FOM-Edition

Linda O'Riordan
Piotr Zmuda
Stefan Heinemann *Editors*

New Perspectives on Corporate Social Responsibility

Locating the Missing Link

FOM Hochschule

Springer Gabler

FOM-Edition

FOM Hochschule für Oekonomie & Management

Linda O'Riordan
Piotr Zmuda
Stefan Heinemann
(Editors)

New Perspectives on Corporate Social Responsibility

Locating the Missing Link

Springer Gabler

FOM Hochschule

Editors
Linda O'Riordan
Piotr Zmuda
Stefan Heinemann

FOM Hochschule für Oekonomie & Management
Essen
Germany

This work appears in the FOM-Edition, published by the FOM Hochschule für Oekonomie & Management

ISBN 978-3-658-06793-9 ISBN 978-3-658-06794-6 (eBook)
DOI 10.1007/978-3-658-06794-6

Library of Congress Control Number: 2015933661

The Deutsche Nationalbibliothek lists this publication in the Deutsche National bibliografie; detailed bibliographic data are available in the Internet at http://dnb.d-nb.de.

Springer Gabler

Publishing Editor: Angela Meffert

Printed on acid-free paper

Springer Gabler is a brand of Springer DE. Springer DE is part of Springer Science+Business Media.
www.springer-gabler.de

Foreword

This book examines new perspectives on corporate social responsibility (CSR) by locating the missing link in the theoretical, practical, and educational spheres of economic and managerial research. Many of the contributions in this book evolved from the papers presented during a series of international research conferences at the FOM University of Applied Sciences, Essen, Germany such as the *Implementing Sustainable CSR Management Solutions* conference which was held at the FOM in 2013 in Cologne, Germany. Furthermore, the theme for this book was previously addressed in two earlier publications by the FOM Competence Centre for CSR.

Based on 29 chapters and years of research, written by 39 authors from eight countries, this book is positioned at the intersection of economics, business, and the humanities. By highlighting the missing links in the current approach to sustainable economic development and management over a wide range of themes, it focuses on the creativity which can occur when innovation is connected with the mechanisms of integrated networks within and between these various disciplines. The premise for this book is based on the rationale that firms will engage in sustainable practices if the economic logic is clear. The CSR approach proposed for sustainable business is therefore strategically driven by organisational purpose, structures, processes, and people, as well as determined in particular by economic, social, political, legal, and technical systems, and their mechanisms. Accordingly, in this approach, CSR is not about how organisations *spend* money but about how they *make* it. The ultimate implication suggested is that CSR, instead of being a "reality distortion" or a "cost" to the business, is rationally its essential route to economic opportunity and long-term sustainable competitive value, innovation, and growth.

Today, from a management perspective, CSR is stuck in the middle between being perceived either as the "holy grail" of a new form of "altruistic" management, or on the opposite realm, of being understood in the format of "green glamour". The inherent management challenge is that the former category of thinking is of a moral, subjective nature and therefore impractical to direct into business terms, while the latter often merely reflects empty promotional actions (i.e., lacking substantial sustainable strategic impact on the business model or for society). Regrettably, the exclusive practice of "window-dressing" and arguably non-strategic giving in the name of CSR, have led to one of the few areas of consensus across the entire spectrum construct. This however emerges as the common belief that CSR ultimately represents a *cost* to the business. The ensuing management mind-set underlines why adopting a broader stakeholder approach is often viewed as a drain on profits. As a result, rather than recognising the potential opportunities which CSR could deliver in *benefits* to the business, managers often focus their CSR activities more narrowly on risk and cost minimisation. Disappointingly, current CSR practice consequently often culminates in Public Relations (PR) campaigns and isolated projects, while the unique opportunity to strategically leverage CSR to create "authentic" long-term sustainable business and societal value is fundamentally overlooked.

This book provides a timely contribution to these ongoing challenges as more and more companies continue to place CSR and sustainability on their management agendas. By addressing the "missing link" between theoretical CSR concepts both at the macro- and micro-level of the firm (i.e., with respect to everyday management practice in the various business functions), it is designed to inspire awareness on the advantages of adopting a CSR "mind-set" when developing sustainable business strategies in a field which is by definition subject to varying stakeholder interpretations. Accordingly, this book could help to cultivate a new management understanding to ultimately foster an improved approach to sustainable CSR practice. This involves advancing the theoretical concepts, as well as identifying practical solutions for firms in order to help them to identify how to invest their resources in their areas of key competence. The ultimate impact of this new approach is the optimal creation of sustainable competitive advantage for the firm driven by a *fairer* distribution of the wealth created for society. In the search to achieve this new CSR *attitude*, the book highlights innovative principles which recognise alternative ways to generate concrete return on investment for both business *and* society.

The book is targeted at industry experts and policy-makers who strive to apply CSR concepts to economic and management practice. Specifically, it should help to guide business managers to make a more reliable and tangible sustainable impact in their field of competence for both their organisation and society. It should additionally be of interest to academic researchers who take a critical perspective on the underpinning theoretical approaches in the study of responsible economic policy and management.

We leave the reader to assess whether this book or indeed any text can succeed in realising our underlying objective which is to inspire awareness about *why* and understanding of *how* to adopt an inclusive mind-set towards society. Because of system inter-connectivity, companies depend on healthy communities, institutions, and people through which to function. This requires regarding as they would their own home and family, the resources from the countries and communities in which they operate. Scientific reflection based on the concept of praxeology widens the horizon and extends the field of economic and management study by suggesting that all business activity is embedded in a more general science. Consequently, if all human action is purposeful, all behaviour commences with choices which can be guided in the direction of multiple shared value generation.

FOM University of Applied Sciences,
Essen, Germany
Essen, autumn 2014

Prof. Dr. Linda O'Riordan
Prof. Dr. Piotr Zmuda
Prof. Dr. Stefan Heinemann

Contents

1 Introduction 1
Linda O'Riordan, Piotr Zmuda and Stefan Heinemann

Part I Theoretical Realm

2 The Future of Corporate Sustainability: Towards an Ecology of Organisations Focused on Sustainability 23
Jan Jonker

3 Corporate Social Responsibility: An Integrated Development Perspective 49
Michał Gabriel Woźniak

4 Managing Stakeholders for the Sake of Business and Society 71
Matthias Fifka and Cristian R. Loza Adaui

5 Creating Sustainable Enterprise Using the Substantive Innovativeness Model 89
Teresa Bal-Woźniak

6 Innovations and Their Diffusion Versus CSR Practices 109
Dariusz Firszt

7 Altruism as a Missing Concept in Economic Rationality: The Need for Multi-Disciplinary Perspective 127
Tomasz Potocki

8 Economic Development and the Implementation of CSR Initiatives in National Economies 147
Marek Ćwiklicki and Łukasz Jabłoński

9 Income Inequality and Public Debt in OECD-Countries from a CSR Perspective . . . 169
Łukasz Jabłoński, Piotr Zmuda and Linda O'Riordan

10 Vroom's Participation Model as a Foundation of Organisation Audit: A New Approach to CSR . . . 191
Ryszard Stocki and Agnieszka Łapot

11 Corporate Social Performance, the Meaning of Work, and Applicant Attraction: A Cognitive Perspective . . . 213
Piotr Prokopowicz and Grzegorz Żmuda

12 The Art of Balancing: Enabling the Realisation of Multiple and Shared Values Through a New Generation of Business Models . . . 229
Jan Jonker, Linda O'Riordan and Nina Marsh

Part II Practical Realm

13 The Un-balanced Sheet: A Call for Integrated Bottom Line Reporting . . . 249
Robert Sroufe and Diane Ramos

14 Finding the Value in Environmental, Social and Governance Performance . . . 275
Viola Möller, Dinah A. Koehler and Ina Stubenrauch

15 Corporate Social Responsibility (CSR) Reporting—Administrative Burden or Competitive Advantage? . . . 285
Matthias Fifka and Cristian R. Loza Adaui

16 Social Management Accounting: Development of an Integrative Framework for Environmental and Social Costing . . . 301
Thomas Heupel

17 Socially Responsible Supply Chain Management for a Competitive Advantage . . . 321
Matthew J. Drake and Donald Rhodes

18 How Does it Pay to be Green and Good? The Impact of Environmental and Social Supply Chain Practices on Operational and Competitive Outcomes . . . 341
Lucy McCarthy and Donna Marshall

19 **Employee Competence Development from the CSR Perspective** 371
Łukasz Jabłoński and Marek Jabłoński

20 **The Role of Employees in Implementing CSR Strategies** 383
Lara Johannsdottir and Snjolfur Olafsson

21 **The Sustainable Gamer: Developing Corporate Social Responsibility Through Games** 411
Grzegorz Żmuda, Piotr Prokopowicz and Marianna Król

22 **From Charity to Mutual Benefit: A New and Sustainable Look at CSR in Africa** 427
David Abdulai

23 **CSR Project: Cotton Made in Africa** 443
Ortrud Kamps

24 **Conceptual Framework for Corporate Responsibility Management: A Critical Review of Sustainable Business Practice Based on a Case Study of a Leading Transnational Corporation** 473
Linda O'Riordan and Piotr Zmuda

Part III Educational Realm

25 **CSR—A New Challenge for Universities? A Theoretical and Empirical Analysis of German Universities** 507
Karl-Heinz Gerholz and Stefan Heinemann

26 **Linking "Doing," "Doing Right," and "Doing Right With Others"—Empirical Indications of the Relationship Between Ethical Competency, Diversity Competency, and Other Parts of the Competency Construct** . . . 527
Frank P. Schulte, Karl-Heinz Gerholz and Stefan Heinemann

27 **Fostering Ethical Competence in Business Education** 547
Karl-Heinz Gerholz

28 **Transdisciplinary Teaching of CSR by Systemic Constellations** 563
Georg Müller-Christ and Anna Katharina Liebscher

29 **Shopping in the (Business) Ethics Supermarket? On the Relationship Between Value Pluralism and Management** 585
Stefan Heinemann and Ralf Miggelbrink

30 Can Service Learning Foster a Social Responsibility Among Students?—A Didactical Analysis and Empirical Case-Study in Business Education at a German University 603
Karl-Heinz Gerholz and Simone Losch

About the Authors 623

Contributors

David Abdulai PMB CT428 Cantonments ACCRA-Ghana, Kanda, ACCRA, Ghana

Teresa Bal-Woźniak Department of Enterprise, Management and Eco-Innovation, Rzeszów University of Technology, Rzeszów, Poland

Marek Ćwiklicki Department of Management and Organisation Methods, Cracow University of Economics, Krakow, Poland

Matthew J. Drake Palumbo-Donahue School of Business, Duquesne University, Pittsburgh, PA, USA

Matthias Fifka Universität Erlangen-Nürnberg, Erlangen, Germany

Dariusz Firszt Department of Applied Economics, Cracow University of Economics, Krakow, Poland

Karl-Heinz Gerholz Wirtschaftspädagogik, Universität Paderborn, Paderborn, Germany

Stefan Heinemann FOM University of Applied Sciences, Essen, Germany

Thomas Heupel FOM University of Applied Sciences, Essen, Germany

Łukasz Jabłoński Department of Applied Economics, Cracow University of Economics, Krakow, Poland

Marek Jabłoński Department of Organizational Behaviours, Cracow University of Economics, Krakow, Poland

Lara Johannsdottir School of Business, University of Iceland, Reykjavik, Iceland

Jan Jonker Nijmegen School of Management (NSM) at the Radboud University Nijmegen (RU – Holland)

Ortrud Kamps FOM University of Applied Sciences, Essen, Germany

Dinah A. Koehler Larchmont, NY, USA

Marianna Król 313 Consulting, Krakow, Poland

Agnieszka Łapot Wojtyla Institute, Krakow, Poland

Anna Katharina Liebscher Universität Bremen, Bremen, Germany

Simone Losch Fakultät für Wirtschaftswissenschaften, Universität Paderborn, Paderborn, Germany

Cristian R. Loza Adaui Universität Erlangen-Nürnberg, Erlangen, Germany

Nina Marsh PO Box 9108, 6500 Nijmegen, HK, The Netherlands

Donna Marshall UCD Business School, Belfield Campus, Dublin 4, Ireland

Lucy McCarthy UCD Business School, Belfield Campus, Dublin 4, Ireland

Ralf Miggelbrink Institut für katholische Theologie, Universität Duisburg-Essen, Essen, Germany

Viola Möller Deloitte & Touch GmbH, Düsseldorf, Germany

Georg Müller-Christ Universität Bremen, Bremen, Germany

Linda O'Riordan FOM University of Applied Sciences, Essen, Germany

Snjolfur Olafsson School of Business, University of Iceland, Reykjavik, Iceland

Tomasz Potocki Department of Economic Policy, University of Rzeszów, Rzeszów, Poland

Piotr Prokopowicz Institute of Sociology, Jagiellonian University, Krakow, Poland

Diane Ramos Palumbo-Donahue School of Business, Duquesne University, Pittsburgh, PA, USA

Donald Rhodes Palumbo-Donahue School of Business, Duquesne University, Pittsburgh, PA, USA

Frank P. Schulte FOM University of Applied Sciences, Essen, Germany

Robert Sroufe Palumbo-Donahue School of Business, Duquesne University, Pittsburgh, PA, USA

Ryszard Stocki University of Social Sciences and Humanities (SWPS), Katowice, Poland

Ina Stubenrauch Deloitte & Touch GmbH, Berlin, Germany

Michał Gabriel Woźniak Department of Applied Economics, Cracow University of Economics, Krakow, Poland

Piotr Zmuda FOM University of Applied Sciences, Essen, Germany

Grzegorz Żmuda Institute of Psychology, Jagiellonian University, Krakow, Poland

About the Editors

Linda O'Riordan is a Professor of Business Studies and International Management and Director of the FOM Competence Centre for CSR at the FOM University of Applied Sciences, Essen, Germany. She researches, writes and lectures on responsible management and sustainable entrepreneurship with a focus on an inclusive approach to organising business in society. Her work has been published in internationally renowned peer-reviewed journals such as the Journal of Business Ethics. In her educational role, Linda O'Riordan lectures mainly to MBA and also Bachelor students in the subjects: Business Strategy, Sustainability, CSR and Corporate Governance, International Management, Management Consulting and Problem-Solving, Intercultural Competence, as well as Marketing, Sales and Customer Relationship Management. Additionally, she is a guest lecturer at various Universities including the University of Applied Sciences (Fachhochschule) and Heinrich-Heine University in Düsseldorf. Linda O'Riordan is a general manager by background with a Ph.D. from the University of Bradford in the UK. Previous to her academic role, she gained business and consultancy experience from working in industry. Some of her former employers include Accenture, UCB-Schwarz Pharma, and the Government of Ireland (Bord Bia) marketing Irish food and drinks products in Northern Europe, as well as apprenticeship positions during her studies in Ireland at the Irish Telecom Company, Dublin (now Eircom), and the Bank of Ireland, Cork. Her qualifications include a Bachelor's degree in Business Studies from the University of Limerick, Ireland, as well as an MBA and a Masters in Research from the University of Bradford in the UK.

Piotr Zmuda is a Professor of Business Studies and International Management and a Research Associate of the FOM Competence Centre for CSR at the FOM University of Applied Sciences, Essen, Germany. He teaches Master's and Bachelor's students in Corporate Governance and Corporate Social Responsibility (CSR), International Management, Strategic Management, and Management Consulting. His research interests focus on the analysis and development of strategies based on the resource and market-based view as well as the formulation and implementation of internationalisation strategies. Piotr Zmuda studied Business Administration at the University of Cologne and received his doctoral degree at the Heinrich-Heine-University, Düsseldorf. He was appointed as a Professor of International Business and Management Consulting at the Cologne Business School (CBS) in 2010. He further participated as a visiting professor in the Sustainability MBA program at the Duquesne University School of Business, Pittsburgh, PA, USA. Piotr Zmuda gained his first practical experience as a management consultant while working for an international consulting company specialised in delivering consulting services in the financial services sector. He has assisted a large number of well-known Financial Service Companies in the efficient execution of projects and optimisation of their in-house processes. After leaving this sector, he switched to the role of in-house consultant for a multinational industrial company. Piotr Zmuda is a certified Project Manager (PRINCE2) and a member of the Academy of Management (AoM).

Stefan Heinemann is a Professor and Vice-Rector for Cooperations and Sustainability Representative at the FOM University of Applied Sciences, Essen, Germany. In addition, he is the director of the FOM Open Business School and the Representative of the Foundation BildungsCentrum der Wirtschaft within the zdi-Zentrum MINT-Netzwerk Essen. He is also a committed member of the workgroup "tertiary institutions" of the UNESCO World Director of Business Ethics for Sustainable Development, Director Business Ethics at the FOM Competence Centre for CSR and a Member of the Board of Trustees of sneep—student network for ethics in economics and practice. Furthermore, he is Co-Director within the FOM KCP KompetenzCentrum für Public Management and a member of several research boards. He is also a Member of the Strategy Board of the BDA/BDI-Bundesinitiative "MINT Zukunft schaffen", board Member of the Kölner Wissenschaftsrunde and Member of the scientific board of the HKR NRW Hochschulkompetenzzentrums Rechnungswesen at the University of Duisburg-Essen. Stefan Heinemann's teaching and research is focused on Business Ethics and Public Management/University Management (Finance and Strategy).

Introduction

1

Linda O'Riordan, Piotr Zmuda and Stefan Heinemann

Contents

1.1 Part I: The Theoretical Realm 3
1.2 Part II: The Practical Realm 10
1.3 Part III: The Educational Realm 15

Abstract

Triggered by the disillusionment in society in the wake of the recent global financial crisis and against the background of continuing corporate misbehaviour, this book examines the missing links in the way that business presently operates within the current economic system, which may have provoked the occurrence of these dilemmas. In doing so, it critically explores, examines, and identifies key mechanisms at the interface between business and society.

Concept Overview and Structure

This book adopts a sustainable, responsible, and inclusive perspective to questioningly revisit many themes in the field of business, humanities, and the social sciences including economic theory and organisational processes such as strategic and operational man-

L. O'Riordan (✉) · P. Zmuda · S. Heinemann
FOM University of Applied Sciences, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: linda.oriordan@fom.de

P. Zmuda
e-mail: piotr.zmuda@fom.de

S. Heinemann
e-mail: stefan.heinemann@fom.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_1

agement, financial, accounting and CSR reporting, supply chain management, human resource management, as well as education, and many others. This examination seeks to recognise the key connections in the conversion of economic, social, and ecological resources (i.e., integrated triple bottom-line principles) into products and services. In doing so, those networks, relationships, and other influencing factors (including a broad range of interest groups such as suppliers, employees, customers, community, and other stakeholders) are investigated to establish whether and how the disciplines, concepts, and theories in focus most optimally serve society as a whole. Our goal in this endeavor is not to make moral judgments, but to explore the circumstances by studying the details and observing the development of macro-economic, institutional, and organisational systems, as well as the behaviour of individuals.

Ensuing from this examination, a new way of doing business emerges in which an enhanced balance between "give and take" is achieved via conscious choices enabled by facilitating structures at all levels of the economic and business operating environment. By recognising that many in society have become conditioned to an approach to doing business without consideration of the harm this causes, and learning to adjust the "lens" of how we organise our economic and organisational system, a kaleidoscope of new structures and forms materialise (which could potentially become the new norm). This new approach could be based on trust in which fairness, loyalty, mutual equality, and as a result, competitive advantage via improved credibility could more effectively thrive. Ultimately, an operating environment constructed in this way could serve two aims. At the micro-level of the organisation it could help to win back some of the lost integrity for business. At the macro-level, it could offer a more sustainable future approach in the use of scarce, precious, and (or) delicate resources.

Significantly, the vital premise in this book is the compelling rationale for adopting sustainable macro- and micro-level responsible economic mechanisms and business practices. This logic suggests that the resulting improved credibility has the potential to unleash concrete return on investment for business *and* society. By improving the company's reputation, the business can increase customer and employee loyalty/motivation which can positively impact the bottom-line in terms of both revenue and cost (i.e., sales and personnel turnover/productivity). In addition, a sustainable CSR approach further minimises the risk of controversy with other stakeholders. This rationale increases the attractiveness of the business for investors. As a result, society benefits from the improved social and ecological impact of the resources invested, as well as the economic return in the form of taxes and other contributions to social well-being such as employment, healthy, and pleasant working atmospheres etc. The overall benefit derives from a fine-tuned focus on a greater purpose to existence than the exclusive accumulation of money in the first instance.

To address this comprehensive collection of themes, the book is organised into three key sections comprising a theoretical, a practical, and an educational part.

Parts one and two were conceived, co-ordinated, and reviewed by Professors O'Riordan and Zmuda, and Part three by Professor Heinemann.

1.1 Part I: The Theoretical Realm

Part one focuses on the Theoretical Realm. It defines the main concepts, frameworks, and themes pertinent to the development of sustainable CSR solutions at both macro-economic and the management level of the firm by addressing a range of related topics. Collectively, the chapters in part one strive to inspire the necessary cognitive awareness as a fundamental prerequisite for the realisation of multiple shared value(s). Put simply, because business operates as part of and not in isolation from society, the essential message in this part of the book is that a company's values are inseparable from its long-term capability to legitimately create economic value both for itself and for the citizens who work in it as its employees, buy its products and services, are affected by its operations, and finance its activities as investors. Crucially however, a key premise for realising this new management mind-set is the prior establishment of novel mechanisms at macro-economic level to entice, encourage, and enable the required change. A conceptual examination of the innovative inter-connectedness within and between the relevant mechanisms at macro- and micro-economic level is the missing link which part one of this book addresses.

The **second chapter** in the theoretical realm by Professor Dr. Jan Jonker from the Radboud University of Nijmegen in the Netherlands establishes the intellectual tone of the book. It focuses on the future of corporate sustainability by offering a challenging inducement to kindle a new approach to organising sustainability both *between* in addition to *within* organisations. This notion highlights how, within the context of our perception of organisations and their environments which are socially constructed phenomena or "organisational constructions of reality", we are restricted in our way of thinking due to what is termed an "industrial mind-set". As a result, the plan and the perspective required as a prerequisite to enable the new manner of sustainable thinking have gotten lost. This is the missing link which the chapter addresses. Against the background of increasing management complexity and given that organising has become a much more chaotic process with a large degree of unpredictability, the chapter proposes adopting a new perspective of the future which would empower transformation of the entire system. Its essence would manifest itself in the evolution of a developing pattern of relations within and between organisations and their environments. In such a system, organisations act in each other's environments to develop their collective interest and discover patterns of co-creation. The organising of and between organisations plays a pro-active and guiding role in determining each other's future. The chapter suggests that such an organisation–ecologic perspective that focuses on co-operation, co-creation and multi-dimensionality has an important influence on how we perceive organisations and guide them. This further implies a mind-set shift from a unique selling proposition to a *multiple value proposition* in order to make meaningful progress. Such a shift requires systematically linking organisation-ecological thinking to sustainability and connecting multiple value creation to sustainable organising between organisations. Moreover, the author proposes that thinking and organising in terms of multiple value creation must be embedded into the everyday activities of organisations. Crucially, this presumes value creation that is based on a balanced configuration of capitals without losing sight of the notion of "profit". This new approach is presented as the straightforward yet complicated task of contemporary management.

Chapter 3 in the theoretical realm by Professor Dr. habil. Michał Gabriel Woźniak of the Department of Applied Economics, Cracow University of Economics in Poland focuses on the theme of CSR from an integrated development perspective. It builds on the theme of contemporary management from the previous chapter which proposed focusing on co-operation, co-creation and multi-dimensionality to connect multiple sustainable value creation within and between organisations by searching for an answer to the question of how to improve awareness about CSR not only among companies but other stakeholders as well. Crucially, it suggests that to promote CSR in the business environment, a set of professed values that are shared by all stakeholders are necessary. It proposes that these values can be derived from the natural striving of each human being to achieve a harmonised implementation of aims and functions in all spheres of human existence. To explain this rationale, the chapter critically questions actions related to the function of aims specific to given spheres of human existence (such as economic, political, social, technological, consumption, nature, biology, human capital and spiritual spheres). It refers in particular to the commercialisation of the spiritual sphere that leads to destructive competition and consequently to a limitation of advantages in free market systems. Overall, the chapter suggests that linking the business strategy with an improved, more integrated development of policies related to these broader spheres could stimulate employees to better understand the aspirations, missions, aims, targets, and tasks of a company. Consequently, this growing trust impacts positively on the integration of targets of companies and employees. Connecting business strategies to CSR with the help of development policy could as a result generate an increase in trust that is positively related to the integration of business and employees' goals, and accordingly, in the involvement of employees in the company's success. This connection comprises the missing link which this chapter addresses.

Chapter 4 in the theoretical realm by Professor Dr. habil. Matthias S. Fifka and Cristian R. Loza Adaui from the University Erlangen-Nuernberg in Germany, focuses on the popular and intensively debated theme of integrating stakeholders into business decision-making. In addressing the challenges associated with successfully managing stakeholders for the sake of business and society, it covers a fundamental aspect of CSR which was inherently implied in the previous chapters. Concentrating on the complex issues for business practice which arise when attempting to transfer the elaborate stakeholder concepts developed by academia into everyday business operations, the theoretical and practical discussion of stakeholder management presented in the chapter addresses both why and how to implement effective stakeholder management. Against the backdrop of an increasingly complex and dynamic business environment, stakeholder management is portrayed by the authors as a crucial management task for companies attempting to identify and address their future challenges. The authors place particular importance on the cumulative influence of demographic change, resource scarcity, environmental degradation, the rise of social media, and global competition which incrementally lead to increasingly sensitive customers, employees, suppliers, shareholders, governments, and citizens. They suggest that these trends trigger the need for an alternative business solution to mere differentiation through price and product quality. In order to actively respond to their new operating environment, the authors propose actively identifying the concerns and interests of stakeholders and then strategically addressing them. This approach recognises stakeholder management as a crucial element in successfully managing a company in the twenty-first century. Successful stakeholder management is proposed as a proactive process that involves stakeholders in a structured manner and aims at generating a win-win situation. The resulting mutual understanding not only permits the timely recognition of stakeholder needs, but additionally facilitates companies to increase the transparency of their aims, policies, and operations, thus filling a crucial missing link in contemporary society.

Chapter 5 in the theoretical realm by Dr. Teresa Bal-Woźniak, from the Rzeszów University of Technology in Poland, serves the purpose of identifying theoretical and methodological arguments regarding the relationship between innovation, innovativeness, and the creation of future sustainable enterprises. It builds on the previous chapters which respectively focused on connecting business strategies to CSR with the help of development policy and on stakeholder management as a crucial element in CSR practice, by discussing the creation of sustainable enterprises as a socially mature management practice that associates the strengthening of competitive ability with CSR. The author presents methodological arguments for the need to accept a subject-orientated approach to perceiving innovation and innovativeness which forms the basis for the strategy which is then introduced into business practice. This approach is deemed better at facilitating and strengthening competitiveness than the object-orientated approach. Research focused on these concepts led to the establishment of the subject-orientated model of innovativeness, which takes into account the subjectivity of the economic agents. It encompasses four pillars—consciousness, emotional, cognitive and behavioural—which mark the direction of action in the field of creating sustainable enterprises. In the chapter, the institutional conditions for applying the subject-orientated model of innovativeness to create sustainable enterprises operating in the highly turbulent environment of the contemporary economy are discussed. Significantly, this approach offers a possibility to link innovativeness with CSR and it is premised on the necessity to re-define innovation and innovativeness. The author assumes that a successful sensitisation to social matters crucially requires the integration of stimuli and the elimination of constraints on individual activity during the innovation process at micro- and macro-level and in relation to the development goals of all spheres of human existence.

Chapter 6 in the theoretical realm by Dr. Dariusz Firszt, from the Department of Applied Economics, Cracow University of Economics in Poland, continues the focus on innovation from the previous chapter by similarly examining the theme of innovation and its diffusion in CSR practices. The chapter analyses the impact of innovative enterprises in social change in general as well as on the possibility of the conscious influence of this process on enterprises applying rules of CSR. In particular, the identified social risks arising from the rapid pace of implementation and diffusion of innovation are addressed. The chapter discusses the tools to manage innovation processes by which companies can reduce the negative social effects stemming from innovation. Given the influence of globalisation which accelerated the scale and pace of social transformation that in turn stimulated technical progress, the ensuing spread of technology standards through the international transfer of technology is also appraised. This leads to a focus on the challenges of CSR faced by companies participating in the international transfer of technology, both for exporters and importers of technology. Ultimately, the author proposes that although the popularisation of CSR may be treated as a significant tool for limiting tendencies to disintegrate economic, environmental and social development, it will not bring major effects unless it is supported by other mechanisms and activities. He suggests that the spontaneous diffusion of innovation from various spheres means that even a socially responsible entrepreneur is not able to predict all of the consequences of the implementation of some innovative solutions. Therefore, the author reasons that it seems unjustified to burden the entrepreneur with responsibility for all of the negative effects of their popularisation, especially those of a social nature. In order to eliminate the threats connected with increased innovative activity, higher level measures (i.e., exceeding the abilities of individual entities both at country and even at global economy level) are advised which at least enable an appropriate institutional environment. The author contends that this could favour the integration of economic, environmental and social development objectives.

Chapter 7 in the theoretical realm by Dr. Tomasz Potocki, from the Department of Applied Economic Policy, Faculty of Economics, University of Rzeszów in Poland, addresses the theme of altruism as a missing concept in economic rationality with a focus on the need for a multi-disciplinary perspective. It broadly develops on the themes covered in the previous chapters by concentrating on theoretical and practical aspects of altruism, rationality, and happiness from the perspective of CSR. The chapter contributes to the missing link theme by extending the definition of corporate responsibility to incorporate the concept of altruism and its implications. It focuses mainly on theoretical and practical aspects of altruism, rationality, and happiness from the perspective of CSR. It additionally reflects current multi-disciplinary approaches to altruism, presents results from a wide variety of disciplines, and delivers broad policy implications. The author contends that the presented concept may be very helpful in creating rational and long-term sustainable business strategies in which social values, altruistic behaviour, happiness of others, as well as the company's contribution to common welfare, are put into actual practice as opposed to just being elusive and overlooked issues. The chapter concludes with five interesting suggestions on how to concretely address the missing link gaps identified. These include: Re-thinking the economic rationality concept and re-balancing it from the perspective of a relationship with oneself to the relationship with others; Re-establishing and strengthening the connection between economics and social systems; Placing more value on the "link" between markets and morals; Paying particular attention to habit-creation and its re-design; And finally, promoting topic-orientated research and closer co-operation between researchers and company leaders.

Chapter 8 in the theoretical realm by Professor Dr. habil. Marek Ćwiklicki and Dr. Łukasz Jabłoński, from the Department of Applied Economics, Cracow University of Economics in Poland, focuses on the theme of economic development and the implementation of CSR initiatives in national economies. It develops upon the conclusion proposed in the previous chapter which advised rethinking the connection between economics and social systems by reviewing the CSR and economic development literature to establish an information basis on current interpretations with respect to the essence of economic development. This examination highlights not only monetary, but additionally qualitative aspects of economic development, such as: ethics, fairness-related, trust, and sustainability. Moreover, the theoretical arguments for the direction of inter-dependence between the CSR and economic development are discussed. The methodological dilemmas related with the research which aim to analyse the inter-dependence between these two categories are then presented. This highlights three issues including: the threshold level of economic development as a condition for the introduction of CSR, the role of globalisation as a factor in the development of the economy and the company, and difficulties in measuring achievements in CSR introduction from a comparative perspective. Finally, the chapter discusses the findings of empirical research on CSR and emphasises the arguments for causality between economic development and CSR introduction in companies within national economies.

Chapter 9 in the theoretical realm by Dr. Łukasz Jabłoński, from the Department of Applied Economics, Cracow University of Economics in Poland, and Professors Drs. Piotr Zmuda and Linda O'Riordan from the FOM University of Applied Sciences, Essen, Germany remains in the field of economics with its focus on income inequality and public debt in OECD countries. It addresses the salient question of the (negative) role that a widening income gap and increasing public debt plays in society and in the well-being of its economic health. This research gap is the missing link upon which the chapter focuses. To examine this theme, the chapter presents the theoretical and empirical arguments for causality between growing income inequality and increasing public debt within the capitalist economies. By highlighting a causal link and identifying income inequality as a contributing factor to public debt growth, the authors outline how the theme of focus is increasingly gaining public awareness as it triggers over-arching questions which reach to the fundamental roots of the model of capitalism. However, in establishing this causal link and identifying income inequality as a contributing factor to public debt growth, the chapter does not focus on evaluating the role of public debt in society *per se*. Instead that topic is consigned to the scope of separate research in this field. Overall, the findings presented in the chapter could be considered as the starting-point for a timely discussion against the backdrop of the financial crisis which triggered concerns regarding the health of the economic system.

Chapter 10 in the theoretical realm by Professor Dr. habil. Ryszard Stocki from the Faculty of Psychology at the University of Social Sciences and Humanities (SWPS) Katowice and Agnieszka Łapot, from The Wojtyła Institute in Krakow, Poland, addresses Vroom's Model in Organisation Audit. It builds on the theme of contemporary management from the previous chapters which proposed new ways for sustainably connecting broader stakeholder interests within and between organisations by emphasing a personalistic, participative approach to management. It identifies effective participative stakeholder dialogue as a key missing link in socially responsible business organisations. In order to explain the link between participation and socially responsible business behaviour, it examines the connections between the two phenomena: organisational isomorphism and tacit knowledge based on some of the profound philosophical work of Karol Wojtla.[1] A particularly interesting feature of this chapter is its inherent reflection on the theme of understanding and applying concepts and theories as cognitive constructs. In line with the thinking of domain-specific orientated psychologists, the authors suggest the need to radically change our knowledge and everyday practices in order to more effectively delineate between fiction and reality. They propose praxeology as a scientific reflection of human action to achieve a new way of functioning in reality. Founded on the assumption that humans engage in purposeful behaviour, this permits the study of practical activity based on deep contemplation about the nature of general concepts. The authors suggest that this helps to avoid mistaking hypostases of concepts and abstractions for reality in everyday functioning and thereby circumvents the consequence of using words which refer to "nothing". Within this context and the focus on participative dialogue with employees, the Vroom model is presented in order to facilitate a better understanding of participation. This establishes the basis for designing a diagnostic tool which is the main contribution of the chapter. While this tool is designed to improve "human" management in organisational settings, the chapter concludes by explaining why participative management and co-operative values are so difficult to implement, and how the diagnostic tool could help to fill the missing link noted.

Chapter 11 in the theoretical realm by Dr. Piotr Prokopowicz and Dr. Grzegorz Żmuda from the Jagiellonian University, Krakow in Poland turns to the theme of organisational behaviour to build on the discussion of cultivating "human" management in organisational settings addressed in the previous chapter. It focuses on corporate social performance and the meaning of work and applicant attraction from a cognitive perspective. The chapter draws heavily on the theories of social cognition, social identity, and signalling, as well as, the moderating impact of the subjective meaning of work, on the Job–Career–Calling distinction to identify the extent to which the perception of socially responsible policies and the behaviour of employers play a role in the career decisions of employees. By analysing candidates' preferences and perceptions, the possible relationship between the subjective meaning of work, the various types of social perceptions of corporate social policies, and applicant attraction are analysed, and a new model for understanding applicant attraction is presented. In order to establish the relationship between Corporate Social Performance and applicant attraction, the authors employ the theoretical frameworks of Stereotype Content Model (SCM), the BIAS Map and the subjective meaning of work. This study

[1] Also known as Saint John Paul the Great, Karol Józef Wojtyła was the 264th pope of the Catholic Church from 16 October 1978 until his death on 2 April 2005.

implies that people relate to organisations or brands in a similar manner to the way they relate to individuals, making decisions based on how they perceive social actors on the fundamental dimensions of social perception—Warmth and Competence. Thus, the SCM and BIAS Map together may not only explain how people perceive the social world, but also allow the prediction of their emotions and behavioural intentions towards perceived agents, including organisations. The authors suggest that introducing this well-developed and cross-culturally tested theory of social perception into CSR discourse may provide the grounds for an inspiring theoretical and profoundly practical perspective on developing sound CSR organisational practices.

Chapter 12 in the theoretical realm by Professor Dr. Jan Jonker from the Radboud University of Nijmegen in the Netherlands, Professor Dr. Linda O'Riordan from the FOM University of Applied Sciences in Germany, and Nina Marsh a research associate at both universities, addresses the art of balancing to enable the realisation of multiple and shared values through a new generation of Business Models. This chapter combines the comprehensive set of themes presented in previous chapters which in essence, collectively highlighted the requirement for more sustainable, inclusive, and integrated mechanisms both at macro- and micro-economic level. In doing so, the authors explicitly emphasise the need for managers to secure an optimal strategy for the long-term survival of their companies in view of the growing external global forces of change including the shifting (increasingly negative) public perception of the role of business in society and the recognition of a rising awareness that business operates as part of (and not in isolation from) society. Significantly, the authors suggest that the logical consequence of these developments necessitates an inspired management approach when investing a firm's resources to create value which is driven by the perspective and needs of a broader range of stakeholder interests. They propose that the same developments which have triggered a change in societal expectations are prompting the need for a new management mind-set with respect to the way in which profit is perceived. Particularly, the authors suggest that the current rationale relating to key questions such as: what constitutes profit and, how to organise the business for its optimal generation, is undergoing transition. These questions highlight the missing link which establishes the primary focus of the chapter. To address this missing link, a theoretical review of the latest emerging literature surrounding the concept of multiple shared value (MSV) is combined with fresh empirical data to investigate the effectiveness (or otherwise) of the new business model (NBM) concept for translating the concept of sustainable management into everyday business practice. Ultimately, the authors reason that NBMs can act as a catalyst for creating collective, shared, balanced triple bottom line impact. Consequently, the evidence presented in this, the final chapter in the theoretical realm of this book, implies that by delivering a fairer distribution of the wealth created by business via a stronger focus on collaboratively creating welfare for human beings and nature, NBMs can serve as an important mechanism for both sustainable social progress and business wealth generation.

1.2 Part II: The Practical Realm

Part two focuses on the Practical Realm. It addresses the micro-level theme of managing CSR and Sustainability in an everyday business operating setting. The chapters in this section communicate a broad range of related topics regarding the development, integration, and implementation of sustainable CSR solutions into the business model across the value chain with respect to key business management functions such as finance, governance, CSR reporting, supply chain, human resources, case studies of CSR in Africa, as well as a conceptual framework for strategic CSR management. The demonstration of a practical realisation of the inter-connectedness of these themes within and between the various business functions is the missing link which part two of this book addresses.

Chapter 13 in the practical realm in this book by Professor Dr. Robert Sroufe and Diane Ramos from the Beard Institute of Applied Sustainability, John F. Donahue Graduate School of Business, Duquesne University Pittsburgh, in the USA addresses the "un-balanced" balance sheet in a call for integrated bottom line (IBL) reporting. This chapter offers a blueprint for the integration of financial, environmental, social and governance reporting. The authors examine an emerging practice which has profoundly changed the way organisations develop strategic plans, approach decision-making, measure success, and manage risks in the twenty-first century. They investigate why we continue to take an "unbalanced" approach and propose IBL as an alternative which goes beyond an accounting practice to become a catalyst for sustainable management solutions, risk management and stakeholder engagement. To help demonstrate this transformation of performance measurement, the chapter reviews the evolution of integrated reporting, and the need for more involvement from accountants to go beyond a myopic focus on the bottom line to enabling shared value through evidence-based management. This review additionally studies enabling organisations. In the proposed approach, the authors envision a future when a balanced sheet, re-named the "value statement", captures the financial, social, and environmental conditions of a firm over multiple periods of time and this information is further supported by a statement of change in stockholders' equity (rather than stockholders' equity). The chapter concludes with a call to action for business schools and business organisations to work together at the intersection of integrated reporting to develop solutions for tomorrow's measurement problems.

Chapter 14 in the practical realm by Viola Möller, Dr. Dinah Koehler, and Ina Stubenrauch from Deloitte, Germany focuses on finding the value in environmental, social, and governance (ESG) performance. It continues the focus on integrated reporting from the previous chapter by providing insights into the Chief Financial Officer's (CFO) role in managing ESG performance and the value of the underlying information that is shared with stakeholders both inside and outside the firm. Reporting on ESG performance is presented as a key missing link which can deliver value through facilitating transparency and thereby leveraging the impact of sustainable CSR practices. This chapter highlights that because the appreciation of the value inherent in ESG management is growing, an efficient management of ESG issues and the publication of ESG-relevant information will benefit not only the stakeholders' desire for transparency, but also the corporate reputation and financial valuation in the event of a crisis. Consequently, the chapter proposes that all market players should implement a holistic approach to their decisions on identifying relevant and potentially material ESG issues, to ensure better informed and future-orientated decisions.

Chapter 15 in the practical realm by Professor Dr. habil. Matthias S. Fifka and Cristian R. Loza Adaui from the University Erlangen-Nuernberg in Germany, continues the theme of sharing information with stakeholders inside and outside the company from the previous chapter by focusing on the directly related subject of CSR reporting. This topic has recently received widespread attention in the business community since the pending introduction of mandatory CSR reporting at European Union (EU) level. Against the background of the ensuing intense debate on whether companies should be forced to report on their social and environmental performance, the chapter presents the nature, development, and status quo of CSR reporting. This serves as an information basis for a discussion on the inherently connected challenges and opportunities including consideration of the underlying financial and technical effort necessary to measure and disclose the respective information. In order to address the particularly intense burden for small and medium sized enterprises (SME) which is widely regarded as unbearable, the EU has reacted by limiting a potential reporting requirement to large companies. This reaction clearly reflects the widespread notion that CSR reporting is an administrative and financial burden and supports the necessity of mandatory laws to motivate its realisation. Unfortunately however, the authors point out that this response clearly disregards the potential business benefits resulting from reporting—such as improved stakeholder communication, a better understanding of one's own value chain, and enhanced risk management. Based on the review and evaluation presented in this chapter, the authors develop recommendations on how to effectively implement CSR reporting in companies in order to leverage a seemingly administrative burden to achieve competitive advantage.

Chapter 16 in the practical realm by Professor Dr. Thomas Heupel from the FOM University of Applied Sciences, Germany, remains in the financial field to examine social management accounting by presenting an integrative framework for environmental and social costing. To examine the aspect of performance in CSR, the chapter emphasises the importance of measuring developments and obtaining detailed cost information. To achieve this, the author proposes that management requires a database for the planning and efficient implementation of social tasks and schemes. The chapter highlights how sustainability-orientated management accounting instruments have been continually developed over the last 40 years from financial ratios and early types of social-balancing to key performance indicators and integrated performance measurement systems. Against the background of the various concepts of ecological cost accounting which were initially developed and subsequently implemented in the scientific, political, or operational sectors, the author highlights a recent turn in cost accounting towards a greater consideration of social costs. To examine these phenomena, the chapter provides a chronological overview of several environmental cost and management concepts. It additionally reconstructs the differentiation and diffusion of environmental and social costs terms, and ultimately suggests a new framework for sustainability-orientated costs. This conceptualisation, which is the missing link proposed in the chapter, is designed to enable management to plan and control CSR activities more efficiently. In addition, it demonstrates win-win solutions between social benefits and economic opportunities.

