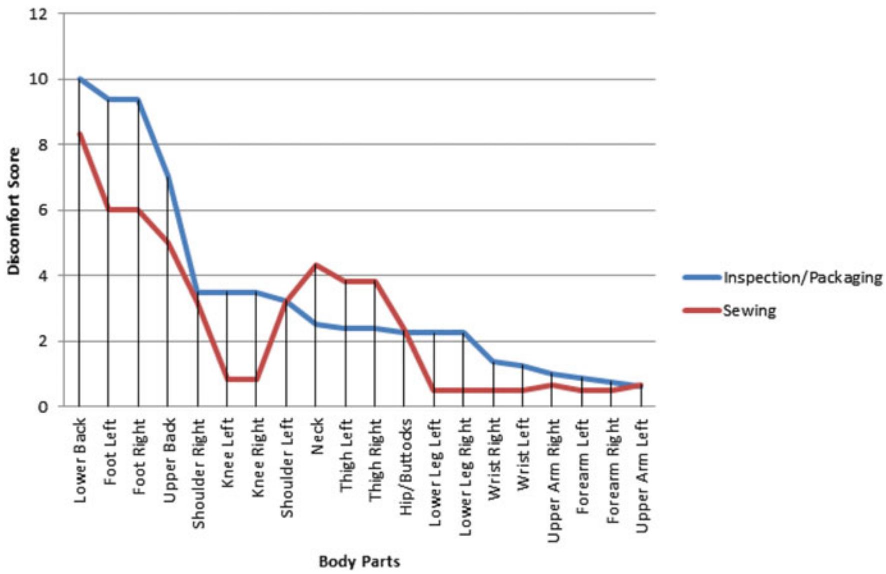


Fig. 2 Comparison of discomfort scores for sewing and finishing operators

Further, REBA (Rapid Entire Body Assessment), a quantitative assessment tool was used on women of finishing section to substantiate the findings of Nordic.

5 Rapid Entire Body Assessment

The Rapid Entire Body Assessment (REBA) method was developed by Dr. Sue Hignett and Dr. Lynn McAtamney (2000).

This ergonomic assessment tool uses a systematic process to evaluate whole body postural MSD and risks associated with job tasks. A single page worksheet was used to evaluate required or selected body posture, forceful exertions, type of movement or action, repetition, and coupling.

The REBA worksheet is divided into two body segment sections on the labeled A and B. Section A (left side) covers the neck, trunk, and leg. Section B (right side) covers the arm and wrist. This segmenting of the worksheet ensures that any awkward or constrained postures of the neck, trunk or legs which might influence the postures of the arms and wrist are included in the assessment. Score Group A (Trunk, Neck and Legs) postures first, then Score Group B (Upper Arms, Lower Arms, and Wrists) postures for left and right. For each region, there is a posture scoring scale.

Table 2 REBA scores for women workers in finishing department

Operation	REBA score
Thread trimming	10
Inspection	9
Folding	11

The REBA test was performed on ten pregnant workers employed in the finishing department undertaking the standing operations of Thread Trimming, Inspection and Folding.

The Average REBA scores are in Table 2 follows:

Thus, according to the REBA assessment risk analysis scoring, the final REBA scores for both Thread trimming and Inspection operations fall in the interval of 8–10, which shows that the pregnant workers are at high risk. A score of more than 10 in folding indicates that the pregnant workers are under very high risk and there is a requirement to implement changes immediately.

This established the extent and area of the problem. Redesigning of work stations was undertaken to address the problem.

6 Prototype Development

Several reviews done in past, indicate that prolonged standing has impact on risks of pre-term delivery and low birth weight/small for gestational age (SGA). Nordic Body Part Discomfort analysis showed high discomfort scores in lower back, foot, upper back and shoulder and further assessment of current workstation for inspection/thread trimming using REBA (Rapid Entire Body Assessment) justifies the need of immediate change because of high risk posed.

The main objective was to convert the standing operation of inspection/thread trimming/packaging to sitting, which is also recommended by EU Guidelines for pregnancy and by Stephen J. Morrissey (1998) in 'Work place design recommendations for the pregnant worker'.

Seating prototype including a table and three options for chair were developed and tested.

6.1 Table Design

The table designed had an oval shaped curve on one side to accommodate the abdomen growth which causes hindrance in reaching the garment kept at a distance. The oval shaped curve on the table just in front of the abdomen reduces the reach

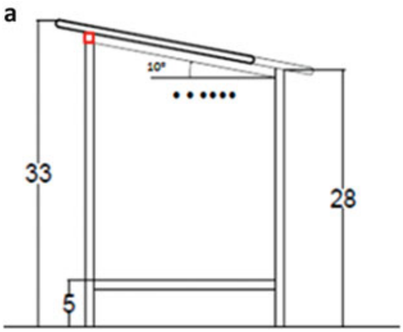


Fig. 3 (**a** and **b**) Dimension of the table

distance and hence prevents bending and twisting while performing the operation. Also an inclination of 10° was given to the table surface to enable the workers to have a clear view of the garment being examined and to maintain postural stability while at work.

The table top dimensions were calculated according to the nature of task to be performed on it. Considering the operation of checking the measurements, where the garment is placed flat on the table surface, the dimensions were calculated using trouser as the reference garment (Fig. 3).

The table length including an allowance of 3″ on both sides is: 3″ + 42″ (Large Garment Length) + 3″ = 48″.

The dimensions of the oval cut as calculated earlier using anthropometric data of pregnant females:

Table Cut Width = 20″.
Table Cut Depth = 8″.
Adding 8″ to trouser width of 18″ and giving an allowance of 2″ on both sides, table breadth is: 2″ + 18″ + 8″ + 2″ = 30″.
Table Breadth = 30″, The table height was kept 71 cm (28 in.) on the basis of anthropometric from pregnant women (Fig. 3).

The oval cut in the front was cushioned with foam to avoid any kind of accident or abrasion from the table edge. Actual ergonomic table designed for pregnant women is shown in Fig. 4.

Fig. 4 Actual ergonomic table designed for pregnant women workers of finishing section

6.2 *Seating Prototype Design*

The developed Seating chair prototypes have a common feature of front inclination of 10° to the seat. Forward sloping seats were generated in the ability of the forward sloping seat to counteract the potentially negative consequences of upright seating (Corlett 1999; Mandal 1985).

Forward inclination decreases the biomechanical loading on the low back, reduces low back and thighs discomfort favors postural adaptations, prevent leg edema by facilitating leg mobility, extends reach, and reinstates lumbar lordosis by tilting the pelvis.