Chapter 17 in the practical realm by Professor Dr. Matthew Drake, Associate Professor of Supply Chain Management, and Donald Rhodes of the Duquesne University Palumbo-Donahue School of Business, Pittsburgh, USA turns from the business functions of finance, reporting and social management accounting presented in the previous chapters to focus on supply chain management as a key task in CSR practice. It highlights the multitude of social and environmental challenges which supply chain operations create for organisations, many of which have a significant impact on the organisation's stakeholders. The authors suggest that corporate CSR strategy must manage these issues to ensure that all stakeholders' needs are addressed. However, they highlight how organisations often view these CSR efforts through the prism of cost minimisation or risk avoidance when, in fact, many of these activities can add value and enhance a firm's competitive position in the marketplace. The authors propose that value-added initiatives can be justified in any organisation, even those which have no stated altruistic or social goals. The chapter's missing link focus is on these value-added CSR strategies which can provide a competitive advantage for organisations. Specific strategies proposed to address these lacunae include supplier development, local sourcing, collaborative distribution, closed-loop supply chain design, and increasing operational efficiency.

Chapter 18 in the practical realm by Dr. Donna Marshall and Dr. Lucy McCarthy, from the University College Dublin, Ireland, continues the focus on supply chain management as a key function in CSR practice by identifying which environmentally and socially sustainable supply chain management practices impact the operational and competitive outcomes of firms. The chapter focuses on whether and how it pays to be green and good in supply chain management. The authors consolidate and synthesise a diverse catalogue of existing measures of supply chain sustainability practices from the research literature in an effort to test the relationship between established sustainability practices and outcomes which allow firms to create a business case for both environmental and social sustainability practices. In doing so, they propose four environmental and four social supply chain sustainability practices with similar themes: monitoring, management systems, new product and process development and strategy redefinition. A key outcome of this examination is that social sustainability practices pay more than environmental sustainability practices. This finding suggests as a key missing link in current supply chain practice, that it might be advantageous for companies to invest their resources in social new product and process development, as well as social supply chain re-definition focusing on social issues and in environmental monitoring and developing new environmental products and processes.

Chapter 19 in the practical realm by Dr. Łukasz Jabłoński, and Dr. habil. Marek Jabłoński from the Department of Applied Economics, Cracow University of Economics in Poland, turns to the topic of human resource management as a key function in CSR management to address employee competence development from a CSR perspective. The chapter aims to identify the theoretical and methodological basis for the development of employee competencies in light of CSR, with a particular emphasis on CSR-orientated companies. Based on an examination of the relevant underpinning concepts, the authors suggest that CSR could be implemented within organisations through the development of employee competences. They highlight that in modern CSR management methods this includes benchmarking, knowledge management and re-engineering. These methods closely correspond with the three dimensions of the social theory of learning, i.e., imitation, which benchmarking most closely resembles; reinforcement based on knowledge management; and modelling based on re-engineering. The chapter concludes that CSR could be implemented within organisations based upon a proposed framework methodology of employee competence development. The employee competence development framework presented, which depicts three key phases including the concepts of benchmarking, knowledge management and re-engineering, represents the missing link proposed in the chapter.

Chapter 20 in the practical realm by Dr. Lara Johannsdottir and Professor Dr. Snjolfur Olafsson from the University of Iceland, continues the focus on the human resource management theme from the previous chapter by addressing participation in CSR. The missing link theme of this chapter is that CSR can be most effectively integrated into a company's core business when employees are actively involved. To substantiate this claim, the authors address both the function of decision-makers and decision-making approaches in CSR management by examining selected aspects of employee roles in implementing CSR strategies at individual, organisational, and institutional levels. The focus covers a choice of key related themes such as: collaboration between leaders and employees, a framework illustrating employees' contribution to CSR integration, as well as an examination of employee participation and motivation when implementing CSR strategy using key frameworks such as Porter's value chain. In doing so, the link between the organisation and the external operating environment is examined and solutions for mainstreaming CSR principles via employee participation in everyday business practice are proposed. The authors conclude in this chapter that companies benefit in many ways from active employee participation in CSR such as improved employee commitment and loyalty, as well as increased productivity which, overall, collectively lead to a stronger corporate identity and brand image.

Chapter 21 in the practical realm by Dr. Grzegorz Żmuda, Dr. Piotr Prokopowicz, and Marianna Król from the Jagiellonian University, Krakow in Poland, presents the final human resource theme in this part of the book by focusing on developing CSR through simulation games. In doing so, the authors provide both theoretical and practical insights into how simulations can be used for skills and knowledge-development crucial for implementing CSR in a given organisational context. Apart from explaining the mechanisms behind the effectiveness of simulation games, the authors additionally provide examples and a critical review of a selection of simulation games which have been developed around the world. As a result, the chapter provides excellent insights into the dynamically evolving market in the field of CSR from the perspective of current developments in educational psychology and the practical experience of game developers. Ultimately, the authors provide evidence that games offer a unique toolbox for developing CSR both in academia and in an organisational training context. This learning approach comprises the missing link proposed in the chapter.

Chapter 22 in the practical realm by Professor Dr. David Abdulai from the African Graduate School of Management and Leadership in Ghana, West Africa presents a case study example which illustrates the important role that CSR can play as a missing link in the long-term sustainable development needs, economic growth, and progress of the African continent. Focusing on the necessity to move away from the concept of charity towards mutual benefit, the author stresses the need for companies in Africa to abandon their archaic view of their CSR activities with its focus on donations or philanthropy. Instead, he suggests the practice of Ubuntu as a new narrative of CSR in Africa. Ubuntu is an Nguni word from Southern Africa which depicts a concept based on African humanism proposing that the essence of being human is the understanding that nothing lives in isolation because we are all inter-dependent. Based on this reasoning of inter-connectedness, he calls on companies to begin to position their CSR practices in a way which more intrinsically, systemically, and innovatively contributes to the long-term growth and sustainable development of the respective communities and countries in which they operate on the African continent. The author demonstrates how this altered approach, in which companies concurrently contribute to their own growth, sustainability and (ultimately) profits by advancing the socio-economic and environmental sustainability, progress and well-being of the African people, presents a new mutually beneficial and sustainable CSR model. The example illustrates how businesses operating in Africa can contribute to the efforts on the continent and still make a decent profit in an approach which is collectively advantageous for all constituents. The paradigm shift proposed in the chapter with respect to the new perspective to achieve more sustainable solutions presents the missing link in the practice of CSR in this case study of the African continent.

Chapter 23 in the practical realm by Dr. Ortrud Kamps from the FOM University of Applied Sciences, Essen, Germany, continues the focus on Africa from the previous chapter by contributing a specific case study example of the German development initiative Cotton made in Africa (CmiA). In the search for the missing link in the on-going debate on implementing CSR and Sustainable Development (SD), the author highlights the CmiA as a novel initiative with a widespread impact on business solutions which, among other goals, aims at reducing poverty in developing countries. The author demonstrates how the CmiA approach successfully improves the living conditions of poor small-scale African cotton farmers and provides fair-traded cotton clothing to the ordinary consumer on the world market. In a critical evaluation of both its successes as well as its limitations, she subsequently investigates whether this case study can serve as an example for the highly competitive world of global business. The chapter concludes that the CmiA presents a successful example of responsibly connecting all stakeholders for sustainable growth including governments, the private sector, non-profit organisations, and people at the grassroots level, working together with the long-term goal of successfully facilitating simultaneous economic, ecological, and social sustainability.

Chapter 24 in the practical realm by Professor Dr. Linda O'Riordan and Professor Dr. Piotr Zmuda from the FOM University of Applied Sciences, Essen, Germany, critically reviews a conceptual framework for strategic CSR management. It collectively addresses the missing link focus of the previous chapters by targeting the lack of transparency for all stakeholders with respect to managing CSR and Sustainability in everyday business practice. In particular the chapter focuses on the management challenge facing decision-makers of identifying why and how to integrate Corporate Responsibility (CR) and Sustainable Development (SD) solutions into their business operations. Because a review of the latest literature suggests that the management tools for translating notions of sustainable responsible management into everyday business practice are limited, the chapter rigorously reviews a recent conceptualisation (CR management framework) of corporate approaches to responsible stakeholder management which was developed by one of the authors in separate research. The authors apply problem-solving techniques both theoretically and empirically via qualitative evidence obtained in a case study of a leading transnational corporation's CR activities. This study simultaneously tests the framework and, in doing so, critically examines the responsible activities of the target company under investigation. The ensuing results highlight both the positive potential and room for improvement in both the management framework and the target company's CR response. The ultimate outcome is an updated management framework which is designed to serve as a comprehensive, inclusive, systematic set of steps to guide business decision-makers when developing their sustainable business strategies. Ultimately, the framework presented in this, the final chapter in the practical realm of this book, implies that by managing their resources following the triple bottom line mind-set proposed, both sustainable social progress and business wealth generation can thrive. Consequently, the management frame-work presented in this chapter is the missing link solution proposed by the authors for achieving a practical realisation of the required inter-connectedness within and between the various themes and business functions addressed in the previous chapters within part two of this book.

This completes Parts one and two of this book which were conceived, coordinated, and reviewed by Professors O'Riordan and Zmuda.

1.3 Part III: The Educational Realm

Part three focuses on the Educational Realm. In Plato's dialogue Meno the core question of ethics education is discussed between Socrates and Meno. They debate that people are not good by nature which implies the requirement for at least some "teacher" of "good" (having in mind that the definition of "good" is not an easy task). But these teachers do not only have to live a good life, they also need a certain knowledge of the "idea" of good. Today, it seems that this basic concept is challenged. First, because the idea of avoiding ideology in Business-Schools within the academic mainstream avoids Platonic philosophical thinking. Second, because on the managerial side of ethics education, corporate social responsibility (CSR) courses tend to delegate moral questions into the private life of the students and thus focus on concepts of measurement and value creation of corporate responsibility, but not so much on the ethical foundations. Third, despite the fact that generations of MBA graduates who were not trained in business ethical thinking played their part in an "Epoch of Catastrophes"[2] (Wankel and Stachowicz-Stanusch 2012), pressure to implement business ethics into the academic curriculum is not driven by the faculty itself. For many good reasons, this implementation, while undoubtedly a great challenge, is nevertheless necessary.

Part three of this book provides insights into various aspects of this challenge.

Chapter 25 by Jun.-Professor Dr. Karl-Heinz Gerholz and Professor Dr. Stefan Heinemann ask: CSR—A new Challenge for Universities? The topic of CSR is often discussed in connection with business organisations. But also for organisations such as universities, CSR represents an important area of influence. The main, clearly related question for research is: What form of specific commitment to society is fitting for universities and society, and how can this commitment be achieved? This leads to the question of how universities should design their CSR activities. This is driven by two discourses: the CSR- and civic engagement-discourse. In the literature a missing link between these discourses can be identified, therefore our first approach is to analyse these discourses concerning their similarities and differences. In doing so, the authors demonstrate that there are different traditions and theoretical foundations in these discourses. Significantly, from an empirical point of view, no integrated survey of the CSR and civic engagement activities of universities has been conducted to date. Therefore, in this chapter the authors present an empirical case study with regard to CSR and civic engagement activities of universities. They present the results of an empirical case study of the current situation of universities in Germany (the federal state of North Rhine-Westphalia specifically and with a focus on business faculties) and their CSR and civic engagement activities. In conclusion, the authors present some preliminary inferences for future development of CSR and civic engagement activities at universities.

Chapter 26 by Professor. Dr. Frank P. Schulte (FOM University of Applied Sciences, Essen, Germany), Jun.-Professor Dr. Karl-Heinz Gerholz, and Professor Dr. Stefan Heinemann focus on empirical Indications of the Relationship between Ethical Competency, Diversity Competency and other Parts of the Competency Construct. As a construct, competency is generally divided into several parts (e.g., professional competency, social competency, personal competency), of which ethical competency ("to do right") and its social counterpart, diversity competency ("to do right with others"), are still being researched. The importance of this chapter is obvious: Especially, but not exclusively, in business edu-

[2] Wankel, C., & Stachowicz-Stanusch, A. (2012). Handbook of research on teaching ethics in business and management education. Hershey: IGI Global.

cation, teaching “to do” as well as “to do right” and “to do right with others” is becoming more urgent and complex, and concepts related to corporate, as well as individual social responsibility are gaining recognition as essential elements. However, analysis of university curricula indicates that higher business education programs are often not as “doing”-orientated as the construct of competency may imply. What is more, effective and efficient methods of measuring students’ expectations and experiences with regard to the teaching of ethical and diversity competency are not yet available. The authors therefore developed short self-report scale to screen expected academic acquisition of ethical competency and diversity competency. They tested the scale with the help of students from several business degree programs at a German university. The authors compared their expected ethical and diversity competency acquisition with expected acquisition of unspecific professional and methodological expertise, social competency, and personal competency, as well as their general self-efficacy. Despite the small sample size, the results of the study indicate acceptable degrees of construct validity of the scale within the general construct of competency. The authors identify a pronounced demand for the teaching of “doing right” as well as “doing right with others” and identify specific relationships between diversity competency, ethical competency, and the other parts of the competency construct (e.g., an expected strong relationship between “doing right” and “doing right with others”, or the surprisingly missing relationship between ethical competency and social competency).

Chapter 27 by Jun.-Professor Dr. Karl-Heinz Gerholz, Department Business and Human Resource Education, University of Paderborn, focuses the Fostering of Ethical Skills in Higher Business Education. Due to recent scandals—for example, during the financial crisis—ethical competence and behaviour has been recognised as an important area of attention for managers. This trend indicates the relevance of business ethics as an integrated part of the education of (future) managers in Higher Education institutions. At the same time, there is a growing demand that higher education is more pertinent to the needs of the working environment. Based on these premises, a missing link between Business Education and ethical needs in working environments can be recognised. In order to close this gap two questions arise: Which ethical competences do future managers need? How can Business Education comply with these requirements and support students to develop these ethical competences during study processes? This contribution will address these questions and, in doing so, draw from curriculum theory. The key goal of the contribution is to discuss the main aim of Business Education in Higher Education institutions and what this means with respect to fostering ethical competence. Based on these remarks, empirical studies of curricula in Business Education are presented. One conclusion is that it seems important—especially for the intention of Business Education—to design more action-orientated curricula to foster ethical competence. These curricula are based on practical ethical problem situations. The requirements for acting in these situations define the competences respectively knowledge, motivation, and attitude aspects in ethical business behaviour. In conclusion, an action-orientated curriculum for Business Education will be presented.

Chapter 28 by Professor Dr. Georg Müller-Christ, chair of sustainable management at the University of Bremen, Department of Business Studies and Economics and Anna Katharina Liebscher, Researcher at the University of Bremen, Department of Business Studies and Economics address the Transdisciplinary Teaching of CSR by Systemic Constellations. The demand for innovative teaching methods for the transfer of sustainability and CSR knowledge to students is constantly rising. However, the problem remains that such knowledge is rather orientating than based on "hard facts". So the question rises, if there are new and innovative methods—especially in the course of rising demands for trans-disciplinary and research-orientated teaching—which are suitable for the transfer of knowledge and the creation of insights into socially highly important topics such as sustainability and CSR. This chapter presents such a method. The method of systemic constellations is meanwhile well known in organisational consulting and is slowly finding its way to university teaching. The authors have worked with the method for several years and have gained some experience in the use of the method in university teaching. In the chapter the topics sustainability, CSR, sustainable leadership and decision-making premises in companies are addressed and related to the benefit, which can be gained by applying the method. To illustrate the huge potential the method bears, some examples are explained that show how the method has been applied in the context of teaching CSR.

Chapter 29 by Professor Dr. Stefan Heinemann and Professor Dr. Ralf Miggelbrink, Chair of Systematic Theology at the University of Duisburg-Essen (Germany) focuses on the Relationship between Value Pluralism and Management. In this chapter, the authors argue that the plurality of values in global business raises questions and challenges in company management that the companies, their workforce, management, customers, suppliers, and ultimately all other stakeholders, are barely able to address and answer without the normative realm coming into view. The concept of the faith-friendly company (Miller) similarly stems from the American public theology agenda, which in a sense has succeeded the concept of civil religion: rather than powerful indoctrination of a meta-religious ethical consensus, here, different religious and ethical convictions are the focus. The logic of the faith-friendly company dictates that reason and understanding, based on the individual experiences and practices of employees, partners and customers in handling with the reality of the Absolute, are essential. The authors claim that the ethical supermarket is not an attractive management solution; it renders faith-friendly business impossible and ultimately endangers the assumption of social responsibility with any conviction. This concept responds to the dilemma of companies not being able to prescribe religion to their employees but still needing some kind of connection between them and the reality of the Absolute, together with the necessary religious plurality.

Chapter 30 by Jun.-Professor Dr. Karl-Heinz Gerholz and Simone Losch, Researcher at the University of Paderborn, ask "Can Service Learning Foster a Social Responsibility among Students?" and conduct a didactical Analysis and Empirical Case-Study in Business Education at a German University. Due to the recent global economic crisis, the role of business education is becoming more urgent and concepts related to social responsibility are gaining recognition as essential elements in business education. One open question is how can business education contribute to sensitising future managers into acting responsibly? Service learning is often attributed to the potential to promote social responsibility and citizenship skills among students. Service learning can be described as a teaching tool that is characterised by students giving service to the community and having a learning experience. The key goal of this chapter is to have a look at service learning as a teaching tool from a didactical point of view. In the first part, the authors provide an overview about the potentials of service learning and show the didactical and learning theoretical foundations of this approach. Based on that, they present several empirical studies on service learning in business education and aim to demonstrate that cognitive development and understanding of social responsibility can be promoted through service learning. However, having an effect on the sense of responsibility is mostly dependent on the didactical design. Service learning can be described as a context-sensitive concept; therefore, an implementation in German business education needs a contextual adaption. To address this, in the second part, the authors present a case-study to design and to implement service learning in a German faculty of Business Administration and Economics. They evaluated this service learning arrangement through a qualitative survey. As one result of the survey, it can be shown that the didactical adaption of the service projects and the reflection about the service activity through the students are relevant design criteria for service learning.

This final part of the book was conceived, co-ordinated, and reviewed by Professor Heinemann.

Part I

Theoretical Realm

2 The Future of Corporate Sustainability: Towards an Ecology of Organisations Focused on Sustainability

Jan Jonker

Forests are being destroyed. Mountains are ripped open for the metals streaming in their veins. And man cherishes and celebrates those who do the greatest of damage to nature and humanity.
Leonardo da Vinci (1452–1519).

Nature never deceives us; we deceive ourselves.
Jean-Jacques Rousseau (1712–1778).

On every human journey, unique as it may seem, the entire mankind gets involved.
Jean-Paul Sartre (1905–1980).

The debate has just started in search […] of ways of integrating the economy with the environment. But substantive decisions […] are hard to find. Missing is the leadership that can translate emerging values into […] decisions that would change trends. We must find ways to make it happen.
Charles Caccia (1930–2008).

Et nous avons agi comme quand on marche dans le brouillard, empruntant des chemins au fur et à mesure qu'ils apparaissaient, sans être sur de là ou ils nous menaient.
Portrait J. J. Abrams, Libération, 22 Juillet 2009.

J. Jonker (✉)
Nijmegen School of Management (NSM) at the Radboud University Nijmegen (RU—Holland), P.O. Box 9108, 6500 HK Nijmegen, The Netherlands
e-mail: j.jonker@fm.ru.nl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,* FOM-Edition, DOI 10.1007/978-3-658-06794-6_2

Contents

2.1 By Way of Introduction: On Organisations and Sustainability 25
  2.1.1 About Organisations and Organising 26
  2.1.2 The Sustainability Debate in a Nutshell 27
  2.1.3 Sustainability and Scarcity 29
  2.1.4 Exploring Sustainability is Over 30
  2.1.5 On our Way to a Different Kind of Sustainability 31
2.2 Sustainability: As if There were an Alternative 32
2.3 Multiple Value Creation as the Central Organisational Challenge 34
2.4 About the Rationalities of Organising 37
2.5 Towards an Ecology of Organisations Focused on Sustainability 40
2.6 Epilogue: Research Between Thinking and Acting 44
References 46

Abstract

This is a chapter about how to organise sustainability in the twenty-first century. Multiple sources from within and outside academia support the central argument that sustainability does indeed matter and that business is part of the problem and part of the solution. Following decades of talking about sustainability, we have hardly made real progress. Furthermore, the quest for implementation has only recently appeared on the organisational radar. What has actually been implemented under the umbrella of sustainability is limited in its design and scope. The past decade has shown that these approaches and actions have not done what they were supposed to do. They do not reflect the urgency of the rapidly expanding group of issues we have assembled under the term *sustainability*. Central to the on-going debate regarding sustainability and responsibility is that something obvious is missing. The missing link is how we organise sustainability, not only as an organisational issue but as a collaborative challenge. The argument is built upon two elements. The first is that no organisation can achieve sustainability on its own. New and intense collaboration between organisations is needed in order to shape the process of transformation. This first element is called "an organisational ecology for sustainability". The second element is that this new way of working will require transitions—fundamental change in a technological, organisational and social sense. This line of reasoning is developed from the past to the present. This leads to a compact overview of where we have come from and what we stand for now. It also provides a perspective of the work that needs to be accomplished in the years to come: work on new forms of collaboration, on leadership and on transition thinking. As a whole, this contribution can be read as an urgent call to develop a new generation of thinking around the theme of sustainability.

2.1 By Way of Introduction: On Organisations and Sustainability

This chapter is about sharing a vision regarding one of the major and pressing issues of the twenty-first century: sustainability, or more particularly sustainable organising. An issue that creates difficult and far-reaching tasks; tasks regarding fundamental thoughts concerning organisations, our way of organising and identifying what is of value. Central to the on-going debate regarding sustainability and responsibility is this feeling that something is missing. Something fundamental which time and again is overlooked while it seems to be so obvious.

A paradigm shift is advocated whereby organisations become more serious, more effective and have greater impact in terms of sustainability. This is highly relevant as, following decades of talking about sustainability, we have hardly made real progress and the quest for implementation has only recently appeared on the organisational radar. Furthermore, what has actually been implemented under the umbrella of sustainability is limited in its design and scope, which means its impact has been minimal. It is simply not radical enough to actually matter. We do not seem to be moving past the stage of plans to economise modestly on water or fuel and screwing in some energy-saving light bulbs and calling this an eco-efficiency strategy.

The past decade has shown that these approaches and actions have not done what they were supposed to do. They do not reflect the urgency of the rapidly expanding group of issues we have assembled under the term *sustainability*. These issues fall under the umbrella of in-house organising but are also linked to broader societal quests such as housing, hunger or education. Nor is the developed approach strong enough in volume and scope to really make a difference. Therefore, the current situation can be described as a self-preserving impasse of sub-optimally organised sustainability on an individual organisational level. Given the gravity of the situation, this is of great concern. It is no wonder that something more radical, with more impact, is needed.

To overcome this impasse, I have called into question the widely accepted and often unquestioned one-dimensional value-driven way of organising. In this dominant approach, making money is the fulcrum of organisational activities. Money is the only value that seems to matter, regardless of the (externalised) costs (this is a clear echo of Milton Friedman's *Free to Choose*, 1982). The following quote starts off with this point of view but changes course half-way through: "I am a businessman and a free-market libertarian, but I believe that the enlightened corporation should try to create value for all of its constituencies. From an investor's perspective, the purpose of the business is to maximise profits. But that's not the purpose for other stakeholders—for customers, employees, suppliers, and the community. Each of those groups will define the purpose of the business in terms of its own needs and desires, and each perspective is valid and legitimate" (John Mackey, Co-Founder and CEO *Whole foods*). I propose that multiple value creation (MVC) is the alternative. The key to MVC is the simultaneous creation of more than one value (not only financial values), which is of value to more than just the owners of an organisation. As Elbing (1970, pp. 81–82) states: "If one is concerned with the value issue of business in all of its dimensions, structuring the issue around the question of economic expenditures is not adequate. The businessman is not simply an 'economic man', the organisation is not simply an 'economic organisation', and the products and consequences which business produce are not simply economic." This line of thinking is supported by Freeman: "Business must create value for stakeholders such as employees, financiers, customers, and suppliers […] firms should define basic values and then design strategies consistent with these values. We understand capitalism as a system of co-operation among stakeholders around important values" (Freeman et al. 2000, p. 32).

Given that no organisation can achieve this task on its own, a perspective is presented in which sustainability is organised between organisations. Organising between organisations then becomes the focus to make progress with sustainability. This calls for a different kind of organisational science; one that is dedicated to the joint organisation of sustainability. Such a system will emphasise a collaborative rather than an organisational ability. This perspective will be concisely elaborated into what is called an "organisational ecology for sustainability". The somewhat particular usage of the term *ecology* refers to the inter-dependent network of organisations and organising, of organising sustainability and amidst organisations. It is from this perspective that corporate sustainability and its consequences for organising are explored. The innovative challenge that comes with it is reflected in the title of this chapter: *The Future of Corporate Sustainability: Towards an ecology of organisations focused on sustainability*.

2.1.1 About Organisations and Organising

The argument presented here revolves around and is focused on organisations, particularly companies. Sustainability here is not focused on the *classical* environmental issues. While this is understandable from a historical perspective, here the meaning of sustainability concentrates on those deliberate human constructs called *organisations* in which we organise our daily work and lives with each other.

Organisations are our most utilised institutions and, in Western societies at least, we cannot live without them. The organisation is a deliberately created social artefact that thrives on blending relationships into a nexus of contacts and contracts: social, economic, political, technological, emotional, environmental, etc. Organising (and managing) depends on how an organisation is conceptualised and on how this is strategised and deployed in policies, plans and actions. Stakeholders (both old and new) are the building blocks in this nexus of relationships and contracts. Companies have always known stakeholders. What has changed is the number of stakeholders and the nature of their role(s) and manifestation (that is, whether they are seen as threats or partners). Organisations manage their responsibilities to their social environment (stakeholders) and natural environment through the strategies and operational practices which they deploy to achieve their goals. "[S]takeholder theory merely recapitulates […] standard business assumptions […] it rests on the idea that value is created when entrepreneurs […] put together a deal that simultaneously, and over time, satisfies […] groups of stakeholders who play a critical role in the ongoing process of the business. Of course, any entrepreneur knows this as second nature. Business is just creating value for stakeholders" (McVeau and Freeman 2005, pp. 57–58).

We use the products and services of those organisations for all kinds of purposes, both for commercial and common good purposes. Every day, we make thousands of decisions with each other in organisations. Through our decisions we permanently construct and re-construct those organisations. The permanent flux of decisions and activities are directly linked to shaping our society. In this way, ordinary everyday organisational decisions influence sustainability issues to a great extent, although we might not always be aware of it. The connection between our human existence and organisations is such that we cannot even properly function without all that is organised around us through our own actions and simultaneously those of others. Indeed, we as human beings can only act because we live, act and breathe in a thoroughly organised environment, which I refer to as the *organisational ecology* of *inter-dependent organisations*. It is here that we must also make swift progress with issues of sustainability.

Organisations were developed centuries ago to help create different forms of collective values—the common good as well as the private good. Organising is not a goal in itself, rather a means of realising for and with each other that which is of value. In this context, there are three commonly accepted collective values: social, economic and ecological. Sustainability can be interpreted as a general (umbrella) value, within which the above-mentioned common values are embedded. It is not something that, in itself, needs to be included when organising.

Therefore, sustainability is about organising that which is of social and ecological value to us as individuals and to us as the collective, not as two separate entities but as an intertwined and inseparable pair. The difficulty is that we often only discover whether something has value when it is gone, and we discover when something is gone when we lack it and then encounter its absence as a problem. Consequently, sustainability is the label placed on the often implicit notion that many of the things we thought were abundant have become scarce. It helps us realise that tangible and intangible matters are not infinite, either by definition or naturally. We also recognise that we as organisations, as a society, and also as people and citizens, have a great influence on this, and hold responsibility for it. These days, organising seems to be out of balance: too many promises, short-term profit-driven strategies, a volatile context and stakeholders all around. This is actually a discovery of the past decade. The question is, how did we get here? The answer is provided by a short trip into the recent past.

2.1.2 The Sustainability Debate in a Nutshell

Nowadays, the sustainability debate can look forward to a respectable age. Publications such as Rachel Carson's *Silent Spring* (1962) in America and *Limits to Growth*[1] by Mead-

[1] The research for this report was initiated by the *Club of Rome*, a think-tank of European scientists, to stress their concerns about the future of the world. The club originally consisted of 36 members who assembled together for the first time in April 1968 in Rome. The club still exists, see http://www.clubofrome.org.

ows et al. (1972) in Europe can arguably be seen as landmark publications. If this is the case, it means that we have spent four decades talking at a political, organisational and societal level about subjects such as the meaning of sustainability, its benefits and necessity, the underlying paradigm, its implementation, its measurability and of course its future, regardless of whether it is inter-generational. However, I would argue that the true start of the present-day debate is almost 25 years old.

In 1987, the now world-renowned Brundtland report entitled *Our Common Future (OCF)* appeared. The report, created by 1200 people in 900 days, was the first to name and frame various themes under the umbrella of sustainability, and it coined the notion of sustainable development (SD). Moreover, the OCF report also succeeded in putting SD on the political agenda of the United Nations and the European Union. Partly because of this, it also appeared on the national agenda of a large number of countries. As a result, the report propelled sustainability to become a subject of government policy. The report includes the most cited definition of sustainability to date: "Sustainable development is development that fits the needs of the present without jeopardizing the ability of future generations to provide for their needs" (Brundtland 1987). This is an elegant and inspiring definition that is still valid at first sight. The main issue is that sustainability with an eye on human actions is always about seeking a balance between social and "natural" aspects, between needs and values, between the present and the future. And even though it is not mentioned explicitly in the mentioned Brundtland definition, it is of course about how we as a society achieve, organise and value this balance. At the end of the day, it is about what we as a society consider to be important and of value. Subsequently, we can ask ourselves how to shape this by means of policies and strategies and translate it into actions and routines.

> Fundamentally, sustainable development is a notion of discipline. It means humanity must ensure that meeting present needs does not compromise the ability of future generations to meet their needs. (Gro Harlem Brundtland in the now famous 1987 report *Our Common Future*)

The 25 years following the Bruntland Report can be characterised as a period of discovery, exploration, formulation, of thematising and a continuous if not infinite search for definitions. Whereas the environmental issue was central at first, people developed definitions, concepts and theories from a wide range of disciplines during that period. Besides this definitional work in progress, more and more parties entered the new arena of debate. And without the involved parties consciously working towards it, a present-day version of the confusion of tongues in Babel occurred. Because of this, the search for the meaning of sustainability, let alone what is of value in the debate about sustainability, is not exactly being made easier. This can be illustrated by the following quote: "Sustainable development, by embracing coupled dynamics of societal and ecological systems on a global scale and over the long term, is an extremely ambitious concept. It provokes dispute because it calls into question concepts, institutions and everyday practices that are based on faith in progress …" (Vob et al. 2007, p. 193).

Due to these developments over the last quarter of a century, it has become difficult, if not impossible, to demonstrate sustainability in an organisation and in the actual act of organising. This linguistic and conceptual confusion sometimes leads to the misguided embrace of standards and (superficial) ready-to-go concepts that offer easy solutions for fundamentally complex problems and do not always reinforce each other. Nevertheless, a kind of maturity is gradually developing regarding what is and what is not sustainability.

2.1.3 Sustainability and Scarcity

The range of terms and possible combinations on the cutting-surface of sustainability coupled with "social responsibility", "corporate" and "organising" have become undoubtedly popular. Recently Dahlsrud (2008) and De Bakker et.al. (2005), among others, conducted an overview of the definitions in circulation. These studies show that most definitions are fairly congruent with each other. Each definition combines a limited set of aspects: environmental, social, economic, stakeholders, and charity. All definitions of sustainable development require that the world be seen as a system that connects space, time and people not only today, but also tomorrow and thereafter. Of course, one could debate the correctness of such classifications and whether certain definitions have been missed. I will not add to this already confusing debate by proposing yet another definition; there are enough to choose from. Instead, I would like to quote Wayne Visser (2011):

> [Corporate Social Responsibility] CSR is the way in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement. It implies an integrated, systemic approach by business that builds, rather than erodes or destroys, economic, social, human and natural capital.

As mentioned earlier, sustainability represents the growing realisation that scarcity is growing. This scarcity has a hard (tangible) side and a soft (intangible) side, which refers to ecology and society, nature and our institutions. These aspects are not isolated, but are two sides of the same coin. The scarcity is fuelled by our highly inefficient and wasteful way of organising, which is directly linked to our way of deliberately producing planned and perceived obsolesce fuelling a pre-conditioned way of consuming. With regard to the increasing scarcity of resources, we need to organise differently. This implies a radical change in the way we organise. The resources needed to make this happen are under pressure because a growing number of people in the world have made use of the same finite resources, leading to a higher level of scarcity. This has led to a rather worrisome self-fulfilling prophecy. Therefore, sustainability is not a subject in itself that can be defined once and for all, but rather a theme that is connected with organisations and the way of organising, in all places and at all times. In particular, the last part—the tight connection between sustainability and day-to-day organising—has emerged in contemporary debates.

The question is justified, then, whether the definition that started the sustainability debate a quarter of a century ago still fits the developments that have been achieved up till now. It will not surprise you that I have my doubts regarding this issue.

2.1.4 Exploring Sustainability is Over

Against the background of these observations, it is fair to say that the phase of discovering and exploring the meaning of sustainability in a general and broad sense is behind us. No longer a marginal matter, sustainability has become a central part of our thinking; at least that is what we should be hoping for. No self-respecting company nowadays can afford not to pay attention to *sustainable entrepreneurship*, even though the concepts and practices still differ. Addressing the harsh reality of organising often happens by means of the so-called Triple-P concept: people, planet, and profit.[2] This concept is now used by companies all over the world. The difficulty of the Triple-P concept is that it conceptually forces companies to think in separate worlds: one in which we threaten people, one for the planet and, of course, one for profit. This gives rise to the question of which part of the organisation organises sustainability. Naturally, the three-Ps concept was not originally intended that way, but that is how it worked out. And note that the concept only applies to one organisation at a time—not to the ecology of organisations. These and other questions raise the issue of whether we are gradually coming to the end of the life-cycle of this particular concept. Maybe it is a good thing to gradually regard the three Ps as obsolete; the concept that has had such a wonderful impact in the business world may have had its finest hour. We are ready for something new, something that does not just help to put sustainability on the agenda, but actually organises it as well; and not just at an organisational level, but perhaps even broader. Recently, a new organisational concept for sustainable organisation was launched in the form of the internationally accepted *ISO 26000 framework*. This is the first time that a concept has looked at sustainability beyond the proper organisation. Despite all the positive impulses coming from these two concepts, they both have little to do with organising a somewhat more radical form of sustainability, one with more volume, more impact and greater speed.

[2] In this concept, which was originally proposed by John Elkington in 1997 (Elkington 1997), the design of sustainability at an organisational level is central. Over the past 10 years, this concept has helped many organisations to give design and content to their sustainability efforts for the first time. The fact that this concept has been used so much on a global scale is positive, yet at the same time it shows some kind of poverty. It leads to the situation in which, in our efforts to organise, we try to achieve at best two Ps, with the third one (planet) often coming too little too late. Therefore, the relationship between "organising" and "doing business" has become obscure, if not perverse.

2.1.5 On our Way to a Different Kind of Sustainability

The coming years will see the start of a new phase, which can be referred to as *The Age of Responsibility* (see Visser 2011) or the age of radical sustainability. This new phase is related to the fact that the past decades—since the release of *Limits to Growth* (1972) and *Our Common Future* (1987)—have shown a growing overall awareness of issues concerning sustainability. It is also related to the realisation that sustainability is more than the environment (and pollution in particular). It is also related, more recently, to the realisation (if not discovery) that sustainability is a complex social-organisational issue that is partly invoked by the way we organise. This awareness is crucial if real progress is to be made in the development of sustainability.

> In a nutshell, much of the past 50 years has been characterised by a corporate attitude of denial or obligation. Only over the past 15–20 years have companies begun to look at social and environmental challenges as business opportunities—either by greening their current products and processes or by moving beyond greening to technologies that leapfrog us into the future and make incumbent technology obsolete through a process of creative destruction. (Hart and Milstein 2007)

To me—and just freely quoting the Dutch scientist and philosopher Klaas van Egmond—the emerging debate concerning sustainability brings into question our entire civilisation, a civilisation that is in movement, in transition. In fact, it is a debate about how civilised we are. The essence of a transition is that collectively, and often with some difficulty, we as a society created from a group of collaborative individuals need to say goodbye to a certain social order, a system, and move towards a new system without actually knowing what it is going to look like. The fact that this transition is real is demonstrated by a variety of different developments, such as the emergent debate on the green economy, the fast pace of growth of energy co-operations, the main issues of the Rio +20 World Summit in 2012, or the speed with which certain *sustainability countries* like Brazil, Germany or China are developing.

> Over the past year we have all watched in amazement as the old economy unravelled before us—banks failing, established corporations seeking bankruptcy protection, unemployment increasing, climate change progressing unabated, and governments nervously printing currency hoping to buy their way out of these problems. The urgency of shaping a new economy—one that is fair and sustainable, that functions within ecological limits, and takes into account people and cultures throughout the world—has never been clearer. What is needed now is some entity to bring these various organisations and individuals together, to frame a common story, to tell it in multiple voices, to strategize the steps towards implementation, and to take collective action to achieve the transition. (Witt et al. 2009)

Therefore, the meaning of "civilised sustainable" or "sustainable civilised" can, for now, only be approximated. There is no clear trajectory or master-plan for sustainability (Hajer

2011). It is a dot on the horizon, a place where we as a society are headed, perhaps somewhat against our will, but we can only imagine what it means for us, for our social system, for our individual actions. It is precisely this indicative and open nature that makes the debate on sustainability polyphonic, controversial and complex. At the same time, there is the matter of urgency: As a society, we really need to do something, which is difficult given that we do not know how to design it (a failing that many feel has been caused by the lack of clear alternative actions). In fact, the sustainability debate is no longer about the question of whether achieving sustainability is of value, but rather about the question of how this sustainability can be realised. Consequently, sustainable organisation will become the challenge of the twenty-first century, which makes the search for a uniform definition obsolete.

Significantly, against this backdrop, it is becoming increasingly clear that the task triggers the need to realise sustainability through, and by means of, organising. This is a difficult challenge, not least because it is not going to work within the classical framework of organisational thinking. This established approach leaves too little space to think out-side of the box. Therefore, solutions are forced to be superficial and a well-sorted accumulation of more or less the same. Fortunately, that way of thinking is a growing discussion point. After all, we experience the perverse consequences of it as an apparently unending series of crises.

> For years we have been told that there is no alternative to an economy that wrecks the environment and worsens inequality. We've been told that we live in a time of prosperity, when really we're no happier than we were 30 years ago. We've been told that crashes, bubbles and recessions are all part of the "natural cycle" of economies. But faced with potentially irreversible climate change and corrosive inequality, these are dangerous fairy tales. (Andrew Simms, Director of the *New Economics Foundation*, cited in *Newsletter Schumacher Society* [US], distributed February 11, 2010)

In a paradoxical sense, this is a positive influence because it provides a reason to think that we really need to start thinking differently. Wouldn't it be better to start thinking in terms of networks of companies; that is, configurations of (inter) dependent actors connected with each other on the basis of place, means and transactions? Indeed, this is not particularly simple. Therefore, it is a good thing that we simultaneously experiment with new ways of organising, such as transversal teams, various sustainability alliances between organisations and new configurations of stakeholders in old and especially new networks. Just maybe, this could be a first step towards sharing knowledge, power and property.

2.2 Sustainability: As if There were an Alternative

We live in an age of fundamental change, of a paradigm shift. Sustainability is a label with which to collectively debate that paradigm shift at different levels of aggregation; debates on the meaning of that shift, its extent, its possible impact and its organisational consequences. It is neither the time nor the place to question or reproduce the meaningful and ground-breaking research of the past decades that many of my academic colleagues around the world have conducted. However, I would like to illustrate, with a few examples, the insights into the nature and extent of that debate on the necessity of sustainable organising.

As a first example, let me take the somewhat aged Impact Population Affluence Technology (IPAT) (Waggoner and Ausubel 2002) formula. IPAT stands for the impact of man, expressed in the growth of the population; the rise of affluence, expressed in the growth of the GDP; and finally, the growth of technology, expressed in the number of patent requests (Olson 1994). Over a period of 100 years (1900, 1950 and 2000), the influence of man on the environment has been growing exponentially since the 1950s. During that century, the population rose from 1.8 billion in 1900 to 2.5 billion in 1960 to 7 billion at the end of 2011. The number of patent requests rose from 141,000 to 412,000 to 1.9 million over this time, and GDP rose from 2 to 5.3–55 trillion.[3] There is no reason to assume that this trend has stopped despite some severe economic crises over the last years.

As a second example, using the five classic commodities (water, oil, iron ore, coal, and phosphorus), and looking at the empirical data on their usage demonstrates that we are working at every level to move in the opposite direction of what we consider to be politically and socially desirable. When these five commodities are translated to a household, a community or an office complex and are measured throughout time, the image is stable: We are using more and more. Exponential growth shows that in the next 16 years we will see the world economy at least double (assuming an economic global growth of 4.5 %). This means that we are going to use twice as many of these commodities in the next 16 years as we do now unless we radically alter our way of organising.

As a third and final illustration, I will speak briefly about pollution and exhaustion. Although it is important, this subject has been discussed so often that we sometimes grow tired of it. Every list, from over-fishing to shortage of raw material, from inter-generational pollution to poverty, differs from region to region, from population to population and from country to country. However, this does not make any of the issues less true. Such an overview would look somewhat like this:

- Exhaustion of raw materials, including (fossil) fuels, water, rare earth materials, etc.;
- Pollution, plastic soup, chemicals, acidification;
- Destruction of eco-systems (and with that biodiversity), deforestation, erosion;
- Poverty (and consequently: hunger, migration, diseases, conflicts, and misery);
- Loss of social capital (the social *we*); a lack of involvement in the environment.

Of course, other classifications are also imaginable. For example, energy and climate are often combined into one issue. Poverty as an issue can be expanded by adding other social problems like injustice, violence, corruption, education, discrimination, freedom, democ-

[3] Variety of sources, including the UN, World Bank, WIPO, and, e.g., http://www.worldometers.info.

racy, etc. And, of course, we could then discuss the issues of social and ecological capital as the fundaments. Beneath the surface, all of these issues are linked to each other through causal relationships. Therefore, we have a true "garbage can" notion to deal with.

> Never before has humanity faced such a challenging outlook for energy and the planet. This can be summed up in five words: "more energy, less carbon dioxide". World population has more than doubled since 1950 and is set to increase by 40 % by 2050. History has shown that as people become richer they use more energy. Population and [Gross Domestic Product] GDP will grow strongly in non-OECD countries and China and India are just starting their journey on the energy ladder. (Shell 2009)

This has been known for quite some time, thanks to repeated valid research (see, for example, the UN Millennium Ecosystem Assessment 2005). The essence that appears is of a dual nature. The first is clearly a very inefficient (one could even call it negligent) use of finite raw materials (commodities) that more and more people need (Vollenbroek 2009). The second point is that the social costs (for example, growing urbanisation) and ecological costs (such as pollution or destruction) that result from the increasing use of raw materials are not taken into account. They do not appear in the figures, which makes inefficient use of resources less expensive than radical efficiency and clean technology.

> In 2008, as much as $ 4.1 billion in seed money was contributed by private investors to 277 so-called clean-tech startups, which was 52 % more than the year before, according to data from the National Venture Capital Association. The four core investment pillars are low-carbon energy production, energy efficiency, control of water, waste and pollution and climate finance, the report said. (Kauffeld et al. 2009)

If meaning is given to these facts, if we are actually going to act upon them and start organising on this basis, this will result in a paradigm shift. Such a shift will question the underlying economic model, which is the main cause of ecologic degradation, and gives rise to maintaining inequality and the erosion of the much-needed social capital. This paradigm shift will not simply be based on a production philosophy founded on pseudo-efficiency of production and apparently unlimited resources and materials, but focused on a (global) society guided by more than just economic values. In such a society, materials will remain within the production cycles and value chains, and we will produce and organise in a circular way. To make this idea more meaningful, it is worth taking a step back to the origin of organisations and the underlying philosophy of organising.

2.3 Multiple Value Creation as the Central Organisational Challenge

The way of organising, as we know it today, began during the industrial revolution. Organisations are deliberately created systems that transform natural capital into *materials* based on a value-driven production philosophy. For the most part, they work because people need and want to work together. By definition, the organisation is a particular form of a social system based on collaboration. The “raison d’être” of an organisation is its ability to create value for people within and outside the organisation. Values are core-artefacts of culture. They shape organisational behaviour, connect necessary talents to the organisation and provide the groundwork for the desired identity. In the process of creating value, organisations use other sources (resources, time, creativity, motivation, etc.). In that sense, an organisation is a means rather than a goal in itself, although these motivations are often confused. Since the late 1950s, however, the modern firm has become increasingly focused on one-dimensional (pure economic) value creation.

Organisations promise to realise tangible and/or intangible value to all of their stakeholders. The business proposition is the translation of the value(s) to be created. Most organisations have more than one business-proposition in order to serve an array of needs and expectations. The contemporary business enterprise seeks to create multiple values for different stakeholders simultaneously. This leads to differentiation in the various business propositions. What is actually of value can differ from one stakeholder to another and from one time to another. Therefore, organisations promise value to their stakeholders that rewards the organisation financially when the promised value is delivered. However, the promise of value creation must be realised, organised and delivered.

Value creation is the result of a set of intentional organisational activities. It arises from combining and adjusting what are commonly referred to as the four capitals: natural, ecological, social and institutional (Jonker 2011b). These capitals are translated into the organisation’s *hardware* and *mind-ware*, which leads to concepts, tools, standards, structures and systems that are used to realise the business proposition.

1. Natural capital—protection and preservation of our natural environment in a living and a “dead” sense. Consciously handling it leads to more and more radical eco-efficiency and life-cycle thinking. In the end, however, it is always about the use and preservation of materials and resources;
2. Ecological capital—preserving a complex and mutually enforcing natural environment, but sometimes also deliberately creating those systems. Ecological capital is a loose entity, but it can be deemed to encompass the system as a whole and how it is dependent on all large and small parts/components/sub-systems, together with all the preserving and innovative forces acting within it;
3. Social capital—collectively possessing and maintaining an intellectual, normative, linguistic and cultural infrastructure within and outside organisations. Social capital and the directly related human capital are conditional for dealing and working with each other on both a social and organisational level;
4. Institutional capital—a complementary (infra)structure on education, health care, the legal system, etc., brought together in organisations and companies. A legal state without a legal system and sufficiently well-educated judges is “void”. Of course, this remark applies to all forms of institutional capital.

Value creation occurs when the overall capital income exceeds the amount of invested capital, a result that is commonly referred to as multiple value creation. Or, as stated by Mouritsen (2000, p. 216): "Value creation is an effect of the interplay between human, organisational and customer capital. Valuing […] does not assume that the firm already has value, which only has to be uncovered. To value means to create [more] value, to generate value via the transformation […] of corporate routines and practices." Companies intuitively create a portfolio of strategies to address various forms of value creation. The art of excellent management is the reconciliation of as many needs and expectations of various actors as possible in the business proposition. This implies a fundamental critique of industrial management thinking.

The classical industrial economy is based on the fundamental transformation of commodities (such as water, oil, and minerals). This implies the destruction of resources. It considers side-effects such as waste and pollution and social impact such as costs. These costs are not necessarily an integrated part of the business model. Therefore, value creation in this business model has a low cost but a high (societal) price. The post-industrial economy mechanisms that determine value have shifted from diminishing to increasing returns. This is based on the creation of values in collaboration with different stakeholders. Increasing returns cause businesses to work differently and to turn upside-down many of the notions of how organisations operate (adopted from Foley 2006).

> Interface is a resource-intensive company whose largest divisions are petroleum-dependent. With sales in more than 100 countries and manufacturing on four continents, our company impacts global commerce and ecology. Interface is committed to become the first name in industrial ecology worldwide, in substance, not just in words. The mission is to convert Interface to a restorative enterprise; first by reaching sustainability in business practices, and then becoming truly restorative-a company returning more than it takes-by helping others reach sustainability. (http://www.interface.com)

Multiple value creation means *profit* for all capitals, not just for one in particular (for a more elaborate discussion, see Jonker 2011b). Consequently, organising becomes the intentional realisation of value creation by co-ordinating structure, culture, employees and technological systems (see Jonker and De Witte 2006). Together, these factors constitute an organisational design, an organisational configuration that is the *translation* of the promised value creation. Values, value creation and capitalisation are multi-dimensional and inextricably linked to each other. In many organisations, however, it appears that organising (that is, creating value) does not correspond with the value promise.[4] In general, sustainability is still an add-on to business as usual. In most cases, it has not lead to fun-

[4] "The solution lies in the principle of shared value, which involves creating economic value (read corporate growth or profit) in a way that also creates value for society by addressing its needs and challenges. Businesses must re-connect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the centre" (Porter and Kramer 2011).

damental changes in the value creation or the business proposition. As noted previously, value creation is not based on all of the costs involved (including social and ecological). Yet organisations can legally externalise these costs.[5] This implies that the sale price does not reflect the actual cost of production, life-cycle use or recycling, let alone the cost of pollution that appears in the different life-cycle stages. This fundamentally questions the way the enterprise organises its value creation: for whom, how and at what cost.

2.4 About the Rationalities of Organising

In order to gain some understanding of the shortcomings of today's organising, it is necessary to look briefly at some fundamental elements of organisations. The essence can be seen as a continuous and dynamic construction in which a temporary balance is sought among three rationalities: functional, substantive, and communicative. Functional rationality entails the division of roles, structures, and processes. Substantive rationality is the sum of values expressed in the business proposition (among others), but also in culture. Communicative rationality refers to the exploratory, structural and linking role of language, which is necessary in order to help achieve a meaningful collective reality. The problem at the moment is that organisations are predominantly focusing on goal-orientated functional behaviour in which the substantive rationality is limited to the values of efficiency and effectiveness. It is not surprising, therefore, that this imbalance is profoundly reflected in a one-dimensional perspective on value creation. The challenge of organising sustainability is to align these three rationalities in such a way that the promise of multiple value creation can be realised. And if organisations are constructs, they can be de-constructed. Assuming a dynamic balance among these rationalities, a perspective for taking action will arise.

Taking action, which can be understood as either intentional action or non-action, is being informed by and being brought forth on the crossroads of these three rationalities. So, taking action is eventually about making choices and is expressed in our daily activities. However, the theoretical thinking around organisation, and organising in particular, which has been developing since the industrial revolution, still has a strong focus on functional rationality, making communicative rationality instrumental in favour of that functionality, and narrowing substantive rationality down to just a single value: economics. It goes without saying that this occurs at the expense of the spectrum of values and leads to one-dimensional value creation.

These observations uncover a troubling paradox. From a public point of view, we cannot function without organisations; at the same time, organising separates us from the values to which we believe are worth aspiring. As such, we are simply realising one value

[5] The UN Environmental Program (UNEP) defines the green economy as: "An economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities."

at the expense of other values. Freeman (2006) has described this as the separation fallacy: What we believe to be public and what we are actually organising appear to be achieved in two separate worlds. Continuing to organise in the way we have learned, based on historical valid grounds, seems to not only be of a destructive nature, but will eventually lead to stagnating development. This has been referred to as the *Red Queen Effect*, based on the character in Alice in Wonderland.

> Alice and the Red Queen were running very fast hand in hand, and still the Queen kept crying "Faster!" The most curious part of the thing was that the trees and the other things round them never changed their places at all: However fast they went, they never seemed to pass anything. When they finally stopped, Alice protested: "Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else if you ran very fast for a long time, as we've been doing." "A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!" (Lewis Carroll 1865)

When meaning is given again to sustainability, based on a new balance and the creation of forms of capital, then organising predominantly based on the functional rational paradigm is no longer an option. Organising in a different way is essential for solving the aforementioned one-dimensional and destructive value creation, which will at best lead to incremental solutions. In other words, we will not get much further than eco-efficiency[6] on the basis of eco-design and clean-tech. And, painful as it is to admit, this is just not enough. It will develop too slowly and stay too much at the surface of organising. Of course, one could say that many of these developments are still in their infancy and that it is still too early to judge their impact and progress.

It goes without saying that mankind has made tremendous technological progress. We are in the midst of a process in which tangible technology is being rapidly and massively replaced by intangible technology, such as connections, networks, networks of networks, etc. For some people, especially those in Western Societies, the information society is a reality. When it comes to social progress, we are now aware of the tremendous gaps between nations and people. Since the nation-state concept no longer seems to be a binding element, people are moving into networks and communities of practice (COPs). As a result of such changes, social contrasts have mounted. Tensions, polarisation, economic asylum-seekers and terrorist acts are emerging. Our technological–economic progress has come at a high price. In the last four decades, we have depleted natural resources to such an extent that we have exceeded nature's capacity to restore itself. It is the equivalent of being on a roller-coaster that we cannot stop.

[6] Eco-efficiency is first-order change: improvement. An incredibly large number of people within companies and organisations are working on eco-efficiency and progress is being made. Though much appreciated, such progress ultimately merely reflects improvements, which are not sufficiently fundamental to solve the actual problems. However, while it does offer some more time to work on the fundamental issues, this change is needed quickly.

This is why a fundamental re-evaluation of the values that guide us when organising is required. If organisations exist for the purpose of creating value, it is important to return to the core values that matter when organising. This can only be achieved by embracing sustainability as a society and translating and embedding it within organisations, both strategically and organisationally. This goes way beyond the current strategy of eco-efficiency and requires new, more vigorous strategies based on eco-efficacy and eco-innovation (Jonker 2003; Werbach 2009). Even that may not be enough, but it is a good start.

> Society is ready to break away from the last century for good. To break with creative conventions, theoretic rules and stigmas that now are questioned, challenged and broken. To break with a materialistic mentality, replacing it with the materialisation of modest earth-bound and re-composed matter. Nature is a dominant ingredient in this movement, although no longer used in a naïve and aspiring ecological language, but as a mature philosophy fit for a newer age. Can we do with less to become more? Can we break with the past and reinvent the future? (Lidewijn Edelkoort [2010]–Press Release 21–21 Design Sight Exhibition Tokyo Japan)

At the same time, we must acknowledge that such a task is impossible for any individual company. Even with the best will in the world, the current sustainability efforts in many organisations cannot make enough progress on their own. Functional rational thinking leads to segregation and compartmentalisation. The current situation can be seen as a self-preserving impasse of sub-optimally organised sustainability. Addressing a complex issue such as sustainability within an organisation from an integral perspective—as enticing as it looks on paper—simply will not work. At best, it will remain rumbling in the margin on our way to sustainable development.

Fortunately, an entirely different perspective has arisen. Organisations are, by definition, part of the value chains and networks of other players in the field. Creating sustainability should be a collective task rather than an individual one; a task whereby organisations combine knowledge and efforts. As a consequence, organising sustainability shifts from within organisations to organising between organisations.

> To respond to a […] changed environment organisations are moving away from the structures of the past that are based on hierarchies […] and moving towards […] more fluid and emergent organisational forms such as networks and communities. More recently, there has been recognition of the importance of more subtle, softer types of knowledge that needs to be shared. A certain type of community, the Community of Practice (COPs)[7] has been identified as being a group where such types of knowledge are nurtured, shared and sustained. (Hildreth and Kimble 2002)

[7] A COP is focused on a particular area of activity (or) body of knowledge around which it has organised itself. It is a joint "enterprise" in so far as it is understood and continually re-negotiated by its members. In many cases, it is not a formally constituted group and membership is entirely voluntary. In some cases, the organisation might not even be aware of its existence. The members create an agreed set of collective resources over time. This "shared repertoire" of resources represents the material traces of the community. Members will have some sort of common goal or purpose, which is often internally motivated; that is, driven by the members themselves as opposed to some external driver. Relationships are key and based on trust, values and identity (adopted from Wegner 1998).

The result will not only be individual organisational sustainability activities, but the collective efforts in the (value) chain and related organising. This calls for a different way of thinking, for new concepts and practices. Such an inter-organisational perspective offers the opportunity to design and accelerate the desired progress towards sustainability. Sustainability, collective organising and transition are then tightly connected with each other.

> A successful transition to a new economy in which people and the earth have a higher priority than financial return will require a re-structuring of institutions and governance frameworks; changes in values and behaviour; hard decisions; and decisive actions on the part of individuals, communities, civil society, firms and governments throughout the world. If such a transition is to be successful, it will need to be rooted in robust systemic analysis, employ effective hard-hitting advocacy, and offer proven, practical solutions. In addition, it will require a coherent and encompassing narrative that is both compelling and accessible and that draws together the various components of a complex picture in such a way as to stimulate and support action at all levels. (Witt et al. 2009)

Accepting that the focus of sustainability efforts should be broader than the own organisation means we should also critically examine the underlying thoughts about organisational change regarding the realisation of change in favour of sustainability.[8] In order for such a perspective to be realised with a proper dose of realism, it will also be about achieving—or implementing—the desired conditions in order to create the needed changes at organisational, value and system level. This will obviously lead to changes between organisations and to changes within networks. In turn, this will produce changes in thinking about the object of change and finally as such, to changing differently. As a whole this should bring about change not from an instrumental rational-analytical optimisation drive, but based on acting in a collective and value-driven manner.

2.5 Towards an Ecology of Organisations Focused on Sustainability

The present debates regarding sustainability are a first-generation attempt to discuss the role, contribution and responsibilities of the business enterprise in our global society. These debates help to achieve a better understanding of the issues and questions involved; however, they are often just that: A debate that does not lead to action. While pressure to act is mounting, both political will and a clear-cut business case is preventing many if not most organisations from developing workable concepts. The argument developed in this

[8] Underlying this argument is an elaborate discussion on organisational change. The essence of that discussion is the current thought on change, with its focus within the boundaries of an organisation; this is inadequate for addressing the consequences (with an eye on change) of sustainability issues between organisations. It is also not sufficient for addressing systematic change. Regarding this discussion, it is common to refer to first-, second- and third-order change, usually labelled as improvement, transformation and transition, respectively (see De Witte et al. 2012).

chapter shows that we need to thoroughly look at and work towards developing concepts to stimulate co-operation between organisations with a focus on sustainable development. Not just for conventional synergetic or alliance reasons—we know enough about that nowadays—but for collectively realising sustainability in organising within and between organisations. Therefore, this chapter presents the rationale for the need to develop an ecology of organisations focused on sustainability. This implies organisations growing towards organised co-operation within networks, to collectively (and in favour of each other) realise sustainability, which leads to some sort of *sustainability co-operation*. The focus is on working together on the basis of shared values and goals that are linked to mutually dependent value creation. This thought is in line with the developments in stakeholder thinking; developments known as first- and second-generation stakeholder thinking. Or, as McVeau and Freeman (2005, p. 59) put it: "In an economy that is increasingly influenced by the role of networks, it is ever more important to view firms as networks of relationships that extend well beyond the traditional boundaries of the organisation."

The essence of first generation stakeholder thinking (Freeman 1984) was the acknowledgement that social and non-social entities influence the functioning of an organisation, both now and in the future. Organisations have a moral responsibility to listen to and transparently handle the demands and expectations of stakeholders (Freeman 1984). Oddly enough, the organisation itself is not included within that line of thought. The essence is more on how they handle the organisational answer regarding demands and expectations. The recently developing second-generation stakeholder thinking puts the organisation among other organisations as the central unit of analysis. The focus is no longer on the single organisation and how it handles sustainability issues, but on the whole, the system of organisations and how they collectively address those issues.

It is this second-generation stakeholder thinking that offers a challenging inducement to start thinking about organising sustainability between organisations in addition to organising sustainability within organisations. If that is the perspective for the future, the entire system will transform. The essence will then be the evolution of a developing pattern of relations between organisations and their environments. Organisations will act in each other's environments to develop collectively and discover patterns of co-creation. The organising of and between organisations will then play a pro-active and guiding role in determining each other's collective future. Such an organisation–ecologic perspective that focuses on co-operation, co-creation, and multi-dimensionality has an important influence on how we perceive organisations and guide them.

This calls into question the theory of inter-organisational relations and transformations that are necessary for understanding the development of organising. Current organisational science is still overly focused on designing and leading organisations from an internal perspective; the so-called *resource based view* of the firm (Wernerfelt 1984). This continues despite generations of contingency thinkers who have advocated an outside-in perspective. Our generic organisational thinking is not sufficiently focused on the collective co-operation which respect to issues that transcend the organisational capabilities of the individual organisation. Although classical theorists advocate the urgent influence of the environment on the functioning of organisations, they still believe in design, management and operating principles that are more or less uniform. It is all implicitly about the *feasible* and *make-able* organisation, which we implicitly know does not exist. As management complexity increases, organising has become a much more chaotic if not to say “loosely-coupled” process, with a large degree of unpredictability. However, nothing is, as it seems. At the same time, the idea is widely shared today that organisations and their environments can and should be seen as socially constructed phenomena, i.e. as an *organisational construction* of reality. In a way, we are restricted in our mode of thinking about organisations, the root cause being an *industrial mind*. However, the original plan and the perspective of progress for this kind of thinking has become out-dated. Organising (and organisations as their artefacts) frame(s) the form and the action that is considered to be useful in a specific situation given a challenge or threat. Organising is a process that involves questioning and holding to be true an image of the future and working towards the realisation of that image. It is the manifestation of not-yet-created mental maps and institutions. Organising is based on the principle of patterning: The micro-structures needed in order to be able to collaborate. A pattern is created as a function of one or more challenges or threats. So what, then, are the minimum structures needed for, say, community building, developing a citizen-co-operation or a private-citizen partnership?

This inter-organisational way of organising has some high-impact consequences, a few of which I will list here. Organisations will move:

- From a purely internal focus towards engagement in (external) networks and alliances—competition necessarily becomes co-operation;
- From isolated *things* (tangibles) towards connections due to things;
- From a *one place* concept towards *moving* communities of practices—inside and between organisations;
- From one value proposition (speed, innovation, cheap, etc.) towards multiple value promises (e.g., speed and ecological responsibility);
- From a limited number of stakeholders towards an array of changing stakeholders.

An exploration of how such an organisation-ecology could be organised, and some practical experience with such a system, is slowly developing from different angles and disciplines (see, among others, Kaats and Opheij 2011; Wesselink and Paul 2010; De Bruijn and Ten Heuvelhof 2007). It really is about organising a new (inter) organisational reality (Brafman and Beckstrom 2006).

Allow me to mention some of the features. It is about organising and changing without a clear centre of power—something my highly valued colleague Marco de Witte terms “organising without stars and stripes”. It is all about organising based on the power of diversity and polyphony (Homan 2005) on shared leadership.

> We are living in an era of practicality, of economics and result-based management. Change, in terms of a radical move towards a different world order—requires [the] vision and dedication

> of great leaders. This change is not in sight. I have heard people speaking of a different world order—re-linking the economy to ecology and humanity. Moving away from specialism and fragmentation. In reality, I see leaders tackling issues such as climate change, food scarcity etc. from an economic perspective like the Kyoto Agreement. Attaching economic value to the common good. It requires political, economic and religious leaders to stand up and speak out or a different—holistic—world order. This is not happening! (Koos van Eijk 2009)[9]

Consequently, the required approach is more about consciously creating flux and movement and less about structure. Ambition and trust, rather than position, is binding; and all of this within a context that offers space for the continuous social development of meaning(s) and action perspectives that matter to the involved actors. In this way, we develop collective and necessary innovative answers to the complex issues, one of which is sustainable development (Wagner 2009). An example of this new way of organising is the *Our Common Future 2.0* project that was completed earlier this year, in which 400 people developed a future vision on sustainability in a short period of time (Jonker 2011c). Our Common Future 2.0 (OCF 2.0) is an innovative crowd-sourcing project involving sustainability, responsibility and how we as civilians wish to design our future. In this project a challenging vision on 19 important social issues were developed by the participants within a short period of time. Together, these issues will guide tomorrow's society. More about the project can be found on www.ourcommonfuture.nl and the conference site on which the end results are presented by means of the Dutch book *Duurzaam Denken Doen* (Sustainable Thinking Acting; Jonker 2011a).

> We may be witnessing the emergence of a paradigm shift, a move away from the traditions of "economism" and money-based scarcity, towards one based on new truths, where money is but one form of information; where the needs of the planet and investment for the future create a global investment fund for climate prosperity and enable a shift to a low carbon future.[10]

It may be that the present debates under the heading of sustainability and so on are just first-generation attempts to discuss the role, contribution and responsibilities of the business enterprise in our global society. If we really want to make progress, we must systematically link organisation-ecological thinking to sustainability and connect multiple value creation to the organising of sustainability between organisations. We must embed thinking and organising in terms of multiple value creation into the everyday activities of organisations. We need value creation that is based on a balanced configuration of capitals without losing sight of the notion of profit. This is the straightforward yet complicated task of contemporary management. In fact, it is even more complex and difficult due to the related link to change- and transition management that emanates from this line of thought. The present CSR debate must develop into its next phase in order to become mature. As

---

[9] Retrieved September 13, 2009, from http://www.worldconnectors.nl.

[10] Retrieved December 23, 2009, from http://www.shapingtomorrow.com/newsletter.cfm.

long as the business enterprise remains seen as a profit-maximising instrument, we will not move beyond some vague *eco-efficiency* mixed with enlightened charity.

The proposed approach emphasises innovation both within and between organisations. It requires a different way of doing business. Therefore, let us coin the term *sustainable entrepreneurship*. Such a perspective will require a radical change in thinking, strategies and concepts. Most companies do not even dare to dream about this. However, if it takes shape in the next decade, it will create sustainability for both organisations and for the configuration of organisations in value chains and networks. This involves more value than they could ever create individually. Such a way of organising implies a true paradigm shift, a transition, the consequences of which we can hardly oversee in our present-day organisational thinking and acting. At present, we do not possess any appropriate academic organisational concepts and accordingly this hinders our ability to know how to lead them. Exploring the task of organising between organisations and taking this concept to the next level is essential if we as a society, and as organisations, wish to realise sustainability. As the old phrase goes, as long as we keep thinking within a paradigm from the past, there will be no solutions for the future. With this, I hope to have brightened the meaning of sustainability.

2.6 Epilogue: Research Between Thinking and Acting

By their nature, the challenging questions regarding multiple value creation, capital, rationalities and organisation-ecology mainly give cause for explorative and conceptualising research. If we are going to organise in a different way, it implies transition that requires a different way of doing business—and of business models that fit that kind of *new* business. Research is greatly needed in order to further shape and give meaning to sustainable entrepreneurship.

What does this mean for the development of the theoretical perspectives that are considered necessary? At the risk of overlooking something, three perspectives are now briefly elaborated here.

1. Modern times call for different organising skills: co-operative skills. The complex issues (emerging from sustainable organisation) will not be addressed if we continue to act within the functional rational paradigm of classic organisational science. As previously stated, this can and will only lead to sub-optimal results, to destructing values on such a dramatic scale that we will even eliminate the most minimal conditions for working on a sustainable society. That is why we must change our way of thinking, from thinking about organisations within their boundaries to thinking in terms of organising within chains and networks;
2. There is currently a need to develop knowledge about changing differently. We must think things through and conceptualise them in such a way that we make progress that ascends mere improvements at organisational level. As many academics around the

world have repeatedly made clear, these times call for transformation and (system) transition. The essence is to develop action perspectives that matter, that have meaning for the involved actors in such a way that these actors, as part of their daily activities, "naturally" realise sustainability in their individual and collective organising activities;
3. Last but not least, modern times call for value-driven leadership. We recently witnessed a lack of political leadership. Perhaps now we are ready for "bottom-up" leadership, which could be called "co-operative leadership". This form of leadership implies a different kind of engagement between organisations.

Speeding up sustainable development calls for people who realise that these aspects must and can change; people who take responsibility, and show a new kind of leadership. People who do not wait until the government or companies solve problems for them, but get to work themselves. People who are capable of connecting the missing link. However, actually applying such leadership assumes radical changes, both on the part of the current establishment, as well on the part of citizens. It means taking responsibility, which is value-driven (see also Brafman and Beckstrom 2006), for our social and ecological environment and ourselves. Regaining ownership of our responsibilities is possibly the biggest challenge we face. Perhaps that will be the fundamental change we need to deal with.

The times ahead should be times for connecting, co-operating and transitioning. They should be times that lead to thinking in different ways, of fundamental change and especially of nurturing and accelerating the changes that have already started. Not least, it will be a period of new "soft" technology, connecting and making possible new combinations, of which we are currently seeing the first signs. A good technical example of this is the rise of "the internet of things", which may or may not be linked to smartphones, cars or houses and is focused on welfare, care and social networks. A good social example of this is the development of new kinds of collaborations such as between citizens or citizens and business creating new local co-operations. By combining these emerging developments and by tapping into the capacities of "crowds", accelerating transition becomes more than an interesting theoretical-conceptual challenge. The core question will concern which conditions and mechanisms can truly realise radical changes at a faster pace. Contributing to this line of thinking with my teaching and research seems like a great challenge.

This chapter served as a platform to develop a vision about the future of organising sustainability. This comprises management sciences that are focused on co-operation, organising beyond organisational boundaries, and taking on the transition challenges that come with it. In due course, that kind of business administration must be further explored, examined and conceptualised. These steps are necessary in order to move from the current sub-optimally organised sustainability at individual organisational level to the development of an approach that centralises multiple value creation for numerous stakeholders simultaneously.

It goes without saying that this will be a thought-provoking challenge fed by optimism and framed by realism. Optimists will conclude that this, at least in the next few years, will give rise to plenty of research and teaching for a position such as mine. Pessimists will conclude that such an assignment means it is hardly possible to know where to begin, let alone to achieve something worthwhile. In both of these characters, however, is also the realist, who realises that several (system) limits have been reached and understands the mistakes and resistance of organisational reality. Despite these challenges, the realist puts things into perspective, sees a dot on the horizon and tries to develop some kind of realistic feasibility.

References

Brafman, O., & Beckstrom, R. A. (2006). *The starfish and the spider*. New York: Penguin Group.

Brundtland, G. H. (Ed.). (1987). *Our common future*. Oxford: Oxford University Press.

Carson, R. (1962). *Silent spring*. Boston: Houghton Mifflin.

Dahlsrud, A. (2008). How corporate social responsibility is defined: An analysis of 37 definitions. *Corporate Social Responsibility and Environmental Management, 15*(1), 1–13.

De Bakker, F. G. A., Groenewegen, P., & Den Hond, F. (2005). A bibliometric analysis of 30 years of research and theory on corporate social responsibility and corporate social performance. *Business & Society, 44*(3), 283–317.

De Bruijn, H., & Ten Hevelhof, E. (2007). *Management in Netwerken; Over veranderen in een multi-actorcontext* (*Management in networks; About change in a multi-actor context*). Den Haag: Lemma.

De Witte, M., Jonker, J., & Vink, M. J. (2012). *Verandermanagement: Betekenisverlening in Actie* (*Change management: Meaning grant in action*). Deventer: Kluwer.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Foley, K. (2006). Third generation quality management: Is it all too little too late? Conference Proceedings, QUALCON 2006, Sydney, Australia.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.

Freeman, R. E. (2006). Stakeholder theory as a basis for capitalism. Presentation IEA Conference Trento. http://www.econometica.it/allegati/IEA%20TRENTO/Freeman%20-%20Wicks%20-%20Parmar.pdf. Accessed 13 April 2014.

Freeman, R. E., Pierce, J., & Dodd, R. (2000). *Environmentalism and the new logic of business*. Oxford: Oxford University Press.

Hajer, M. (2011). *De energieke samenleving; Op zoek naar een sturingsfilosofie voor een schone economie* (*The energetic society; Looking for a guiding philosophy for a clean economy*). Den Haag: Planbureau voor de Leefomgeving.

Hart, S. L., & Milstein, M. N. (2007). In search of sustainable enterprise. http://www.valuenewsnetwork.com/read-the-magazine/search-sustainable-enterprise. Accessed 13 April 2014.

Hildreth, P., & Kimble, C. (2002). *Knowledge networks: Innovation through communities of practice*. Hershey: Idea Group Pub.

Homan, T. (2005). *Organisatiedynamica: De complex autonomie van de beweging* (*Organization dynamics: The complex autonomy of the movement*). Schiedam: Academic Service.

Jonker, J. (2003). In search of society: Redefining corporate social responsibility, organisational theory and business strategies. In J. A. Batten & T. A. Fetherson (Eds.), *Social responsibility: Corporate governance issues* (pp. 423–439). Oxford: Elsevier.

Jonker, J. (Ed.). (2011a). *Duurzaam Denken Doen*. Deventer: Kluwer.

Jonker, J. (2011b). Duurzaam Ondernemen: naar een organisatie-ecologie voor duurzaamheid (Sustainability: Towards an organizational ecology to sustainability). Inaugural speech (in Dutch). Radboud University Nijmegen.

Jonker, J. (Ed.). (2011c). *Duurzaam Denken en Doen: Inspiratieboek voor onze gezamenlijke toekomst* (*Sustainable thinking and doing: Inspiration for our common future*). Deventer: Kluwer.

Jonker, J., & De Witte, M. (Eds.). (2006). *The challenge of organising and implementing corporate social responsibility*. Hampshire: Palgrave.

Kaats, E. A. P., & Opheij, W. (2011). Over 'vermogen tot verbinden' gesproken (About 'ability to undertake' speaking). M & O, 1(Jan/Feb), pp. 51–68.

Kauffeld, R., Malhotra, A., & Higgins, S. (2009). Green is a strategy: Five steps to "differentiated" sustainability for a full embrace of environmentalism. http://www.strategy-business.com/article/00013?pg=all. Accessed 22 March 2014.

McVeau, J. J., & Freeman, R. E. (2005). A names-and-faces approach to stakeholder management. *Journal of Management Inquiry, 14*(1), 57–69.

Meadows, D. H., Meadows, D. L., Randers, J., & Behrens III, W. W. (1972). *The limits to growth: A report for the club of Rome's project on the predicament of mankind*. New York: Universe Books.

Mouritsen, J. (2000). Valuing expressive organisations: Intellectual capital and the visualisation of value creation. In M. Schulz et al. (Eds.), *The expressive organisation: Connecting identity, reputation and the corporate brand*. Oxford: Oxford University Press.

Olson, R. L. (1994). Alternative images of a sustainable future. *Futures, 26*(2), 156–169.

Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1/2), 62–77.

Shell. (2009). *Energy scenarios to 2050*. http://www-static.shell.com. Accessed 13 April 2014.

UN Millennium Eco-system Assessment. (2005). *Living beyond our means: Natural assets and human well-being*. New York: UN.

Visser, W. (2011). *The age of responsibility: CSR 2.0 and the new DNA of business*. Hoboken: Wiley.

Vob, J. P., Newig, J., Kastens, B., Monstadt, J., & Nolting, B. (2007). Steering for sustainable development: A typology of problems and strategies with respect to ambivalence, uncertainty and distributed power. *Journal of Environmental Policy and Planning, 9*(3–4), 193–212.

Vollenbroek, F. (2009). Towards an economy of abundance. http://www.dandelionproject.eu/wordpress/wp-content/uploads/2010/12/Towards-an-economy-of-abundance-15-12-09.pdf. Accessed 13 April 2014.

Waggoner, P. E., & Ausubel, J. H. (2002). A framework for sustainability science: A renovated IPAT identity. http://www.pnas.org/cgi/doi/10.1073/pnas.122235999. Accessed 13 April 2014.

Wagner, M. (2009). Innovation and competitive advantages from the integration of strategic aspects with social and environmental management in European firms. *Business Strategy and the Environment, 18*(5), 291–306.

Wenger, E. (1998). *Communities of practice: Learning, meaning, and identity.* Cambridge: Cambridge University Press.

Werbach, A. (2009). *Strategy for sustainability: A business manifesto*. Boston: Harvard Business School Publishing.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal, 5*(2), 171–180.

Wesselink, M., & Paul, R. (2010). *Handboek Strategisch Omgevingsmanagement*. Deventer: Kluwer.

Witt, S., Hearn, S., Apse, S., Poole, K., & Stine, J. (2009). Working Paper Series, E. F. Schumacher Society. http://www.smallisbeautiful.org/. Accessed 14 Sept 2009.

Corporate Social Responsibility: An Integrated Development Perspective

3

Michał Gabriel Woźniak

Contents

3.1 Introduction 50
3.2 Features of the Current Environment of Corporate Social Responsibility 51
3.3 Triply Sustained Development as a Strategic Condition of CSR 53
3.4 The Meaning of an Integrated Perception of Contemporary Development Processes 56
3.5 Why Holistic, Reflexive Modernisation of Human Capital? 62
3.6 Instead of Conclusions: Integrated Development—A Chance or an Illusion of CSR? . . . 67
3.7 Summary 68
References 69

Abstract

The author searches for an answer to the question of how to improve awareness about CSR not only among companies but other stakeholders as well. While it is convincing to emphasise that CSR might be the source of competitive advantage, this alone does not suffice. To promote CSR in the business environment, a set of professed values that are shared by all stakeholders are necessary. These values can be derived from the natural striving of each human being to achieve a harmonised implementation of aims and functions in all spheres of human existence. For methodological reasons, the author distinguishes in addition to economic, political and social spheres, the spheres of technology, consumption, nature, biology as well as the special role of the human capital

M. G. Woźniak (✉)
Department of Applied Economics, Cracow University of Economics, Rakowicka 27, 31-510 Krakow, Poland
e-mail: wozniakg@uek.krakow.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,* FOM-Edition, DOI 10.1007/978-3-658-06794-6_3

and spiritual spheres. The chapter critically questions actions related to the function of aims specific for a given sphere of human existence and suggests replacing them with functions typical of other spheres. It refers in particular to the commercialisation of the spiritual sphere that leads to destructive competition and consequently to a limitation of advantages in free market systems. The author emphasises that the company has to operate within the expectations of a CSR-orientated environment. Improvement of these expectations is the function of a holistic modernisation of human capital. This aims to provide the competencies which enables internal reflectivity to stimulate people to defend against emotional manipulation. Moreover, integrated external reflectivity is necessary to teach people to appreciate changes in the environment. Linking the business strategy with integrated development throughout the policy of this integrated approach to development stimulates employees to better understand the aims, targets and missions of a company. Consequently, this growing trust impacts positively on the integration of targets of companies and employees, and thus, the engagement of staff to promote the success of a company.

3.1 Introduction

One way of searching for new sources of business benefits that result from civilizing business and from an autonomous reduction of market inefficiencies is a concept of corporate social responsibility (CSR). Its implementation requires conducting business activity based on relations that are transparent, stable, derived from dialogue and mutual respect among all interested parties, i.e., owners, shareholders, clients, suppliers, partners, as well as employees, local communities and the government (e.g., Hohnen and Potts 2007, p. 4; O'Riordan and Fairbrass 2008). CSR understood in this way stems from development of the knowledge-based economy, in which the most important capital of a company are human resources and potential resources of staff competencies—knowledge used by an enterprise to plan its development. CSR is also a management strategy whose aim is to use the non-financial capital and the integration of development processes in intra- and inter-organisational dimensions, as well as in personal, local, regional, national and international ones. Such strategy is necessary for an efficient management of social space in order to generate a company's financial and non-financial profit together with benefits of its current and potential stakeholders, as well as external benefits of wider communities.[1]

Meanwhile, institutional changes are shaped, nowadays, mostly according to business interests and financial markets that are orientated at manipulating human emotionality (e.g., Haugen 1995; Shiller 2000; Shleifer 2000; Lee and Andrade 2011). This considerably limits the institutionalisation directed at CSR. Pointing out that CSR may be the

[1] It is worth emphasising that there are many interpretations of the CSR, thus, as explains Lozano (2011, p. 50), its "definitions are sometimes confusing and […] contradictory."

source of competitive edge is convincing but it does not suffice under conditions of globalisation of liberalisation.

The new concept of CSR may be derived from every individual's natural pursuit of a harmonised realisation of all functions of goals in all spheres of human existence. Thus, the distinction is made among economic, political, technological, consumption, nature and biology spheres and it emphasises the special role of the human capital sphere, as well as the spiritual one. What is questioned is the commercialisation within all spheres of human existence which leads to the depreciation of social trust, limitations of consumer's sovereignty, possibility of free choice and a decrease in CSR.

Attention is drawn to the fact that a company must operate in an environment of suitably high expectations. A rise in these expectations will be enabled by the holistic, reflexive modernisation of human capital. Its goal is to equip people with competencies to internal reflexivity, so that they could defend themselves against manipulating their emotionality. However, in order for them to understand the changes in the environment, they must be taught integrated, external reflexivity.

Connecting business strategies to CSR with the help of development policy allows employees to understand better the goals, tasks and aspirations of an organisation. It results in an increase in trust that is positively related to the integration of business and employee goals, and therefore the involvement of employees in the company's success. This connection comprises the missing link which this chapter addresses.

3.2 Features of the Current Environment of Corporate Social Responsibility

The eruption of the financial crises in 2008 caused continuous recession in a number of countries, in particular in the European Union (EU)-member states. A continuing recession fosters strategies that focus on minimising costs by measures that permit solving current problems connected with surviving on the market and maintaining competitive ability. This problem concerns not only the SME sector, which is very susceptible to negative influences of the economic and political environment. Only some enterprises from this sector manage to survive on the market longer than 5 years. Therefore, tendencies may appear to return to various social pathologies in business and to ignore the good practices of CSR. This can happen even when a company, which had adopted a CSR strategy, had noticed and appreciated the enormous potential and the meaning of the human capital as well as the knowledge it possesses.

The CSR recommended by the European Commission, which is expressed as voluntary inclusion of social and ecological aspects in the trade activities of enterprises and in relations with their stakeholders (CEC 2001), is not a common phenomenon. It depends on many internal and external conditions affecting an enterprise (Griseri and Seppala 2010, p. 8). Among the internal ones are: organisational culture; the company's position on the market and its economic situation, whereas the following external determinants of CSR include: the enterprise's institutional environment; the ethical situation of civil society, social capital and public finances; or government policy regarding the goals of economically, ecologically and socially sustainable development (Amaeshi et al. 2013, pp. 27–29). CSR is also influenced, among others, by the level of the economic development; the economic climate and the content of ratified international conventions. This implies that CSR should be of interest to the public authorities due to the fact that it promotes positive practices that are created by enterprises towards the environment and society. CSR contributes to the creation of social value by striving towards economically, ecologically and socially sustainable development. The Triple Bottom Line (Elkington 1997) is not possible without the dissemination of proper principles of thought and action, thus the proper institutionalisation of markets.[2]

According to this approach, being responsible does not only imply the fulfilment by business organisations (enterprises) of all formal and legal requirements, but it also means bigger investments in human resources, environmental protection and relations with stakeholders, who may have real influence on the efficiency of business activity of these organisations, as well as on their innovativeness. If enterprises voluntarily take social interests, environmental protection and relations with various groups of stakeholders on the strategy-building level into consideration, then it is because they perceive these as innovations and not as costs (Owen et al. 2013), such as is the case with quality management.

Since the implementation of CSR is connected with current expenditures and expected benefits, then very often, in a long term perspective and under worsening conditions for running a business, it may be perceived as a threat to the fulfilment of company's fundamental goal—surviving on the market and making a profit. Therefore, it may cause a tendency among enterprises to shift the costs of social engagement to the society. In post-communist countries, a barrier to the voluntary solving of social problems is encountered as economic entities lack experience. As a result, deficiencies in the civil society culture and in protecting citizens from social exclusion occur. Accordingly, a need appears for disseminating education and systemic solutions within CSR, especially for legal regulations which respect business ethics; for transfer of its good practices; internalisation of standards and for a "helping hand" from the state regarding financial and educational resources.

Notwithstanding the many economic benefits stemming from the contemporary wave of globalisation of liberalisation and information as well as the telecommunication revolution, the resulting turbulent environment is connected with threats to the consolidation of standards of CSR postulated in the EU. These threats result from the following processes:

- Internationalisation of standards of economic liberalisation to which political, worldview- and lifestyle-related liberalisation is subordinated;
- Deregulation (minimising functions of the state);

[2] The phrase *the triple bottom line* was first coined in 1994 by John Elkington, the founder of a British consultancy called *Sustainability*.

- Institutionalisation which incapacitates consumers (hyper-consumption);
- Focus on individualistic creativity through: building competitive edges; releasing from social and temporal responsibility; uprooting from an older and more recent cultural heritage;
- Shocking modernisation which causes uncertainty, instability, an economy of unsustainability in an institutional dimension and in a dimension of real processes (big transformation, future shock, permanent re-institutionalisation which damages entrepreneurship);
- Exclusivity that excludes the following from modernising activity: communities orientated towards traditional values; the unemployed; families with many children; the state from fulfilling its regulatory functions; morality from decision-making processes;
- Concentration on micro-economic endogenous factors of modernisation activated by homo oeconomicus creativus and ignoring macro-economic factors, modernisation of the state, politics and democracy procedures.

The turbulent environment surrounding the contemporary wave of globalisation of liberalisation as well as the information and telecommunication revolution further changes the structure of business organisations and of private property. The structure of property becomes more and more complex; hybrids of private and state capital appear, as well as hybrids of network structures connecting competition and co-operation; of hierarchical and partnership relations for maximising synergistic effects from a whole range of product, technological, management, marketing, financial, institutional and other types of innovations. These modernisation processes force changes in the role played by business in society and in understanding “values”. New forms of civic activities appear—society can organise itself without help from big non-governmental organisations, whose role will in consequence diminish.

3.3 Triply Sustained Development as a Strategic Condition of CSR

In order to enable CSR, it is assumed that in the macro-economic approach, a long-term socio-economic development should be triply sustained, i.e.:

- Economically, with regard to commodity and capital markets, investments and finances, as well as the workforce;
- Socially, with respect to socially acceptable income distribution and appropriate participation of key population groups in public services;
- Ecologically, with a view to maintaining appropriate relations between the economic activity of human beings and nature.

Implementing development understood in this way requires its suitable management on different levels; from transnational organisations through the state, local authorities to business organisations. Such a development requires being stimulated by values and regulated by norms which define the free-choice space of business and of public organisations, their stakeholders, families, epistemic communities (e.g., church communities), coalitions of support and political networks. It is not only a spontaneous process but it is also initiated, stimulated, managed, controlled and corrected horizontally, vertically, autonomously and bureaucratically. It encompasses an element of adaptation and an element of creativity—it is not only a choice of another formula of behaviour within the framework of available algorithms, but their considerable change. Therefore, nowadays, implementing development policy outside the institutionalised networks of co-ordination may not only be inefficient, but also counter-efficient as it has to lead to some unforeseen effects strengthened by networks acting on different scales.