A height adjustable chair with increased seat pan was developed as shown in Fig. 5 as per the measurements in Table 3.

The same was tested on expectant subjects but was found to have following problems:

- Tendency to slide off the chair.
- Increased discomfort in thighs and legs due to greater muscle action required.

Shin rest was provided to avoid forward slipping and another prototype B was developed as in Fig. 6 and tested, but it was found to have increased weight load on shin and leg area which expectant workers were already suffering. It also caused constrained posture.

To address this issue, the chair was provided with a minimal rocking feature which is user controlled. The rocking feature proved to have positive effect on the posture of pregnant females. This was also supported by the review of literature which establishes that the lack of movement causes leg swelling during pregnancy (Winkel and Jorgensen 1986). During movement, the "expansion and contraction" of the muscles help promote circulation and prevent edema. Hence when seated subjects move about in their seat, they experience much less edema than inactive sitters (Van Deursen et al. 2000). Further, incorporating small but

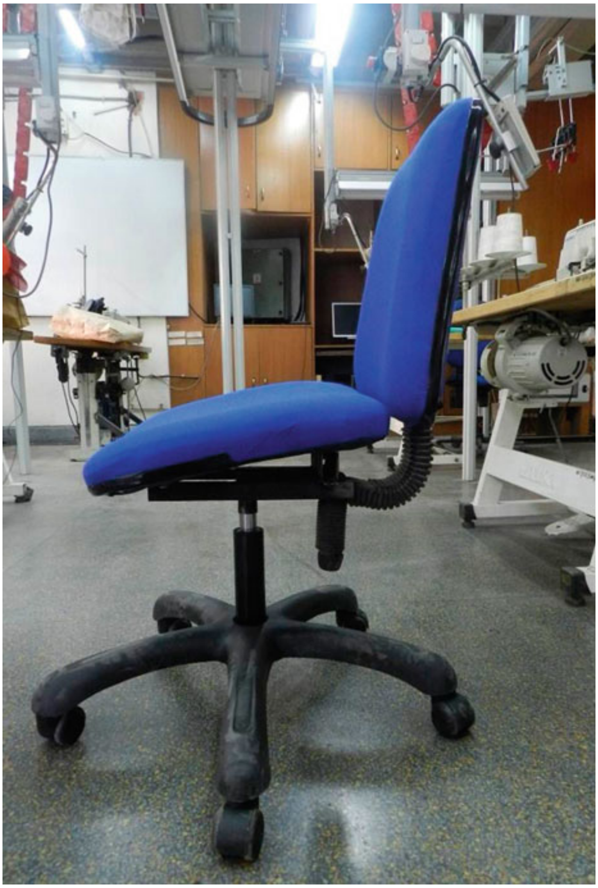


Fig. 5 Prototype of chair A with inclined seat

Table 3 Measurements of ergonomic chair

Seat length	18″
Seat breadth	18″
Min. seat height	16″
Backrest length	19″
Backrest width	18″

continuous movements into the day increased the time of onset of leg swelling (Winkel 1981).

So prototype C was created having rocking feature was provided to the chair as shown in Fig. 7 where the user can rock whenever she wants using her leg. The shown prototype was developed and tested for comfort rating.

The chair was found to be most comfortable and caused minimal discomfort. Another aspect is the ability of the chair to shift the user's center of gravity as they

Fig. 6 Prototype of chair B with inclined seat and padded shin rests

shift position. This important design consideration enabled the user to maintain a stable and centered position as they move (Fig. 8).

7 Conclusion

The three seating workstations as shown in Fig. 9 developed were tested on the 5 pregnant female workers and feedback was recorded.

The evaluation was done in three sections:

1. Discomfort Evaluation: The subjects were made to sit on each chair for a period of 3 hours for 2 days and after that they were asked to fill body part discomfort table which also inquired about the severity of the discomfort. A discomfort score was generated according to the severity of discomfort for each part with slightly uncomfortable having score of 1, moderately uncomfortable-2 and very uncomfortable-3. The discomfort Evaluation is shown in Fig. 10.

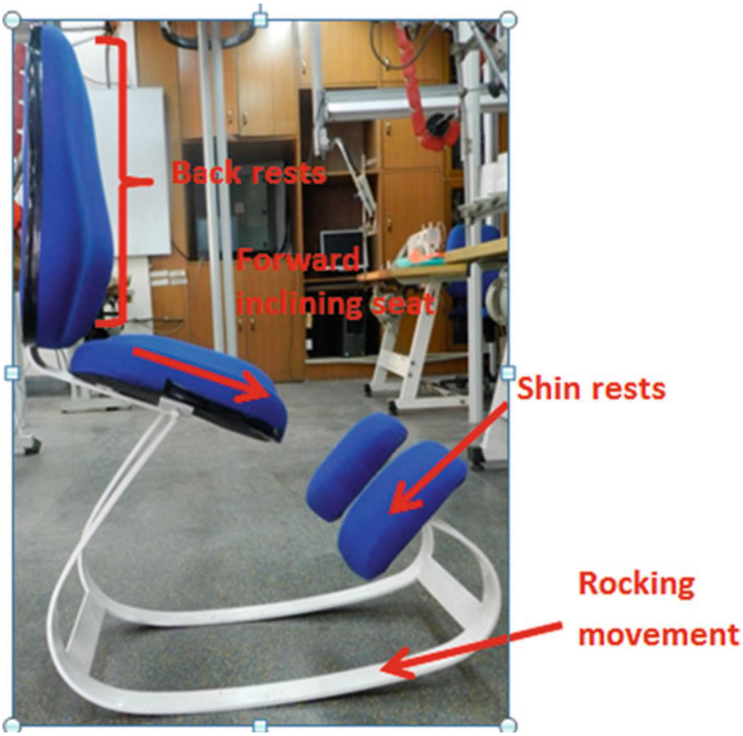


Fig. 7 Prototype of chair C with inclined seat; padded shin rests and rocking feature

An overall body discomfort in lower parts like knees, lower legs, thighs and foot was observed in Chair A (Forward Inclined Chair). The possible reasons can be the unsupported forward sliding which results in loading of weight on lower body parts. Lack of footrest made sitting on this chair for longer duration difficult. However the discomfort in thighs, lower legs reduced in Chair B because of the support provided by shin rests. The discomfort was found to be the lowest in prototype Chair C.