In order to be efficient in the above-mentioned understanding, economic policy should gradually become a policy of integrated development which refers comprehensively to all spheres of human existence—not only to the economic, social and ecological spheres, but also to the technological one—as well as to consumption and intellectual capital (human, relational and social), the functioning of the political sphere, a family and an individual. On no condition can it be limited to the policy of internal and external balance and it has to consider the deepening process of globalisation of the economy. It cannot disregard the problem of international and structural competitiveness currently orientated at searching for synergistic effects with a broad understanding of product, technological, management, marketing, financial, institutional, and other types of innovations.

Such policy signifies a necessity for a decisive shift of gravity-point from an object-orientated to a subject-orientated approach to development. The aim of the subject-orientated approach is to harmonise development goals co-operating with each other within the framework of a family, epistemic communities, as well as business, civil, national and transnational organisations. If it is accepted that the economy is an arrangement of institutionalised behaviour and social reactions, then influence should be exerted on it not through its parameters, such as: the manipulation of tax rates, subsidies, and preferential credits by politicians. Lower costs of government intervention and greater benefits regarding CSR should be expected as a result of taking action with the help of institutions that is a system of principles, procedures, moral and ethical norms which promote trust and the spirit of co-operation designed to limit the irresponsible behaviour of individuals.

In this subjective approach we do not solve equations but a problem and we do not strive to achieve the state of balance, but to control the development process (Hausner 2007, p. 33). The axioms of modern development policy should include the following: synergistic effects of inter-spherical feedback of development goal functions characteristic of particular spheres of human existence; the market viewed as a social institution; adaptation efficiency; existential well-being.

The economic balance, allocation effectiveness, the concept of the invisible hand of the market, the real convergence of Gross Domestic Product (GDP), economic growth, and—at the micro-economic level—an increase in enterprise's assets or the maximisation of profits cannot be mistaken for developmental goals. They should be perceived in the process of building an institutional order as the means of implementing the goals of integrated development.

From such a philosophy a space for CSR may arise that is mutual and not exclusive, real and not fictitious, coherent and not chaotic, sustainable and not incidental. However, ideas that do not refer to influential interest groups are not easy to implement. A question appears about effectively supporting these ideas with suitable resources and decision-making processes in order for them to materialise. In this context, attention should be drawn to the complementarity of the resource-orientated and the subject-orientated approach to the quality of life.

The resource-orientated approach draws attention to the sustainability of development. In this approach, the quality of life will depend on the size and the type of resources that we are going to leave to the next generations, especially on how we take care of all renewable resources necessary to live. From an economic point of view, it is a function of the size of physical capital resources, their structure, technological level, spatial distribution and expenditures on human capital necessary for future generations (R&D, understanding the functions of various value systems, teaching norms, creative and communicative competencies, building engagement to break barriers to co-operation and creation of opportunities to support CSR).

However, the subject-orientated approach is focused on the internal development potential of an individual and their natural pre-dispositions, as well as internal limitations (cognitive, emotional and informational) and the conditions to eliminate them. It focuses on endogenous factors of development and bottom-up driving forces that are included in the integrated, comprehensive, institutional order which strengthens co-responsibility. Therefore, it is not limited only to the matter of social, economic and environmental order and to the integration of these orders with the help of institutional and political order. In the subject-orientated approach, we should ask first about the personal order, thus a harmony of functions of development goals. Hence, a question appears about competencies regarding the internal and not only the external reflexivity and inter-spherical feedback, more precisely, an equivalent allocation of various resources of capital (physical, financial, human, moral and social trust) to particular spheres of human existence.

These two approaches to development should be perceived complementarily if we are seeking an efficient and not a fictitious means of implementing CSR. Only internalised ideas can transform themselves into principles of action, and it is possible when these ideas are convincing in the context of individual development goals of particular economic entities, and when the economic system creates favourable conditions to achieve them. In other words, we have to release the will of approval of these ideas through the dissemination of knowledge about CSR's functionality regarding various development goals of economic entities; activating a coherent tool-kit, procedures and institutions in order to sustainably release the needs and opportunities to implement the standards of CSR. The integrity of environmental, spatial, economic, social, institutional, political and personal order is a necessary condition to harmonise development processes in these two

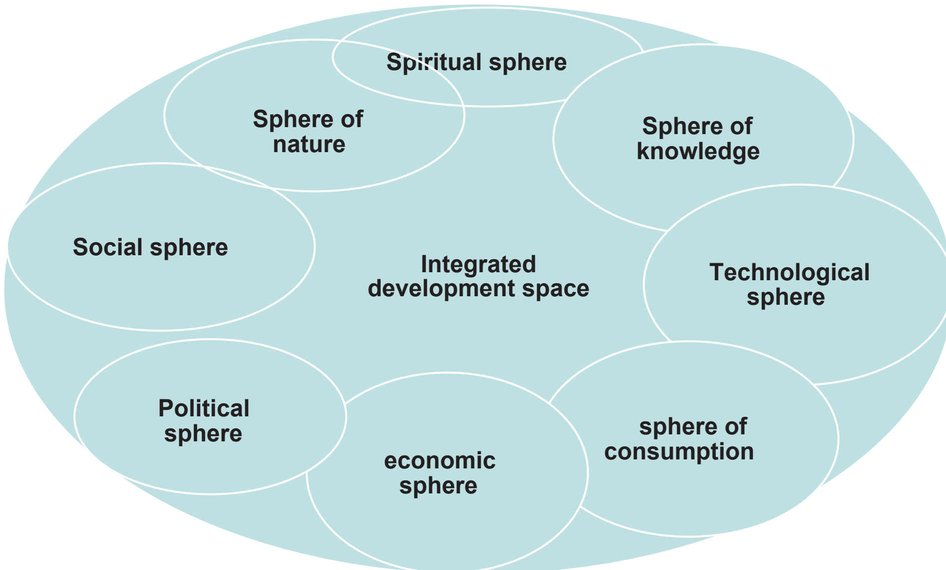


Fig. 3.1 Spherical understanding of development

approaches and their integrated perception, without which CSR may only be limited to being "a square peg in a round hole". Therefore, more space should be devoted to it.

3.4 The Meaning of an Integrated Perception of Contemporary Development Processes

In order to support CSR effectively, an analytical model of development based on distinguishing eight spheres of human existence characterised by specific goal functions (Fig. 3.1) becomes useful.[3] This model draws attention to the specificity of development goal functions of particular spheres of human existence, the consequences of feedback among these spheres and the need for equivalent inter-spherical allocation of resources for maximising the synergistic effects in development processes. Due to the fact that in a similar analytical approach, development may be analysed on different levels—from personal level, through business and local organisations, to regional, national and international level, therefore, in a horizontal, vertical and temporal dimension—it creates a suitable platform to promote a focus on CSR considerations in the context of all development processes. Such an approach is justified from a theoretical and pragmatic point of view. From a business practice and development policy perspective, it shows the need for an eclectic

[3] The analytical model of development was derived from the concept of Horx (2002), whose work was however focused more on anthropological (cultural) issues than those related with human existence *per se* in a specific socioeconomic context.

approach; using symptoms and sources of contemporary processes for the identification of the matter; seeking mechanisms, institutions, instruments, coordination and stimulation procedures to develop the legacy of many theories, models and various disciplines of the humanities, natural sciences, engineering and technology.

In this analytical convention, it is easy to notice that implementing a harmonised structure of development goals is coherent with CSR requirements. If the harmonisation of these goals encounters barriers that are difficult to remove, then the so-called vicious cycles of development or paradoxes of development appear (e.g., vicious cycle of poverty and, more broadly, the culture of poverty, see Lewis 1975; paradoxes of human capital development, see Woźniak 2013a, pp. 157–180, b, pp. 200–221; depreciation of social capital, infantilisation of consumption, see Barber 2007; innovation blockade, see Bal-Woźniak 2012).

Eliminating the barriers and vicious cycles of development in particular spheres of human existence is more complicated than can be derived from the result of mechanistic economy theories and models based on the methodological individualism and reductionist paradigm (Polanyi 1944). These models do not usually consider the occurrence of inter-spherical feedbacks. Researching the synergistic effects of these feedbacks requires an integrated, inter-disciplinary approach which respects the whole complexity of human existence and its natural pursuit of valuable life, namely, existential well-being; achieving the fullness of existence which materialises through harmonising development goals (values) characteristic of particular spheres of human existence.

If managing them has a selective nature and actions are concentrated within one sphere, then the implementation of development goals poses a risk of inter-spherical tensions and frictions, for instance, subjecting in the second half of the twentieth century the so-called socialist industrialisation to political goals led to ignoring economic criteria. Another example would be the techno-centric modernisation in the West (Postman 1992) and uniformisation of life which do not respect feedback among the economy and spiritual, nature and biology spheres. The neoliberal concept of development through globalisation of liberalisation according to the rules of the Washington consensus (Williamson 1990), further ignores the specificity of conditions in the human and social capital spheres and subordinates the development of the real sphere to the economic system of financialisation of the economy (Dembinski 2008); thereby creating hyper-consumption and commodification of all spheres of human existence.

The neoliberal concept of development is deeply rooted in mechanistic principles of thought and action built upon a one-dimensional vision of homo oeconomicus. Anchored in these principles are also the concepts of modernisation and progress being implemented by a demiurge capable of controlling the development, as it is not constrained by cognitive and emotional limitations. Together with disregarding the deposit of universal, spiritual values and affirmation of spontaneous order that is derived from freedom, private property and free competition, these principles constitute a trap of extensive simplifications in the understanding of the meaning of multi-spherical development space and its management on different levels (personal, organisational, municipal, governmental, and international).

The disintegration of development processes and the ignorance of inter-spherical feedbacks of these processes are facilitated also by specific local principles of thought and action connected with the under-development of human and social capital (Fukuyama 1995) and other characteristics of culture (Harrison and Hungtington 2000).

The political sphere of a democratic country is subjected to the pressure exerted by interests of financial markets and neoliberal ideology, whereas politicians have a tendency to reduce these interests to those which are used to strengthen their authoritative powers. Similar tendencies are displayed by bureaucratic apparatus. It does not encourage the respect of CSR rules.

In the sphere of formalised education and upbringing, those preferences may dominate which support providing knowledge corresponding to the qualifications of teachers and educators necessary to ensure their own employment; this knowledge is not adapted to the need to integrate the development processes and may even not be in accordance with the challenges of integrated development, practical needs within CSR, or ethical business and consumption. In the business sphere, it is observed that managers focus on increasing the value of their company, competitive edges, maximising profit by all means successful under given conditions, whereas employees focus on income and security of employment regardless of the enterprise's condition. However, the sphere of consumption remains under pressure to maximise consumption and usefulness according to the sophisticated manipulation techniques of human emotionality; and the social sphere is under pressure from a world of mediocrity that is isolated from the ordered system of spiritual values.

Modernisation and development take place in a melting pot of these pressures which on various levels is chaotic, unstable and exclusive. These features lead to: an increasing risk of famine and poverty; exclusion due to the loss of certain rights; threats of natural disaster in the ecosphere caused by the deficiency of some raw materials; technological threats (genetic, informational, and radioactive); demographic crisis and predicaments for monogamous families; terrorism and local conflicts; biological and technological epidemics; relative decrease in work efficiency; piracy of intellectual property; negative effects of the expansion of non-basic needs; moral relativism; the loss of control over finances (Attali 1998, p. 198). Can it be any different if we think mechanistically, fragmentarily and individualistically but we have to act like a team to achieve our own, as well as common development goals?

According to liberal economics, all entities are connected by their self-interest countable in market categories, therefore quantifiable and commensurable, which is supposed to open the door to a fair division based on the input into the creation of this self-interest (newly generated value). It is true that economic beings are derived from human nature, as it is assumed in the classic approach. However, it is not exhausted by the concept of homo oeconomicus, on which the whole structure of mainstream economics is built.

Is it really true that self-interest connects or maybe, above all, divides people if it forces them to compete, contest, pursue opportunistic practices, and take advantage of opportunities to impose explicit or implicit forms of domination and to exploit the potential of activity, creativity and emotionality of other people? What conditions would have to be fulfilled in order for the pursuit of self-interest to evoke, apart from self-responsibility, also intra- and inter-generational responsibility so that it could connect rather than divide people? Obviously, self-interest may be understood in various ways due to the fragmentary, mechanistic and individualistic principles of thought and action that are always relativised in relation to special and temporal co-incidences, in which particular human beings live—not mentioning the genetic predisposition.

The search for self-interest is currently a commonly practiced way of achieving existential well-being, the fullness of existence, which is materialised through the harmonisation of development goals (values) typical of particular spheres of human existence. Is it the only and the most effective way of fulfilling development aspirations?

The economy of network structures of the market, society and state, which emerged very quickly after 400 years of domination of individualistic and mechanistic principles of thought and action, shows that it can be different. Stimuli to development come more often from the synergy of competition and co-operation. Economic entities, which hold a very strong position in the sector but do not have strategic resources that their competitor possesses, usually strive towards it. Gaining access to these resources is a condition for obtaining benefits from the synergy of competition and co-operation.

If the spheres of human existence are perceived as a network of competitive development goals under conditions of scarce goods, then selection, destruction and, as a result, a disproportion in access to productive resources and development goals that are being realised must occur. However, if integrated development were implemented, then opportunities would appear to use the synergy of inter-spherical feedbacks and, as a result, facilitate an easier access to strategic resources. It would be possible to obtain them with a lower pressure on competition and greater interest in co-operation as this type of development-orientated economy becomes a network of harmonised goals.

The more common the integrated development in a personal dimension, the easier the access to strategic resources. Such resources become intangible entities in the current economy: information, ideas and connections, and as a result, human, social and relational capital. Therefore, it is necessary to understand how the networks and functions of integrated development operate in order to understand the functioning of an efficient economic system. Competition is a necessary condition for economic system efficiency. However, it cannot be treated as a self-existing value. In order for it to result in sustainable development, it needs its indispensable, complementary part—co-operation, of which people are capable thanks to the possibility of achieving independent development goals. To enable co-operation common goals and a fair division of the effects of this co-operation are required. However, common for all people is the pursuit to achieve values characteristic of all spheres of human existence, thus the implementation of integrated development.

It is obvious that the goals of integrated development are achieved through the realisation of its particular components. However, achieving segmental development goals in a given sphere also influences the chances of realising goals suitable for another sphere. It does not only result from the scarcity of resources, which can increase during the development process, at least regarding those that are non-renewable. However, to achieve integrated development goals, a fundamental matter is the establishment of inter-spherical feedbacks. They are the markers of synergistic effects resulting from the access to complementary resources of productive capital (physical, financial, natural, human, and social capital). We also have to be capable of creating such a systemic space, so that independent entities wanted, knew how, were able to and could activate endogenous resources easily.

Competition releases the need for micro-economic efficiency through modernisation with the help of external technology transfer. However, it does not create possibilities for original innovations. These usually require a suitable quality of human capital; financial resources; operating in network structures; an efficient system of intellectual property and patent laws; as well as the ability to conquer output markets. Therefore, appropriate tasks appear for the realisation of development goals of the business and technological spheres, as well as political, axiological and human capital ones. The access to innovative competencies exerts immense influence on the elasticity of reactions to competitive challenges.

> Equipping people with these competencies, regardless of whether they are already employees of a given enterprise, is a process of strengthening their ability to actively participate in solving their own problems, as well as those of people with whom they cooperate, thus the possibility of bearing co-responsibility for development. It is not only about using already existing resources, but also about co-participation in building innovative potential by generating new resources, e.g., of a relational type in order to have a quicker and easier access to them. (Bal-Woźniak 2013, p. 406)

In the realisation of the goals of integrated development, we cannot ignore the exogenous determinants; those that are an inherent feature of human existence or its closer or further environment as, e.g., the fact of the inherent nature of emotional, cognitive and information limitations; duality of the human psyche comprised of both the rational and emotional sphere; other genetic pre-dispositions and the resulting related problems regarding changes within social capital; and other components of intellectual capital (Edvinsson and Malone 1997). They play a crucial role in building the knowledge-based economy, its competitive ability, innovativeness or the possibility to eliminate development barriers occurring in the political sphere.

From an integrated movement of financial flows and resources of productive factors, synergistic effects which constitute the development potential appear among various spheres of human existence. In order for this potential to bring possibilities of harmonious realisation of all development goals, it must be properly distributed. The matter of an equivalent division of synergistic effects of development has been so far resolved highly incompetently, not only in relation to particular spheres of human existence, investments in human and social capital, and maintenance of sustainable economically, socially and ecologically development. These inefficiencies transfer themselves to other dimensions in a global and regional space, to particular national economies and their sectors and local spaces, resulting in a disintegration of development processes on all levels and in all dimensions. It is therefore, necessary to find an optimal algorithm for the distribution of these resources, i.e., one that will maximise the synergistic effects, and then to institutionalise it in a form of legally sanctioned responsibilities of the government, local authorities and the business sphere. From such orientated institutionalisation, realistic foundations of CSR may appear.

The justifications of this responsibility are delivered by the principles of functioning dynamic complex systems. According to these principles, each of the sub-systems must have its share in a value that is newly generated by it, and which allows adjusting it to the development needs of the whole system. If the exchange is non-equivalent, then, automatically, the development is not of a harmonious nature because the development dynamics of particular parts of the system (in this case spheres) is not coherent with the needs of the whole system. Thus, what appears are inter- and intra-spherical frictions which may slow down the development of the economic system. These frictions force changes in the proportion of how synergetic effects of resource exchange should be distributed. However, it is a development based on a selection of goals and on destruction in particular systems. Therefore, the development bears additional costs and may be instable. Some examples are: ecological threats; a demographic crisis; a development of a precariat (Standing 2011); or current global financial crisis and problems with respecting CSR standards that result from it. At the base of these problems lies the non-equivalent distribution caused by institutions of post-industrial, capitalist economy (Stiglitz 2006) and post-modern society (Castells 1998) that are incoherent with the needs of the integrated development.

It should be emphasised that the spheres of human existence define the modernisation space; specificity of driving forces and of barriers to modernisation processes; dynamics of development; development goals. They also carry development potential. In mainstream economics and in mono-disciplinary studies, they are defined as self-existing entities. From this theoretical approach result regulatory actions on an international level with the help of standardised evaluation criteria of rating agencies, indices of freedom, competitiveness, quality of business environment, innovativeness, transformation, etc., initiated by TNCs, the World Bank and implemented by WTO, IMF, OECD, or imposed by other strong actors on open markets. This reductionist approach to development processes causes the criterion of choice on a macro-economic scale to be limited to the growth of GDP per capita which is a derivative of the superiority of micro-economic effectiveness. Economic theories derived from this approach promote economic imperialism, therefore shifting the criterion of efficiency into decision processes to all spheres of human existence and expecting that people behave like one-dimensional, independent, entities that are not connected with each other, who maximise calculated self-interest in market categories.

The emotional sphere cannot be eliminated from the human psyche. Negating this obvious fact in mainstream economics studies implies a silent agreement to the manipulation of human emotionality by "econs" (Kahneman 2011; Akerlof and Shiller 2009; Barber 2007), and thereby, an approval of such mechanism, institutions, regulatory tools and coordination procedures. This bears the risk of turning people into some kind of objects that can be used to fulfil business, political, technological goals, as well as goals of various distribution coalitions and their other types. This approach results in an affirmation of competitive edges and a social discrimination of partners of negotiation procedures, as well as even a discrimination of negotiations themselves in favour of consultations. Globalisation of liberalisation is based on these criteria and subjected to them are standard, macro-economic policies stemming from the Washington Consensus (Williamson 1990; Rodrik 2007).

A new type of competition (Porter 1998) creates an environment unfavourable to the human psyche. It generates such a high and intensive dynamic of variability and instability that people have to function in an environment with an overly high level of stress. This may cause a decrease in the development potential of an individual, as well as in the quality of valuable life.[4] This matter concerns whole social groups (Castells 1998). For such groups, development through globalisation becomes pointless as it prevents them from realising their own development aspirations.

3.5 Why Holistic, Reflexive Modernisation of Human Capital?

Scrupulous research of socio-economic development processes, which respects impartial development goals of all groups of participants in management, requires an integrated, inter-disciplinary approach. However, holism does not imply disregarding the principle of methodological individualism because the management results on a macro-scale are shaped under the influence of the combined sum of individual decisions. It applies not only to the private sector, but also to the public one. The collective result (development, economic growth, competitiveness, and innovativeness of economy) is revealed through the maximisation of usability of behaviour of many people acting in different roles (Buchanan 1967, p. 22). Distributing the decision risk in this sector among society as a whole raises many additional problems described in the models of government failures.

Since the last decade of the twentieth century, a tendency has been visible to diminish the share of the public spending in GDP. According to liberal approaches, this process is considered an indication of methods of rationalisation of the allocation of goods by virtue of statements with respect to cost-effectiveness that appears to the highest degree, if the decision-making powers regarding the object of property are ascribed to a person and not to a collective body. In neoliberal thinking, without reduction and rationalisation of public spending, we cannot expect progress leading to the stability of economic growth and a balance in the sphere of public finances.

If we would like to save the possibility of protecting those social development goals which are not realised by markets, introduce an economic system from a chaotic and unstable development, and enable the harmonisation of development in all spheres of human existence, then the basic problem is answering the questions concerning the unresolved matters of government failures. From this point of view, reforms of the public sector are necessary. However, this cannot only suffice as a simple limitation of its share in GDP in

[4] From a psychological point of view, what is necessary is a kind of optimal level of stress, which allows obtaining the maximum quality of life from the genetic potential. Therefore, psychology searches for the sources of development frustration.

the name of micro-economic efficiency, as the advocates of the neoliberal approach would prefer to the development and functions of the state in the integration of its processes.

An efficient economic system is a system that creates possibilities to realise integrated development goals. Because of this, it must demonstrate the capability to release micro-economic efficiency of stable economic growth; equivalent distribution of newly generated value; dissemination of innovativeness; sustainable economically, socially and ecologically development.[5] Apart from the criterion of micro-economic efficiency, spontaneous order based on competition does not properly fulfil the conditions of its efficiency. This results in the need for equipping the markets with an institutional system which is coherent regarding integrated development goals.

Institutional coherence cannot be built without an organised, rational and integrated approach which respects the requirements of alternative cost accountability. This requires improving the system of national accounts, which should provide suitable indicators of integrated development (Stiglitz et al. 2010). This account should concern the whole range of alternative tools, co-ordination procedures and mechanisms which regulate people's activity not only in the economic context. In order to enable this, it is necessary to notice a human being as a multi-spherical entity fulfilling also non-economic goals that belong to the axiological, social and genetic spheres, not reduced to homo oeconomicus. People want not only to have more, but also to "be" in harmony with all spheres of their existence and, because of that, they want to possess more, and not the other way round. This will not be guaranteed by an economic system based on a spontaneous order forcing competition to give access to rare resources and deprived of central strategic co-ordination. However, in practice, the mechanisms of central coordination of strategic development goals fail and a democratic state has problems with the integration of development goals, which increase with time, in spite of the growing share of public spending in GDP.

In the interpretation of M. Olson, the reasons for the problems of central strategic co-ordination lie in the activity of "distributional coalitions" (Olson 1965), which not only lower the economic efficiency of the economy but also make life more confrontational. It is more probable that the activities of these coalitions are the source of disintegration of development processes rather than their integration. They support income transfer, lowering in this way the possibility of fulfilling the development aspirations of social groups which are less organised and have weak stimuli to common action. A question arises: Why in these activities should they limit themselves to equivalent transfers (which are in accordance with productivity potential of resources that belong to particular spheres of human existence, and satisfying in this way the rules of fair distribution and CSR)? Groups which are not so well organised or those people who are excluded, unemployed—ill-equipped with human capital—are for them not an equivalent social force. This is connected to problems with the implementation of Rawls' distributive justice principles (Rawls 1971) in a democratic country; to difficulties with civil society development; preventing the pursuit

[5] The justification of criteria of economic system efficiency, from the point of view of successful realisation of integrated development goals, is presented by Woźniak (2011, pp. 15–46).

of rent seeking, thus an erosion of democratic mechanisms. This paradox of a democratic political order does not receive the proper amount of attention from governments, parliaments and state bureaucracy, as these decision-making and legislative centres function on the political market and they are under a strong pressure of maximising self-interest identified with behaviour and possible widening of authoritative powers. These goals are more strongly connected to interests of distributional coalitions and, even though they attempt to reconcile elements of ideology, professional relations, patronage, risk, etc., they cannot bypass the expected benefits of the political and bureaucratic power apparatus. Connected with this mechanism of public authority action are problems of maximising the budget that remains at the disposal of the bureaucracy of public authority and securing its interests as well as the poor effects of macro-economic balance policy and socio-economic coherence (also introduced from the Lisbon Strategy and implemented with the help of methods of co-ordination, in which the bureaucratic apparatus of public authority is an intermediary).

Can a country successfully solve its various problems of public choice and be an efficient animator of CSR, if the political market prefers individuals who maximise self-interest and discriminate common people, who are more emotionally, informationally and cognitively limited? A question arises: Who would be the one to make this transformation and under what conditions would it be possible?

The globalisation of liberalisation, as well as competition of a new type, made competing even harder, and forced priorities for interventionism to strengthen supply driving forces of development, innovativeness and minimising the costs of implementing those social goals of development which are not secured by markets. Governments found themselves under pressure from coalitions representing business interests, especially from transnational corporations and rating agencies that represent the interests of dominating entities on financial markets. Disintegrative development processes had accumulated in the context of non-equivalent distribution and their culmination was the outbreak of the financial crisis in 2008, and its aftermath which spread over other spheres, including the public sector. What appeared was a need for revision, which has not yet been realised, not only of the international financial order but also of the institutional foundations of country well-being, principles and range of delivering public goods, boundaries of the private and the public spheres, as well as policy-making for socio-economic coherence (World Bank 2009).

The revision of institutional foundations of a welfare state, which is needed for integrated development, especially the operating practice of its organs, cannot be expected in a world which affirms self-interest in market categories, which is characteristic of individual's principles of thought and action shaped not only by markets, but also in the process of education. Overcoming this discrepancy may be possible if influenced by proper awareness of the high risks of dangers arising from the disintegration of development processes. Helpful here may be the holistic reflexive modernisation of human capital that is coherent with the goals defined in the eight-sphered matrix of integrated development. However, it is not sufficient to formulate new educational goals adjusted to the challenges of information society, the knowledge-based economy, competition of a new type and new requirements on the job market that are connected with it. A mediated mechanism of discussing the common good with the help of the individual's good, under the conditions of common reductionism and individualistic ways of thinking, leads to the accumulation of various discomforts regarding the quality of valuable life. The contemporary cultural context, which is determined by post-modern principles of thought and action, disseminated as a result of globalisation of liberalisation and through a technetronic culture, is also a determinant of human and social capital characteristics. It cannot be changed, thus we have to strengthen those of its features that could create a suitable potential for integrated development processes and thinking in categories of CSR. To do so, we need a system of education focused on developing holistic principles of thought. Only on the basis of these principles could we shape the professional specialisations adjusted to the current and predicted needs of the market and public sectors, and of the civil society.

Nowadays, what is promoted is an education limited to the needs of the knowledge-based economy functioning under the conditions of globalisation of liberalisation and postmodern moral relativism. Priorities of this education are orientated towards:

- Discovering, shaping and developing entrepreneurial and active behaviour;
- Preparing people to move around and find their own place on the global job market accessible through the Internet and to understand people from different cultures;
- Preparing people to be ready to constantly broaden their knowledge; quick retraining and quick change of their profession; as well as readiness to change jobs and to work temporarily;
- Teaching teams work for the benefit of the majority of society, as well as how to define common goals, how to negotiate ways to achieve them, take responsibility for the quality of work and how each and every member of a group can meet the deadlines, as well as how to be loyal towards the group.

In order to popularise the thinking in categories of CSR, we cannot ignore priorities in support of respecting the moral responsibility for disseminating knowledge capable of acting in favour of integrated development. From this priority the need results for popularising auto-reflexive competencies which enable integrated perception derived from continuous falsification of the principles of thought and action in reference to the sphere of the mind, of consumption, nature, biology and the spiritual sphere, as well as reflexive competencies in relation to the economic, political, social and technological spheres. To achieve this requires a strategy to develop education orientated towards:

- Disseminating methodological holism, beliefs about the necessity of prospective, strategic, integrated and inter-disciplinary thinking that is based on a cold, factual analysis, scientific synthesis of conclusions and practical suggestions for the future;
- Developing continuous learning according to the paradigms of holism;
- Up-bringing focused on the understanding of the benefits of self-responsibility and social responsibility, as well as of the culture of partnership;

- Including education in the network structures of the market and the new type of its organisation. This education would be orientated at (a) strengthening subjectiveness, (b) criticism and creative thinking, (c) the ability not only to compete but also to co-operate, and (d) an integrated internal reflexivity that refers to all spheres of human existence.

This opens a possibility of organised pressure on the academic environment to create (potentially by the state) a climate that facilitates the development of inter- and intra-generational communication among all social groups regardless of age, gender, education, profession, attitude towards tradition or modernity, in favour of integration of development processes and respect for the principles of CSR. We must point to various benefits for all stakeholders of business and the public sector coming from a climate of subjectiveness, which refers to all spheres of human existence, and we must further point to the necessary institutional priorities and co-ordination procedures. Subjectiveness may be realised under the conditions of constant care about the strengthening of the information competencies, about liberating from structures and unconditional faith in science, creating opportunities for individuals to influence creatively the environment, the development of civil society, rebuilding the capital of trust, ethics and elasticity. Subjective society may exist when the political sphere is based on the rules of laws that protect democratic institutions and subjectiveness, i.e., those who are capable of self-restricting their own freedom because of the respect that they have for other entities, including social units (Wielecki 2003, p. 351).

Only in the climate of subjectiveness, does communicating to achieve common goals receive meaning for everyone regardless of their place in the social, professional or political structure. Common respect for subjectiveness of a person facilitates rebuilding social trust, accelerating the process of learning, eliminating ideological illusions and prejudice towards modernisation, modernity and tradition. Under such conditions, all psychological barriers of spontaneous activity disappear and the increase in the tendency to co-operate may result in a multiplier effect in the form of more effective activities, feeling of self-responsibility, tendency to take risk by modernising one's lifestyle, change of profession, the approach to taking a job and the workplace. The climate of subjectiveness is a necessary condition which, however, is insufficient for the non-doctrinal, rational standards of CSR to appear.

Suitably high competencies adjusted to the challenges of alternating reality are a fundamental condition of a fast economic development to improve the quality of people's lives. Can it be delivered by an education system which is subordinated to political interests and its bureaucracy? We must promote other attitudes and other heroes, who are able to identify benefits coming from competencies in external and internal reflexivity, discovering pre-dispositions to these competencies and motivating to their further development.

Common and organised, holistic, reflexive modernisation of human capital is also needed in order to avoid that politicians evade taking on the challenges related to future and rational systemic reforms. In such an environment then, the business world would operate under conditions in which not respecting CSR does not pay off. The idea of a common, holistic, reflexive modernisation may be specified by the academic and educational environment. The idea itself will not suffice. Resources and decision-making processes are also necessary. Resources are necessary when norms are being taught and they also create opportunities for using motivational tools and organising campaigns that promote ethical business and knowledge about various benefits arising from the implementation of principles and standards of product quality, management through value, integrated reporting to overcome the asymmetry of information for stakeholders, also disseminating the understanding of ethical functions of micro-economic effectiveness.

3.6 Instead of Conclusions: Integrated Development—A Chance or an Illusion of CSR?

An attempt to show that respecting CSR may be the source of a long-term competitive edge is convincing, but not sufficient. Implementing CSR is connected with bearing certain costs in the current business activity. Their consequence, which is additionally burdened with uncertainty, may be an increase in long-term competitiveness. Thus, we need a set of values that are respected and shared by all in an area in which an organisation wants to improve itself. They can be derived from an individual's natural pursuit of the harmonised realisation of all functions of goals in all spheres of existence.

Due to natural causes, enterprises operating in a competitive environment are orientated at taking advantage of opportunities to minimise the costs of their activity. Therefore, they will have a tendency to run socially responsible business only if respecting the standards of social responsibility does not lead to an increased risk of surviving on the market and maintaining their competitive ability, unless these standards are obligatory and guarded by sanctions. This means that formalised and non-formalised institutions are a pre-condition for respecting the standards of CSR as principles of thought and action.

It should be noted that the neoliberal institutional order of the current phase of globalisation of liberalisation is orientated at strengthening competitive edges through the search for benefits stemming from synergistic effects of various innovations (technological, product, management, marketing, financial, institutional, and other). Under such conditions, human resources, easy access to the resources of employees' creative competencies and the knowledge used by an enterprise to plan its development, become the most important condition for long-term business success. However, for those enterprises for which the access to such competencies is difficult, implementing CSR standards becomes, above all, a cost of business activity that is difficult to bear. Additionally, the competition of a new type subjects them to additional costs that are incurred immediately, and any possible benefits that remain uncertain. Increasing competition of globalised markets, turbulent environment, the economy of unsustainability or a chronic recession impede and, in many cases, disable the implementation of CSR standards. Thus, a question appears: How to civilize business which is not yet rooted in the knowledge-based economy?

The way to achieve it is by navigating business with the use of:

- A strategy of integrated development orientated at harmonised achievement of values typical of all spheres of human existence;
- An institutional order which is coherent with the requirements of contemporary markets and which creates a climate facilitating the principles of thought and action and focused on integrated development and space for the enterprises to implement CSR, releasing by that a will and a possibility to respect its standards;
- Directing the business activity to respecting CSR with the help of tools of multi-level management of integrated development;
- Holistic and reflexive modernisation of human capital enabling integrated, internal and external reflexivity protecting against the objectification by business of an individual's potential and simplifying the enforcement of CSR.

Nowadays, companies must operate on markets that are open to increasing competition. That is why the institutional environment must create an environment of suitably high CSR expectations. An increase in these expectations is a function of the holistic modernisation of human capital. Its goal is to equip people with competencies to achieve internal reflexivity, so that they could defend themselves against the manipulation of their emotionality. However, in order for them to understand the changes in the environment, they must be taught integrated, external reflexivity.

3.7 Summary

This chapter demonstrates that institutional changes are shaped, nowadays, mostly according to business interests and financial markets that are orientated at manipulating human emotionality. This considerably limits the institutionalisation directed at CSR. Pointing out that CSR may be the source of competitive edge is convincing but it does not suffice in the conditions of globalisation of liberalisation.

The new concept of CSR may be derived from every individual's natural pursuit of harmonised realisation of all functions of goals in all spheres of human existence. In the chapter, the distinction is made among economic, political, technological, consumption, nature and biology spheres and it emphasises the special role of the human capital sphere, as well as the spiritual one. What is questioned is the commercialisation within all spheres of human existence, which leads to the depreciation of social trust, limitations of consumer's sovereignty, possibility of free choice and a decrease in CSR.

Attention is drawn to the fact that a company must operate in an environment of suitably high expectations. A rise in these expectations will be enabled by the holistic, reflexive modernisation of human capital. Its goal is to equip people with competencies to internal reflexivity, so that they could defend themselves against manipulating their emotionality. However, in order for them to understand the changes in the environment, they must be taught integrated, external reflexivity.

Connecting business strategies with the help of development policy allows employees to better understand the goals, tasks and aspirations of an organisation. It results in an increase in trust that is positively related to the integration of business and employees goals, therefore the involvement of employees in the company's success.

References

Akerlof, G. A., & Shiller, R. J. (2009). *Animal spirits. How human psychology drives the economy, and why It matters for global capitalism*. Princeton: Princeton University Press.

Amaeshi, K., Nnodim, P., & Osuji, O. (2013). *Corporate social responsibility, entrepreneurship, and innovation. Routledge studies in business ethics*. London: Routledge.

Attali, J. (1998). *Dictionnaire du XXIe siècle* (*Dictionary of the 21st century*). Paris: Fayard.

Bal-Woźniak, T. (2012). Blokada innowacyjna [Innovative blockade]. In M. G. Woźniak (Ed.), *Gospodarka Polski 1990–2011. Transformacja. Modernizacja. Spójność społeczno-ekonomiczna. Vol. 2: Modernizacja* (*Polish economy 1990–2011. Transformation. Modernisation. The road to economic and social cohesion. Vol. 2: Modernisation*) (pp. 77–115). Warsaw: Wydawnictwo Naukowe PWN.

Bal-Woźniak, T. (2013). O potrzebie wykorzystywania nowych form koordynacji współpracy w zarządzaniu innowacyjnością (On the need to use new forms of coordination of cooperation for management of innovativeness). Nierówności Społeczne a Wzrost gospodarczy, *30*, 404–423.

Barber, B. R. (2007). *Consumed. How markets corrupt children, infantilize adults, and swallow citizens whole*. New York: W. W. Norton & Company.

Buchanan, J. M. (1967). *Public finance in democratic process: Fiscal institutions and the individual choice*. Chapel Hill: University of North Carolina Press.

Castells, M. (1998). *The information age: Economy, society and culture. Vol. 3: End of millennium*. Malden: Blackwell.

CEC. (2001). Green paper. Promoting a European framework for corporate social responsibility. COM(2001), 366 final. http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf. Accessed 14 Jan 2014.

Dembinski, P. H. (2008). *Finance serevante on finance trompeuse?* Paris: Desclee de Browuer.

Edvinsson, L., & Malone, M. S. (1997). *Intellectual capital*. London: Piotkus.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Fukuyama, F. (1995). *Trust: The social virtues and the creation of prosperity*. New York: Free Press.

Griseri, P., & Seppala, N. (2010). *Business ethics and corporate social responsibility*. Hampshire: Cengage.

Harrison, L. E., & Hungtington, S. P. (Eds.). (2000). *Culture matters: How values shape human progress*. New York: Basic Books.

Haugen, R. A. (1995). *The new finance: The case against efficient markets*. Englewood Cliffs: Prentice Hall.

Hausner, J. (2007). Ekonomia społeczna jako sektor gospodarki (The social economy as a sector of the economy). *Ekonomia Społeczna, 1*(1), 9–14.

Hohnen, P., & Potts, J. (2007). *Corporate social responsibility: An implementation guide for business*. Manitoba: International Institute for Sustainable Development.

Horx, M. (2002). *Die acht SphaÌren der Zukunft: Ein Wegweiser in die Kultur des 21. Jahrhunderts* (*The eight spheres of the future: A guide to the culture of the 21st century*). Wien: Signum.

Kahneman, D. (2011). *Thinking, fast and slow*. New York: Farrar, Straus & Giroux.

Lee, C. J., & Andrade, E. B. (2011). Fear, social projection, and financial decision making. *Journal of Marketing Research, 48,* 121–129.
Lewis, O. (1975). *Five families; Mexican case studies in the culture of poverty*. New York: Basic Books.
Lozano, R. (2011). Addressing stakeholder and better contributing to sustainability through game theory. *The Journal of Corporate Citizenship, 43,* 45–62.
Olson, M. (1965). *The logic of collective action*. Cambridge: Harvard University Press.
O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.
Owen, R., Bessant, J., & Heintz, M. (Eds.). (2013). *Responsibility innovation. Managing the responsible emergence of science and innovation in society*. Chichester: Wiley.
Polanyi, K. (1944). *The great transformation. The political and economic origins of our times*. Boston: Beacon Press.
Porter, M. E. (1998). *On competition*. Cambridge: Harvard University Press.
Postman, N. (1992). *Technopoly: The surrender of culture to technology*. New York: Vintage Books.
Rawls, J. (1971). *A theory of justice*. Cambridge: Harvard University Press.
Rodrik, D. (2007). *One economics, many recipes, globalization, institutions, and economic growth*. Princeton: Princeton University Press.
Shiller, R. J. (2000). *Irrational exuberance*. Princeton: Princeton University Press.
Shleifer, A. (2000). *Inefficient markets: An introduction to behavioral finance*. Oxford: Oxford University Press.
Standing, G. (2011). *The precariat: The new dangerous class*. New York: Bloomsbury.
Stiglitz, J. E. (2006). *Making globalization work*. New York: W. W. Norton & Company.
Stiglitz, J. E., Sen, A., & Fitoussi, J. P. (2010). *Mismeasuring our lives*. New York: The New Press.
Wielecki, K. (2003). *Podmiotowość w dobie kryzysu postmodernizmu. Między indywidualizmem a kolektywizmem* (*The subjectivity in the crisis of postmodernism. Between individualism and collectivism*). Warsaw: Centre for Europe University of Warsaw.
Williamson, J. (1990). What Washington means by policy reform. In J. Williamson (Ed.), *Latin American adjustment: How much has happened?* (pp. 5–20). Washington, DC: Institute for International Economics.
World Bank. (2009). *Reshaping economic geography. World development report 2009*. Washington, DC: World Bank.
Woźniak, M. G. (2013a). Paradoxes in the development of human capital and economic convergence. In D. Lukianenko, V. Chuzhikov, & M. G. Woźniak (Eds.), *Convergence and divergence in Europe: Polish and Ukrainian cases* (pp. 157–180). Kyiv: National Economic University KNEU.
Woźniak, M. G. (2013b). Holistyczna modernizacja refleksyjna kapitału ludzkiego odpowiedzią na wyzwania i zagrożenia rozwojowe współczesnej fali globalizacji (Holistic reflexive modernization of human capital in response to the challenges and risks development of modern wave of globalization). In M. G. Woźniak (Ed.), *Gospodarka Polski 1990–2011. Transformacja. Modernizacja. Droga do spójności społeczno-ekonomicznej. Vol. 3: Droga do spójności społeczno-ekonomicznej* (*Polish economy 1990–2011. Transformation. Modernisation. The road to economic and social cohesion. Vol. 3: The road to economic and social cohesion*) (pp. 191–230). Warsaw: Wydawnictwo Naukowe PWN.

Managing Stakeholders for the Sake of Business and Society

4

Matthias Fifka and Cristian R. Loza Adaui

Contents

4.1 Introduction . . . 72
4.2 Who or What is a Stakeholder? . . . 73
4.3 The Benefit of Stakeholder Integration . . . 76
4.4 Stakeholder Management . . . 77
4.5 Stakeholder Management in Practice . . . 78
4.5.1 Step One: Stakeholder Identification . . . 79
4.5.2 Step Two: Stakeholder Assessment . . . 80
4.5.3 Step Three: Stakeholder Dialogue . . . 81
4.5.4 Step Four: Interpretation and Implementation . . . 82
4.5.5 Step Five: Measurement . . . 82
4.5.6 Step Six: Response and Reporting . . . 83
4.6 Conclusion . . . 84
References . . . 85

Abstract

Since Freeman's (Strategic management: A stakeholder approach, Pitman, Boston, 1984) seminal work on the stakeholder view of the firm, stakeholder management has become a much discussed concept in the business as well as in the academic world. In both realms, the call for integrating stakeholders into business decision-making has

M. Fifka (✉) · C. R. Loza Adaui
Universität Erlangen-Nürnberg, Kochstraße 4, 91054 Erlangen, Germany
e-mail: matthias.fifka@fau.de

C. R. Loza Adaui
e-mail: cristian.loza.adaui@fau.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_4

resonated widely. However, the transfer of elaborate concepts developed by academia into business practice poses a problem, and companies do not know how to address the complex issue of managing stakeholders successfully so that a benefit for the business and for the stakeholders is created. The theoretical and practical discussion of stakeholder management presented in this chapter aims to address this knowledge gap and thereby represents the missing link which is the focus of this chapter.

After an introduction, the theoretical foundation will be provided by discussing important elements and issues of stakeholder management. Of special importance are approaches on how to identify and integrate those stakeholders who are particularly relevant to the company. Thereafter, we will make a business case for stakeholder management in order to build the bridge to the practical part of the chapter. This leads to the crucial question of why companies should practice stakeholder management. In the practical part, we will explain how companies can go about implementing an effective stakeholder management and will also address mistakes which are frequently made. The chapter will close with a conclusion and an outlook on the future of stakeholder management.

4.1 Introduction

During the last decades and in particular after Freeman's (1984) seminal work on Strategic Management—A Stakeholder *Approach*, the notion of the stakeholder has entered into managerial discourse and vocabulary. Stakeholder theory has not only nurtured the academic discussion, it has also slowly moved from the margins of business ethics and corporate social responsibility niches into the mainstream of managerial theories. Today, it has reached a privileged position as a cornerstone of contemporary management. At the same time, it has also gone beyond the limits of managerial discussion enriching other disciplines such as law, health care, public policy administration, and environmental policy (Freeman et al. 2010).

It comes as no surprise that throughout three decades, a considerable amount of literature has been published on stakeholder theory. The current "state of the art" was recently summarised in a large edited volume comprising hundreds of texts including journal articles, books, and books chapters that discuss stakeholder theory and its different components and dimensions (Freeman et al. 2010). Unfortunately, the transfer from elaborate academic concepts to business practice and actual managerial decision-making often poses a problem of applicability. Paradoxically, on the one hand, there is a strong consensus regarding the relevance of enlarging the limits of the fiduciary responsibility between managers and shareholders towards a wider number of firm's constituencies as proposed in stakeholder theory. On the other hand, there is also a consensus regarding the difficulties of identifying legitimate stakeholders, as well as balancing multiple and frequently opposing interests through stakeholder management for the sake of business and society.

This chapter aims at making a contribution to solve this paradox, presenting the stakeholder concept and the challenges it poses to managers, and then discussing important elements and issues of stakeholder management. We will then make a business case for stakeholder management and discuss the benefit of stakeholder integration in order to build the bridge to the practical part of the chapter, which addresses the crucial question of why companies should practice stakeholder management. In the practical part, we will explain how companies can go about implementing effective stakeholder management and will also address mistakes which are frequently made. The chapter will close with a conclusion and an outlook on the future of stakeholder management.

4.2 Who or What is a Stakeholder?

The first challenge that stakeholder theory poses to management is the definition of who or what is a stakeholder. According to Freeman (1984, p 31), the first reference to the word *stakeholder* in management literature can be traced back to an internal memorandum at the Stanford Research Institute published in 1963. In that document, a stakeholder is defined as "those groups without whose support the organisation would cease to exist" (cited in Freeman and Reed 1983; Freeman 1984). Since then, the notion of a stakeholder has become both a term of discussion and an integrating element of consideration in managerial decision-making.

In Freeman's widely used definition, a stakeholder is "any group or individual that can affect or is affected by the realisation of an organisation's purpose" (Freeman et al. 2010, p 26). The discussion on the definition of a stakeholder received considerable attention especially in the late 1980s after the publication of Freeman's book and increasingly during the 1990s. Already in 1997, Mitchell et al. (1997) identified 27 different nuances in the development of the understanding of the term *stakeholder* (see Table 4.1).

In an analysis developed by Kaler (2002), diverse stakeholder definitions can be classified into three different groups: *Claimant definitions* are those that consider a stakeholder to include any group or individual "with a role-specific, strong or weak, morally legitimate claim to have their interest served" (Kaler 2002, pp. 94–95) by an organisation. *Influencer definitions* consider a stakeholder to comprise those groups or persons that "can influence or be influenced by the organisation" (Kaler 2002, p. 95). And *combinatory definitions*—as the name implies—combine to some extent both claimant and influencer definitions (Kaler 2002).

Beyond the definition of a stakeholder—which tends to be a theoretical discussion—the identification and categorisation of stakeholders appears as a second challenge to the practical management of stakeholders. A rather broad distinction can be made between voluntary and involuntary stakeholders. Clarkson (1995) considers involuntary stakeholders to involve those who did not choose to enter into a relationship and at the same time cannot withdraw the stake they have in a firm.

Table 4.1 Who is a stakeholder? A chronology. (Note: Mitchell et al. 1997, p. 858)

Source	Stake
Steward et al. 1963	"Those groups without whose support the organization would cease to exist" (Cited in Freeman and Reed 1983 and Freeman 1984)
Rhenman 1964	"Are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (Cited in Näsi 1995)
Ahlstedt and Jahnukainen 1971	"Driven by their own interests and goals are participants in a firm and this depending on it and whom for its sake the form is depending" (Cited in Näsi 1995)
Freeman and Reed 1983, p. 91	Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives"
	Narrow: "on which the organization is dependent or its continued survival"
Freeman 1984, p. 46	"Can affect or is affected by the achievement of the organization's objectives"
Freeman and Gilbert 1987, p. 397	"Can affect or is affected by a business"
Cornell and Shapiro 1987, p. 5	"Claimants" who have "contracts"
Evan and Freeman 1988, pp. 75–76	"Have a stake in or a claim on the firm"
Evan and Freeman 1988, p. 79	"Benefit from or are harmed by, and whose rights are violated or respected by, corporate actions"
Bowie 1988, p. 112, n. 2	"Without whose support the organization would cease to exist"
Alkhafaji 1989, p. 36	"Groups to whom the corporation is responsible"
Carroll 1989, p. 57	"Asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"
Freeman and Evan 1990	Contract holders
Thompson et al. 1991, p. 209	In "relationship with an organization"
Savage et al. 1991, p. 61	"Have an interest in the actions of an organization and … the ability to influence it"
Hill and Jones 1992, p. 133	"Constituents who have a legitimate claim on the firm … established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"
Brenner 1993, p. 205	"Having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts and moral responsibilities"

Table 4.1 (continued)

Source	Stake
Carrol 1993, p. 60	"Asserts to have one or more of the kinds of stakes in business"—may be affected or affect…
Freeman 1994, p. 415	Participants in "the human process of joint value creation"
Wicks et al. 1994, p. 483	"Interact with and give meaning and definition to the corporation"
Langtry 1994, p. 433	The firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
Starik 1994, p. 90	"Can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of. Some organization"
Clarkson 1994, p. 5	"Bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "rare place at risk as a result of a firm's activities"
Clarkson 1995, p. 106	"Have, or claim ownership, rights, or interest in a corporation and its activities"
Näsi 1995, p. 19	"Interact with the firm and thus makes its operation possible"
Brenner 1995, p. 76, n.1	"Are or which could import or be impacted by the firm/organization"
Donaldson and Preston 1995, p. 85	"Persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity"

Another crude distinction is based on involvement in the value chain. Stakeholders that are directly involved in a company's value chain are employees, customers, suppliers, and investors, while stakeholders outside of the value chain can consist of environmental groups or community organisations, e.g., Wheeler and Sillanpää (1997) developed an extension to this primary-secondary distinction, adding the social and non-social dimension. As a result, they offer four categories: primary social stakeholders (shareholders, investors, employees, managers, customers, local communities, suppliers, and business partners); secondary social stakeholders (government, social pressure groups, trade bodies, civic institutions, media and academic commentators, and competitors); primary non-social stakeholders (natural environment, future generations, and non-human species); and finally secondary non-social stakeholders (environmental pressure groups, animal welfare organisations). Although such a differentiation is fairly easy to make, it does not necessarily reflect the importance of a stakeholder. A secondary stakeholder external to the value chain, social or even non-social, is not less powerful or influential *per se*. One of the more prominent examples in this regard is Greenpeace and its actions against the planned deep-sea disposal of the Brent Spar oil rig by Shell. Greenpeace's actions in this case caused significant harm to Shell's image and financial situation (Fifka 2012a).

In order to address this shortcoming, Mitchell et al. (1997) developed the concept of *stakeholder salience*, defined as "the degree to which managers give priority to competing stakeholder claims" (p. 878). Stakeholder salience is based on the urgency, legitimacy, and power of a stakeholder, and his claim against the organisation (Mitchell et al. 1997). Thus, the importance of a stakeholder is determined by three dimensions and not solely based on the rather organisational aspect of being in or outside of the value chain. Stakeholder salience places an emphasis on the management perspective, as it focuses on the relationship between stakeholders and management executives (Agle et al. 1999). In order to expand this rather narrow focus, more recent publications extend salience to the relation between the stakeholder and the firm in its entirety (Tashman and Raelin 2013).

Empirical studies (Vilanova 2007; Magness 2008) have demonstrated that the dimensions of urgency, legitimacy, and power are only applied to a limited degree in business decision-making. Moreover, other parameters to develop a stakeholder categorisation have been proposed in other scientific disciplines. In marketing communications, Podnar and Jancic (2006) have been able to test a stakeholder classification model based on three different levels of communication (dialogue) with various stakeholders. Other parameters regard the level of directness of the influence of a stakeholder in systems engineering (Liu 2000), the degrees of interest and influence of a stakeholder in conservation projects (De Lopez 2001), and responsibilities in the process of technology adoption (Kamal et al. 2011).

4.3 The Benefit of Stakeholder Integration

Despite the difficulties in defining and identifying relevant stakeholders, the necessity of involving stakeholders in strategy and decision-making processes is well accepted. Some scholars consider this as an ethical requirement (Jones et al. 2007). However, the benefits of taking stakeholders seriously and in particular the benefits of involving them into decision-making processes are multiple, especially because stakeholder integration has the potential to contribute to the development of firms' competitive advantage (Walsh 2005).

According to Heugens et al. (2002), stakeholder integration can be defined as "the particular strategy of obtaining a competitive advantage through the development of close-knit ties with a broad range of internal and external constituencies" (p. 38). Stakeholder integration is also defined as the ability to generate and care for positive collaborative relationships with different stakeholders involving them into decision-making and strategy generation (Plaza-Úbeda et al. 2010; Rueda-Manzanares et al. 2008; Sharma and Vredenburg 1998).

The benefits of stakeholder integration have been increasingly researched and documented during the last decades. For example, in the study of Berman et al. (1999), the authors demonstrated that the special treatment of some stakeholders—employees and customers—can be considered a factor of firm differentiation and a source of financial performance improvement for a firm. Sharma and Vredenburg (1998) considered stakeholder integration as a strategic organisational capability that contributes to the development of other capabilities such as environmental protection.

Heugens et al. (2002) in a study focused on the Dutch food sector, identify organisational learning as a benefit of stakeholder integration. In a similar way, the contribution of Maurer and Sachs (2005) stresses the role of stakeholder learning. Longo and Mura (2008) identify clear benefits of stakeholder integration for human resource management. In a study carried out in Italy, they find a clear link between the resources of value created by employees and the social strategy of the organisation. Other benefits of stakeholder integration are: innovation processes within the firm (Brown 2003), savings related to communication, increased employee motivation, procurement and supply chain improvements, reputation improvement, and risk management.

At a meta-level, stakeholder integration challenges dichotomist thinking about organisations in society, in which organisations are understood either as black-box machines created to maximise profits, or as aggregates of persons around a social purpose. In this sense, stakeholder integration helps to transcend out-dated conceptions of business and its role in society, for example: Stakeholder integration can contribute to the creation of social capital, and can be a driver of social innovation (Habisch and Loza Adaui 2013).

While not all the benefits of stakeholder integration are quantifiable, and even if empirical evidence showing a relationship between stakeholder integration and the firm's performance is still weak, it can be concluded that a management approach that does not include stakeholder claims into the decision-making process is unsustainable. Thus, the challenge of stakeholder integration is linked to the efficiency of stakeholder management, a topic that will be developed in more in detail in the next section.

4.4 Stakeholder Management

As previously pointed out, most work on stakeholder theory is built on Freeman's (1984) seminal work, which, however, is often misinterpreted. Freeman did not call for the consideration of stakeholder interests out of an altruistic motivation, but because of managerial implications, especially the negative consequences that might result from neglecting stakeholders. Based on this consideration, a stakeholder orientation has become a vital part of CSR as a people-centred concept and management approach (Vos 2003; Davenport 2000; Van Buren 2001). In the context of the discussion on whether stakeholder interests are considered because of managerial interest or ethical obligation, Berman et al. (1999) have distinguished between a "strategic stakeholder management model", in which the concern for stakeholders is "determined solely by the perceived ability of such concern to improve firm financial performance" (p. 488), and an "intrinsic stakeholder commitment model", in which firms consider stakeholder interests because they feel a moral obligation to do so.

Depending on the understanding demonstrated and the approach pursued, the extent of stakeholder orientation will vary. If an organisation is committed to "strategic stakeholder management", then it will most likely focus on a small selection of stakeholders who are considered to be essential for the company (Logsdon and Yuthas 1997). In the case of an intrinsic motivation and an emphasis on "positive duties, respect for others and duty to promote welfare", a "[b]road range of stakeholders, including market-based relationships and non-market-based, such as to neighbours, communities, environmental groups, government agencies, etc." will be considered by the organisation (Logsdon and Yuthas 1997, p. 1217). Aside from a strategic or moral motivation, legal requirements are another factor that will influence the scope of stakeholder orientation. In Germany, e.g., the consideration of employee interests through works councils and representation on supervisory boards is strongly mandated by the law, reflecting the attitude that this important stakeholder group should participate in organisational decision-making. However, in Anglo-Saxon countries, this notion of co-determination is mostly absent (Fifka 2012b, 2013b; Habisch et al. 2011).

Regardless of strategic aims, moral obligations or legal requirements, stakeholder management in all cases is characterised by a certain stakeholder orientation. According to Ferrell et al. (2010, p. 93), it can be understood as "the organisational culture and behaviours that induce organisational members to be continuously aware of and proactively act on a variety of stakeholder issues." Stakeholder issues in turn are corporate activities that have an effect on an organisation's stakeholders.

Stakeholder management itself, according to Freeman and McVea (2001), can be described as a managerial function that is concerned with considering the various interests of stakeholders and establishing and maintaining relationships with them. In addition to the functional aspects, Harrison and St. John (1997) emphasise a win-win situation as a major characteristic of stakeholder management by describing it as "communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organisation and its stakeholders" (p. 14). In contrast to the aim of mutual value creation, Frooman (1999) sees the primary purpose of stakeholder management in conflict resolution between a firm and its stakeholders in case of diverging interests. Though motivations for managing stakeholders vary and different aims can be pursued, in practice, stakeholder management needs to be implemented in different steps, which we will now illustrate.

4.5 Stakeholder Management in Practice

Several models have been developed which address the practical implementation of stakeholder management (Preble 2005; Buysse and Verbeke 2003; Simmons and Lovegrove 2005; Fassin 2009). The model we present here is a synthesis that explains how to conduct stakeholder management in six steps, as shown in illustration 1. It must be pointed out that a clear-cut line between the individual steps cannot always be drawn in practical application so that overlaps are normal (Fig. 4.1).

4.5.1 Step One: Stakeholder Identification

A first and crucial step is stakeholder identification. It consists of identifying and listing the stakeholders of an organisation. As pointed out above, an organisation has a large

Fig. 4.1 The stakeholder management process

number of stakeholders, so a systematic approach to stakeholder identification is recommended. A helpful approach is to distinguish between stakeholders in four areas: market, workplace, natural environment, and community. Typical stakeholders in the market are characterised by an existing market relationship, often on a contractual or legal basis, such as shareholders, creditors, clients/customers, suppliers, competitors, trade associations, and the government as the regulator of the marketplace.

The crucial stakeholders in the workplace are employees, unions, and potential works councils, depending on the regulatory environment. This shows that the government is also a stakeholder in the sphere of the workplace, as it determines the legal framework for employment conditions. Moreover, also semi-governmental organisations such as the International Labour Organisation (ILO), and non-governmental organisations (NGOs) such as Amnesty International, are active in this area and can be important stakeholders. This is especially true in countries where laws on appropriate working conditions do not exist or are not enforced.

Concerning the natural environment, stakeholders are those affected by the ecological impact of an organisation's operations. At micro-level, an example could be residents living close to production facilities. At macro-level, societies as a whole are ecologically affected by business activities. However, society in its entirety is not an organised stakeholder. Its interest is either represented by governmental or non-governmental institutions on an international, national, regional, or local level.

Inevitably, there is a certain overlap with the last sphere, the community, which is local in nature and certainly has an interest in its natural environment not being affected negatively by business operations. Community interests are usually manifold, and can easily be diametric. Environmental considerations may be offset by economic ones, such as the provision of labour. Aside from core economic and ecological responsibilities, community stakeholders will also expect an investment in the community by business to support local infrastructure of different kinds. Therefore, typical community stakeholders are educational, recreational, cultural, and sports facilities and institutions. In many cases, associations are formed by residents to organise their respective interests, especially when they are not represented by local government. Finally, it has to be pointed out that an organisation, depending on the number of its locations, can have numerous communities as stakeholders.

4.5.2 Step Two: Stakeholder Assessment

In most cases, the number of stakeholders identified will be too large to assign all of them significant consideration. Thus, it is necessary to undertake a selection process, whose purpose it is to determine the stakeholders with whom a dialogue is to be held. The main criteria for the selection will be the importance of the stakeholder to the organisation. As pointed out above, importance can simply be attributed to a stakeholder being a part of a company's value chain, though this reductionist differentiation carries the danger of excluding important stakeholders. This shortcoming is addressed by the stakeholder salience model developed by Mitchell et al. (1997), which classifies stakeholders according to the power, urgency, and legitimacy of their claims. A stakeholder with significant power is a large supplier or customer, e.g., because a termination of the business relationship will have a large impact on the organisation. Urgency describes the time horizon, in which the stakeholder claim has to be dealt with. Urgent claims are pressing ones, and dealing with them cannot be delayed. Finally, legitimacy can be legally or ethically founded. Legally legitimate claims are the ones that can be enforced on the basis of an existing law, e.g., when a company is selling a faulty product or violating employment laws. Ethical claims are based on moral expectations and do not necessarily have a legal basis. A German company making use of child labour in South East Asia might not act against any legal standards, but it might violate the moral expectation of stakeholders in Germany that child labour is unethical.

A difficulty in the application of the salience model is that a certain subjective judgment regarding the power, urgency, and legitimacy of a stakeholder and his claim is inevitable, while it can be more objectively determined whether a stakeholder is part of the value chain or not.

4.5.3 Step Three: Stakeholder Dialogue

After the relevant stakeholders have been selected, an organisation needs to engage in an exchange with the stakeholders in order to identify their claims and interests. For this purpose, stakeholder dialogue can be held. Wheeler and Elkington have defined it as a "two-way dialogue on issues of corporate environmental and social responsibility, [which] is especially important in establishing stakeholder respect" (2001, p. 2). A more instrumental definition that focuses on the design of such a dialogue process is offered by the World Business Council for Sustainable Development (2010):

> Stakeholder dialogue offers a tool to engage people in serious discussion, and a designed and facilitated process for groups to initiate dialogue with those persons and institutions that have a stake in their activities […] Dialogue is about communicating with stakeholders in a way that takes serious account of their views. It does not mean involving stakeholders in every decision, or that every stakeholder request will be met. It means that stakeholder input should be acknowledged and thoughtfully considered. It is about giving stakeholders a voice, listening to what they have to say, and being prepared to act or react accordingly.

Stakeholder dialogue has been extensively discussed in the literature, under normative as well as under managerial premises (e.g., O'Riordan and Fairbrass 2008; Kaptein and van Tulder 2003; Ayuso et al. 2006; Palazzo 2010). From an instrumental perspective, two dimensions of stakeholder dialogue are crucial. The first concerns the *number* of stakeholders involved simultaneously. Traditionally, dialogues were held on a bilateral basis with only one stakeholder being involved. However, engaging more stakeholders at the same time, a multi-lateral approach, can be highly beneficial for companies. As described above, a difficulty of stakeholder management is the diametric nature of claims made by different stakeholders. This can illustrated by a simple example: While employees will tend to seek higher salaries, this might negatively affect customers because the company might pass on the increasing costs to them through more expensive products, or it might pay less to its suppliers. Thus, a multi-stakeholder dialogue provides the advantage that the individual stakeholder groups will realise that they are not the only ones making claims, that there are other stakeholder groups with competing interests, and that the company eventually will not be able to fulfil all expectations.

The second dimension concerns the *form* in which the dialogue is held. Traditionally, stakeholder dialogue has been held in the form of roundtables with only one or a few stakeholders. However, as just pointed out, the inclusion of several stakeholders can be advantageous, which is why roundtables can be expanded or other forms of dialogues can be held. Such a form can be a symposium or a conference to which representatives of the various stakeholder groups are invited. This allows for multi-lateral dialogues on a variety of issues, which are relevant for the respective stakeholders.

Importance to the Company; determined by relevance to the company's strategy	*High*	desirable	significant	definite
	Medium	deferrable	considerable	significant
	Low	negligible	deferrable	desirable
		Low	*Medium*	*High*
	Importance to the Stakeholders; determined by the number of stakeholder articulating the issue and the importance of the stakeholders to do so.			

Fig. 4.2 Stakeholder issue selection

4.5.4 Step Four: Interpretation and Implementation

After having held the dialogue, the organisation has to interpret the information collected in the dialogue process. It has to examine how the expectations articulated by the stakeholders can be integrated in the company's strategy and operations. Although the company has already selected and thus reduced the number of stakeholder to be included in the dialogue process, the interests articulated by the stakeholders will likely be too numerous to be addressed. Therefore, the company needs to identify the issues which are crucial for the stakeholders as well as for the company (Fig. 4.2).

As shown in illustration 2, the company will have to address the issues that are of high importance to the company and the stakeholders (*definite* issues). *Significant* issues also need strategic implementation. On the other end of the spectrum are issues which are negligible. The implementation of issues classified as *desirable* or *considerable* should be attempted, but is not of utmost relevance. Deferrable issues can also be considered for implementation in the future.

After identifying the crucial strategic issues, a company needs to find ways and means of how to pursue the set goal at a strategic level. This shall again be illustrated by the use of an example: After holding stakeholder dialogue and strategic analysis, a company determines that cutting carbon dioxide emissions is of high importance for itself and its stakeholders. After analysing its processes and capabilities, it sets a goal of reducing carbon dioxide emissions by 20 % in 2 years. At the operational level, it needs to examine and take the measures necessary to achieve this target, e.g., shifting to electric vehicles for transportation, using alternative energies, and improving the insulation of its buildings.

4.5.5 Step Five: Measurement

As in any strategic process, measurement is also an essential stage in stakeholder management. The steps that have been taken need to be analysed, and the degree to which the previously defined aims have been reached needs to be measured. Using the previous example, after 2 years it needs to be examined whether the goal of reducing carbon dioxide emissions has been accomplished. If that is not the case, the causes for the deviance at operational level have to be identified, and modifications or alterations will have to be developed. In cases where the measures at operational level were soundly implemented and worked efficiently, but the desired goals have not been reached, the goals will have to be revised.

It must be pointed out here that measuring environmental and social performance is a challenging undertaking which requires substantial financial and human resources, if it is to be meaningful (Gjolberg 2009; Schaltegger and Wagner 2006). While financial performance measurement is a "given" in companies, often simply because of legal standards, measuring social and environmental performance is still rather an exception, also because in most countries there is no legal requirement to do so.

Nevertheless, such encompassing performance measurement is absolutely essential for the company as well as stakeholders. For the company, it is vital as it allows for an evaluation of the goals that have been set and the measures that are applied for attaining them. Without measuring, a judgment on effectiveness and efficiency cannot be made; in other words: "You can only manage, what you can measure." Therefore, there is a clear business case for CSR measurement (Weber 2008). With regard to stakeholders, they would like to receive feedback if and how the company has tried to take account of their interests. This feedback is provided in the last stage of our stakeholder management model.

4.5.6 Step Six: Response and Reporting

In this last stage, the company responds to its stakeholders on what it has done to address their claims. The respective feedback process can once again take the form of a face-to-face dialogue, which is recommendable for communicating with the most important stakeholders. In addition to that, a CSR report is a medium for reaching a broader range of stakeholders. In such a report, a company discloses information on its financial, social, and environmental performance and activities. While for large companies issuing a CSR report has become a certain standard—93 % of the world's largest 250 companies did so in 2013 (KPMG 2013)—small and medium-sized enterprises are still lagging considerably behind (Borga et al. 2009; Morhardt 2010; for an overview see Fifka 2013a). Nevertheless, it is also an opportunity for smaller companies to demonstrate their concern for stakeholder interests.

As another chapter in this book is exclusively dedicated to CSR reporting, we shall only point out some major aspects here which are crucial in relation to stakeholder management. The basis for a good CSR report is a previous dialogue with the stakeholders on what information they would like the company to disclose. Although this has certain limitations with regard to business secrets and other sensitive data, increasing transparency through meaningful and desired information is crucial. Otherwise the company runs the risk of disclosing information in which the stakeholders are not interested. Quantification is another crucial issue, which also demonstrates the importance of previous measurement. Numbers allow the stakeholders to actually judge the performance of the company more profoundly than mere qualitative information, especially if it comes in the form of pictures and superficial descriptions of the company's charity activities.

Issuing a report and responding to their stakeholders is not the end of the stakeholder management process, which is a dynamic and continuous procedure. Stakeholders in turn will respond to the steps initiated by the company as well as its attempts and performance, which closes the loop. This allows companies to evaluate its strategic and operational implementation of stakeholder issues from the perspective of its stakeholders. This evaluation together with the company's own performance measurement provides the basis for modifying and improving the stakeholder management process and the goals pursued with it.

4.6 Conclusion

Stakeholder management is a crucial element in successfully managing a company in the twenty-first century. In a time when customers, employees, suppliers, shareholders, governments, and citizens are increasingly sensitive for the economic, social, and environmental contribution that companies make to society, mere differentiation through price and product quality are no longer sufficient for business success. Instead, companies will have to actively identify the concerns and interests of their stakeholders and address them strategically in order to flourish in an increasingly competitive business environment.

However, stakeholder management does not only allow for the recognition of stakeholder needs, it also permits companies to increase the transparency of their aims, policies, and operations. As O'Riordan et al. (2013) point out, transparency is one of the crucial missing links in contemporary societies. In this context, transparency means more than mere knowledge on what a company is doing. It allows stakeholders to relate to a company's activities, whereas on the company side, it fosters awareness that companies are organisations that are closely inter-connected with their stakeholders. This mutual understanding will help companies and stakeholders alike to appreciate how they are part of a larger social organism.

Nevertheless, such an understanding cannot be reached if stakeholder management is only used as a self-protective tool that merely aims at catering to the demands of stakeholders in order to avoid conflicts. In that case, the link remains broken, and the notion of companies and stakeholders as separate or even opposing actors is reinforced. Moreover, such an approach will always put the company in a defensive position in which it can merely react to external forces. As the behaviour of external forces—the stakeholders in our case—is hard to predict, if no communication takes places, companies will not be able to implement stakeholder interests into strategy, as strategy requires a structured planning process. Thus, reactive stakeholder management only allows for minimising harm or negative fall-out from confrontation, but does not enable companies and stakeholders to identify how they could co-operate for their mutual benefit.

Successful stakeholder management is a proactive process that involves stakeholders in a structured manner and aims at generating a win-win situation (Post et al. 2002). Traditionally, stakeholder demands have often been perceived as being diametric to the interest of the company. However, a change in perspective is required. Stakeholder interests should not be seen as a threat to the company, although not meeting the demands of stakeholders certainly can result in sanctions imposed by the stakeholders on the company, e.g., a boycott by customers, a withdrawal of investments by providers of finance, and a termination of the business relationship by suppliers. Instead they should be seen as an opportunity for obtaining a competitive advantage by being better able to align the interests of groups vital to the company with the company strategy. Especially in an increasingly complex and dynamic business environment, stakeholder management will be crucial for companies to identify and address future challenges, such as demographic change, resource scarcity, environmental degradation, the rise of social media, and global competition.

References

Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. (1999). Who matters to CEOs? *Academy of Management Journal, 42*(5), 507–522.

Ayuso, S., Rodríguez, M. A., & Ricart, J. E. (2006). Using stakeholder dialogue as a source for new ideas: A dynamic capability underlying sustainable innovation. *Corporate Governance, 6*(4), 475–490.

Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *The Academy of Management Journal, 42*(5), 488–506.

Borga, F., Citterio, A., Noci, G., & Pizzurno, E. (2009). Sustainability report in small enterprises: Case studies in Italian furniture companies. *Business Strategy and the Environment, 18,* 162–176.

Brown, M. M. (2003). Technology diffusion and the knowledge barrier: The dilemma of stakeholder participation. *Public Performance and Management Review, 26*(4), 345–359.

Buysse, K., & Verbeke, A. (2003). Proactive environmental strategies: A stakeholder management perspective. *Strategic Management Journal, 24*(5), 453–470.

Clarkson, M. (1995). A stakeholder framework for analysing and evaluating corporate social performance. *Academy of Management Review, 20*(1), 92–117.

Davenport, K. (2000). Corporate citizenship: A stakeholder approach for defining corporate social performance and identifying measures for assessing it. *Business and Society, 3*(2), 210–219.

De Lopez, T. T. (2001). Stakeholder management for conservation projects: A case study of Ream National Park, Cambodia 1. *Environmental Management, 28*(1), 47–60.

Fassin, Y. (2009). The stakeholder model refined. *Journal of Business Ethics, 84*(1), 113–135.

Ferrell, O. C., Gonzalez-Padron, T. L., Hult, G. M. T., & Maignan, I. (2010). From market orientation to stakeholder orientation. *Journal of Public Policy and the Market, 29*(1), 93–96.

Fifka, M. S. (2012a). Brent Spar revisited—The impact of conflict and cooperation among stakeholders. In P. Kotler, A. Lindgreen, F. Maon, & J. Vanhamme (Eds.), *A stakeholder approach to corporate social responsibility: Pressures, conflicts, reconciliation* (pp. 57–72). Farnham: Gower.

Fifka, M. S. (2012b). The impact of socio-economic and political factors on stakeholder dialogues in Germany, France, and the United States. In P. Kotler, A. Lindgreen, F. Maon, & J. Vanhamme (Eds.), *A stakeholder approach to corporate social responsibility: Pressures, conflicts, reconciliation* (pp. 3–22). Farnham: Gower.

Fifka, M. S. (2013a). Corporate responsibility reporting and its determinants in comparative perspective—A review of the empirical literature and a meta-analysis. *Business Strategy and the Environment, 22*(1), 1–35.

Fifka, M. S. (2013b). The irony of stakeholder management in Germany—The difficulty of implementing an essential concept for CSR. *UmweltWirtschaftsForum, 21*(1), 113–118.
Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman. (Reprinted in 2010, Cambridge University Press).
Freeman, R. E., & McVea, J. (2001). A stakeholder approach to strategic management. In M. A. Hitt, R. E. Freeman, & J. S. Harrison (Eds.), *The Blackwell handbook of strategic management* (pp. 189–207). Oxford: Blackwell.
Freeman, R. E., & Reed, D. L. (1983). Stockholders and stakeholders: A new perspective on corporate governance. *California Management Review, 25*(3), 93–94.
Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & de Colle, S. (2010). *Stakeholder theory: The state of the art*. Cambridge: Cambridge University Press.
Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review, 24*(2), 191–205.
Gjolberg, M. (2009). Measuring the immeasurable? Constructing an index of CSR practices and CSR performance in 20 countries. *Scandinavian Journal of Management, 25*(1), 10–22.
Habisch, A., & Loza Adaui, C. R. (2013). A social capital approach towards social innovation. In T. Osburg & R. Schmidpeter (Eds.), *Social innovation: Solutions for a sustainable future* (pp. 65–74). Heidelberg: Springer.
Habisch, A., Patelli, L., Pedrini, M., & Schwartz, C. (2011). Different talks with different folks: A comparative survey of stakeholder dialogue in Germany, Italy, and the U.S. *Journal of Business Ethics, 100,* 381–404.
Harrison, J. S., & St. John, C. H. (1997). *Strategic management of organizations and stakeholders*. Cincinnati: South-Western Publishing.
Heugens, P. P. M. A. R., van den Bosch, F. A. J., & van Riel, C. B. M. (2002). Stakeholder integration—Building mutually enforcing relationships. *Business & Society, 41*(1), 36–60.
Jones, T. M., Felps, W., & Bigley, G. A. (2007). Ethical theory and stakeholder related decisions: The role of stakeholder culture. *Academy of Management Review, 32*(1), 137–155.
Kaler, J. (2002). Morality and strategy in stakeholder identification. *Journal of Business Ethics, 39*(1–2), 91–100.
Kamal, M., Weerakkody, V., & Irani, Z. (2011). Analyzing the role of stakeholders in the adoption of technology integration solutions in UK local government: An exploratory study. *Government Information Quarterly, 28*(2), 200–210.
Kaptein, M., & van Tulder, R. (2003). Toward effective stakeholder dialogue. *Business and Society Review, 108*(2), 203–224.
KPMG. (2013). The KPMG survey of corporate responsibility reporting 2013. http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf. Accessed 14 Jan. 2014.
Liu, K. (2000). *Semiotics in information systems engineering*. Cambridge: Cambridge University Press.
Logsdon, J. M., & Yuthas, K. (1997). Corporate social performance, stakeholder orientation, and organizational moral development. *Journal of Business Ethics, 16,* 1213–1226.
Longo, M., & Mura, M. (2008). Stakeholder management and human resources: Development and implementation of a performance measurement system. *Corporate Governance, 2,* 191–213.
Magness, V. (2008). Who are the stakeholders now? An empirical examination of the Mitchell, Agle, and Wood theory of stakeholder salience. *Journal of Business Ethics, 83*(2), 177–192.
Maurer, M., & Sachs, S. (2005). Implementing the stakeholder view: Learning processes for changed stakeholder orientation. *Journal of Corporate Citizenship, 17,* 93–107.
Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review, 22*(4), 853–886.

Morhardt, J. E. (2010). Corporate social responsibility and sustainability reporting on the internet. *Business Strategy and the Environment, 19,* 436–452.

O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.

O'Riordan, L., Jonker, J., & Marsh, N. (2013). The missing link in corporate responsibility: Connecting for sustainable growth. KCC White Paper 1, Essen. http://www.fom.de/fileadmin/fom/kc/kcc/KCC_White_Paper_1_ONLINE.pdf. Accessed 22 Jan 2014.

Palazzo, B. (2010). An introduction to stakeholder dialogue. In M. Pohl & N. Tolhurst (Eds.), *Responsible business: How to manage a CSR strategy successfully* (pp. 17–42). Hoboken: Wiley.

Plaza-Úbeda, J. A., de Burgos-Jiménez, J., & Carmona-Moreno, E. (2010). Measuring stakeholder integration: Knowledge, interaction and adaptational behavior dimensions. *Journal of Business Ethics, 93*(3), 419–442.

Podnar, K., & Jancic, Z. (2006). Towards a categorization of stakeholder groups: An empirical verification of a three-level model. *Journal of Marketing Communications, 12*(4), 297–308.

Post, J. E., Preston, L. E., & Sachs, S. (2002). Managing the extended enterprise: The new stakeholder view. *California Management Review, 45,* 6–29.

Preble, J. F. (2005). Toward a comprehensive model of stakeholder management. *Business and Society Review, 110*(4), 407–431.

Rueda-Manzanares, A., Aragón-Correa, J. A., & Sharma, S. (2008). The influence of stakeholders on the environmental strategy of service firms: The moderating effects of complexity, uncertainty and munificence. *British Journal of Management, 19*(2), 185–203.

Schaltegger, S., & Wagner, M. (2006). Integrative management of sustainability performance, measurement and reporting. *International Journal of Accounting, Auditing and Performance Evaluation, 3*(1), 1–19.

Sharma, S., & Vredenburg, H. (1998). Proactive environmental strategy and the development of competitively valuable organizational capabilities. *Strategic Management Journal, 19*(8), 729–753.

Simmons, J., & Lovegrove, I. (2005). Bridging the conceptual divide: Lessons from stakeholder analysis. *Journal of Organizational Change Management, 18*(5), 495–513.

Tashman, P., & Raelin, J. (2013). Who and what really matters to the firm: Moving stakeholder salience beyond managerial perceptions. *Business Ethics Quarterly, 23*(4), 591–616.

Van Buren, H. (2001). If fairness is the problem, is consent the solution? Integrating ISCT and stakeholder theory. *Business Ethics Quarterly, 11*(3), 481–499.

Vilanova, L. (2007). Neither shareholder nor stakeholder management: What happens when firms are run for their short-term salient stakeholder? *European Management Journal, 25*(2), 146–162.

Vos, J. F. J. (2003). Corporate social responsibility and the identification of stakeholders. *Corporate Social Responsibility and Environmental Management, 10*(3), 141–152.

Walsh, J. P. (2005). Book review essay: Taking stock of stakeholder management. *Academy of Management Review, 30*(2), 426–438.

Weber, M. (2008). The business case for corporate social responsibility: A company-level measurement approach for CSR. *European Management Journal, 26*(4), 247–261.

Wheeler, D., & Elkington, J. (2001). The end of the corporate environmental report? Or the advent of cybernetic sustainability reporting and communication? *Business Strategy and the Environment, 10*(1), 1–14.

Wheeler, D., & Sillanpää, M. (1997). *The stakeholder corporation: A blueprint for maximising stakeholder value*. London: Pitman.

World Business Council for Sustainable Development. (2010). The WBCSD's approach to engagement. http://www.wbcsd.org/DocRoot/xxBp16bdV46Ui2JpR1CC/stakeholder.pdf. Accessed 14 Jan. 2014.

Creating Sustainable Enterprise Using the Substantive Innovativeness Model

5

Teresa Bal-Woźniak

Contents

5.1 Introduction 90
5.2 Key Factors Connecting CSR with Innovation and Innovativeness 91
5.3 Why the Subject-Orientated Approach to Innovativeness and the Re-definition of Innovation? 94
5.4 The Structure of the Subject-Orientated Model of Innovativeness 96
5.5 The Conditions for Deriving Social Benefits from the Subject-Orientated Model of Innovativeness 101
5.6 Conclusions 105
5.7 Summary 106
References 107

Abstract

The purpose of the chapter is to identify theoretical and methodological arguments regarding the relationship between innovativeness and the creation of future sustainable enterprises. The chapter is divided into three parts. In the first part, based on the literature regarding innovation management and corporate social responsibility (CSR), the key factors combining these two areas of exploration have been identified. Particular attention was paid to a new direction of research on enterprises of the future. As a result, an attempt was made to explain the ways of interpreting the concept of sustainable enterprises. In the second part, methodological arguments regarding perceptions of

T. Bal-Woźniak (✉)
Department of Enterprise, Management and Eco-Innovation, Rzeszów University of Technology, Powstań ców Warszawy 10, 35-959 Rzeszów, Poland
e-mail: wozniakt@prz.edu.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_5

innovation and innovativeness have been included. This approach facilitates the combination of the two key concepts in the chapter: innovativeness with CSR. It is based on the assumption about the necessity of re-defining both innovation and innovativeness as a term. The research on these notions has led to constitute the subjective model of innovativeness, which includes the subjectivity of the participants of management process. This encompasses four elements: Conscious, emotional, cognitive, and behavioural, which provide directions in the scope of creating sustainable enterprises. In the third part of the chapter, the conditions of using the subjective innovativeness model for creating sustainable enterprises functioning in a greatly turbulent environment have been presented. The chapter concludes with a summary and conclusions on the resulting considerations.

5.1 Introduction

The creation of sustainable enterprises is discussed here as a socially mature management practice that connects the strengthening of competitive ability with corporate social responsibility (CSR). The author argues that in order to successfully implement this type of strategy it is beneficial to accept the subject-orientated approach to innovativeness which needs to be introduced into business practice (Bal-Woźniak 2012). This approach is better at facilitating the strengthening of competitiveness than the object-orientated approach. It is assumed that a successful sensitisation to social matters requires, above all, the integration of stimuli and the elimination of constraints on people's activity during the innovation process at micro- and macro-level and in relation to the development goals of all spheres of human existence.

The need for a subject-orientated approach to innovativeness stems not only from the above-mentioned assumption. This need is defined by premises related to the conditions for economic system efficiency, which is open to the external competition of the national economy under the influence of the achievements of an information-telecommunication revolution. On the micro-economic level, it is also defined by real processes connected with the increasing importance of soft factors, such as human capital or social capital, and new challenges to the successful realisation of the business goals of enterprises that result from them. In a social dimension, a key force of innovativeness is the increasing demand for the improvement in the quality of life of the information society. Additionally, we cannot disregard the issue of challenges and environmental threats (Rangers 2012). From them stems the need to build a creative space and micro-models of creating knowledge to prevent the threats of self-destruction and to manage these challenges and dangers (Wierzbicki 2007, pp. 385–416).

The main topic of this chapter is discussed in terms of a process and a new trend in management, the so-called Positive Organisational Discipline in Management Research (Cameron 2005, pp. 394–429). The positive potential underlying it emerges thanks to the following transformational factors:

- The organisation's mission, vision, and strategy attributing equal importance to the economic, social, and environmental issues;
- Transformational leadership whose source includes internal changes of the economic agents and a positive organisational culture, as well as a positive organisational climate;
- Transactional resources such as a structure, systems, and motivational tools constitute the ground on which positive development resources can grow. Accordingly, they represent the missing links which this chapter addresses.

This chapter has a descriptive and normative character due to the fact that we need to present the subject-orientated model of innovativeness, which is unknown to the reader, as a tool of CSR implementation. The chapter discusses this model in detail, as well as the social benefits that result from it and the institutional conditions of achieving them.

5.2 Key Factors Connecting CSR with Innovation and Innovativeness

Nowadays, such processes as the development of information and telecommunications technologies (ICT), the expansion of social and economic networks on an international scale and the dissemination of globalisation of liberalisation are highly important for business. These processes influence the changes in the nature of competition, which can be observed in searching for the sources of competitive advantage in synergistic effects of different types of innovations, for example of a technological, organisational, product, marketing and financial nature. Due to the growing intensity of the competition, innovation and innovativeness have become fundamental economic categories which determine the competitive advantage of enterprises. In this context, scientific, political, and social discourses are conducted on the knowledge-based economy, the new economy, or, as Michael Porter describes it, the innovation-driven economy (Porter 1998, pp. 552–556).

The acceleration of the modernisation processes connected with their emphasis on innovativeness evokes not only undeniable benefits, but also new social problems linked to the fact that current economic and social structures are lagging behind. Thus, there is destruction, a selection, and an increase in variability and variety. Therefore, we can observe the following issues: an increase in unemployment; a growing inequality in the access to wealth; cultural conflicts; and an exclusion of whole social groups from the modernisation process. On the other hand, the all-embracing influence of ICT and the dissemination of digital technologies cause an individualisation of social life and de-humanisation of society. The digital division, together with the inequality in the access to ICT, also poses a threat to innovativeness directed at economic, ecologic, and social sustainable development as it deprives people excluded from the information society of the chance to produce and consume resource-efficient wealth (Castells 2003, pp. 299–300).

The critics of globalisation emphasise that those entities which do not have a suitable potential of intellectual capital but function under conditions of high distrust, which is created by the axiological drama of globalisation (Woźniak 2006, pp. 14–24), are bound to be excluded. However, those enterprises that are subordinate to global competition operate in an environment with a high level of risk, huge mergers, take-overs and changes on the line: Political authority—techno-structure—society (Toffler 1990) and where the concept of competition has been distorted by transnational corporations. In such an environment, fundamental significance is given to the pace and the scope of access to knowledge, as well as the innovation potential and the possibility to unlock it.

The reduction of the local variety due to the increasing internationalisation of business activity raises a question about the barriers to innovativeness caused by globalisation. What is meant here are axiological foundations of innovativeness and their relations with subjectivity, the division of benefits stemming from globalisation, the perspectives of home-based enterprises and local communities benefiting from the inclusion in the internationalisation of the economy, as well as a greater role of innovativeness in these processes.