2. Chair Feature Rating: The subjects were asked to rate various features of each chair like chair height, seat shape, rocking action, position of shin rest, and height adjustability mechanism on a Likert Scale of 1 to 5.

   It can be clearly seen that Chair C is rated highest for most of the features evaluated as shown in Fig. 11.
3. General Evaluation: This section asked questions about overall comfort, problems faced while getting in or out of chair and the subject's feedback on the chair. The responses were recorded in the form of a chart and are shown below. The graph for Chair C lies on top of the rest of the two chairs making it most preferred prototype in general evaluation as well (Fig. 12).

   The created sitting ergonomic workstation of table and prototype table C was well appreciated.

Fig. 8 Ergonomically designed sitting work station for pregnant women in finishing department of apparel industry

Fig. 9 Three seating workstations prototype of chair A (front inclined seat), chair B (inclined chair with shin rests) and chair C (rocking chair with shin rests)

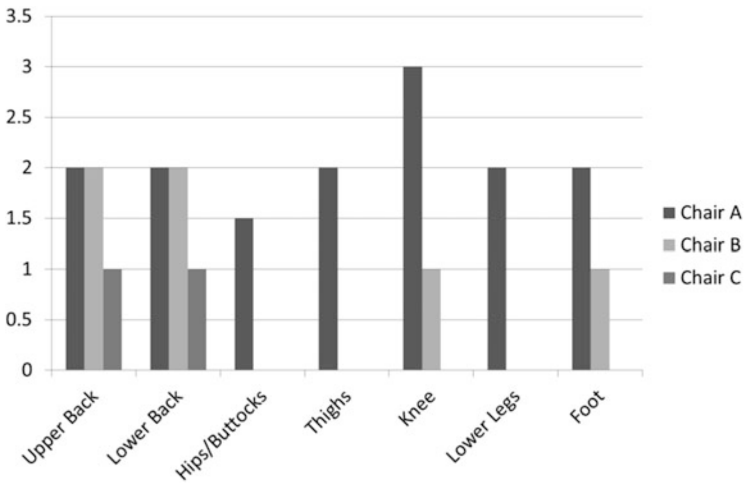


Fig. 10 Discomfort Evaluation in prototype Chair A, B & C

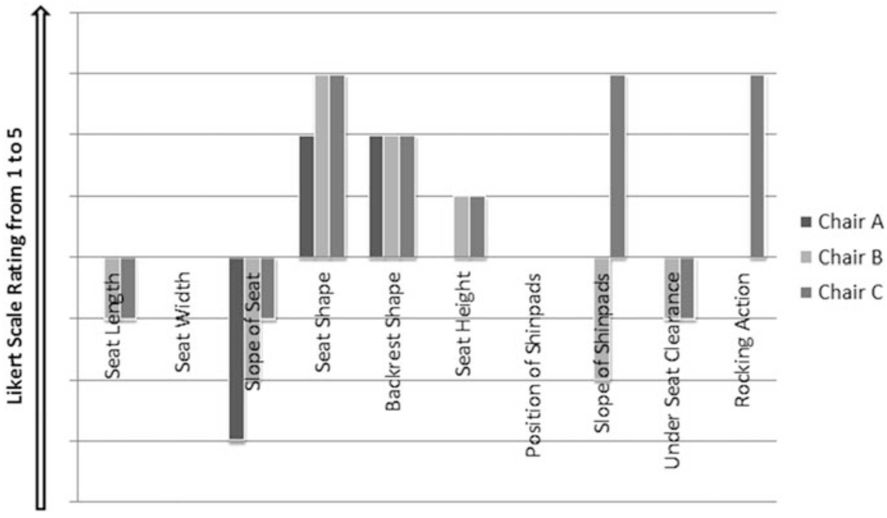


Fig. 11 Chair feature rating in prototype Chair A, B & C

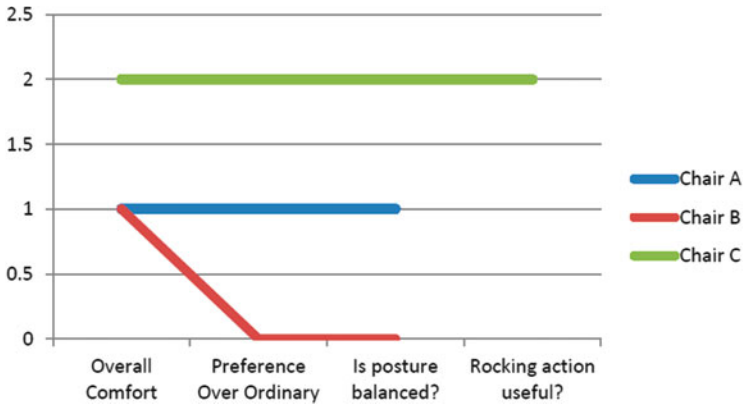


Fig. 12 General evaluation of prototype Chair A, B & C

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Proposed Integrated Measurement Standard to Measure Sustainability Performance: Evidence From Indonesia

Kurnia Perdana and Juniati Gunawan

Abstract This study introduces a new integratedmeasurement standard to comprehensively measure sustainability performance. It comprises a balanced scorecard and three internationally leading sustainability standards: Global Reporting Initiatives (GRI), ISO 26000 and United Nation Global Compact (UNGC). These integrated guidelines cover four aspects, economic, social, environmental, and well-being.

Samples were taken from Indonesian companies that had participated in the Indonesia Sustainability Reporting Awards (ISRA). The 2010 and 2011 sustainabilityreports were examined using these integratedmeasurement standards (IMS). The results of a content analysis showed that the trend of disclosing sustainability had tended to increase over the past 2 years. The disclosure scores were considered medium to high profile, with the indication that the sustainabilityperformance of state-owned companies was higher than that of private companies; publicly-listed companies obtained higher scores of disclosures than non-listed companies; and manufacturing industries received the highest scores followed by service and energy industries respectively.