The new division of the world differentiates the innovation potential. This division results from various abilities of different social groups, whole local communities and countries to absorb the chances offered by the internationalisation of behavioural institutions (Casper and van Waarden 2005). The formation of international capital groups, when there is a tendency for transnational corporations to monopolise the world market, simplifies, in fact, the diffusion of innovation but it also causes social problems. The incredibly dynamic development of enterprises in the science-based sectors is related to the migration of capital and the so-called brain-drain. Those who become the producers of innovation are mostly huge corporations. Asymmetrical competition in favour of the interests of transnational corporations strengthens their innovation potential and facilitates the diffusion of innovation. However, it can simultaneously curb the innovation potential of other market participants. It facilities the migration of human capital to transnational companies, the infantilisation of consumption (Barber 2007) and it weakens the possibility to protect consumer interests by national governments. Better utilisation of endogenous resources in the developed countries is accompanied by a simultaneous decrease in the efficiency of the convergent policy of social, economic, and territorial cohesion (WDR 2009).

Taking these problems into consideration, we should search for a solution in creating favourable operating conditions for a special type of enterprise: Sustainable enterprises, which operate on the basis of sustainable entrepreneurships (Schaltegger and Wagner 2011, pp. 222–237) and in the form of innovative enterprises strategically orientated at achieving the goals of sustainable development. This refers to the integration of development processes on a personal level, as well as on micro- and macro-levels and in future generations. Integrated development in this understanding is something more than economically, socially, and ecologically sustainable development as it refers, first of all, to the well-being of an individual (an employee, a manager, and a consumer) achieved by the harmonisation of development goals in all the spheres of their existence, i.e., economic, technological, social, spiritual, as well as the spheres of nature and biology, consumption, mind and power. Consequently, it refers to the triply sustained development as a result of the dissemination of innovative competencies.

Innovations based on information and telecommunications technologies facilitate the development of network structures which integrate vertical and horizontal relations (Trott 2008). That is why it is assumed that the network expansion of economic entities offers an opportunity for institutionalisation that is rooted in social responsibility and which requires respecting the subjectivity by the network users. Thanks to that, it becomes possible for those groups of entities (employees, contractors, and consumers) which have not participated so far in the innovation processes to participate in them and to become active. The expansion of economic networks does not constrain competition—it strengthens it among the network structures and facilitates an increase in the degree of internationalisation.

In the face of threats and changes resulting from the expansion of economic networks and the dissemination of new technologies, a question appears about the sensitisation of the business sphere to social problems and about launching the mechanisms of CSR.

The idea of CSR, which was initiated in the United States, has evolved over the years. Its path of development can be briefly presented as follows: It started with the first discretionary behaviours of private owners and shareholders (at the turn of the nineteenth and twentieth centuries and during the time of the First World War), through government acts protecting investors, small entrepreneurs, and employees (within the framework of F. D. Roosevelt's policy of 1932 (Skocpol and Finegold 1982)) and later De George's concept of the responsibilities of international business (De George 1993), to the European social manifest of Jacques Delors in 1995, as well as the current policy of social, economic, and territorial cohesion and the emphasis on environmental issues.

Referring to the main problem discussed in this chapter, we should highlight the importance of the Lisbon Summit in 2000. During this summit, CSR and innovativeness became priorities which resulted in drafting the appropriate documents (European Commission 2001).

Lately, we can observe the frequent replacement of CSR by the practices of sustainable development which take the form of sustainable businesses or sustainable enterprises. The World Business Council for Sustainable Development in co-operation with the International Institute for Sustainable Development define the sustainable development of an enterprise in the following way: "For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future" (IISD, Deloitte and Touche, & the World Business Council for Sustainable Development 1992). It means "managing the triple bottom line", a process by which companies manage their financial, social, and environmental risks, obligations, and opportunities (in short: profits, people, and planet).

The concept of sustainable development from an enterprise's perspective is characterised by a search for an answer to the question about the ways of including in the business activity the interests of other economic agents—stakeholders. From this perspective, studies are conducted on three levels: the analysis of the organisation's relations with stakeholders; managing the triple bottom line and on the level of Corporate Social Performance (Chen and Delmas 2011, pp. 789–804).

There are various ways of implementing the paradigm of sustainability into the mechanisms of the management of business entities and there is even a greater variety in tools with which it can be achieved (Shrivastava et al. 2013, pp. 230–244). In the innovation-based economy, in the context of CSR, the fundamental problem is the dissemination of innovative behaviour because through this, both attributes of the economic system (CSR and innovativeness) exist and can be achieved regardless of whether this is perceived through the micro- or macro-prism.

5.3 Why the Subject-Orientated Approach to Innovativeness and the Re-definition of Innovation?

If the hypothesis about the appreciation of the subject-orientated aspect of innovativeness is accepted, then this category is perceived through the prism of development goals on the whole, as well as the preferences of an individual who plays simultaneously different roles (e.g., family, professional, and social) and participates in factual and regulatory processes. The subjectivity of a person is defined as their specific activity undertaken and performed in accordance with their developmental aspirations while simultaneously respecting the development aspirations of other people. Respecting subjectivity in business relations means that a human being as a person may improve their internal development potential without any interference from the economic system. Thanks to that, the person playing different roles can recognise, evaluate and understand situations in the context of acquired knowledge, interpret possibilities, and take responsibility and action while feeling free and autonomous. We can assume that innovativeness resulting from respecting subjectivity, as a potentiality, is limited by the ways of thinking, belief systems, conventions, customs, and habits that were adopted earlier, i.e., the rules of the game in a society. Therefore, a question appears about the possibility of institutional adjustments to the needs of respecting the subjectivity and thereby creating sustainable enterprises through it with the use of the subject-orientated model of innovativeness. Its full description requires a re-definition of innovation in order to infuse it with the spirit of CSR.

The proposed definition should classify as innovation any implemented changes characterised by novelty whose sum of effects in different spheres of human existence is positive on a personal and social dimension, as well as on an intra- and inter-generational one.

A novelty treated as a structural element of innovation is a multi-faceted issue but, at the same time, it is the most evident attribute of innovation (innovations and imitations, innovations as the first use of an invention, novelty on the world scale, radical innovations, breakthrough innovations, novelty on the enterprise scale, or novelty within the scope of a certain job position).

The positive sum of effects in different spheres of human existence in a personal and social dimension over a long period of time is a condition which gains importance in the context of CSR and sustainable enterprises. The appreciation of the economic benefits only, as usually happens in practice, could pose a threat of an excessive risk to the usefulness of innovation in terms of the need to harmonise economic development with the development in the following spheres: social, nature and biology, spiritual and political and, consequently, in the technological sphere and the sphere of consumption. It would also cause the depreciation of problems stemming from other spheres of human existence as a result of subordinating them to instrumental rationality. However, a human being acts, first of all, intentionally (purposefully) and due to the problems with the scarcity of resources and in the face of the risk of survival, they take actions that rationalise the costs. Only in this context, may instrumental rationality become a moral virtue and gain value to appreciate CSR.

Due to the cognitive, informational, and emotional limits, the above-mentioned sum of effects can be understood in the categories of probability. *Homo agens institutionalist* (Chmielewski 2011, p. 447) is not capable of full instrumental rationality and, at most, may minimise the risk and the uncertainty. The individual's choices oscillate between satisfying their own needs and acting on behalf of the common wealth (Glance and Huberman 1994, pp. 58–63). The key to this behaviour lies inside the institutional structure of human societies. Thus, it is all about the human being who, in their innovative activity, would want and be able to make this calculation of effects not only through the prism of self-responsibility, but also in the spirit of the intra- and inter-generational responsibility. Innovation defined in such a way, and innovativeness, are conditions and indications of development in the contemporary economy and in all other dimensions of human existence. Thanks to that, under the conditions of even scarcer material resources, the quality of life may improve and may overcome this barrier.

The activation of the human potential of innovativeness and its multiplication requires, however, the fulfilment of complementary conditions which are rooted in the structure and the quality of physical, human, organisational, and social capital, the access to the financial capital and the micro- and macro-economic mechanisms of absorbing innovation, stimuli and limitations encoded in the institutions as principles of thought and action, as well as regulatory mechanisms and tools, and in co-ordination procedures. In other words, organisations must feel the pressure of the demand for innovation, as well as the threat to their competitive position or even survival. This means that the superior indicator of the evaluation criteria of an economic system's efficiency must be the ability to activate the innovation-potential of the economic agents.

However, the innovation potential must be properly stimulated and gradually released with the help of suitable management tools so that it can inspire positive behaviour among the company's employees that would foster the organisation's development. Apart from the tangible components of this potential (the completeness and attractiveness of employee benefits, easy access to information and knowledge resources, social and existential infrastructure facilitating the well-being of employees), the most important are the intangible assets. They are encoded in the strategy, the models of human resources management, the organisational culture, leadership, the democratisation of management, the inte-

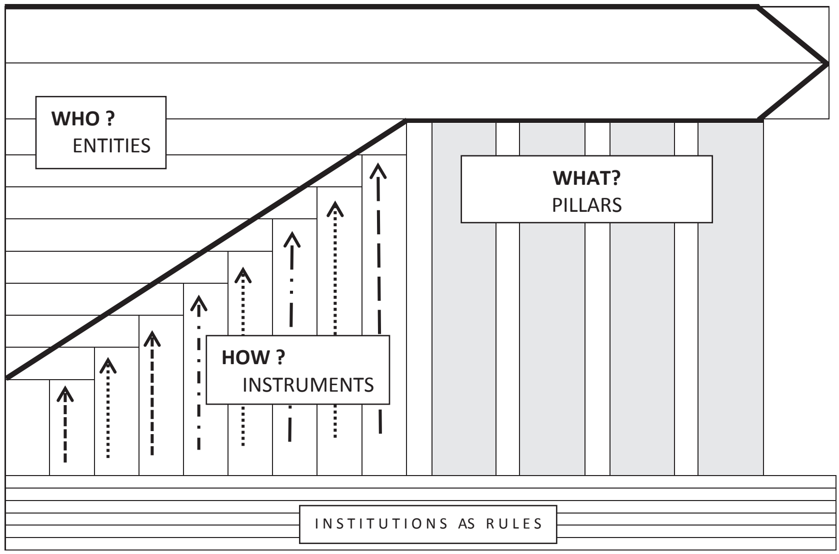


Fig. 5.1 Range of potential solutions of the subject-orientated model of innovativeness

gration and employees' identification with their company.[1] Crucial for the dissemination of innovative behaviour are, above all, the characteristics of the subject-orientated model of innovativeness.

5.4 The Structure of the Subject-Orientated Model of Innovativeness

Innovativeness in its subject-orientated model is not only a means of accomplishing business goals, but also a condition for implementing the subjectivity and development goals of a transgressive human being (capable of crossing mental, social, and symbolic boundaries), and thereby influencing their sense of life and dignity.

The range of potential solutions of the model of innovativeness presented is marked by the answers to the following three questions (Fig. 5.1):

The answer to the WHAT question shows detailed innovative competencies rooted in human subjectivity and corresponding to four stages of the process of reaching innovative maturity. They are depicted by four pillars of the model, namely, consciousness, emotional, cognitive, and causative (behavioural) pillars and their matching components: *know, want, can*, *be able to* (Fig. 5.2).

Consciousness pillar—the *know* component—is a reservoir of knowledge composed of accumulated knowledge, especially that which fosters the perception of development challenges and situations which require innovative action. The concept of consciousness

[1] They are broadly discussed in the literature, e.g., Cameron (2005).

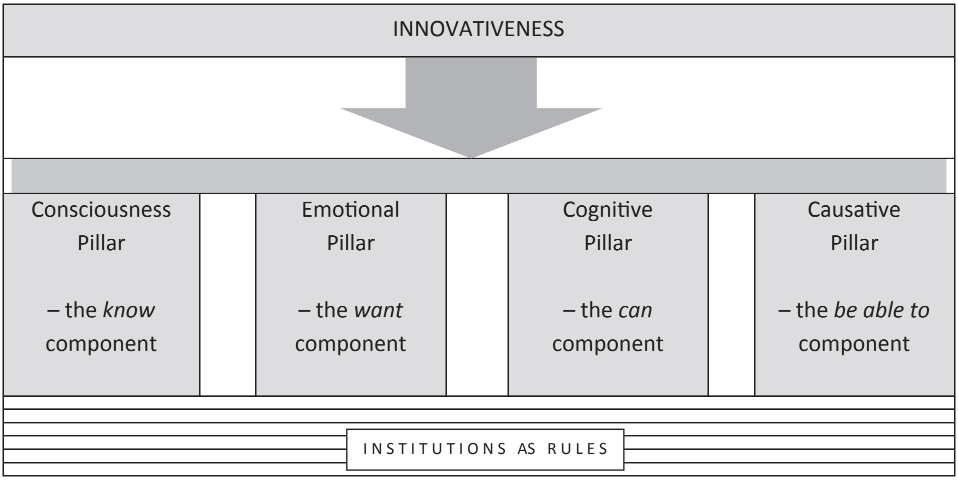


Fig. 5.2 Pillars of innovativeness (components of the analytical model)

appears here mainly in the meaning of the selectivity of attention. The consciousness competencies also include concepts and judgments as representations of traits or relations that we do not perceive with our senses, e.g., the concept of responsibility, cause and effect relationships. Therefore, a necessary condition to build this pillar in the discussed model of innovativeness is reaching a certain level of consciousness which enables rational transgression.

Emotional pillar—the *want* component—is a generator of motivation to use knowledge. It reflects the readiness to engage in a search for new solutions. A free individual equipped with knowledge and a system of signposts and who has reached a certain level of consciousness, may but does not have to engage in change (especially if they do not see any personal benefits in such an engagement or they are aware of the uncertainty related to the change and its connected risk). The will to engage may be strengthened by internal and external motives triggered independently from the individual and created by co-workers reinforcing the feeling of success from engagement, purposefulness, and the sense of assuming responsibility or the need to avoid failure.

Engagement depends on many features, among others; creativity, flexibility, communicative skills, constructive criticism, risk-taking, etc. All these features influence the creation of the so-called motivational "ammunition" which is important in every type of activity, but essential in the innovative activity. The matter of the readiness to engage is explained by the concept of a human being who got accustomed to the acts of transgression. It denotes the readiness to constantly broaden the scope of one's physical and intellectual capabilities, moving the boundaries of cognition, and breaking stereotypes in order to satisfy the need for achievement, which is sometimes very apparent. The acts of transgression are not reserved only for extraordinary people (the elites, geniuses), but they "belong" to ordinary people, as this is "a fundamental disposition of human nature". The condition under which this disposition appears has reached a certain level of motivational maturity. We should look for its source not in the genetic pre-dispositions, but in the positive organisational culture and the positive organisational climate, as well as other specific cultural institutions which enable people to co-operate in the face of innovative risk.

Cognitive pillar—the *can* component—encompasses competencies, i.e., knowledge and the abilities to use it, including the ability to conduct innovative activity. It plays the role of a mechanism of selecting information, knowledge, and motivators, as well as confronting them with the context of their environment. Therefore, it determines the ability to think effectively especially in unpredictable and unsure situations. Thus it constitutes intelligence, cognition, efficiency in decision-making, and the ability to purposefully integrate research achievements for a successful decision process. In a certain organisation, innovative competencies are a derivative of the profiled education acquired by managers and contractors, as well as their knowledge obtained thanks to continuous learning and their experience. Thus, they depend directly on the process of learning and its efficiency, which appears as certain cognitive competencies.

Causative pillar—the *be able to* component—encompasses possibilities in a general sense, i.e., ways to make something happen or dispositions of different kinds that facilitate achievements in a given discipline. Possibilities to use creative dispositions in the spirit of intra- and inter-generational responsibility may appear if certain systemic, technical, economic and financial conditions are fulfilled. It is about the use of “one’s own dispositions” joining the search process for these abilities, removing their barriers, and launching the driving forces of innovative dispositions together with the search for the funding sources of new solutions. These dispositions are complemented by the results of the “learning process” within the framework of previous pillars. Therefore, together with the already-shaped consciousness, readiness to engage oneself, as well as the knowledge and skills to apply these, those dispositions may increase the efficiency of an innovation process that is in progress.

The separate pillars in this model constitute an internally integrated category of innovativeness. Their complementarity is essential if we wish to leverage this positive innovative potential in practice in an organisation.

Regarding the answer to the question WHO, the analysis of each component of innovativeness (constituting the components of the analytical model) refers to entities understood as:

- Personal entities, i.e., people as employees, managers, representatives of the authority, as well as participants of organisations other than the economic ones (teachers, educators, parents, priests, lawyers, clerks, and politicians);
- Institutional entities, i.e., business and research organisations, local authorities, and others appointed to enforce and respect a certain order designated by all behavioural institutions specific to this particular entity (e.g., entities of public utility and of civil society, churches).

In the context of the question WHO a complicated problem of multi-level innovation management appears. Its solution is connected with the answer to the question HOW. The content of the answer does not exhaust the agreement regarding the procedures, tools, regulatory mechanisms (management and governance), and control (self-control), i.e., the instruments of management influence applied within the management systems, governance, administration, and leadership. These elements of management must be integrated into a cohesive whole that works effectively and efficiently, without unnecessary frictions that can generate synergy effects and equivalence in order to connect innovativeness with CSR.

The instruments of "management" influence, from the level of an enterprise, are connected with:

- Innovation management directed at shaping and disseminating innovative behaviour, activating learning processes, infusing organisational behaviour with the features of innovative behaviour (using area management of the following type: human resources management, innovation management);
- Shaping inter-organisational relations with organisations from the business sector environment;
- Harmonising the enterprise's goals with those organisations from the enterprise's distant business environment.

Shaping relations and harmonising goals have a character of inter-organisational management. However, the types of organisations with which an enterprise builds relationships cause some important differences to appear. The concept of inter-organisational management is associated with the coordination of actions of different business partners, and these partners frequently come from various organisational forms and even more often from different networks as well. The co-ordination of partnership co-operation for innovation management can come down to shaping relations with organisations from the external environment based on the concept of open innovation.

Connections that have a character of inter-organisational co-operation are also made by public institutions. Moreover, the co-ordination of mutual activities of business organisations, non-governmental organisations, government organisations, local, and international organisations for innovation management can come down to harmonising goals with the use of experience from implementing in the multi-level management system, namely, multi-level governance (Hooghe and Marks 2003, pp. 233–234; Piattoni 2009, pp. 163–180).

It should be emphasised that innovativeness as understood in its subject-orientated model is treated as a universal competence which is shown in the attitudes and behaviour of the participants in real processes of all spheres of human activity, not only in the economic sphere. Apart from those dispositions, innovativeness appears simultaneously in many other contexts, such as the context of innovation maturity, intellectual capital (as its component and as a generating factor) and, above all, in the institutional context. The institutional context depends mostly on the use of the subject-orientated model of innovativeness in order to create sustainable enterprises capable of functioning in a highly turbulent society.

The activity of every organisation influences its internal and external environment. That is why a problem emerges with the responsibility of an organisation in the sense of a moral duty, legally sanctioning actions and bearing consequences for them collectively and individually, as well as for the organisational culture.

The responsibility inside the organisation is expressed in the creation of such a space for action that facilitates initiatives, activity, and creativity in order to inspire the engagement of particular employees in achieving goals within a given field of responsibility. Taking responsibility and action develops competencies in people, which subsequently stimulates the development of competencies in other people. In general, people with suitable competencies are necessary for an organisation to effectively operate and these competencies become very important in the innovation-based economy. Therefore, there is a demand for management through responsibility, which helps learning organisations to emerge because it is orientated at launching the "spiral of competencies". The effect of this spiral is strengthened as a result of giving people responsibility together with privileges (Covey 1989). Thus responsibility is in a way natural and obligatory in the innovative activity because it can be disseminated by it. It should be noted that the sole fact of giving responsibility is a sign of management innovativeness. Internal responsibility results from economic premises and it is subordinate to cost-effectiveness criteria. It is defined by the goals set by the organisation owners and its managers. Due to the fact that an organisation influences the external environment, internal responsibility is integrally connected with the social mission of the company, which is always visible in the organisation's mission and vision statement. The long-term sense of an organisation's existence is fulfilled by supplying values that can satisfy the needs of stakeholders, as well as increasing the quality and variety of those needs. The social meaning of innovation and innovativeness is also expressed in this way. From the perspective of the innovation-based economy, CSR should be connected, above all, with integrated management actions based on the principle of respecting the interests of all entities operating in a given environment because, as highlighted earlier, the effects of destruction and selection of innovations are multi-spherical and multi-level. However, the economic organisation respecting responsible behaviour considers CSR its duty towards the goals appropriate for the social sphere due to its benefits for the economic sphere. This responsibility would be fragmentary and defective if it were not simultaneously related to consequences that may affect the development goals of other spheres of human existence, i.e., spiritual and technological spheres, spheres of knowledge, nature and biology, power and consumption (Woźniak 2014). This is not about smart management equipped with the language of ethics and morality. Thinking outside this scheme of management is connected with re-formulating the goals of existence and the actions of companies, systems, and their structure (Kelly and White 2009, pp. 23–27).

The subject-orientated model of innovativeness aims at disseminating innovative behaviour and, that is why its implementation is connected with the improved quality of human and social capital, increasing the population that understands the costs and benefits of innovation and increasing the chances to integrate management processes with participative management. As a result, we can expect the following changes:

- Improved climate for harmonising individual development goals with business goals and vice versa;
- Orientation of innovative action for socially responsible innovation (innovation-driven CSR-driven innovation);
- Better use of innovation for socially important goals (innovation-driven CSR);
- Better use of business interests targeted at the public interest;
- More responsible management of sustainable development thanks to a broader access to the innovative potential of enterprises and human resources that have this potential. These possibilities stem from the fact that an intentionally subject-orientated model of innovativeness is orientated at harmonising business, personal, and social benefits by respecting self-responsibility together with the inter- and, intra-generational responsibility.

5.5 The Conditions for Deriving Social Benefits from the Subject-Orientated Model of Innovativeness

The usefulness of a particular concept of a sustainable enterprise, which is maintained thanks to the subject-orientated mechanism of innovativeness, and, in doing so, simultaneously facilitating sustainable development by ensuring the realisation of the goals of CSR, is conditioned by the following:

- The level of adjusting the concept to the specificity of a given enterprise (implementation);
- Cohesion of the implementation project;
- Institutional support through external and internal norms.

The implementation of the subject-orientated model of innovativeness and its possible forms in an enterprise depends on the level of development (the level of modernity) of already-established transactional resources, such as structure, functional systems, and tools for employee motivation. In theory and in practice, the new organisational and management solution for people that can be achieved by people must be adjusted to the natural mechanisms of human behaviour, the organisation's mission statement (i.e., its social mission), and the concepts of management that foster the realisation of business goals (of owners and managers). If, in this triad, the instruments of management influence can be adjusted, then there is a place among them for practicing CSR. In the context of innovativeness, the adjustment to the natural mechanisms of human behaviour means, in practice, determining and considering the level of acceptance or the strength of resistance to "the new" by the enterprise's community. Here the level of "rooting" of the so-called internal CSR appears, therefore, to be the scope of socially responsible activities towards employees. It is necessary to explicitly connect this scope of activity with innovativeness, the encouragement of pro-innovation attitudes and behaviours with the help of the company's system of innovation management. The subject-orientated model of management requires, however, inter-locking innovation management with the management of responsibility. There is a place in this model for adjustment to the concepts of management that already function in an enterprise by using the previously established practices and applied instruments of management influence within the framework of human resources and innovation management.

The cohesion of the implementation project denotes, in practice, a situation in which project solutions will not block or will not be blocked by practices that were earlier regarded as desired and included in the business strategy. The subject-orientated approach to innovativeness, due to a high level of generalisation, may be perceived as a "breakthrough" in the philosophy of organisational management. Therefore, in order to achieve cohesion, it requires re-evaluating the foundations of various sub-systems.

In practice, the cohesion of objects is usually achieved by introducing an identical element, which may play the role of an integrating factor (thus, it can be treated as a condition for cohesion). However, cohesion is a fuzzy concept, that is why it cannot be discussed in terms of a "yes-no" arrangement. It has a relative character because it is the product of relations between objects that affect each other (systems, sub-systems, and other elements of an object or its structure). Therefore, cohesion is a dynamic category and, in general, it diminishes under the influence of various factors, especially if the system is left with no supervision, no power supply, no constant observation of whether its behaviour is compliant with goals and changing conditions (internal and external), and with no appropriate "maintenance and modernisation".

A sign of appreciation of cohesion, or of complying with this requirement, is to find the implementation project on mechanisms which will ensure the possibility of its existence in a given time and which will generate certain benefits. The procedural requirement of cohesion (as an integrating factor) was highlighted in the previous paragraph. However, the logic of how mechanisms operate may be cohesive or divergent with the goals for which they were launched. If there is cohesion, then changes made in some elements of the system cause or require changes in other elements of the same system. Therefore, we repeat here the apparent postulate of this chapter, which right now refers to the mechanism that underlies the cohesion of the implementation project. The cohesion and the continuance of a project are conditioned by its social purposefulness, as well as natural mechanisms that start up spontaneously under the influence of impulses coming to the economic agents from their closer and distant environment, and of elements of management influence which act as instruments that stimulate but do not impose certain behaviours.

The institutional support of the process of creating sustainable enterprises with the use of subject-orientated innovativeness signifies the need to objectify innovativeness in the principles of thought and action. Innovativeness here stems from the understanding of institutions as norms and principles guiding people's behaviour and the relations among them, and leading to a behaviour which ensures finding better ways of solving problems under changing conditions. Rules become institutions when they are disseminated and when, at the same time, they convince people that they are the best solution under given conditions.

From the point of view of an enterprise's competitiveness, it is important to emphasise the innovativeness of employees, managers, and owners. However, in order to successfully eliminate the intensifying threats of the future, a holistic approach to innovativeness and its understanding, as well as the use of a generational approach is necessary. This requires an answer to the question about multiple sources and barriers to the capability of being innovative attributed to different generations of all social groups (parents, pupils, students, adults, employees, entrepreneurs, politicians, local, municipal, and national government authorities).

The role of institutional conditions in the context of innovativeness is at least two-fold. They may foster or hinder the introduction of innovations. However, in this chapter, rules as institutions are highly important for determining certain human dispositions that influence innovative behaviour (emerging within the framework of particular pillars of innovativeness). The possibilities of strengthening the internal determinants of an individual's innovativeness, which stem from the pillars of the subject-orientated model, are shaped by a complex mosaic of stimuli and constraints, within which the learning-process takes place. They are encoded in the external and internal norms shaping the principles of thought and action. Even though the external norms, which are encoded in laws, regulations, plans, ethical codes, and implementation procedures, can be changed and adjusted to emerging problems, the informal rules may limit their flexibility as they stem from the approved ways of thinking, habits, conventions, belief systems, and respected values. What is expressed through the informal norms is the influence of the past on the present and on the future, thus the "path dependency" (North 2005, p. 19).

The rules of family life are the first element of path dependency, since innovativeness results from the climate of culture and the engagement of individuals. In this sense, responsibility for the level of creativity as a source of individual success, thus innovativeness, is a function of family education and social efforts to adjust it to challenges and threats from the information society and the innovation-based economy. The family is, therefore, the primary level for formulating valuation criteria, the principles of thought and action and the attitudes towards challenges, threats, and changes. In such social efforts in favour of family education, we should also try to find space for business activity. A beneficiary of this education is, above all, the business sphere, which is supplied by the family, under unequal conditions, with human, social and, possibly, innovative potential.

Education takes place at the level of the family, school, through religion, the business sector, the law and politics. This means that the resources of the pillars of innovativeness may and should be created and developed at these levels. Educational standards are formulated mostly by the educational system of all levels. In order for them to be efficient in relation to the development goals of all spheres of human existence (economic, social, political, technological, axiological, consumption, mind, nature, and biology), and in an arrangement of changing coincidences, what is necessary is an integrated approach to the educational process as well as the connection of its particular elements with the help of multi-level management from birth until old age. If educational standards must be orientated at integrating development processes, they must encompass education that inspires not only imagination, creativity, and entrepreneurship, but also the development of such skills as team work and co-operation. Learning how to take responsibility for one's own actions and how to resign from setting and achieving one's own goals is as equally important as learning professional skills. Moreover, under competitive conditions, it becomes an integral component of these competencies. Educational standards cannot ignore the issues of solving conflicts by respecting the criterion of social justice (business ethics) and should develop the ability to live in a community, to understand others, their history and spiritual traditions, as well as to respect them in implementing common projects, while concurrently considering responsibility, and not absolving anyone from it.

If we assume that the influence of religion is about strengthening norms and values, and the attitude of engagement and creative behaviour is treated as a value which is worth taking care of, then we can find important motivators of socially responsible innovativeness and social solidarity in the axiological deposit of religion. In the post-modern society, those motivators are commonly under-appreciated due to the resistance of religious institutions to moral relativism, the modernisation of family and the technological revolution (especially the genetic one), etc.

The rules of the economic game are contemporarily determined by institutions orientated at minimising the function of the state in the field of social policy and sub-ordinating to its needs the creation of competitive advantage by increasing the company's assets. At the same time, the mechanism of innovativeness that results from the globalisation of liberalisation does not include, to a satisfactory degree, the social purposefulness of innovations and it favours financial innovations that foster the dissemination of the "financial worldview" (Dembinski 2008, pp. 80–93), which destroys the traditional mechanisms of social capital. The pressure of the principles of thought and action in business that stem from it is imposed also on the economic entities in the European Union, whose economic rules facilitate innovativeness to a lesser degree than those which reflect the Washington consensus (Williamson 1990). It creates an unfavourable climate for the re-institutionalisation orientated at factual and not only formally declared and opportunistic activities in the interest of CSR, as well as ecologically, socially, and economically sustainable development.

In the context of the innovative behaviour of a sustainable enterprise, those solutions that are included in the scope of economic policy, including structural policy, must be connected with the goals of integrated development and be directed at improving the markets (mainly the job market), simplifications in the development of the Research & Development (R&D) sector when it comes to the expenditures for research and development, supporting the transfer of knowledge and technology, as well as the inflow of Foreign Direct Investment (FDI) and the creation of a network of consulting services for business, etc.

Legal norms are impulses and limitations of individual activities, as well as signposts of a space of free choice. However, they do not always lead to socially desired activities as they are the product of a game of (varying) interests in a democratic country. Therefore, good legislation requires ethical and moral rooting if it is supposed to facilitate co-operation in searching for rational and worthy solutions of the conflict of interests. The importance of good legislation understood in this way increases in a world of intensifying competition the access to scarce resources and the pressure on destruction of the existing institutional structures under the influence of globalisation, as well as the dissemination of information technology in communication. Threats to good legislation result also from the difficulties of conducting a reliable full cost-benefit analysis of key innovations, for example, bio-technological and nano-technological ones. Post-modernity additionally creates a climate that fosters the pressure on moral relativism; it undermines responsibility and hands it over to weaker entities. All of this causes difficulties in identifying a rational answer to the question about the effectiveness of an integrated, bottom-up and top-down space design and the directions of people's activity. We should not delude ourselves that the solution to the problem of good legislation lies in a top-down systemic change.

The policy of a democratic country shows in practice that the country is dominated by distributional coalitions (Olson 1971). It leads to a deformity of democracy as a result of a pursuit for rent-seeking and of corrupting politicians by pathologically rich managers and firm owners. A counter-balance to the new forms of exclusion can be found in social network structures. Thanks to the development of networks, there is an easier and faster dissemination of the access to knowledge about the benefits of participatory management and institutions of aware consumers to counteract the interests of huge corporations (Beck 1992, pp. 300–302) which thereby fosters the emergence of more efficient institutions in civil society.

Similar positive influence has the following characteristics: clear organisational structure of public administration, efficient enforcement of responsibility, harsh punishments for corruption and illegal activities, cleaning the economic activity from the surplus of bureaucratic regulations, simplifying administrative procedures, and avoiding discretionary regulations.

5.6 Conclusions

Improving the quality of life is a priority for a contemporary human being. It is, however, expressed and experienced differently depending on the position and the type of social and professional roles. New quality is, in general, connected in every dimension with innovation and innovativeness as an ability to introduce them. In this understanding, the innovative economy offers the possibility for respecting CSR. However, the achievement of positive social and economic goals or—even broader—of development and civilisational goals is accompanied by an intensifying feeling of threat. That is why, a significant moment for the European Union (The Lisbon Summit in 2000) was when innovativeness and

CSR became the priority topics and elements of political programs.[2] The implementation of these priorities requires integrating innovation management at different levels based on the subject-orientated model, in which the innovative competencies of people in the organisation are viewed as the most important. Easy access to these competencies depends on the dissemination of innovative behaviours.

In order to build sustainable enterprises, action is needed in four different directions that is implemented within the framework of multi-level management, with the main role played by the enterprise. Therefore, their use together with the needs of triply sustained development and the social mission of an enterprise in accordance with to the spirit of CSR means that the organisation becomes sustainable. However, it is important to add to that a cohesive institutional system which would create impulses for the emergence of sustainable enterprises based on the subject-orientated model of innovativeness. These actions involve the following activities:

- Building awareness of innovativeness as a valuable instrument of managing challenges and development threats occurring on the personal, micro- and macro-levels;
- Strengthening the feeling of responsibility for demonstrating engagement or its lack;
- Developing competencies within the concept of continuous learning (with special attention being drawn to innovative competencies);
- Creating the praxeological ability to create and use the conditions of implementation.

An innovative economy is created not only by individual cases of innovative enterprises, which were described by Schumpeter at the beginning of the twentieth century, but by a permanent element of the organisational culture (Miller and Brankovic 2010, p. 17). In this situation, the usefulness of the model of innovativeness based on the subject-orientated approach is invaluable at the time when, first of all, the needs and possibilities of introducing innovations embrace all spheres of human activity and, second, when innovation may be used to meet the expectations of different groups of stakeholders, which become more diverse with time, as well as to solve social problems stemming from the acceleration of the modernisation process.

5.7 Summary

The aim of this chapter is to identify the theoretical and methodological arguments concerning the relations between innovativeness, as an ability to introduce innovations, and the creation of sustainable enterprises.

In the first part of the chapter, the key factors linking both of those fields were identified based on the literature on innovation management and on CSR. Here, attention was drawn to the usefulness of the new direction of studies on sustainable enterprises and

[2] European Council, Lisbon Summit 2000, March 23–24.

it was recommended to use their special form—innovative sustainable enterprises—for analysis.

The methodological arguments regarding the subject-orientated way of perceiving innovations and innovativeness were presented in the second part. This approach offers a possibility to link innovativeness with CSR and it is premised on the necessity to redefine innovations and innovativeness. Research focused on these concepts led to the establishment of the subject-orientated model of innovativeness, which takes into account the subjectivity of the economic agents. It encompasses four pillars—consciousness, emotional, cognitive, and behavioural—which mark the direction of action in the field of creating sustainable enterprises.

In the third part of the chapter, the author discussed institutional conditions for applying the subject-orientated model of innovativeness to create sustainable enterprises operating in a highly turbulent environment of the contemporary economy.

The chapter ends with conclusions drawn from the discussion and with a short summary.

References

Bal-Woźniak, T. (2012). *Innowacyjność w ujęciu podmiotowym. Uwarunkowania instytucjonalne* (*Innovation at terms of the subject. Institutional aspects*). Warsaw: Wydawnictwo Naukowe PWN.

Barber, B. R. (2007). *Consumed. How markets corrupt children, infantilize adults, and swallow citizens*. New York: W. W. Norton & Company.

Beck, U. (1992). *Risk society: Towards a new modernity*. London: Sage.

Cameron, K. (2005). Organizational effectiveness: Its demise and re-emergence through positive organizational scholarship. In K. G. Smith & M. A. Hitt (Eds.), *Great minds in management: The process of theory development* (pp. 304–330). Oxford: Oxford University Press.

Casper, S., & van Waarden, F. (2005). *Innovation and institutions*. Cheltenham: Edward Elgar.

Castells, M. (2003). *La galaxia internet* (*The internet galaxy*). Barcelona: Cultura Libre.

Chen, C. M., & Delmas, M. (2011). Measuring corporate social performance: An efficiency perspective. *Production and Operations Management, 20*(6), 789–804.

Chmielewski, P. (2011). *Homo agens. Instytucjonalizm w naukach społecznych* (*Homo agens. Institutionalism in the social sciences*). Warsaw: Wydawnictwo Poltext.

Covey, S. R. (1989). *The 7 habits of highly effective people*. New York: Free Press.

De George, R. T. (1993). *Competing with integrity in international business*. Oxford: Oxford University Press.

Dembinski, P. H. (2008). *Finance serevante on finance trompeuse?* (*Finance servant is misleading finance?*). Paris: Desclee de Brouwer.

European Commission. (2001). Promoting a European framework for corporate social responsibility. Green Paper COM(2001) 366 final. http://www.europarl.europa.eu/meetdocs/committees/deve/20020122/com(2001)366_en.pdf. Accessed 12 Nov. 2013.

Glance, N., & Huberman, B. (1994). Dynamika dylematów społecznych (The dynamics of social dilemmas). *Świat Nauki, 5,* 58–63.

Hooghe, L., & Marks, G. (2003). Unraveling the central state, but how? Types of multi-level governance. *American Political Science Review, 97*(2), 233–243.

International Institute for Sustainable Development (IISD), Deloitte and Touche, & the World Business Council for Sustainable Development. (1992). *Business strategy for sustainable development: Leadership and accountability for the 90s*. Winnipeg: IISD, jointly with Deloitte and Touche; Business Council for Sustainable Development.

Kelly, M., & White, A. L. (2009). From corporate responsibility to corporate design: Rethinking the purpose of the corporation. *Journal of Corporate Citizenship, 33,* 23.

Miller, P., & Brankovic, A. (2010). Building a "creative culture" for sustainable innovation. Working Paper WP-879, IESE Business School-University of Navarra. http://millerwedell.files.wordpress.com/2010/11/working-paper-building-a-creative-culture-for-sustainable-innovation2.pdf. Accessed 12 Nov. 2013.

North, D. C. (2005). *Understanding the process of economic change*. Princeton: Princeton University Press.

Olson, M. (1971). *The logic of collective action: Public goods and the theory of groups*. Cambridge: Harvard University Press.

Piattoni, S. (2009). Multi-level governance: A historical and conceptual analysis. *Journal of European Integration, 31*(2), 163–180.

Porter, M. E. (1998). *The competitive advantage of nations*. New York: Palgrave Macmillan.

Rangers, J. (2012). *2052, a global forecast for the next forty years*. White River Junction: Chelsea Green.

Schaltegger, S., & Wagner, M. (2011). Sustainable entrepreneurship and sustainability innovation: Categories and interactions. *Business Strategy and the Environment, 20*(4), 222–237.

Shrivastava, P., Ivanaj, S., & Persson, S. (2013). Transdisciplinary study of sustainable enterprise. *Business Strategy and the Environment, 22*(4), 230–244.

Skocpol, T., & Finegold, K. (1982). State capacity and economic intervention in the early new deal. *Political Science Quarterly, 97*(2), 255–278.

Toffler, A. (1990). *Powershift: Knowledge, wealth, and violence in the 21st century*. New York: Bantam Books.

Trott, P. (2008). *Innovation management and new product development*. Upper Saddle River: Prentice-Hall.

WDR. (2009). World development report 2009: Reshaping economic geography. World Development Report, World Bank. http://go.worldbank.org/CUX8N75O10. Accessed 12 Nov. 2013.

Wierzbicki, A. P. (2007). Technology and change: The role of technology in the knowledge civilization era. In A. P. Wierzbicki & Y. Nakamori (Eds.), *Creative environments: Issues of creativity support for the knowledge civilization age* (pp. 385–416). Heidelberg: Springer.

Williamson, J. (1990). What Washington means by policy reform. In J. Williamson (Ed.), *Latin American adjustment: How much has happened?* Washington, DC: Institute for International Economics. http://www.iie.com/publications/papers/paper.cfm?researchid=486. Accessed 12 Nov. 2013.

Woźniak, M. G. (2006). Aksjologiczny dramat globalizacji i liberalizmu ekonomicznego (Axiological drama of globalization and economic liberalism). In D. Kopycińska (Ed.), *Regulacyjna rola państwa we współczesnej gospodarce* (*The regulatory role of the state in the modern economy*) (pp. 14–24). Szczecin: University of Szczecin.

Woźniak, M. G. (2014). Corporate social responsibility: An integrated development perspective. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility: Locating the missing link*. Wiesbaden: Springer-Gabler.

Innovations and Their Diffusion Versus CSR Practices

6

Dariusz Firszt

Contents

6.1 Introduction . . . 110
6.2 The Concept of Innovation and its Relationship with CSR . . . 111
6.3 CSR as an Incentive for Innovative Activity . . . 115
6.4 Diffusion of Innovations as the Source of Environmental and Social Threats . . . 118
6.5 Conclusions . . . 122
References . . . 123

Abstract

The aim of the chapter is to analyse the impact of innovative enterprises in social change and the possibility of a conscious influence on this process by enterprises applying rules of corporate social responsibility. In the first part, the study attempts to identify the mechanisms of influence of innovation on social change. In particular, the identified social risks arising from the rapid pace of implementation and diffusion of innovation are addressed. The second part of the chapter describes the tools to manage innovation processes by which companies can reduce the negative social effects stemming from innovation. The scale and pace of social transformations which stimulate technical progress have increased significantly due to globalisation. One of the most

The chapter was prepared within a framework of research project financed by the National Science Centre of Poland, contract no. DEC-2011/03/D/HS4/01659.

D. Firszt (✉)
Department of Applied Economics, Cracow University of Economics,
Rakowicka 27, 31-510 Krakow, Poland
e-mail: firsztd@uek.krakow.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_6

important dimensions of globalisation is the spread of technology standards through the international transfer of technology. Therefore, the last part of the chapter describes the challenges of corporate social responsibility faced by companies participating in the international transfer of technology, both for exporters and importers of technology.

6.1 Introduction

The concept of innovation has been introduced to the economic literature at the beginning of the twentieth century by Joseph Schumpeter in his well-known paper *Theorie der wirtschaftlichen Entwicklung* (1912/2012). Although the question of quality improvement had already been raised by other economists, it had been identified with autonomous technological change enhancing productivity. It was Schumpeter who depicted new aspects of innovative activity and brought attention to the complexity of the process of innovation creation. Moreover, he described the mechanisms that drive the innovators to implement innovative solutions and the multi-dimensional impact of such innovations on various economic processes. By doing so, he laid the foundations for the current approach to innovation. Since that time, innovation has been an area of interest among researchers from various economic fields and also other related sciences, particularly management sciences.