1 Introduction

The main purpose of business is profit. The word profit not only refers to short-term and temporary profit, but also long-term profit with its impact on increasing the value of a company. Once these aims are reached, the company will be sustainable. On the other hand, there is a changing paradigm that states that long-term profit is not only about the amount of profit, but also about non-monetary factors. Companies that integrate sustainability into their strategies can achieve higher non-financial profits. Those profits may serve as a good corporate image for all stakeholders, influence the

K. Perdana
PT Gunung Madu Plantations, Lampung, Indonesia
e-mail: danadhyaksa@gmail.com

J. Gunawan (✉)
Trisakti University, Jakarta, Indonesia
e-mail: yuni_gnw@hotmail.com

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customers' perceptions, maintain the customers' loyalty and attract new customers, attract the best candidates for vacant staff positions, and increase the motivation and commitment of the employees (Maignan et al. 1999; Sharma et al. 2009). Sustainability can also leverage social legitimacy and environmental endorsement in comprehensive ways, decrease the cost of production, and ultimately increase the competitive advantage of the corporation (Garriga and Mele 2004; Porter and Kramer 2006; Meehan et al. 2006).

Stakeholder theory states that sustainability performance will be affected by social legitimacy, in which one of the strategic decisions taken into consideration is the increasing stakeholder's demands (Garriga and Mele 2004; Hanke and Stark 2009). NGOs and society are legitimate elements which can interrupt or interfere with business operations, so their existence should not be ignored. Governments can also interrupt or interfere with business operations through regulations, and if companies do not accommodate their stakeholders' demands, financial institutions will be affected in their financial performance.

It is important for a company to disclose its entire sustainability performance to its stakeholders and the most effective communication instrument for this is an annual report or a sustainability report (Dhaliwal et al. 2011). A Sustainability report is also a strategy for a company to disclose its sustainability performance to its stakeholders (Golob and Barlett 2007; Dhaliwal et al. 2011). Previous research states that the publishing of the social performance was advantageous for both the company and its stakeholders.

The evaluation of strategy, process and policy is important to ensure the quality and quantity of the program. Hence, several stages of performance measurements are needed to evaluate a company's CSR performance. The performance measurement is a process of recording and evaluating application accomplishments gaining mission accomplishment through the results of a process (Wood 2010; Panayiotou et al. 2009b).

The performance measurement of a company is a system that aims to help it accomplish its strategy by using financial and nonfinancial measurements. Performance measurement can be undertaken through a number of approaches and knowledge. Generally, the performance measurement has the following purposes:

1. To communicate the company's strategy.
2. To measure both financial and non-financial performances, so that strategic accomplishment can be achieved.
3. To accommodate better understanding between middle and low level management and also to motivate the congruence of personal goals.
4. As an instrument to reach satisfaction based on individual approach and rational collective ability (McLoughin et al. 2009).

It is important for the company to acknowledge the quality of sustainability performance. The feedback and suggestions can become input for the improvement of strategic decisions, processes and sustainability policies in the company. Thus, this study proposes a new integrated measurement standard (IMS) (Perdana and

Gunawan 2014) to comprehensively measure sustainability performances, covering four aspects of economic, social, environmental and well-being.

2 Literature Review

Sustainability should be based on the whole of the company value chain. Each activity should provide some sustainable impact on the company; from planning, determination of strategies, formulation of programmes, systems and policies, processes and execution (Panayiotou et al. 2009a; Butler et al. 2011; Gates and Germain 2010). Furthermore, the measurement of sustainability performance is considered a significant constraint, as there is no decision yet as to which instrument is best to measure sustainability.

Previous research considered the integration of sustainability with corporate strategy in order to identify the stimulation of the social and environmental performance and also manage the positive and negative effects of the performance. Corporations wish to gain significant contributions for the society. Strategic business units were integrated into eight sustainable performance measurements, which were measured through stakeholders' responses, and the results showed the impact on the long-term financial performance of the company.

Another prior study examined the integration of a balanced scorecard with GRI by using CSR performance disclosures in the annual report. The findings in this study were more detailed on aspects of the integration of economic, environmental, social and governance reporting organizations and companies to evaluate the performance of the company. Some instruments such as GRI, UNGC, ISO 26000, UNEP-FI and OECD are integrated in this study. Integrated instruments are used simply because all aspects can be integrated into the sustainability perspective (Panayiotou et al. 2009a; Hrebicek et al. 2011).

Prior studies attempted to develop reference models for measuring corporate sustainability performance by complementarity, shortcomings and strengths of eight well known sustainability measurement initiatives alongside an extant corporate sustainability literature review (Delai and Takahashi 2011).

3 Methodology

Forty six companies that had published sustainability reports in Indonesia, and had participated in the Indonesian Sustainability Reporting Award (ISRA) in 2010 and 2011 were selected as the unit analysis of this study.

The measuring process of the sustainability performance used integrated measurement standardd by examining the sustainability disclosures quantity based on each indicator that are listed in the guidelines. Finally the scoring system was taken from the previously established scoring guidelines and criteria.

3.1 Scoring Process

Based on the integrated measurement standard, the measurement was done by:

1. Verifying the information disclosed in the sustainability report which is relevant with the indicator in the integrated measurement standard.
2. Providing a score based on the criteria for information that is suitable with the integrated measurement standard. This score refers to the weight of the quantity of disclosures.
3. Adding each indicator.
4. Counting in order to split the scoring results into five groups, i.e., very low, low, medium, high and very high. This group shows the quality of sustainability performance as evaluated from disclosure in sustainability report.

3.2 Scoring Criteria

1. Zero-point score refers to information in the sustainability report that does not describe the performance based on the indicator that has been stated in the measurement instrument.
2. One-point score refers to a description in the sustainability report consisting of a maximum one sentence.
3. Two-point score refers to the performance description in the sustainability report that consists of one paragraph.
4. Three-point score refers to the performance description in the sustainability report that consists of two up to three paragraphs.
5. Four-point score refers to the performance description in the sustainability report that consists of four up to five paragraphs.
6. Five-point score refers to the performance description in the sustainability report that consists of more than five paragraphs.

After the scoring process, the next step is to add the results of the overall scores. The score results will be categorized into five groups below:

1. Very low sustainability performance: 1–105
2. Low sustainability performance: 106–205
3. Medium sustainability performance: 206–305
4. High sustainability performance: 306–405
5. Very high sustainability performance: 406–505

4 Results and Discussion

4.1 *The Financial Perspective Integration to the Sustainability Aspect*

Based on the perspective of the BSC, the financial aspect of the company is more likely to be oriented to the high financial performance in order to fulfill the interests of the shareholders and to ensure corporate profitability. Since the success of the financial performance covers the overall strategies, the objectives and its implementations are able to contribute to the aspects of the corporate responsibility in the field of economics (Table 1).

The highest performance is scored in the financial-economy integration. This result is based on the company's awareness to disclose the sustainable performance of the company simply because it is expected to give positive impacts towards financial performance and the profitability (Beurden and Gossling 2008).

Financial-social performance describes the extent to which the implementation of sustainability as a social investment contributes to improving the financial performance of the company, especially in the long term, which can provide significant contribution in the development of the company's sustainability performance.

In the integration of the measurement, there is more emphasis on the company's awareness to develop corporate social investment (CSI) in the community. This performance improvement is reported due to its impact on the business and community. Other potential benefits are the improvements of corporate image, morale of the employees, social and economic environments, which in the end, is deemed a good corporate citizen. If the board of management is able to contemplate the CSI as part of the strategic domain, more sustainable developments can be achieved, which will also contribute to the development in the real social and economic growth (Friedman and Miles 2001; Brammer and Pavelin 2006a).

Finance-environmental integration illustrates the company's financial allocations in order to boost the environmental performance. There are positive impacts on the environmental costs with the high growth rates (Al-Tuwairij et al. 2001). So, the higher the environmental sustainability budget is, the higher it is able to improve environmental efficiency and the greater the impact on market reaction (Konar and Cohen 2001). The improvement of environmental performance proved

Table 1 The average score of the financial perspective with the sustainability aspect

Perspective	Sustainability aspect	Average score	
		2010	2011
Financial	Economical	27.74	28.11
	Social	20.89	22.15
	Environmental	13.16	14.17
	Well-being	11.63	14.74

that Indonesian companies are increasingly able to view the importance of the environmental performance in supporting sustainability.

The integration of financial well-being is prioritized so that the corporation, as a business entity, has a moral obligation to escalate both the well-being and social capital of the stakeholder. A company needs to budget for its social quality improvements (Bhattacharya and Sen 2004), for example to provide worship and sports facilities, a safe working environment and to promote quality within the community.

4.2 *The Process Perspective Integration to the Sustainability Aspect*

The integration of process perspective to the sustainability aspect is a management action applied to every policy in business operations (Table 2).

The focus of integration process-economy is on efficiency, innovation and control. The importance of applying innovation to technology is as a form of efficiency (Edvinsson et al. 2004). Efficiency should be included in the implementation of each strategy and policy. Many companies in Indonesia are still prioritizing donations as the CSR main program. If these companies are able to interpret sustainability in its absolute meaning, they can innovate better, have more control, and also provide an impact on corporate operational efficiencies (Hanke and Stark 2009; Butler et al. 2011).

The operational policy of a responsible company is the focus of measurement in the process-social integration, such as the treatment of employees and employment interaction and community and NGO involvement. There are some interesting points in this measuring system; many local companies cannot disclose their whole performance completely. Many of them did not even disclose the performance indicator at all. This finding is quite relevant and shows a positive relationship between social and environmental disclosure with corporate political visibility; larger companies disclose social and environment performance more compared with that disclosed by smaller companies (Gunawan 2010).

The process-environment integration focuses more on measuring the performance of energy and resources efficiency, conservation initiation, obedience and

Table 2 The average score of the integration of process perspective with the sustainability aspect

Perspective	Sustainability aspect	Average score	
		2010	2011
Process	Economy	5.21	7.30
	Social	89.16	93.44
	Environment	32.63	35.85
	Well-being	27.16	28.58

mitigation. Low performance can be seen in the educational institutions. It is true that the operation of the educational institutions provides a direct impact on the environment; however, we cannot deny that there are many things that can be done by educational institutions through research and education to support environmental sustainability (Brown and Cloke 2009).

The measurement of the integration process, often resulted in less escalation, therefore, increasing frequency for each inficator is needed here. Frequency improvement will increase the corporate advantages and also the quality value of the stakeholders (Brammer and Pavelin 2006b).

4.3 The Customers Perspective Integration to the Sustainability Aspect (Table 3)

Customers can be considered as the "revenue" for a company. The weakness of this instrument is that the integration focuses on large numbers of individuals. The interesting finding is that the energy and mining companies achieved the lowest score of performance due to their very low interaction intensity with their customers (oligopsonic market). In order to face this challenge, they can apply a generic focus strategy (Porter 1996). This strategy application will drive and force the energy and mining companies to concentrate more on the production side in order to fulfill the customers' demands.

Most products usually are half-ready products so, contamination in the packaging process did not find in the package. On the other hand, most of the operators have quite high educational backgrounds, so no further training and education was needed for them, except in the orientation of the product introduction and product maintenance.

Another interesting finding is the decreasing average performance in 2011 in the integration between customers' well-being as this was the first time companies published sustainability reports so they had not adopted these aspects into their strategic performance yet.

Inversely, the highest performance during 2010–2011, based on this integration, is manufacturing companies, which have a lot of customers with high intensity. Customers are treated as the most important stakeholder. These companies have also adopted the law regulation no. 8/1999 which is about customer protection.

Table 3 The average score of the integration of customers perspective with the sustainability aspect

Perspective	Sustainability aspect	Average score	
		2010	2011
Customers	Economy	29.21	29.37
	Social	7.37	6.65
	Environment	6.32	6.41
	Well-being	8.05	6.67

Therefore the company's strategic interaction focus is customer satisfaction. Many efforts have been undertaken to maintain this, such as by conducting education about the function of the products so that customers will obtain the product value optimally.

4.4 The Perspective Integration of Growth and Learning to the Sustainability Aspect (Table 4)

The increasing average performance in the integration showed that these companies are trying to increase the capacity and ability of the employees' performance in every side toward sustainability. Performance will generally increase mostly because:

1. The increasing awareness and knowledge about the concept and philosophy of sustainability and the governance coming from the Boards of Directors and Commissioners;
2. The awareness and knowledge as the fundamental program which needs to be applied and avowed as the company's performance;
3. The new initiatives that are suitable for the company's culture so that they can be applied properly and become the company's characteristic;
4. Technology is used by the employees. An efficient company will certainly require its employees to be highly competent. It needs a network of information and modern technology.

Overall, the lowest performance is shown by educational institutions and transportation companies due to the fact that they use fewer vehicles with unleaded fuel, do not use 3Rs materials and undertake fewer actions in preventing pollution and waste. They do not provide much of a contribution for the ecosystem recovery as well. Only educational institutions do focus on the main activity: learning and researching.

On other hand, the important fact in this integration is the initiation from the top management of the telecommunication company to determine regulation for protecting the environment by preventing the ecosystem, such as green ecosystem. This strategy can be applied in every branch office and some strategic locations in the town center. Another way is by using unleaded fuel for each company's vehicle even though the company's operation has indirectly affected the environment with its pollution.