By popularising the concept of innovation, Joseph Schumpeter initiated two new areas of research on innovation: (1) The micro-economic one, which focuses on the analysis of market structures, creation of competitive advantage, as well as the generation of extraordinary profit, and (2) the macro-economic one, which concentrates the influence of innovation on economic growth and development. The post-war era was a particularly fruitful time for the appearance of scientific papers on economic growth, in which economists were attempting to prove that innovation is a factor that determines the dynamics of national income growth in particular countries and at the same time, accounting for the development of diversification on a global scale (Solow 1956; Kalecki 1962; Gerschenkron 1962). In the 1970s, the attention was shifted to the process of creation of innovation itself, which resulted in the formulation of the endogenous growth theory (Romer 1986, 1990; Mankiw et al. 1992; Aghion and Hewitt 1998; Aghion and Howitt 1992; Barro and Sala-i-Martin 1995). At that time, the issue of innovation had also become the subject of research in the management sciences (Kotler 1967; Mansfield 1968; Pietrasiński 1971; Kline and Rosenberg 1986; Porter 1990). In the last 20 years, innovation has become an area of even greater interest owing to another wave of technological change, and the concept of innovation has been analysed by experts in different economic fields, including institutional economics, which aims at showing the relationship between the quality of an institution and the ability of an economic system to create innovation (North 1990; Kelly 1998; Rodrik 2000; Gradstein 2004; Tebaldi and Elmslie 2008), or political economy, which evaluates the stimulating role of a country in creating innovations (Lundvall 1992; Dodgson and Bessant 1996; Fagerberg et al. 1999; Jaffe et al. 2005). Nevertheless, the appearance of financial innovations made it clear that the financial sciences' theories required extensive modification (Dembinski 2009).

The discussion on innovation has already been complemented with the elements of corporate social responsibility (CSR) for more than the last 10 years. It should be emphasised that when going through the global scientific literature, it is difficult to find papers presenting a direct relationship between innovation and social responsibility of entrepreneurs. This issue is discussed mainly by papers showing innovation from the perspective of sustainable development[1] (Fusslar and James 1996; Smith 2004; Ehst and Watkins 2008). The books or articles treating the analysis of the relationship between innovative activities of a company and its social responsibility are mainly practical, and they are frequently based on business experiences more than on theoretic evidence. This approach is fairly common among elaborations on innovation due to the fact that in this case, practice very often prevails over theory (both in problem identification and solution), particularly at the micro-economic level.

The following chapter focuses on the comparison between the chosen theories on innovation and CSR, which aims at proving the existence of a relationship between these two areas. This relationship comprises the missing link which the chapter addresses. The first part discusses the relationships referring to the definitions of innovation. On that ground, the author formulated the thesis that when an entrepreneur applies CSR practices, he may thereby enhance the effectiveness of his innovative activities. The arguments for the thesis are introduced in the second part of the chapter. The author concludes the chapter by elaborating on the diffusion of innovations and the possible results that the process may have on an enterprise which puts CSR rules into practice.

6.2 The Concept of Innovation and its Relationship with CSR

The multi-dimensional approach to innovation is the reason why innovation itself does not have a single commonly-accepted definition. Each author of a paper discussing innovation creates his own definition and classification of innovation, which is appropriate for his approach to the issue. Economists are generally unanimous in defining the nature of innovation itself, they disagree, however, on its distinctive features. Therefore, considering the fact that it is impossible to extract one universal definition of the innovation, the author decided, first of all, to systemise the terms occurring in the literature and, second, to define the way in which innovation is treated for the purpose of this chapter.

When clarifying the essence of innovation it should be emphasised that it is a process of bringing about changes to the current state, finding a new solution with respect to a particular aspect of reality. The key element of the innovation is novelty, which is common for all definitions of innovation. The above-mentioned characteristics make it possible to

[1] The concepts of sustainable development and CSR have a lot in common. In both cases, the main objective is to find harmonisation of the economic, environment and social aims of business activity. However, sustainable development focuses more on environmental issues, whereas CSR puts more attention to social problems.

define innovation in the same way it is popularly understood, i.e., as the introduction of something new, or a new thing that appeared recently, a novelty. One may also encounter similar general definitions of innovation in the economic literature. As an example, Kotler (1967, p. 322) defines innovation as every good, service or an idea, which is perceived to be new. Nevertheless, this way of defining innovation is rarely used in the economic sciences, due to the fact that economists tend to narrow the definition considerably. Therefore, it is possible to list a number of specifying expressions that show which change or novelty deserve to be called an innovation.

The distinctive feature of the definition of an innovation formulated by economists is the assumption that the only change that may be considered innovative is the one which may be put into practice, particularly in the economy. Thus, economists generally agree that an innovation should not be equated with an idea, project, or invention. Neither should the term innovation even be used in the case of a prototype, because despite the fact that it is a practical solution, it has not yet been applied commercially. Freeman (1982, p. 7) uses this definition of an innovation, treating it as the first commercial use of a product, method of production, or organisational form. A similar approach to the definition of an innovation has been adopted by Gomułka (1990, p. 17), who claims that it may happen that an invention is never marketed by any manufacturer. When it is, however, it is called an innovation. Therefore, one ought to distinguish between an invention, which concerns an idea, a theoretic concept, and an innovation, which means the use of newly gained knowledge and its commercial application.

Most authors of the papers dealing with social-economic aspects of innovation share the belief that innovation may only concern positive changes. From this perspective, innovation will then result as "…the deliberate changes introduced by men, which consist of substituting the previous conditions with new ones assessed positively from the perspective of given criteria, resulting generally in progress" (Pietrasiński 1971). The combination of innovation and economic benefits seems to be obvious especially in the face of the previously mentioned argument that innovation needs to find its commercial application. An entrepreneur who acts rationally will never implement changes which are unprofitable for his enterprise. This concept of innovation is far from the one presented by the technical sciences. It is significant that even the most interesting and novel engineering solutions may sometimes not meet efficiency requirements and therefore cannot be recognised as innovations, unless the specific market conditions are changed.

The argument that innovation may only concern positive changes is crucial in the aim to identify a common part of the theory of innovation with respect to the issue of CSR. A question arises if one should recognise a given change as an innovation on the basis of the criterion of pure economic profits (such as its positive impact on productivity, production costs, sales volume, market share, or profit), or maybe by considering broader criteria. If innovation is supposed to be a means of conveying progress in a broad sense, it must bring profits in various areas. That is why it seems to be crucial to consider such dimensions as the impact of a given innovative solution on the security and the working conditions, its influence on the environment or the purpose it should serve, i.e., the role it plays in battling the most significant daily problems, and as a result, enhancing the overall well-being and quality of life in a society.

The current economic and social changes, whose integral part is ubiquitous and challenging innovation, are the reason why the author feels motivated to apply the subjective approach to the analysis of innovation, where he determines its impact on various dimensions of human activity (see inter alia: Giddens 1991; Janszen 2000; Castells 2001). This approach makes it possible to treat CSR standards as a definitional feature of innovation and to therefore make the assumption that the changes which do not bring any benefits for society cannot be recognised as innovations. Nevertheless, such a rigorous statement may only serve for theoretical and conceptual purposes. The verification process of the new solutions, provided on the basis of social criterion, may face numerous difficulties. The most trivial of these issues results from the fact that the innovative activity involves considerable risk and therefore it is difficult to anticipate *ex ante* if a given innovative solution is beneficial and even if it were, to what extent? What is more, the negative results of a change, unable to predict in the moment of its implementation, may emerge over a longer period of time, which was proved by numerous examples from history. Therefore, it proves more pragmatic to recognise the potential economic benefits as a definitional feature of innovation, whereas benefits of a different category (among others social and ecological ones) can be considered as additional, albeit desirable effects of the innovative activity.

Given the extension of the objectives of an innovative activity to social categories, one can interpret the relationships between these objectives and their hierarchical structure differently.

The first approach may come down to complying with the requirements of social responsibility in an innovative activity and treating it as an objective which remains independent from any economic benefits. The aspiration of obtaining social benefits in the process of planning, verification, and implementation of innovative solutions will then result from axiological premises. Although such an approach may be viewed as noble, the practice may prove inefficient. Confronting the social and economic objectives of an innovative activity, particularly by performing the superficial and short-term analysis of the relationships between these two, may lead to the conclusion that social and economic objectives stand in contradiction to each other and in these circumstances. As a result, favouring social benefits could be regarded as philanthropy. This approach, on the other hand, may have a negative influence on the survival on the competitive business market. Nevertheless, this problem concerns not only the innovative activity itself, but all activities performed by business entities, and it has been raised in the literature since the CSR issue has become an area of interest for scholars (see Carroll 1979).

The second approach assumes that the managers of entities implementing innovations treat CSR practices as a nuisance and a factor limiting the spectrum of choice in the short run, which, on the other hand, enables the growth of profitability in the long run. This way of perceiving CSR is definitely more instrumental, however, it is based on rational premises—recognising a threat that the potential negative social consequences of the implemented innovations may weaken the enterprise's position on the market. The discussed approach to CSR carries a risk that the CSR requirements will be met only selectively. Not all potential threats connected with an implemented innovation, e.g., social, environmental, demographical, and cultural aspects, may be easily associated with the implementing entity, because the nature of the connection is very often indirect and the results spread over time. An entrepreneur perceiving CSR as a tool for maximising profit will only take these effects and those results of his innovative activity seriously that are directly connected with CSR. Considering the fact that it is hard to precisely assess the impact of the enterprise's pro-social behaviour on its profitability (Kelly and White 2009), the commercial incentives to respect CSR rules will be rather insufficient. In extreme cases, this can mean that an enterprise creates an image of a company which is apparently pro-environmental and pro-social, when in fact it does not really act this way, i.e., white washing.

The most constructive approach for innovative CSR manifests itself in perceiving CSR rules as a chance for the growth of an innovative character of an enterprise. It enables the possibility to take a complete and holistic look at the relationships between all the dimensions of the enterprise's activity. This attitude does not rule out a situation when social objectives determine the boundary conditions for an innovation activity. Neither does it deny the notable image benefits experienced thanks to implementing CSR rules. Nonetheless, it concentrates on other mechanisms governing the mutual influence of the mentioned areas, which lead to intensification of the innovative activity run by entrepreneurs respecting CSR rules (such mechanisms are discussed in the subsequent part of this section). From the perspective of this approach, the economic, social, and environmental objectives of an innovative activity become consistent, whereas the attempt to accomplish them may result in synergic effects (see Porter and Kramer 2006). The expenditures related with CSR are not seen here as costs but as part of the investment of company resources in the innovative activity.

A significant element of the definition of an innovation, particularly in the context of its relationship with CSR, is its subjective scope. In most cases, economists determine a broad scope of a business activity, in which the innovative changes may take place. Such an approach was initiated by the pre-cursor of a discussion on innovation himself, Schumpeter (2012, p. 104), who claimed that these changes are the effects of the combination of production factors that occur in the following situations:

- Manufacturing a new product or its variant, of a kind with new properties compared with the product existing on the market;
- Implementing the production method which is new for a given branch of industry;
- Opening a new market for products from a given branch;
- Finding a new source of materials and components used in the production process;
- Implementing a new method of organising production or targeting the market, particularly establishing or eliminating a monopoly.

To generalise the conclusion, innovation may both refer to products as well as ways of conduct (Allen 1966, p. 8), whereas changes concerning them may be of both a technological and also a nontechnological nature (the innovations within an organisation and its management, marketing, services, etc.; Porter 1990; Pavitt 1998). Currently, one may encounter an even broader approach, according to which innovation concerns not only changes in technology and the economy, but also in consumption, society, politics, nature, biology, as well as science and knowledge (see inter alia Botsman and Rogers 2010; Osburg and Schmidpeter 2013). The choice between the wider and the narrow perspectives of a subjective scope of innovative activity is crucial in performing the analysis of its relationship with CSR. When one chooses to limit innovation to areas of the economy and technology, its implementation and CSR practices could be treated as separate though mutually influencing activities. When, on the other hand, one assumes that the innovation relates to other areas of human life, it turns out that the activity considering CSR rules is at the same time an innovation, which suggests an equation and not only a cause and effect relationship.

6.3 CSR as an Incentive for Innovative Activity

The implementation of CSR practices in an enterprise may not only alter the direction of its innovative activities, but also positively influence their dynamics and the resulting effects. The potential modification of the direction of an enterprise's innovative activity relates to the selection of innovative ideas aimed at the implementation of pro-social and pro-environmental solutions, i.e., so-called socially responsible innovation, which means that innovation becomes a tool for the adoption of CSR rules. This modification of the process of implementing innovations in enterprises does not give rise to any theoretical controversy and the literature discusses numerous examples of such innovative solutions. The most significant one includes the whole group of pro-environmental innovations, which take advantage of technological achievements that comprise one of the elements of CSR.

The second role that CSR may serve is as a tool for the enhancement of an enterprise's innovative activity. However, this is much more complicated and accordingly demands thorough analysis. Despite the fact that the literature abounds in statements on the existence of such a positive influence of CSR, its mechanisms have not fully been recognised to date and no consistent theory adequately explaining this relationship can be found in the literature so far. To elaborate, the theoretical literature on this subject mostly covers papers indirectly relating to the idea of CSR, as well as those discussing the problem of social capital or institutional factors of innovation. Nonetheless, it should be emphasised that the first papers presenting empirical analyses have already been published. Significantly, they confirm that those enterprises implementing CSR are more successful in performing innovative activities, which was proven by a greater number of implemented innovations (Luo and Du 2012). These studies encourage the attempt to identify the premise for the relationship between the discussed categories.

The fact that a socially responsible enterprise has better access to key resources, such as creative employees, whose behaviour and qualifications are fundamental for the success of the innovative projects, is the first mechanism resulting from the positive influence of involvement in the CSR activity. The image of an enterprise that is recognised as being a socially responsible unit comprises the reputation that has been created that the enterprise is characterised by a high organisational culture which cares about the development of their employees, as well as the opinion that they value spontaneity and creativity. These are the key features of employees who demonstrate an innovative approach. Enterprises that are recognised as being socially responsible may additionally substantially benefit from this opinion on the financial market. Empirical studies suggest that such entities have an improved access to capital and therefore they may acquire it for a lower price, although the mechanisms enabling this are a matter for discussion (El Ghoula et al. 2011). It is essential to emphasise that in the case of innovative projects which are difficult to assess with the use of traditional methods of financial analysis (problems with the assessment of the risk), finding external funding sources seems to be a critical stage of their implementation. The link between CSR and financing an innovative activity could be investigated from a broader perspective, as it relates not only to the capital market, but also to the access to public financing sources.

It is worth mentioning that access to funding sources is just a preliminary condition for the implementation of innovative projects. On this stage, even a "surface" social responsibility declared by an entrepreneur may prove effective. A more complicated issue concerns the efficient allocation of funding in innovative projects, which is dependent on the actual implementation of CSR practices.

The consequence of the adoption of CSR rules concerning the employees of an enterprise is the establishment of a unique relationship between the rules and the employees which encourages innovation. Socially responsible enterprises generally avoid formalised, hierarchical organisation structures in favour of flat ones founded on frequent direct contacts and trust, based on the rational that such informal and spontaneous structures work better in cases of complicated and nonroutine activities, such as innovative projects. Such working conditions trigger initiative and creativity among employees, and most importantly serve to enhance efficiency and pace of information distribution. Cooperation, information-sharing, and passing constructive comments are the key factors guaranteeing the success of innovative projects. Thanks to them, the "group intellect" of a team of employees working on an innovative project becomes something more than just a sum of their individual competences.

In order to analyse the impact of CSR rules on employees' approach to innovative activities, it seems justified to draw on the theoretical treatment in the literature of social capital and its relationship with innovation. One may make an assumption that the implementation of CSR rules is an active way of building the social capital inside an organisation, with all the consequences connected with the processes taking place in enterprises, including in addition the innovative ones (Russo and Perrini 2010).

Another positive aspect of CSR implementation is the fact that it may have a beneficial impact on the relationship between an enterprise and its external stakeholders (clients, suppliers, and other business partners). A socially responsible enterprise in general adopts a more open attitude towards its contacts with its external environment. This gives rise to diverse consequences however from the perspective of the innovative activity. The most important one concerns greater possibilities of acquiring knowledge. In that case, two issues are relevant: supply and demand. The former refers to situations in which an enterprise obtains factual information, particularly of a technical nature, which is useful in the process of developing innovative solutions. By doing so, it may obtain new ideas for handling the occurring problems (including for example technical tips from cooperating enterprises). At the same time, this causes an increase of the supply of the knowledge factor, which is indispensable in the initiation of the innovation process. The latter aspect, on the other hand, concerns the fact that a socially responsible enterprise receives more reports of possible needs and consumption trends, thanks to which it is able to create innovation that better appeals to consumers' taste and thereby meet their needs more advantageously than its rivals. In the long run, an enterprise receives feedback from its clients and may modify its innovative solutions by adjusting them to the consumers' needs. This issue also relates to the identification of new areas, which until now may have remained unappreciated, but which could become the basis for innovation or even new markets. This approach is in line with the Schumpeter's interpretation of the scope of innovative activity.

One could expect that the influence of the CSR supply chain on innovation will be particularly beneficial in big enterprises with advanced Research and Development (R&D) units, which enable the appropriate interpretation of the acquired information and utilisation in order to solve potentially arising problems (Luo and Du 2012). The demand chain seems to be more common, because each and every enterprise, also from the Small and Medium-Sized Enterprises (SMEs) sector, is able to adjust its offer to address social requirements (e.g., evolutionary and incremental innovations that do not require the engagement of professional R&D units). It is worth emphasising that the mentioned ways of stimulating innovation with the use of external sources of information, which are available for a socially responsible enterprise, correspond with the theoretical interpretation of innovative processes. As the contemporary models of innovative activities show, their success depends largely on inter-action and exchange of information in different directions between entities directly and indirectly participating in the process of creating innovative solutions.

One of the factors contributing to the success of innovative activities is the pace and scale of diffusion of innovation, seen as the popularisation of a new product or solution among consumers. It is a social process by nature, which even bears the name of a social experiment. It is connected with the risk taken by consumers who decide to purchase a novelty. An entrepreneur who implements CSR practices and therefore consolidates the relationship with clients, builds up confidence in his own enterprise and its products, which, as a consequence, lowers the subjectively assessed level of risk connected with the purchase of an innovative product. This phenomenon may favour the popularisation of the innovation in a society, which determines that the life cycle of the innovation will last according to the innovator's expectations. One can even encounter in the literature the opinion that social factors play a more significant role in the process of diffusion of innovation, than in the process of its creation itself (Rogers 1995).

To conclude, it is worth emphasising that running an innovative and socially responsible business generates significant synergic effects. The innovative activity and CSR practices are based on similar values and require a similar approach including: spontaneity, trust, voluntary participation, and activeness. That is the reason why an enterprise that implements CSR practices creates a surrounding that supports innovativeness, whereas groups orientated towards innovation, so to say unintentionally learn the behaviour and approach characteristic for the concept of CSR (MacGregor and Fontrodona 2008). Considering the above-mentioned arguments, it seems pointless to devote too much attention to the discussion on the prevailing direction of the mutual influence of innovation and CSR.

6.4 Diffusion of Innovations as the Source of Environmental and Social Threats

If the positive social and environmental effects would constitute the definitional feature of innovation, the discussion on the threats posed by innovative activities to the implementation of CSR practices would be pointless. Changes negatively influencing social development and the ecosystem could not bear the name of an innovation. Nevertheless, the literature and social consciousness are dominated by a less rigorous approach to the definition of an innovation, according to which the innovation is associated above all with economic benefits. At the same time, one cannot rule out a situation when the effects of the implementation of innovation do not correspond with the principles of the CSR concept.

The above-mentioned threats may be directly connected with the innovation. However, they present mere side-effects of this innovation and not the main intended effect. Despite the growing consciousness of society and increasing entrepreneurs' sensitivity, such situations are still fairly common. Among the most spectacular examples from the last several years, one could name financial innovation and its negative impact on social and economic development, methods of extracting shale gas and their potential threat to the environment, as well as threats connected with genetic engineering. Such cases are fairly simple to interpret from the theoretical point of view, because a direct and diagnosed relationship exists between the innovation and the threats resulting from them. Therefore, the innovator is able to undertake some preventive measures by modifying procedures, technologies, or even by abandoning a particular project. The CSR practices, unless they are only limited to declarations, may directly reduce the above-mentioned side-effects of innovative projects.

After all, in many situations it is difficult to directly connect the negative consequences to a specific innovation because their identification is complicated or even impossible at the moment of implementation. Such incidents take place when a cutting-edge solution is applied in new economy sectors and areas of life, for which these applications had not been predicted at the moment of their original implementation. Sometimes it also happens that the implementation of an innovation at a specific time and place is neutral or even positive for social and environmental development, although its popularisation may to a considerable degree, lead to the appearance of negative effects.[2] In both cases the threats do not really result from the implementation of the original innovation, but from the process of its diffusion.

The problem of the negative impact of innovation on the environment, which results from the dynamics of their diffusion and scope of their application, has been carefully analysed in the field of development economics. Observation of the current trends in the development of technologies permits the assumption that the following innovative generations of consumption and investment products, as well as the methods of their creation, are becoming more and more ecofriendly. Thus, it seems that the popularisation of ecoinnovation may be recognised as a process for preventing environmental degradation. Nonetheless, the ultimate effect of that process is not unambiguous. On the one hand, the diffusion of the innovation, by supporting obsolete ineffective solutions, leads to the increase of efficiency and saving of resources per production unit, but on the other hand, it is a factor triggering the economic development of further regions and countries, and therefore causing the very production growth and resources consumption that is detrimental to the planet. It turns out that the dynamics of the increase of productivity may be insufficient to eliminate the negative consequences of production growth. In these circumstances, it is very difficult to unambiguously assess the whole sequence of actions—beginning from the implementation of an innovation to its popularisation on a global scale on the basis of ecofriendly criteria, which make up one part of the CSR concept.

The influence of innovations and their diffusion on social changes is even more complex and difficult to assess from the perspective of the values promoted by CSR. Looking at the examples from history, one may formulate the thesis that revolutionary social changes are often triggered by innovation. One does not have to go a long way to find such situations: The spectacular transformation of the social system, consisting of transforming from an agrarian society into an industrial one, and at the same time from rural into urban life, was directly related to industrial revolutions initiated by breakthrough innovations (the first industrial revolution initiated by the construction of the steam engine at the turn of the 18th and 19th, and the second one, which took place at the same time which was connected to the production of electricity). We can currently observe a social transformation from an industrial society into a postindustrial one (also referred to as information, network, or postmodernist society), which is the consequence of the infor-

[2] The economic literature provides numerous examples proving that the "micro-rationality" does not translate into "macro-rationality" (among others the paradox of thrift).

mation and telecommunications' revolution. Radical innovation generates relatively quick changes in society's material conditions, whereas the immaterial sphere of life (mentality, institutions—also the informal ones, e.g., culture, etc.) is affected at a much slower pace. Therefore, there is always the risk that widespread and dynamic change might proceed in an inconsistent and noncontinuous way. This causes the disintegration of social structures and the appearance of a gap resulting from the fact that the former structures undergo degradation, whereas the new ones have not yet been formed. According to the sociological interpretation of this phenomenon, particularly the one concerning long-term change, such situations do not necessarily need to be negative and, as a result, some scholars even treat them as significant stages of progress and development in a broad sense. Nevertheless, from the perspective of the quality of life of individual members of a society, which is an important element of the concept of CSR, the above-mentioned changes may give rise to many negative consequences.

The fundamental problem connected with the radical changes initiated by breakthrough innovation is the appearance of conditions favouring the creation of new categories of social inequality or the increase of the existing ones. They result from the different pace in which particular individuals or social groups adjust to changes around them—to new technologies, working methods, social networking tools, etc. This phenomenon may be illustrated by the current example, i.e., the digital divide in information societies. Its essence is the achievement of status through having access to the network and the ability to use information technologies, whose importance might be equalled with the role of literacy in the past. The digital divide is the outcome of two processes. First of all, it results from the marginalisation of members of a society who are not able to use information tools which takes the form of a digital exclusion. Owing to the popularisation of information technologies, this exclusion does not only concern technologies themselves, but also other areas of social, economic, and political life (Castells 2001, p. 275). An important characteristic of the digital divide is that in reality it does not outline new limits of social division, but only increases the existing economic inequalities. Figures show a clear correlation between the former social status, income, education, or place of residence categories and access to information technologies (measured for example by the percentage of persons using the Internet; OECD 2001). The second aspect of the digital divide refers to the formation of a new type of social elites, the so-called "knowledge class", which is a group of experts in tele-information technologies (Eco 1993). This social structure is complemented by some form of a middle-class gathering of individuals literate in the use of information technologies, devoid, however, of the skills essential to create them (knowledge limited to the *know what*, without the elements of *know how*).

The creation of digital inequalities (or to be precise inequalities determined by the differentiation of technological competences) could be recognised as a natural and inevitable process, neutral from the axiological perspective. Some of its elements, especially extreme cases such as social exclusion, deserve critical judgment, particularly in view of the values promoted by CSR.

Each enterprise respecting CSR rules should undoubtedly consider both types of threats, those of an environmental nature and those of a social nature, when implementing any innovative project. However, as the possible threats result to a large extent not from the nature of the innovation but from a unique process of its diffusion, and especially its pace and scope, it is difficult to explicitly determine entrepreneurs' responsibilities of limiting those threats. The process of diffusion of the innovation proceeds in an unexpected way and gives rise to effects that are impossible to predict and control by its originator. This situation takes place when a certain solution to a problem developed in one area is applied—after certain modifications—in completely unrelated areas of business activity or consumers' lives. Classic examples of such inventions are computers or the Internet.

Certainly, entrepreneurs accepting CSR rules, carry responsibility to identify—only in as far as possible—the effects of the original implementation of the innovation, as well as the potential popularisation of the innovative solution or product on a massive scale. It should enable the optimising activities that consist in choosing such variants of an innovative solution that generate the fewest threats and in extreme cases it should allow abandonment of the development of this innovation. It seems, however, that entrepreneurs react differently when faced with potential environmental and social threats. It is worth emphasising that there is a slight difference between the mechanisms generating the social and environmental consequences of an innovation. From the perspective of the environment, innovations may be divided into those with a positive impact on the ecosystem and those with a negative influence (although the differentiation is not always clear), which permits the call for the elimination of harmful effects of a given innovative solution. It does not mean however, that the creation of this innovation is abandoned, it may just be modified (considering also the possible slowing down of the implementation process, at least for some time). In the case of social effects, it seems impossible to make such a division, because every innovation induces changes in human existence by influencing the social structures, and at the same time, by triggering potential negative effects. In extreme cases, the elimination of the innovation, which could be the source of potential social threats, would mean the entire abandonment of its development. The second difference between social and environmental effects is that in the case of the latter, the possibilities of ecosystem regeneration determine the requirement to limit human interference in the environment because when this limit is exceeded, it irretrievably disturbs the ecosystem balance and causes negative consequences. Such a situation justifies the abandonment of some innovative projects, even if they bring substantial benefits to other areas. Social structures and culture change at a much greater pace and they demonstrate much greater adaptability to new conditions that result from the implementation of innovation. Based on this information, one could hazard a guess that the main responsibility of entrepreneurs in the face of social threats is not to strive for total elimination of innovation, but to reduce their negative effects by introducing appropriate compensating measures, such as suitable educational programs designed for individuals suffering from digital exclusion or those mostly endangered by computer crime.

In some cases, the diffusion of innovation, or at least the initial part of this process, does not proceed spontaneously. It is important to note, that although nowadays the life-cycle of many innovations (their development, implementation, diffusion, and also elimination in case of substituting one innovation with another one, as well as their commercialisation by definition), may proceed on a global scale, it may be controlled by a particular entity, i.e., the transnational corporation. Such entities make decisions concerning the place and scope of the production of the innovative products, their price levels in particular phases of their popularisation or finally granting licenses to other business entities, and therefore determines the course and dynamics of the innovation's diffusion. This behaviour translates into the responsibility for the environmental and social consequences of the implementation process. However, one may identify here activities showing that some entrepreneurs treat CSR rules in a selective way. A corporation may create the image of a company sensitive to environmental issues by promoting new products and processes, in reality, however, it may shift its production based on the previous non-ecofriendly solutions to developing countries. That is the reason why some companies intentionally extend the deadline of their use of technologies with more harmful environmental parameters. Such conduct, which is a common phenomenon in business practice and, in view of the theory of innovation, could be recognised as a standard mechanism used to maximise the rate of return on expenditure on innovation, is not optimal from the perspective of ecology (or society) and may be treated as a breach of the rules promoted by CSR.

6.5 Conclusions

The implementation of CSR practices in business encounters many obstacles. One of the major challenges refers to the lack of confidence among entrepreneurs in benefits resulting from their adoption and accompanying lack of motivation, which is the reason why a great number of entrepreneurs do not engage in CSR at all, or follow its rules in a superficial manner, by focusing only on the area of public relations. Therefore, it is of great importance to perform and popularise the analyses directed at diagnosing mechanisms that enable the creation of notable economic benefits from engagement in CSR practices, which generates improvement for both the enterprise itself and its stakeholders.

One of the topics of such analysis on CSR's impact on the innovative activity of business entities has been presented in this chapter. The theoretical arguments and first results of empirical research discussed in this chapter speak for accepting the thesis about a positive correlation between the implementation of CSR practices and the effects of an enterprise's innovative activity. The above conclusion is of great practical significance given the common belief that the implementation of innovation is one of the most important tools for creating the competitive advantage of an enterprise. Proving that an entrepreneur who respects CSR rules creates better conditions for the completion of innovative projects constitutes an important argument for the implementation of CSR in the business environment. Moreover, the continuation of research in this area seems to be interesting from a theoretical point of view at least. Attempts to determine the correlation between CSR and innovative activity, discussed also in this chapter, take the form of confrontation between the achievements of the theory of innovation, social capital, institutional economics, and the works on CSR. Such analysis does not yet provide a consistent theoretical concept. Further, discussion in this area aimed at formulating a unified theory, would not only contribute to the development of the concept of CSR, but would also constitute value-added for the theory of innovation, which still includes areas that require further elaboration.

Although the popularisation of CSR may be treated as a significant tool for limiting tendencies to disintegrate economic, environmental, and social development, it will not bring major effects unless it is supported with other mechanisms and activities. Processes of spontaneous procedures of diffusion of innovations from various areas result in the fact that even a socially responsible entrepreneur is not able to predict all of the consequences of the implementation of some innovative solutions. Therefore, is seems unjustified to burden him with responsibility for all of the negative effects of their popularisation, especially the social ones. In order to eliminate the threats connected with an increased innovative activity, one should employ measures on a higher level (exceeding the abilities of individual entities—on a country—or even at global economy level) at least by creating an appropriate institutional environment, which would favour the integration of economic, environmental, and social development objectives.

References

Aghion, P., & Hewitt, P. (1998). *Endogenous growth theory*. Cambridge: MIT Press.

Aghion, P., & Howitt, P. (1992). A model of growth through creative destruction. *Econometrica, 60*(2), 323–351.

Allen, J. A. (1966). *Scientific innovation and industrial prosperity*. London: Longman.

Barro, R. J., & Sala-i-Martin, X. (1995). *Economic growth*. New York: McGraw Hill.

Botsman, R., & Rogers, R. (2010). *What's mine is yours: The rise of collaborative consumption*. New York: Harper Collins.

Carroll, A. B. (1979). Three-dimensional conceptual model of corporate performance. *Academy of Management Review, 4*(4), 497–505.

Castells, M. (2001). *The internet galaxy: Reflections on the internet, business, and society*. Oxford: Oxford University Press.

Dembinski, P. H. (2009). *Finance: Servant or deceiver? Financialization at the crossroad*. New York: Palgrave Macmillan.

Dodgson, M., & Bessant, J. (1996). *Effective innovation policy: A new approach, international*. London: Thomson Business Press.

Eco, U. (1993). *Misreadings*. San Diego: Harcourt.

Ehst, M., & Watkins, A. (2008). *Science, technology, and innovation: Capacity building for sustainable growth and poverty reduction*. Washington, DC: World Bank.

El Ghoula, S., Guedhamib, O., Kwokb, Ch. C. Y., & Mishrac, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance, 35*(9), 2388–2406.

Fagerberg, J., Guerrieri, P., & Verspagen, B. (Eds.). (1999). *The economic challenge for Europe: Adapting to innovation based growth*. Chaltenham: Edward Elgar.

Freeman, Ch. (1982). *The economic of industrial innovation*. London: Pinter.
Fusslar, C., & James, P. (1996). *Driving eco-innovation: A breakthrough discipline for innovation and sustainability*. London: Pitman.
Gerschenkron, A. (1962). *Economic backwardness in historical perspective*. Cambridge: Harvard University Press.
Giddens, A. (1991). *Modernity and self-identity: Self and society in the late modern age*. Stanford: University Press.
Gomułka, S. (1990). *The theory of technological change and economic growth*. London: Routledge.
Gradstein, M. (2004). Governance and growth. *Journal of Development Economics, 73*(2), 489–744.
Jaffe, A., Newell, R., & Stavins, R. (2005). A tale of two market failures: Technology and environmental policy. *Ecological Economics, 54*(2–3), 164–174.
Janszen, F. (2000). *The age of innovation*. Upper Saddle River: Prentice-Hall.
Kalecki, M. (1962). Observations on the theory of growth. *Economic Journal, 72*(285), 134–153.
Kelly, K. (1998). *New rules for the new economy: 10 Radical strategies for a connected world*. New York: Penguin.
Kelly, M., & White, A. L. (2009). *From corporate responsibility to corporate design. Rethinking, the purpose of the corporation*. Sheffield: Greenleaf Publishing.
Kline, S. J., & Rosenberg, N. (1986). An overview of innovation. In R. Landau & N. Rosenberg (Eds.), *The positive sum strategy. Harnessing technology for economic growth* (pp. 275–305). Washington, DC: National Academy Press.
Kotler, P. (1967). *Marketing management: Analysis, planning and control*. Englewood Cliffs: Prentice Hall.
Lundvall, B. A. (Ed.). (1992). *National systems of innovation: Towards a theory of innovation and interactive learning*. London: Pinter.
Luo, X., & Du, S. (2012). "Good" companies launch more new products. *Harvard Business Review, 90*(4), 28.
MacGregor, S. P., & Fontrodona, J. (2008). Exploring the fit between CSR and innovation. *IESE Business School Working Paper No. 759*. http://dx.doi.org/10.2139/ssrn.1269334. Accessed 12 Nov. 2013.
Mankiw, N. G., Romer, D., & Weil, D. N. (1992). A contribution to the empirics of economic growth. *Quarterly Journal of Economics, 107*(2), 407–437.
Mansfield, E. (1968). *Industrial research and technological innovation*. New York: W. W. Norton & Company.
North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
OECD. (2001). Understanding the digital divide. OECD Digital Economy Papers, 49. doi:10.1787/236405667766
Osburg, T., & Schmidpeter, R. (Eds.). (2013). *Social innovation: Solutions for a sustainable future*. Heidelberg: Springer.
Pavitt, K. (1998). *Managing innovation. Integrating technological, market and organizational change*. Chichester: Wiley.
Pietrasiński, Z. (1971). *Ogólne i psychologiczne zagadnienia innowacji* (General and psychological aspects of innovation). Warsaw: Wydawnictwo Naukowe PWN.
Porter, M. E. (1990). *The competetive advantage of nations*. London: Macmillan.
Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review, 84*(12), 76–92.
Rodrik, D. (2000). Institutions for high quality growth: What they are and how to acquire them. NBER Working Paper no. 7540. http://www.nber.org/papers/w7540. Accessed 12 Nov. 2013.
Rogers, E. M. (1995). *Diffusion of innovations*. New York: Free Press.

Romer, P. M. (1986). Increasing returns and long-run growth. *Journal of Political Economy, 94*(5), 1002–1037.
Romer, P. M. (1990). Endogenous technological change. *Journal of Political Economy, 98*(5), S71–S102.
Russo, A., & Perrini, F. (2010). Investigating stakeholder theory and social capital: CSR in large firms and SMEs. *Journal of Business Ethics, 91*(2), 207–221.
Schumpeter, J. (2012). *The theory of economic development* (16th printing). New Brunswick: Transaction Publishers.
Smith, A. (2004). Alternative technology niches and sustainable development. *Innovation*: *Management, Policy and Practice, 6*(2), 220–235.
Solow, R. (1956). A contribution to the theory of economic growth. *Quarterly Journal of Economics, 70*(1), 65–94.
Tebaldi, E., & Elmslie, B. (2008). Institutions, innovation and economic growth. *Journal of Economic Development, 33*(2), 27–54.

7 Altruism as a Missing Concept in Economic Rationality: The Need for Multi-Disciplinary Perspective

Tomasz Potocki

Contents

7.1 Introduction and Problem Formulation 128
7.2 Insights from Economic Rationality—Dilemmas and Challenges from the Perspective of Altruism 130
7.3 Insights from Altruism Theory—Nature, Theory and Methods 131
7.4 Insights from Happiness Economics—Between Materialism and Post-Materialism 134
7.5 Conclusions, Policy Implications and Further Research 137
References 140

Abstract

The following chapter focuses on theoretical and practical aspects of altruism, rationality and happiness from the perspective of CSR. It reflects on current multi-disciplinary approaches to altruism, presents results from various disciplines and delivers broad policy applications, as well as further research directions.

T. Potocki (✉)
Department of Economic Policy, University of Rzeszów, 35-601 Rzeszów,
Ćwiklińskiego 2, Poland
e-mail: tpotocki@univ.reszow.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_7

7.1 Introduction and Problem Formulation

Market competition plays a key role in increasing efficiency, productivity, profit, and shareholder value maximisation. Considering the fact that in recent years the awareness of ethical consumption has been constantly growing (Starr 2009, p. 916), market competition refers not only to goods and services offered by companies but also to their ethical behaviour (Zak 2011, p. 227). The neoclassical theory of a company assumes that profit maximisation is closely related to self-interest and selfish behaviour lying behind the utilitarian, reductionist and neoclassic view of rationality. This assumption ignores the individualism of people, social settings, groups, and cultures and therefore narrows the interpretation of economic theory of rationality. Friedman and Friedman (2010) said that "it is impossible to have a sense of purpose when we are obsessed by greed and materialism" (Friedman and Friedman 2010, p. 262). It is unquestionable that, in order to remain on the market, one has to separate the motivation to maximise profit in the first instance from the motivation the overall survival of the firm a broader sense (see models of economic survival in Majumadar and Radner 1991; Radner 1997).

Corporate Social Responsibility (CSR) is a very broad concept which may refer to single actions taken by Small and Medium-sized Enterprises (SMEs)' employees or to standardised regulations adopted in multi-national corporations. As Fassin(2008, p. 370) argues "the tendency to formalise in order to comply with regulation and thereby diminish further legal responsibility is in total contradiction with the voluntary and genuine intentions of "true CSR" where some form of 'spirit' should prevail." Thus, it seems that this form of true CSR has more to do with SMEs than with international corporations. Moreover, taking into account the fact that the importance of SME's financial effectiveness and entrepreneurship in economic growth is proven from the theoretical point of view (i.e., Audretsch et al. 2006) by market data (Wymenga et al. 2012), job creation (De Kok et al. 2011), as well as poverty reduction (OECD 2004) furnishes the basis for the principal hypothesis discussed in this chapter. This emphasis on SMEs is further prompted by the claim by Murillo and Lozano (2006), that very often the involvement of SMEs in social responsibility actions is more intuitive than formalised since they do not really know what CSR is (as cited in Fassin 2008, p. 374). This situation causes considerable difficulties resulting from the lack of data and information on CSR engagement, and as a consequence, the literature on CSR research is fairly limited in this field—it focuses mainly on large enterprises (see Spence 1999). This situation shows that there is still a gap in education about CSR to be filled, especially the one concerning SMEs.

The principal role in the process of introducing CSR in a company is played by a responsible leader—the SME's owner—and his personal characteristics, authentic desires, prime business motivations and values, spirit, domains of individual life satisfaction and happiness. As mentioned by Solomon (2005), "integrity is a basis of trust because it shows commitment and consistency" (as cited in Sun et al. 2010, p. 26). Leadership with integrity is fundamental to true CSR in a company and only when this is given can true moral values and altruistic preferences derive. Furthermore, trust is a key component of social capital (see Putnam 1995, 2001) and organisational capital (see Tomer 1987, 1999; Altman 1996), which cannot be generated without ethical and moral norms. Such norms may guarantee the survival of a company.

In the face of the above-mentioned arguments one should devote particular attention to the theoretical and practical analysis of altruism of a leader, i.e. the SME's owner. The concept of altruism has been analysed by economists for several decades only. However, it is important to stress that from the classical political economists' perspective (such as Mill, Ricardo, Malthus or Smith), the classical concept of rationality lies closer to the concept of altruism than to the neoclassical concept of rationality. As pointed out by Edgeworth, economics is a moral science (as cited in Zak 2011, p. 227). In this sense, rationality has been crucial to modern business ethics especially in relation to mortality and virtue, and it comprises actions intended to sacrifice one's own well-being to benefit others or, as Smith argued, "pleasure of seeing the happiness of others" (as cited in Zafirovski 2008, p. 794).

Moreover, the critics accusing CSR of elusiveness, especially in view of the recent financial crisis, influence the development of an opposite field of academic study called Corporate Social Irresponsibility (CSI; see discussion in Murphy and Schlegenmilch 2013). In view of such criticism, seeking new theoretical and practical CSR solutions (as a key theme of this book) may establish a new understanding of CSR definition and help to find a "missing link" between "green glamour" and "pure altruism", in particular in view of the fact that the truth is always somewhere in between.

This chapter contributes to the missing link by extending the definition of corporate responsibility to incorporate the concept of altruism and its implications. It focuses mainly on theoretical and practical aspects of altruism, rationality, and happiness from the perspective of CSR. It additionally reflects current multi-disciplinary approaches to altruism, presents results from a wide variety of disciplines and delivers broad policy implications. The presented concept may be very helpful in creating rational and long-term sustainable business strategies, in which social values, altruistic behaviour, the happiness of others, as well as the company's contribution to common welfare are put into actual practice as opposed to just remaining elusive and over-looked issues.

The remainder of this chapter follows the subsequent structure. First of all, the author presents the evolution of rationality in economics and demonstrates the role of altruism in the discussion on rationality. Then the attention is directed to the nature of altruism from the perspective of the social sciences. The major altruism theories and new research trends on altruism drawn from game theory and neuroeconomics are analysed in the next part of the chapter. The author then presents research results from happiness economics, which in his opinion may help to establish a new foundation in the CSR topic. Finally, practical and policy implications are formulated as well as the role of the government in this process.

7.2 Insights from Economic Rationality—Dilemmas and Challenges from the Perspective of Altruism

Classical political economists like Smith and Ricardo believed in the holistic nature and complexity of the concept of rationality. However, in the 1930s and 1940s of the twentieth century, the concept was reduced and simplified. The neoclassical Theory of Rational Choice is recognised as the foundation of modern economics and it is grounded on the Expected Utility Theory (EUT; see Von Neumann and Morgenstern 1947), whereas in the case of decisions under risk and uncertainty, the choice is made on the basis of models and assumptions related to Probability Theory (Hastie and Dawes 2009, pp. 16–17). According to the EUT theory, the decision-maker first defines alternatives of decision choices, then estimates consequences of these choices relying on existing circumstances (weighting probabilities) and finally maximises the expected utility (expressed vaguely as monetary wealth) by weighing the sum of all alternative choices. In this approach, the economic rationality is an "activity" that requires special knowledge essential to making the right choices and incurring costs only in order to maximise one's self-interest. The necessary know-how consists of approaching two basic checkpoints: The first one is checking the inter-action processes between the decision-maker and the environment, and the second one is checking the construction of new interactive systems applied by the individual decision-maker. In both approaches, the processes focus mainly on learning from one's own mistakes and inter-action between the decision-maker and the environment (Bickhard 2002, pp. 1–2), reaching beyond EUT axioms.