Table 4 The average score of the integration of process perspective with the sustainability aspect

Perspective	Sustainability aspect	Average score	
		2010	2011
Growth and learning	Economy	8.80	8.19
	Social	13.15	14.93
	Environment	12.00	12.11
	Well-being	16.75	17.07

Table 5 Sustainability performance of ISRA participant in 2010 and 2011

No	Sustainability performance	Participants in 2010		Participants in 2011	
		Σ	%	Σ	%
1	Very high	1	5.26	1	3.70
2	High	11	57.89	16	59.26
3	Medium high	7	36.84	10	37.04
4	Low	0	0	0	0
5	Very low	0	0	0	0

4.5 Overall Sustainability Performance Analysis (Table 5)

Based on the measurement of all companies that participated in the ISRA in 2010 and 2011, most of them resulted in a medium high performance. This fact shows us that sustainability has been integrated within the company's strategy (Butler et al. 2011; Delai and Takahashi 2011). The development of the sustainable performance shows there are six companies that have successfully received the medium high predicate in 2010 and continued to become the high predicate in 2011. In the meanwhile, the other 12 companies have successfully developed their sustainable performance values.

The ten new ISRA participants in 2011 can be divided into two groups, four companies with high performance, and six companies with medium performance. Based on the results of the performance measurement, it has fulfilled three criteria of the sustainable report required by GRI which can be described as:

1. A benchmarking and sustainable performance measurement which complies with the law, norms, codes, performance standard and voluntary initiatives;
2. A demonstration of the involvement of the organization to sustainable development
3. A comparison between the performance in one organization and another organization during a specific time

5 A Company's Sustainable Performance Comparison Based on Ownership

This analyzes eight state-owned and nine private companies and the sustainability performance of these companies in 2010 and 2011 (Table 6).

The sustainability performance of the state-owned companies was higher than the private companies. The average performance of the state-owned companies in 2010 and 2011 show a high performance. The private companies had a medium predicate in 2010, but their performance increase resulted in a high sustainability performance in 2011.

Table 6 The average score of corporate sustainability performance based on ownership

Ownership	Average score in 2010	Average score in 2011
State-owned	336.62	368.75
Private	301.00	324.22

This situation occurred since state-owned companies are obliged to implement mandatory social responsibility based on regulation No. 40/2007 Chapter 74 paragraph 1–4, No. 25/2007 Chapter 15b and government rules No. 47/2012 about corporate social responsibility. In order to meet those requirements, they need to implement CSR through integrated sustainability in the management strategy in order to pursue sustainability and performance, which will be reported in a sustainability report.

A sustainability report is also required by BAPEPAM LK based on the regulation No. X.K.6 about Bapepam Policy and LK number: Kep-431/BL/2012 about Issuer Annual Report for listed companies. State-owned companies, which joined ISRA in 2010 and 2011, are also listed companies. Bapepam policy regulates that CSR performance be disclosed in the annual report and shall be reported to Bapepam in a separated chapter or published independently as a sustainability report. It can be concluded that state-owned companies have higher performance than private-owned companies due to their need to comply the government's rules, where the government is the main shareholder.

Based on the agency theory, a company will be supported to run based on stakeholder expectation and managers will be motivated to improve performance and, as a result, will increase the value of the company. Then, the larger companies, with higher institutional ownership, will indicate their desire to monitor the management. A large share ownership has a vital meaning when monitoring the performance of managers. By applying the ownership consent, big stakeholders will be able to effectively monitor the team and later, it will increase the company's performance (Palazzo and Scherer 2006; Navissi and Naiker 2006).

6 Comparison of Sustainability Performances Based on Business Types

This part will describe the comparison of sustainable performances based on the types of business in 2010 and 2011. ISRA participants can be grouped based on their type of business into five: seven mining companies, two plantation companies, four service companies, two manufacturing companies and two energy companies.

In Table 7, some groups have increased their sustainability performance, and the highest value in 2010 and 2011 was achieved by manufacturing companies. On the other hand, the lowest performance achieved during 2 years was by energy companies. The detail is described below:

Table 7 The average score of corporate sustainable performance based on the business types

Business' type	Average score in 2010	Average score in 2011
Mining	308.14	338
Service	334.75	364.25
Energy	297	322.5
Plantation	301.5	325
Manufacturing	354.5	380

Manufacturing and service companies ranked as first and second for two consecutive years by regarding their customers as their most important stakeholders and this applied also to employees. In these cases, the companies sell their products directly to customers through distributors. It is different with the mining and plantation companies that outsource the selling activities to other industries or organizations. The same applies to the energy companies, where they market their products and services through other industries or organizations. If we try to compare them with manufacturing companies, the frequency of the company's interaction with their customers is quite low (Peloza and Shang 2011).

Sustainability performance of companies in this integration can obviously be understood, where these companies really need to integrate sustainability with their marketing strategies. With sustainability, it is the ability of the companies to build a brand positioning, boost sales, expand market shares, reduce operating costs, and improve corporate attractiveness through the investors and customers (Kotler and Lee 2005).

7 Sustainable Performance Comparison between Listed Company and Unlisted Company

Based on regulation No. 74/2007 about the company's definition, there are two types of companies; listed companies and unlisted companies. A listed company is: (i) a company that has capital and stakeholders with special criteria (ii) a company that has issued a common offering based on regulations in the capital market. Whereas, an unlisted company's common offering means that the offering activity is based on regulations stated in its constitution and its implementation (Table 8).

Disclosure of sustainability positively influences the financial performances of companies with their stock price in the market. Sustainability disclosure in the sustainability report reinforces the corporate image and becomes a consideration for potential investors as the companies have applied corporate governance and have a good public image because the companies are not pursuing profits only, but are also preserving the environment and the community by applying principles of sustainability (Siregar and Bachtiar 2010; Dhaliwal et al. 2011).

This phenomenon rhymes with the agency theory that the presence of agency disclosure is conducted in a transparent manner; the company's management along

Table 8 The average score of the corporate sustainable performance based on status

Status	Average score in 2010	Average score in 2011
Listed	287.80	318.00
Unlisted	330.25	357.33

with its sustainability disclosure give the impression to its shareholders that the company continues to grow sustainably. Therefore, it can be concluded that sustainability has a positive impact on the stock price and the disclosure of the sustainability provides a positive influence on the relationship between financial performance and stock price in the market. This positive effect is not obtained by private companies (Siregar and Bachtiar 2010).

8 Conclusion

Many companies in Indonesia only understand sustainability from its impact on the bottom line. This lack of understanding, that well-being is an integral part of corporate sustainability, results in it receiving less attention. It can be seen through the low performance of well-being.

Based on the analysis and discussion, it can be concluded that no sample was awarded low or very low sustainability performance. The majority of companies already have medium and high score for sustainability performance and one company achieved a very high performance. The sustainability performance of all companies in 2010 increased by an average of 11.6 points the following year.

The average value of the sustainable performance in companies, showed that manufacturing companies had the highest ranking, with service companies ranked second, followed by mining companies, plantation companies and energy companies. The factor that contributed a huge influence was customers-sustainability. The more interaction companies have with their customers, the higher the company's performance.

The average value in the sustainability performance of listed companies was higher than that of unlisted companies. There was a positive relationship between the disclosures of the corporate social performance and the corporate visibility. These companies disclosed more information about their sustainability activities than smaller companies. The government requires listed companies to report their sustainability activities in a dedicated chapter in their annual report or in a separate sustainability report. The result is that larger companies, through disclosures of sustainability performance, are more will likely to be seen.

The limitation of this study is dependent upon the performance assessment and the quality of the report disclosure. So, if a company cannot improve the quality of its reporting, the performance cannot be measured properly.

Appendix

The Performance Indicators of Integrated Measurement Standard

No	Key performance indicators
	Financial—economy
1	Added value and economic distribution
2	Cost, earning and profit
3	Company financial ratio
4	Investors and dividends
5	Marketing and selling improvements
6	Tax payments
	Financial—social
1	Public investment
2	Indirect economic impact
3	Investment to support human rights
4	Payment for local distributor
	Financial—environment
1	Financial and risk implication because of climate change
2	Mitigation and adaptation budget to climate change
3	Water and energy budget
4	R & D budget for air pollution
5	Environmental recovery and maintenance budget
	Financial—well-being
1	To facilitate praying area for employees
2	Sports and entertainment facilities
3	Donations for natural disasters, social and religion
4	Environmental sanity guarantees
	Process—economy
1	Budgeting affectivity by increasing efficiency
2	Budget controlling
3	Return of investment for shareholders
	Process—social
1	Wage is higher than regional wage
2	Fight against human trafficking
3	Health and safety priority
4	Fair performance valuation
5	Motivate employee
6	Fair job placement
7	No intimidation
8	No discrimination
9	Assurance and pension program
10	Company culture
11	Freedom of association
12	Complaints and grievance

(continued)

No	Key performance indicators
13	Security assistance
14	Against child labor
15	Liberation of slavery
16	Discipline and preventive disobedience
17	Anti-corruption, bribery and collusion
18	Fair competition and anti-monopoly
19	Community involvement
20	Obedience to government's rules
21	The decrease of fine/punishment
22	Effort of decreasing the negative effects in society
23	Woman empowerment
24	Supporting the society's organization
25	Local worker acceptance
26	Carrier development
	Process—environment
1	Decreasing greenhouse effect
2	The usage of recycled water
3	Renewable and using natural resources consumption
4	Energy efficiency
5	Impact of transportation vehicles
6	The use of renewable material
7	Solvency to using dangerous materials
8	Abide by environmental legislation
9	Minimize the impact on the living ecosystem
10	Lowering the significant impact around company area
11	No negative impact on protected organisms
	Process—well-being
1	Employment dialogue
2	Commitment to the employee
3	Healthy, safe and comfortable working area
4	Minimize the possibility of violating human rights
5	Establish good relationships with society
6	Promote law enforcement
7	Integrate human rights into company's policy
8	Copyright
9	Children rights fulfillment
	Customer—economy
1	Creating sustainable market
2	Sustainable consumption
3	Responsible promotion/advertisement
4	Customer's satisfaction index
5	Excellent after-sales services
6	Easy marketing access

(continued)

No	Key performance indicators
7	Product quality
8	Continuous improvement
9	Product reliability
	Customer—social
1	Brand or product labeling
2	Education and awareness
3	Response to customer's complaints
	Customer—environment
1	Involving customers in maintaining the environment
2	Re-withdrawal packaging
3	Innovation of green products
	Customer—well-being
1	Customer's protection and privacy
2	Customer's health and safety
	Learning & development—economy
1	Good governance
2	Employee's technology access
3	Acknowledge the rights of the community
	Learning and development—social
1	Training and research for human rights
2	Employee's training and education
3	Corporationagreement with employees
4	Training and education on anti-corruption
	Learning and development—environment
1	Initiative in using renewable energy
2	Initiative in using renewable materials
3	Initiative in preventing pollution/waste
4	Initiative in ecosystem recovery
	Learning and development—well-being
1	Obedience to society's norm
2	Comprehensive research about the stakeholder
3	Anticipate working accidents
4	Commitment to public
5	Carrier development

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Part V
Summary

Dimensional Corporate Governance: An Inclusive Approach in Summary

Samuel O. Idowu, Nicholas Capaldi, and René Schmidpeter

Adrian Cadbury a UK industrialist and entrepreneur (who chaired the Cadbury Committee Report on Corporate Governance 1992—the very first of its kind worldwide) and the World Bank's Corporate Governance Report 2000 have both explained Corporate Governance as a field which is concerned with "holding the balance between economic and social goals and between individuals and communal goals, the framework of corporate governance is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources, the aim is to align as nearly as possible the interests of individuals, corporations and society". This explanation clearly suggests that corporate governance is about running corporate entities in a socially, economically and environmentally responsible manner so as to ensure that all interested stakeholders suffer no loss or adverse impacts as a result of the operational activities of the entity being governed by those at the helm of that corporate entity management hierarchy. The field also provides the framework by which rights and responsibilities are shared between corporate actors and society. A well governed corporation for example will not indulge in unethical practices. This means that human rights abuses, corrupt and fraudulent practices, irresponsible actions against any of its stakeholders; whether primary or secondary will have no place in that corporation's set up. Which means everyone will live and operate in a tranquil world.

S.O. Idowu (✉)
Guildhall School of Business and Law, London Metropolitan University, London, UK
e-mail: s.idowu@londonmet.ac.uk

N. Capaldi
Loyola University, New Orleans, LA, USA
e-mail: nick.capaldi@gmail.com

R. Schmidpeter
Cologne Business School, Köln, Germany
e-mail: r.schmidpeter@cbs.de

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Over the last three or so decades, corporate governance has become an important issue globally simply because of several incidence of irresponsible corporate malpractices which have resulted in serious consequences to global stakeholders and have consequently made things unnecessarily unpleasant for global citizens. It became apparent that things could not be allowed to continue to operate like that. We are all too aware of several high profile corporate failures and collapses in several countries around the world which occurred as a result of many of these irresponsible practices. Not only that, it has also become obvious that a country which encourages corporate entities which operate within its borders to install good systems of governance stand to derive enormous benefits from such systems. The following are some of such benefits which the World Bank has identified on their website:

(a) Better access to external finance—Investors are willing to invest in companies they trust and have confidence in what their managers are doing.
(b) Lower cost of capital—The perceived risk faced by investors in transparent and well governed companies reduces; such investors will be will to offer a lower rate.
(c) Improved company performance—Better corporate governance the World Bank notes adds value to corporate entities as such entities are likely to operate sustainably.
(d) Higher firm valuation and share performance—Studies have suggested that investors will be willing to pay a premium for shares in well governed companies and such companies' share are likely to outperform companies with weak systems of corporate governance.
(e) Reduced risk of corporate crises and scandals—Studies have equally affirmed that well managed firms are likely to cope better in times of crises and be immune from corporate scandals.

Source: The World Bank website

The World Bank has also identified what it describes as the four pillars of Corporate Governance namely: Accountability, Fairness, Responsibility and Transparency. These four qualities are essential ingredients of what an effective system of governance should focus on in order to ensure that all the benefits noted above and others not listed with them could accrue to the corporate entity. See the explanatory notes included under each of the pillars in the World Bank's diagram in Fig. 1.

Chapters in this book on *Dimensional Corporate Governance* have explored different dimensions of corporate governance from different political settings around the globe. It's the very first book emanating from the Global Corporate Governance Institute a research network with members in different countries around the world.

Some Corporate Governance Issues Explored and Lessons from Them All the chapters in the *Dimensional Corporate Governance* book have explored dissimilar issues of relevance to scholars, practitioners, students and other readers who might be interested in different aspects of corporate governance. For example Franz and Lee in the very first chapter in Part I on *Business and Society* focus their chapter on a comparison of the role of business expectations in the most civilised economy of the world—the USA and three emerging South East Asian countries of Singapore,

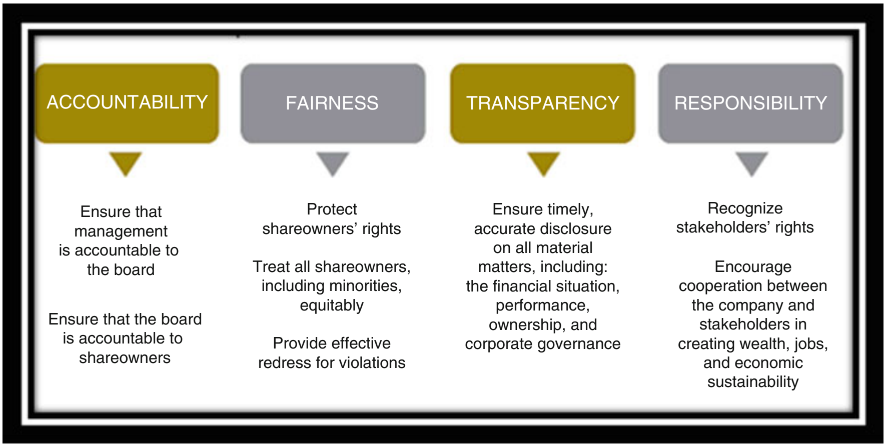

Fig. 1 The four pillars of corporate governance. Source: The World Bank website (Adapted)

Hong Kong and South Korea. Several lessons are discernible from the scholarly comparison made by these scholars in this chapter. Directors' remuneration or compensation has continued to be an issue of concern to several stakeholders in different parts of the world; it should be therefore no surprise to anyone that Branco and Delgado two respectable Portuguese scholars have taken a look at justifying the pay ratios of Chief Executive Officers of 500 listed companies in Standard and Poor. Branco and Delgado's findings suggest that when it comes to responding to questionnaires about pay, some CEO understandably are unwilling to demonstrate a high standard of responsibility and transparency with regard to this issue. Inyang a Nigerian Industrial Relations scholar explores corporate governance framework in Africa's largest economy. Weak and corrupt governance in all areas has held Nigeria back from taking its place in the world stage for more than half a century. Inyang's exploration of the framework in place in Nigeria could be of interest to everyone including the badly needed foreign direct investors who might wish to consider investing in Africa's most populous state. Segura, Formigoni, Abrue and David four Portuguese speaking scholars (two of them based in Brazil and the other two based in Portugal) consider corporate governance in Brazilian companies focusing on the influence of the founder in financial decisions. Their findings indicate that founder managed companies are likely to be less geared than companies managed by professional managers, an important lesson to investors and loan creditors. Callot a French scholar of international standing in a chapter on CSR in the hospitality sector notes the problem the vagueness in what to include when measuring and comparing indicators of sustainable development in small and medium sized enterprises. Callot argues that the problem can be overcome when comparing the economic and societal performance of a company with an environmental indicator calculated using the carbon footprint system known as the “Bilan Carbone”. Looking at CSR in another industry—the Apparel sector, Gandhi an Indian scholar argues that there are benefits and challenges to the implementation of CSR activities in India's apparel industry. She notes that there are still a lot of misconceptions pervading this sector and they continue to hold back progress in the sector. In the final part of the book on Sustainability and Financial Performance we focus on two of the chapters in the part. Dembo writes his chapter on sustainability in the oil and gas sector again in Africa's largest economy—Nigeria. This sector is the only one that survives Nigeria it earns nearly 95% of its foreign income through its export of oil and gas, sustainability of Nigeria is a country is therefore an important issue for its citizens. Measuring sustainability performance in Indonesia took the interest of a young and upcoming Indonesian scholar and his professor—Perdana and Gunawan. Perdana and Gunawan argue that Indonesian companies understand sustainability from its impact only on the bottom line. Indonesian companies they note are still oblivious to the many benefits of the triple bottom line. Things need to change in this regard they note.

A lot has happened in the world since Cadbury 1992 and the OECD six Principles on corporate governance of 1999 and 2004. Nearly all the 196 countries that presently make up our world now have some sort of corporate governance code in place and some have since revised the original one they had in place but things are still far from perfect in this regard as we continue to hear and experience scandals in governance.

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