The neoclassical Rational Choice Theory is grounded on three rigid assumptions which found their place in different economic models. They cover: perfect rationality, having access to all available information and maximising one's self-interest. However, these assumptions are the weak points of the neoclassical approach, because in reality the decision-maker's choices are subjective to heuristics rather than logic (first assumption), they are based only on a fraction of all available information (second assumption) and the decision-maker sometimes sacrifices his own well-being to others, and therefore his behaviour is not necessarily always fully selfish (third assumption). The restrictiveness of these assumptions may result from the fact that, as followers of the neoclassical theory reason, the irrational decision-makers (economic agents who do not maximise utility) would not be able to survive in a highly competitive environment. This however suggests the conclusion that their failures are more of a random nature than a systematic one (which stands in contradiction to the research results for SMEs (see Hogarth and Reder 1987).

Looking from the perspective of rationality, altruistic behaviour may be referred to as: "sunken costs" (see Rachlin 2000), "exceptions from utility maximisation" (see Rachlin and Locey 2011), "anomalous and paradoxical" (see Mayo and Tinsley 2009), due to the fact that at the very least it leads to accepting lower salaries (see Frank 1996) or decreasing income by charity donation (see Andreoni 1989).

According to Backer (1976), the economic way of thinking is not about material welfare but about efficiency (Becker 1976), which is driven by different goals, motives, subjective feelings, individual preferences, and beliefs. In this sense, the decision process is something more than just estimating the expected utility (McFadden 1999, p. 74). Additionally, the standard process seems unrealistic and unreasonable. Taking into account the fact that utility as a concept stays undefined, Simon (1993) argues that "Neoclassical economics assumes that people maximise utility but postulate nothing about what utility is [...] then it is impossible to distinguish altruism from selfishness" (Simon 1993, p. 158). The cited statement allows us to consider the moral dimension in the decision process (see research review in Altman 2005) including unselfish behaviour such as altruism or empathy. As stated by Smith "People follow rules—morality [...] without being able to articulate them, but they may nevertheless be discoverable" (Smith 2008, p. 37).

Bounded rationality, originally a concept formulated by Simon (1955, 1959, 1982, 1990), was defined as procedural rationality, which remains in opposition to mainstream economics described as substantive rationality (for detailed description see Smith 2008, Chap. 2). The first concept embraces the model considering moral values in the utility function, which was, i.e., proposed by Frey et al. (2004). The moral values may refer to three things: "Identification with the firm, other people, societies and its objectives, trust in an implicit exchange with the firm and with other employees, and a mood which is conductive to good work" (Bewley 2007, p. 161). This fact deserves to be emphasised because moral values may play a very significant role in developing CSR strategy in a company. Including subjective experience in the model of utility is in contradiction with the assumptions of the EUT, however, in view of a number of findings provided by research in social psychology, sociology, and philosophy, it should be considered (Frey 2009, pp. 15–16). Frey and his colleagues proposed "different" utility focuses on non-instrumental determinants of utility emerging a sense of self (Frey 2009, pp. 108–109). Presumably, applying procedural utility to the science of rationality, with a special emphasis on aspects such as fairness, reciprocity, and altruism, will enable a better understanding of the motives lying behind the decisions made by leaders and economic agents as well as companies, organisations or local societies.

Leaving behind the above-mentioned controversies, it is important to note that rationality is still a key component of the concept of altruism, because, as argued by Khalil, "it is obvious that one cannot model altruism without appealing to the rationality framework" (Khalil 2004a, p. 109).

7.3 Insights from Altruism Theory—Nature, Theory and Methods

Altruism and self-interest are both prerequisites for increasing welfare in societies. Both are very common in different life situations and widely discussed in research. We may find examples of pure altruism or "reciprocal altruism", actions which are shaped by different motives and values. Luckily, methods taken from experimental psychology, social psychology and neuroscience shed a new light on this problem.

In socio-economic theory, altruism is defined as a concept for example of: "willingness to pay a personal cost to provide benefits to others in general" (Fowler and Kam 2007, p. 813), "costly acts that confer economic benefits on the other individuals" (Fehr and Fischbacher 2003, p. 785), "sharing one's income with someone who is more needy" (Khalil 2004b, p. 141), "being a good person" (Rachlin and Jones 2008, p. 122) or "preference for the good of some other people in itself" (Kolm 2006, p. 19). In this approach, the benefits may be both material and immaterial, ranging from money giving, through volunteering to organ donation.[1] A key element here is motivation which may be egoistic, egocentric and alter-centric (for definition see Khalil 2004a). In the first case, sacrificing our well-being to others is related to future gains and utility maximisation, in the second to surplus feeling when pleasure of helping others is higher that individual satisfaction, in the third, it is related to the concept of solidarity, sympathy and moral action (see research review in Khalil 2004b). Khalil calls these three "inter-actional" because, despite their differences, they model action after the standard economic approach as the outcome of optimisation (Khalil 2004b, p. 99). Apart from the above-mentioned motivations, in the literature one can encounter the term "warm glow" (Andreoni 1989, 2006; Batson 1991; Hori 2001), also referred to as "impure" or "paternalistic". This expression stands for a situation, in which an individual receives a direct non-monetary reward for helping, such as good feelings, social responsibility, reputation or less guilty aversion. In the case of companies, the non-monetary reward may take the form of reputation, in particular in view of the fact that the reputation itself and its connection with CSR have been the object of intense discussion in the literature (see Fombrun 1996; Marx 1999; Fombrun and Rodinova 2001; Brammer and Millington 2005; Mirvis 2008). This fact is mentioned because the author believes that the relationship between reputation and social responsibility is in some way an extrinsic motivation which may strengthen the pro-social behaviour of a company.

Altruistic behaviour applies not only to individuals but is also directed to relatives (as a degree of relatedness within family). In evolutionary biology, egoism and altruism are the key concepts in survival and reproduction, whereas most altruistic behaviours may be inherited (see Sober and Wilson 1998, and compare with Ridley 1997; Dawkins 1976). In a broader sense, altruism might be viewed as "endogenous, inter-generational transfer-rooted in rational and purposeful formation of preferences within the family" (Jellal and Wolff 2002, p. 242). If an individual sacrifices his own fitness for the others only because he is concerned about his family's welfare, he may be called an evolutionary altruist. In this sense, self-interest and evolutionary selection can lead to altruism. The key concepts of this description are inclusive fitness and the theory of kin selection (see Hamilton 1964), whereas the core element in it is survival of the gene. The theory may be extended to a given social group, political organisation or local community. The culture of a given group seems to play a crucial role in the process owing to the fact that it can increase the probability of altruistic behaviour (Altman 2005, p. 739). People are much more eager to

[1] Broader discussion on definitions of *philanthropy*, *charity*, and *altruism* may be found in Walker (2004).

help their relatives ("in the broader emotional sense") than total strangers. As Ariely said "closeness doesn't refer to physical nearness [...] it also refers to a feeling of kinship" (Ariely 2008, p. 243).

Furthermore, altruistic behaviour may be explained by social preferences (see review in Zak 2011). It may be strengthened: When we are observed by others, conformity appears, there is a reduction of social distance, when there is a proper social communication or lack of anonymity. In such cases, one can observe a greater demonstration of empathy by individuals (Andreoni and Rao 2011). On the other hand, people tend to punish others even if such proceeding is more costly, especially when their behaviour is perceived as unfair from the perspective of the social norm (for the Tit for Tat Game see Axerlod and Hamilton 1981; Axelord 1984). If gratitude occurs, it may become a "moral barometer" and then the pro-social behaviour may become even more costly (Emmos 2008, p. 472).

Thanks to the methods applied in experimental economics, experimental game theories and neuroeconomics, attention was drawn not only to altruistic behaviour itself but also to altruism with respect to co-operation among humans (see Axerlod and Hamilton 1981; Andreoni 1995; Davis et al. 1997). When a prime motivation is the reward people expect to receive in the future, this phenomenon, should be called reciprocal altruism (see Alexander 1987). Such behaviour is commonly seen in various societies and on the markets. However, the development of experimental methods enabled scientists to test the socio-economic theories. The results of research on altruism ought to be treated as a completion (very often the only practical one) to the analyses and methods of actions undertaken by companies and institutions. Another interesting aspect of this research is its connection with socio-economic equality known as inequality aversion (see Fehr and Schmidt 1999), the perception of fairness (see Alesina and Angeletos 2005), and trust co-operation driven by ethical and moral norms (see Altman 2005). The importance of socio-economic equality is stated by Zak and Knack, who argued that economic inequality lowers trust and consequently the level of economic growth in the investigated countries (see Zak and Knack 2001).

In view of the research review presented above, one should pay special attention to the results of neuro-imaging studies with fMRI. These studies represent a missing link of research on empathy, values and emotions, and the role of empathy in decision making (see review in Phelps 2009) as well as the intention of charitable giving and philanthropy (see review in Mayr et al. 2009). While analysing brain functions one can observe the cognitive state of an individual under different experimental settings. As an example, Greene et al. (2001) undertook research in which people were supposed to answer moral dilemma questions. In non-personal dilemmas people behaved rationally but in personal dilemmas their moral preferences prevailed. An explanation for such results may be the influence of emotions. As argued by Loewenstein et al. (2001), people frequently react differently depending on the risk connected with a given decision. When they are familiar with the situational risk, they behave more rationally. When the situation is new and unknown to them, they react more emotionally (Loewenstein et al. 2001). Rational altruism is more important than its emotional counterpart because if it becomes habit it may result in higher social benefits than occasional emotional charity actions. One can make an assumption that the human brain, which, among other areas, consists of a decision-making area, with its reflective (slow) and automatic (fast) parts, in cases where many decisions need to be made, may come into internal conflict between the emotions (irrational approach) and common sense (rational approach). This problem may be solved only if one takes advantage of the results provided by the research carried out by neuroeconomists.

To sum up, altruism can be described as a combination of "selfish" behaviour and "helping others", expecting more reciprocal help than behaving purely altruistically. Proportions of selfish and helping others behaviour as well as co-operation patterns are modelled by the experience we gather at home, from our relatives, teachers, as well as business partners, and they strengthen or weaken our values. They result from the social structures (social norms) we live in and with which we confront our values. As proved by experimental research, when people belong to similar social structures, there is a greater chance they will obey the same social norms. Social structures together with organisational capital, trust and happiness are responsible for the fact that much of people's altruistic behaviour becomes automatic, unconditional, and is therefore hardly noticed by the decision-maker themselves and the environment in which they are situated. Therefore, such behaviour becomes a heuristic, and to be precise, it could be called an altruistic heuristic. In order to identify this better, one should make good use of experimental psychology, economics, neuroeconomics and behavioural game theory. From the perspective of economic rationality, this means that the cognitive system sometimes leads people to irrational behaviour, because it is affected by i.e. the warm glow effect and other types of social pressure. Nevertheless, as the co-author of ecological rationality Gigerenzer argues "violations of logical reasoning were previously interpreted as cognitive fallacies, yet what appears to be a fallacy can often also be seen as adaptive behaviour, if one is willing to re-think the norms" (Gigerenzer 2008, p. 13). According to this concept, a decision-maker is subject to mechanisms of decision evolution and in the process of adapting to the situation he sometimes makes use of heuristics, which may seem irrational in the first place, but in reality may be the most rational choice under given conditions (see Gigerenzer 2008, Chaps. 1 and 2). From the perspective of a company, the key question is: What is an ethical norm in our market? And is it a heuristic? Or is it still a cognitive fallacy? These questions constitute a separate object of discussion which is presented later in this chapter.

7.4 Insights from Happiness Economics—Between Materialism and Post-Materialism

From the economic rationality perspective, the more market goods and services we consume, the happier we are. The standard utility function has a narrow context, namely as well-being, which implies an evaluation but mainly suggests being wealthy (Diener et al. 2009, p. 9). Consequently, the happiness level depends mostly on the amount of one's material wealth and only to some extent on eudemonic values (see Veenhoven 1998;

Czapiński 2004; Tomer 2011). That is the reason why, as Frey argues, "we resign or underestimate intrinsic attributes and over-estimate or put too much effort on extrinsic ones" (Frey 2009, p. 8). This behaviour makes people less happy because intrinsic attributes are more closely related to eudemonic happiness, whereas extrinsic ones to materialism (see Frey 2009, Chap. 11). The concept of happiness evaluation itself is inherently subjective—it is close to the mentioned concept of economic utility—that is why, an equally subjective concept of well-being (called subjective well-being) is a matter of interest of many social scientists and economists (Lane 2000; Frank 1988, 1999; Easterlin 1974, 1995, 2001, 2006; Blanchflower and Oswald 2004, 2008; Frey and Stutzer 2002a; Veenhoven 2000).

The research carried out in the last three decades shows that money makes people happy only to a certain degree, whereas an average level of happiness for the majority of the developed countries has not changed too much for decades. This indicates a non-linear dependence between income and happiness characterised by a decreasing marginal utility function (Easterlin 1974, 1995, 2005; Diener 1984; Veenhoven 1991, 1994; Diener and Oishi 2000; Diener and Seligmann 2002; Frey and Stutzer 2000, 2002a, b; Helliwell 2003; Czapiński 2012).

In transition countries, the above-mentioned dependence takes a slightly different form. The policies which focus primarily on material wealth maximisation may carry some serious consequences, such as harming social relations, lowering the level of altruism in societies and trust as well as rising inequalities. Increasing materialism in transition economies and immigrant communities in developed countries are the reasons why societies do not maximise happiness so that the "pursuit of wealth" very often leads to the so-called Sisyphean labour (Czapiński 2012). Another explanation for the phenomenon may be a gap between one's aspirations and their actual achievements (for further details on this theory see Appley 1971; for further details see the research in Easterlin 2001), which, despite the achieved satisfaction of tangible needs, does not allow satisfaction of the intangible ones. Because of that, people who declare themselves to attach more significance to money, admit to having a lower level of life-satisfaction and happiness (Diener and Oishi 2000, p. 206). In poor societies, people value social relations higher than the pursuit of material goods (Diener et al. 2009; Czapiński and Panek 2000, 2003, 2005, 2007, 2009, 2011, 2013). It may result from the fact that less choice and a simpler life promote happiness and life satisfaction. Another reason for the situation could be a transformation of the system, which in many cases have brought about paralysis of a decision-making process or supported irrational decisions. The more wealth accumulated by an individual, the wider the choice of goods on the market available and the wider the possibilities to satisfy their needs by matching their preferences. The assumption is true only if all decision-makers behave rationally and all participants of the market have access to the same buying options. In transforming countries, the decisions were frequently made on citizens' behalf and the options available to them were not equal. This pattern is proven by a study carried out by Diener and Diener (1995), who showed that the dependence between financial satisfaction and life satisfaction for poor countries is higher than for the rich ones. In Poland, wealthier people are always happier than the poor (Czapiński 20122012, p. 60), however, as data shows, it is better to be poor in a wealthy region, than in a poor one (Czapiński 2012, p. 60), which is reflected in studies conducted at country level (Diener and Oishi 2000, p. 212).

It should be indicated that life satisfaction is highly correlated with satisfaction from individual life domains, i.e. financial situation, work, health, family, friends or marriage (Easterlin and Sawangfa 2010; Schimmack et al. 2008; Schneider and Schimmack 2009, 2010; Schimmack 2008). Knowledge about these areas of life may be an additional source of valuable information concerning satisfaction (Diener et al. 2009, p. 20), particularly in view of the fact that the before-mentioned correlation remains stable despite the heuristics applied by respondents (compare with Schimmack 2008, pp. 99–100). As Czapiński correctly points out, it is paradoxical that citizens of an unhappy country became happier as this indicator achieved its lowest level throughout the whole time period for 20 analysed happiness domains (for the results for Poland see Czapiński and Panek 2005, p. 291). This is a huge anomaly if we compare the results of this study with world research which indicates that an increase in happiness resulted from systemic transformation and the fall of communist regime, freedom of civil and political rights and the democratic system functioning in these countries (see Veenhoven 2000; Inglehart and Klingemann 2000; Schyns 2003; Frey and Stuzter 2002a, b).

Income inequality in the post-communist countries (for further details see Woźniak 2011; Woźniak and Jabłoński 2011), which increases together with the development of free market economies and is particularly dangerous and frustrating in the case of the growing number of citizens with below average income, may, assuming low adaptation and mobility (compare with Alesina et al. 2004), intensify the above-mentioned phenomenon. Additionally, the higher the level of job income, the more stress it involves, which consequently lowers one's happiness level (Frey and Stutzer 2002a). Transition societies tend to take decisions that are contradictory to happiness economics theories e.g. the pursuit of materialism which destroys social relations and in the long-term does not make people happy (Czapiński and Panek 2011). To achieve this, we need a maximisation of nonmaterial goods including: Social capital, human capital, cultural capital, institutional and political capital to achieve well-being for all (Council of Europe 2008). If this occurs, and in the transition societies individualism and materialism (in other words consumer behaviour) will dominate, then in a longer time-perspective we may expect a drastic change in the concept of culture together with moral bankruptcy and, consequently leading to social anomie and disorder.

This author reasons that, from the perspective of social responsibility, a statement which fully represents the relationship between altruism and happiness is: "Happiness is only real when shared" (as cited in Council of Europe 2008, p. 14). This relationship is linked to principles such as belonging, responsibility morality and solidarity (Council of Europe 2008, p. 17).

The literature presenting studies on the relationship between altruism and happiness seems to be fairly limited. To name a few examples of such research, Meier and Stutzer

(2008) describe the positive correlation between altruism (as volunteering) and life satisfaction, which is particularly interesting since it provides comparative analysis for West and East Germany. In the years 1990–1992, the life satisfaction of people who stopped volunteering decreased to a much greater extent than of those who did not stop. In the face of systemic transformation, which is accompanied by serious social and economic changes (see Kołodko 2009), the obtained results ought to be seen as important data necessary for further analyses going beyond transition economies. Another significant research study was carried out by Putnam (2001), who indicated that membership in religious organisations is very closely associated with charity-giving (Putnam 2001, p. 67). Zettler and Hilbig (2010) proved that altruism is integrally related to political orientation and social equality (Zettler and Hilbig 2010, p. 340). Nevertheless, it seems that the research gives only a fragmentary account of the relationship between altruism and happiness. People very often claim to have some approach whereas in specific situations, they behave differently to what they have declared (sometimes when they say that they are active volunteers it may only mean that they would like to start volunteering). One of the research studies showed that persons who never gave money to charity declared in laboratory settings that they would give a huge stake of their endowment to charity. This pattern diminished when there was a complete anonymity among participants (see review in Mckenzie 2010, p. 234). Facing such facts, there is a need to confront the obtained research results with objective data and to verify the results of laboratory studies with economic practice.

Happiness economics is a discipline which extends the idea of satisfaction with life domains to altruism and to the way we perceive social problems such as poverty, social exclusion or inequality (Council of Europe 2008, p. 101). To sum up, the pursuit of happiness remains the ultimate goal in people's lives but the insights from altruism theory may make it more probable to achieve it. To attain this, requires policies which would be more relational and would support the idea of a welfare society (Council of Europe 2008, p. 22) as well as the growth of social capital (see Putnam 1995, 2001).

7.5 Conclusions, Policy Implications and Further Research

Familiarisation with insights from economic rationality, the theory of altruism and happiness economics brings us closer to the practical implementation of the rules adopted in welfare societies and to sustainable socio-economic development only to a certain extent. A similar situation concerns the concept of altruism, which is an inter-disciplinary research problem. As Lunt claims (2004) "we need to find a way of giving up disciplinary aims and accept that the phenomena (he means altruism—author's comment) that we are interested in are multi-dimensional and that our knowledge claims are partial" (Lunt 2004, p. 139). We need a new methodological approach, such as the one proposed by Gigerenzer and ABC Research Group, comprising: "topic-oriented rather than discipline-oriented research, multiple methodologies and mix of real-world and laboratory studies" (Gigerenzer

2008, preface) because real-life decisions and environment are much more complex than simplistic laboratory settings.

Another important aspect is that people very often do not know what they want or they simply make bad decisions. They overestimate actions that do not make them happy and underestimate actions that make them happy. They also say that they care about others but at the same time they do not donate money to charity and do not volunteer. Such failures occur because individuals, as Hsee and Hastie point out, "fail to reach the optimal balance between impulsivity and self-control" (Hsee and Hastie 2006, p. 36). The emotional, non-deliberate decisions predominate in people's choices and the complexity of economic and social issues does not help to change the balance. Decisions resulting from experience become more significant so the decision-maker uses heuristics and leans towards ecological rationality. Heuristics are simple rules which occur automatically without deliberation. In the author's opinion, they may range from very simple ones, such as giving food to food banks, to very sophisticated ones, such as being actively involved in social community life and working as a voluntary counsellor in the area of one's expertise. Ecological rationality and homo heuristicus approaches have been analysed for more than 20 years mainly by Gigerenzer, Todd, and the ABC Research Group. They stated that heuristics do not influence the choice of solution to a problem but they facilitate the ability to see the problem from a wider perspective. A number of experiments conducted in the last two decades (see more in Gigerenzer and Todd 1999, 2000, 2003; Gigerenzer 2008; Gigerenzer et al. 2011) led to the creation of the so-called adaptive toolbox—as explained by Gigerenzer, Hertwig, and Pachur: "heuristics, their building blocks, and the evolved and learned core capacities on which heuristics operate" (Gigerenzer et al. 2011, p. XIX). This may be linked to the discussion of altruistic and rational behaviour by introducing the so-called *moral satisfying concept* rooted in Simon's bounded rationality theory (see more in Gigerenzer 2010).

The most important areas to be mapped out—as pointed out by Todd and Gigerenzer—concern the following questions: "How are heuristics acquired socially? Can social norms, cultural structure […] enable fast and frugal social reasoning?" (Gigerenzer and Todd 2003, p. 161).

The above-mentioned areas are consistent with the key defined areas for common goods (for example, principles such as equal citizenship, fairness or common rights for all etc.) and practices (common sharing, solidarity, mortality, etc.; Council of Europe 2008, p. 39). Based on cultural diffusion theory (see review in Jellal and Wolff 2002, Chap. 2.1) altruistic values, motives, and preferences might be embodied and developed through social learning (Jellal and Wolff 2002, p. 244) at individual, organisational and group level. This is particularly important, as Zak argues, because they are a part of foundation of heuristics (Zak 2011, p. 214). From the perspective of a company culture and its elements, similar to altruistic habits, they may become an integral part of its material welfare (see x-efficiency theory in Leibenstein 1987; Altman 2005). In order to make the process more efficient, social and business responsibility should be a norm that is enforced by competition and not by the law. This is based on the rationale that business is embodied in society and should provide for common goods, not exploit them.

Nevertheless it should be emphasised that, as Gifford stated, “Rapid changes in the physical or social environment create two inter-related problems: (1) We may continue to employ habits that are no longer viable; (2) The background that facilitates our understanding of our world may no longer be relevant, significantly increasing the cost of cognition” (Gifford 2009, p. 22). In such cases, actions undertaken by institutions at a local, regional and central level play a very significant role. They are supposed to provide a stable environment which will fully support the use of heuristics. The role of policy-makers is to help individuals to make better decisions and re-shape heuristics when the environment changes. Decision-makers responsible for shaping economic policy should sometimes take decisions of a paternalistic character ensuring the development of a welfare state in a multi-generational perspective. It may be possible due to the implementation of so-called nudges (see Thaler and Sunstein 2008; Peter et al. 2013), which can shape or reshape the right habits via learning or confront existing habits with the new regulations (Egmond et al. 2006, p. 3473). This is particularly the case when it fosters transformation from dissociative behaviour to an associative one where altruism, social responsibility, empathy and solidarity prevails (Council of Europe 2008, p. 70). Regulations of such character may protect society against making decisions which may harm it (eliminating irrational decisions i.e. those showing a myopic bias). This requires testing the theory in experiments before it can be applied to economic decisions. Unfortunately, very often the economists themselves are influenced by the *status quo* effect and in order to analyse research problems they use generally known and accepted methods, which are, so to say, politically correct (rather than the most conducive to the required stimuli).

This changing process may be based on a framework proposed by Egmond et al. (2006). They point out that the process of change takes place through diffusion from early markets actors followed by mainstream market ones (see Egmond et al. 2006, Chap. 2), whereas the main reason (for the change) are large differences in motivation and behaviour between these groups (Egmond et al. 2006, p. 3472). The authors apply this framework to energy-efficiency behaviour. It seems that the above-mentioned model may also be adopted in the case of altruistic behaviour at both societal and organisational levels, especially because a quite similar model has been used by List (2003) to divide customers into experienced and inexperienced ones in modelling buying behaviour. One ought to be cautious because despite the fact that the libertarian paternalism “wants to make it easy for people to go their own way” (Thaler and Sunstain 2008, p. 5), it may have opposite results, especially in the ex-communistic countries, where any sort of manipulation may be exposed and exploited against decision-makers.

The institutional changes should be closely related to the educational ones. Ethical standards should be enforced by spreading social learning and leadership practices. Leaders perform a prominent role in this process. As proposed by Hannah etal. (2005, p. 51) “authentic leaders will hold moral ownership and altruistic empathy salient in their self-concept. Through activation of these aspects in their working self-concept, authentic leaders raise their level of moral engagement through heightened prosperity to form moral intention." The process should begin by fostering integrity and trust among parents and schools (Levine 2005, p. 772). Special attention ought to be devoted to learning the holistic way of thinking, which is orientated towards a problem, not a discipline. Moreover, instilling creative thinking among young people helps to enhance problem-solving efficiency. Finally, one should remember that, as argued by Hughes, "wealth consists primarily of its human and its intellectual capital, and secondarily of its financial capital" (Hughes 2004, p. XV).

To sum up and to position the chapter in the book's concept of the missing link the author suggests to:

- Re-think the economic rationality concept and re-balance it from the relationship with oneself to the relationship with others (by emphasising the significant role of educational leaders such as parents, teachers, tutors, and company's leaders);
- Re-establish and strengthen the relationship between economics and social systems (by emphasising the important role of political, market, and company leaders);
- Place more value on the "link" between markets and morals (by paying particular attention to market competition and customer influence);
- Pay particular attention to habit-creation and its re-design (by emphasising the role of policy-making institutions and psychology);
- Promote topic-orientated research and closer co-operation between researchers and company leaders (by emphasising the role of research centres at universities and strategic departments in companies).

References

Alesina, A., & Angeletos, G. (2005). Fairness and redistribution: U.S. versus Europe. *American Economic Review, 95,* 960–980.

Alesina, A., Di Tella, R., & MacCulloch, R. (2004). Inequality and happiness: Are Europeans and Americans different? *Journal of Public Economics, 88*(9–10), 2009–2042.

Alexander, R. D. (1987). *The biology of moral systems*. Berlin: Aldine de Gruyter.

Altman, M. (1996). *Human agency and material welfare: Revisions in microeconomics and their implications for public policy*. Alphen aan den Rijn: Kluwer Academic Publishers.

Altman, M. (2005). The ethical economy and competitive markets: Reconciling altruistic, moralistic, and ethical behavior with the rational economic agent and competitive markets. *Journal of Economic Psychology, 26,* 732–757.

Andreoni, J. (1989). Giving with impure altruism: Applications to charity and Ricardian equivalence. *Journal of Political Economy, 97*(6), 1447–1458.

Andreoni, J. (1995). Cooperation in public-goods experiments: Kindness or confusion. *American Economic Review, 85*(4), 891–904.

Andreoni, J. (2006). Philanthropy. In S. C. Kolm & J. M. Ythier (Eds.), *Handbook of the economics of giving, altruism and reciprocity* (pp. 1201–1269). Boston: Elsevier.

Andreoni, J., & Rao, J. M. (2011). The power of asking: How communication affects selfishness, empathy, and altruism. *Journal of Public Economics, 95*(7–8), 513–520.

Appley, M. A. (1971). *Adaptation level theory*. New York: Academic Press.

Ariely, D. (2008). *Predictably irrational*. New York: Harper.

Audretsch, D. B., Keilbach, M. C., & Lehmann, E. E. (2006). *Entrepreneurship and economic growth*. Oxford: Oxford University Press.

Axelrod, R. (1984). *The evolution of cooperation*. New York: Basic Books.

Axelrod, R., & Hamilton, W. D. (1981). The evolution of cooperation. *Science, 211*(4489), 1390–1396.

Batson, C. D. (1991). *The altruism question: Toward a social psychological answer*. Hillsdale: L. Erlbaum.

Becker, G. (1976). *The economic approach to human behavior*. Chicago: University of Chicago Press.

Bewely, T. F. (2007). Fairness, reciprocity, and wage rigidity. In P. Diamond & H. Varitainen (Eds.), *Behavioral economics and its applications* (pp. 157–193). Princeton: Princeton University Press.

Bickhard, M. H. (2002). Critical principles: On the negative side of rationality. *New Ideas in Psychology, 20,* 1–34.

Blanchflower, D. G., & Oswald, A. J. (2004). Well-being over time in Britain and the USA. *Journal of Public Economics, 88*(7–8), 1359–1386.

Blanchflower, D. G., & Oswald, A. J. (2008). Hypertension and happiness across nations. *Journal of Health Economics, 27*(2), 218–233.

Brammer, S., & Millington, A. (2005). Corporate reputation and philanthropy: An empirical analysis. *Journal of Business Ethics, 61*(1), 29–44.

Council of Europe. (2008). Well-being for all–concepts and tools for social cohesion (2008). *Trends in social cohesion*, *20*. http://www.coe.int/t/dg3/socialpolicies/socialcohesiondev/source/Trends/Trends –20_en.pdf. Accessed 1. Nov. 2013.

Czapiński, J. (2004). Czy szczęście popłaca? Dobrostan psychiczny jako przyczyna pomyślności życiowej [Does happiness pay off? Mental well-being as the cause of prosperity of life]. In J. Czapiński (Ed.), *Psychologia pozytywna. Nauka o szczęściu, zdrowiu, sile i cnotach człowieka* (*Positive psychology. The science of happiness, health, strength and virtues of a human being*) (pp. 235–254). Warsaw: Wydawnictwo Naukowe PWN.

Czapiński, J. (2012). Ekonomia szczęścia i psychologia bogactwa [Happiness economics and psychology of wealth]. *Nauka, 1,* 51–88.

Czapiński, J., & Panek, T. (2000). *Social diagnosis report 2000. Objective and subjective quality of life in Poland*. http://www.diagnoza.com. Accessed Oct 30 2013.

Czapiński, J., & Panek, T. (2003). Social diagnosis report 2003. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Czapiński, J., & Panek, T. (2005). Social diagnosis report 2005. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Czapiński, J., & Panek, T. (2007). Social diagnosis report 2007. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Czapiński, J., & Panek, T. (2009). Social diagnosis report 2009. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Czapiński, J., & Panek, T. (2011). Social diagnosis report 2011. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Czapiński, J., & Panek, T. (2013). Social diagnosis report 2013. Objective and subjective quality of life in Poland. http://www.diagnoza.com. Accessed 30 Oct 2013.

Davis, J. H., Schoorman, F., & Donaldson, L. (1997). Toward A stewardship theory of management. *Academy of Management Review, 22*(1), 20–47.

Dawkins, R. (1976). *The selfish gene*. Oxford: Oxford University Press.

De Kok, J., Vroonhof, P., Verhoeven, W., Timmermans, N., Kwaak, T., Snijders J., & Westhof, F. (2011). Do SME s create more and better jobs? *EIM Business & Policy Research Report*. http://www.ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs_en.pdf. Accessed 1. Nov. 2013.

Diener, E. (1984). Subjective well-being. *Psychological Bulletin, 95,* 542–575.

Diener, E., & Diener, M. (1995). Cross-cultural correlates of life satisfaction and self-esteem. *Journal of Personality and Social Psychology, 68,* 653–663.

Diener, E., & Oishi, S. (2000). Money and happiness: Income and subjective well-being across nations. In E. Diener & E. M. Suh (Eds.), *Culture and subjective well-being* (pp. 185–218). Cambridge: MIT Press.

Diener, E., & Seligman, M. E. P. (2002). Very happy people. *Psychological Science, 13,* 80–83.

Diener, E., Lucas, R. E., Schimmack, U., & Helliwell, J. F. (2009). *Well-being for public policy*. Oxford: Oxford University Press.

Easterlin, R. A. (1974). Does economic growth improve the human lot? Some empirical evidence. In P. A. David & M. W. Reder (Eds.), *Nations and households in economics growth* (pp. 89–125). New York: American Press.

Easterlin, R. A. (1995). Will raising the incomes of all increase the happiness of all? *Journal of Economic Behavior and Organization, 27,* 1–34.

Easterlin, R. A. (2001). Income and happiness: Towards a unified theory. *The Economic Journal, 111*(473), 465–484.

Easterlin, R. A. (2005). Feeding the illusion of growth and happiness: A reply to Hagerty and Veenhoven. *Social Indicators Research, 74*(3), 429–443.

Easterlin, R. A. (2006). Life cycle happiness and its sources intersections of psychology, economics, and demography. *Journal of Economic Psychology, 27,* 463–482.

Easterlin, R. A., & Sawangfa, O. (2010). Happiness and economic growth: Does the cross section predict time trends? Evidence from developing countries. In E. Diener, I. F. Helliwell, & D. Kaheneman (Eds.), *International differences in well-being* (pp. 166–217). Oxford: Oxford University Press.

Egmond C., Jonkers R., & Kok G. (2006). One size fits all? Policy instruments should fit the segments of target group. *Energy Policy, 34,* 3464–3474.

Emmons, R. A. (2008). Gratitude, subjective well-being and the brain. In R. J. Larsen & M. Eid (Eds.), *Science of subjective well-being* (pp. 469–489). New York: Guilford.

Fassin, Y. (2008). SMEs and the fallacy of formalising CSR. *Business Ethics: A European Review, 17*(4), 364–378.

Fehr, E., & Fischbacher, U. (2003). The nature of human altruism. *Nature, 425,* 785–791.

Fehr, E., & Schmidt, K. (1999). A theory of fairness, competition, and cooperation. *Quarterly Journal of Economics, 114*(3), 817–868.

Fombrun, C. J. (1996). *Reputation, realizing value from corporate image*. Boston: Harvard Business School Press.

Fombrun, C. J., & Rindova, V. P. (2001). Fanning the flame: Corporate reputations as social constructions of performance. In J. Porac & M. Ventresca (Eds.), *Constructing markets and industries*. Oxford: Oxford University Press.

Fowler, J. H., & Kam, C. D. (2007). Beyond the self: Social identity, altruism, and political participation. *The Journal of Politics, 69,* 813–827.

Frank, R. H. (1988). *Passions without reason: The strategic role of the emotions*. New York: W. W. Norton & Company.

Frank, R. H. (1996). What price the moral high ground? *Southern Economic Journal, 63*(1), 1–17.

Frank, R. H. (1999). *Luxury fever: Money and happiness in an era of excess*. Princeton: Princeton University Press.

Frey, B. S. (2009). *Happiness—A revolution in economy*. Cambridge: MIT.

Frey, B. S., & Stutzer, A. (2000). Happiness prospers in democracy. *Journal of Happiness Studies, 1,* 79–102.
Frey, B. S., & Stutzer, A. (2002a). *Happiness and economics: How the economy and institutions affect human well-being*. Princeton: Princeton University Press.
Frey, B. S., & Stutzer, A. (2002b). What can economists learn from happiness research? *Journal of Economic Literature, 40,* 402–435.
Frey, B. S., Benz, M., & Stutzer, A. (2004). Introducing procedural utility: Not only what, but also how matters. *Journal of Institutional and Theoretical Economics, 160*(3), 377–401.
Friedman H. H., & Weiser Friedman, L. (2010). Dying of consumption? Voluntary simplicity as an antidote to hypermaterialism. In W. Sun, J. Stewart, & D. Pollard (Eds.), *Reframing corporate social responsibility: Lessons from the global financial crisis* (pp. 253–271). Bingley: Emerald Group Publishing.
Gardner, W. L., Avolio, B. J., & Walumbwa, F. O. (2005). *Authentic leadership theory and practice: Origins, effects and development*. Boston: Elsevier.
Gifford, A.,Jr. (2009). Cultural, cognition and human action. *The Journal of Socio-Economics, 38,* 13–24.
Gigerenzer, G. (2008). *Rationality for mortals*. Oxford: Oxford University Press.
Gigerenzer, G. (2010). Moral satisficing: Rethinking moral behavior as bounded rationality. *Topics in Cognitive Science, 2,* 528–554.
Gigerenzer, G., & Todd, P. M. (1999). *Simple heuristics that make us smart*. Oxford: Oxford University Press.
Gigerenzer, G., & Todd, P. M. (2000). Precise of simple heuristics that make us smart. *Behavioral and Brain Science, 23,* 727–780.
Gigerenzer, G., & Todd, P. M. (2003). Bounded rationality to the world. *Journal of Economic Psychology, 24,* 143–165.
Gigerenzer, G., Hertwig, R., & Pachur, T. (2011). *Heuristics. Foundation of adaptive behavior*. Oxford: Oxford University Press.
Greene, J. D., Sommerville, R. B., Nystrom L. E., Darley J. M., & Cohen, J. D. (2001). An fMRI investigation of emotional engagement in moral judgment. *Science, 293,* 2105–2108.
Hamilton, W. (1964). The genetic evolution of social behaviour. *Journal of Theoretical Biology, 7,* 1–52.
Hannah, S. T., Lester, P. B., & Vogelgesang, G. R. (2005). Moral leadership: Explicating the moral component of authentic leadership. In W. L. Gardner, B. J. Avolio, & F. O. Walumbwa (Eds.), *Authentic leadership theory and practice: Origins, effects and development monographs in leadership and management*, (Vol. 3, pp. 43–81). Boston: Elsevier.
Hastie, R., & Dawes, R. D. (2009). *Rational choice in an uncertain world: The psychology of judgment and decision making*. London: Sage.
Helliwell, J. F. (2003). How's life? Combining individual and national variables to explain subjective well-being. *Economic Modelling, 20,* 331–360.
Hogarth, R. M., & Reder, M. W. (Eds.). (1987). *Rational choice*. Chicago: University of Chicago Press.
Hori, H. (2001). Non-paternalistic altruism and utility interdependence. *Japanese Economic Review, 52,* 137–155.
Hsee, C. & Hastie, R. (2006) Decision and experience: Why don't we choose what makes us happy? *Trends in Cognitive Science, 18*(1), 31–36.
Hughes, J. E., Jr. (2004). *Family wealth–Keeping it in the family*. New York: Bloomberg.
Inglehart, R., & Klingemann, H. D. (2000). Genes, culture, democracy and happiness. In E. Diener & E. Suh (Eds.), *Subjective well-being across cultures* (pp. 165–183). Cambridge: MIT.
Jellal, M. & Wolff, F. C. (2002). Cultural evolutionary altruism: Theory and evidence. *European Journal of Political Economy, 18,* 241–262.

Khalil, E. L. (2004a). What is altruism? *Journal of Economic Psychology, 25,* 97–123.

Khalil, E. L. (2004b). What is altruism? A reply to critics. *Journal of Economic Psychology, 25,* 141–143.

Kolm, S. C. (2006). Introduction. In S. C. Kolm & J. M. Ythier (Eds.), *Handbook of the economics of giving, altruism and reciprocity* (pp. 1–114). Boston: Elsevier.

Kołodko, G. W. (2009). A two-thirds of success. Poland's post-communist transformation 1989–2009. *Communist and post-communist studies, 42,* 325–351.

Lane, R. E. (2000). *The loss of happiness in market democracies*. New Haven: Yale University Press.

Leibenstein, H. (1987). *Inside the firm: The inefficiencies of hierarchy*. Cambridge: Harvard University Press.

Levine, J. (2005). Ethics and efficiency and the role for government in fostering ethical conduct within the framework of Altman's behavioral model. *Journal of Economic Psychology, 26,* 767–773.

List, J. A. (2003). Does market experience eliminate market anomalies? *Quarterly Journal of Economics, 118*(1), 41–71.

Loewenstein, G. F., Weber, E. U., Hsee, C. K., & Welch, N. (2001). Risk as feelings. *Psychological Bulletin, 127*(2), 267–286.

Lunt, P. (2004).Questions of definition scope in economic theories of altruism: A commentary on what is altruism?' by Elias Khalil. *Journal of Economic Psychology, 25,* 135–139.

Majumdar, M. K., & Radner, R. (1991). Linear models of economic survival under production uncertainty. *Economic Theory, 1,* 13–30.

Marx, J. (1999). Corporate philanthropy: What is the strategy? *Nonprofit and Voluntary Sector Quarterly, 28*(2), 185–198.

Mayo, J. W., & Tinsley, C. H. (2009). Warm glow and charitable giving: Why the wealthy do not give more to charity? *Journal of Economic Psychology, 30*, 490–499.

Mayr U., Harbaugh, W. T., & Tankersley, D. (2009). The study of emotion in neuroeconomics. In P. W. Glimcher, C. F. Camerer, E. Fehr, & R. A. Poldrack (Eds.), *Neuroeconomics: Decision making and the brain* (pp. 303–320). Boston: Elsevier.

McFadden, D. (1999). Rationality for economics? *Journal of Risk and Uncertainty, 19*(1–3), 73–105.

McKenzie, R. B. (2010). *Predictably rational? Search of defenses for rational behavior in economics*. Heidelberg: Springer.

Meier, S., & Stutzer A. (2008). Is volunteering rewarding in itself? *Economica, London School of Economics and Political Science, 75*(297), 39–59.

Mirvis, P. H. (2008) Reputation and corporate social responsibility: A global view. In R. J. Burke, G. Martin, & C. L. Cooper (Eds.), *Corporate reputation: Managing opportunities and threats* (pp. 89–110). Farnham: Gower.

Murillo, D., & Lozano, J. (2006). SMEs and CSR: an approach to CSR in their own words. *Journal of Business Ethics, 67*(3), 227–240.

Murphy, P. E., & Schlegelmilch, B. B. (2013). Corporate social responsibility and corporate social irresponsibility: Introduction to a special topic section. *Journal of Business Research, 66,* 1807–1813.

OECD. (2004). Promoting entrepreneurship and innovative SMEs in a global economy. http://www.oecd.org/cfe/smes/31919278.pdf. Accessed Jan 26 2014.

Peter, J., Cotterill, S., Richardson, L., & Nomura, H. (2013). *Nudge, nudge, think, think: Experimenting with ways to change civic behaviour*. New York: Bloomsbury.

Phelps, E. A. (2009). The study of emotion in neuroeconomics. In P. W. Glimcher, C. F. Camerer, E. Fehr, & R. A. Poldrack (Eds.), *Neuroeconomics: Decision making and the brain* (pp. 233–250). Boston: Elsevier.

Putnam, R. D. (1995). Bowling alone: America's declining social capital. *Journal of Democracy, 6,* 65–78.
Putnam, R. D. (2001). Bowling alone: The collapse and revival of American community. London: Simon & Schuster.
Rachlin, H. (2000). *The science of self-control*. Cambridge: Harvard University Press.
Rachlin, H. & Jones, B. A. (2008). Altruism among relatives and non-relatives. *Behavioural Processes, 79,* 120–123.
Rachlin, H., & Locey, M. (2011). A behavioral analysis of altruism. *Behavioural Processes, 87,* 25–33.
Radner, R. (1997). Economic survival. In D. P. Jacobs, E. Kalai, & M. I. Kamien (Eds.), *Frontiers of research in economic theory: The Nancy L/Schwartz Memorial Lectures 1983–1997* (pp. 183–210). Cambridge: Cambridge University Press.
Ridley, M. (1997). *The origins of virtue*. New York: Penguin.
Schimmack, U. (2008). The structure of subjective well-being. In M. Eid & R. J. Larsen (Eds.), *The science of subjective well-being* (pp. 97–123). New York: Guilford.
Schimmack, U., Diener, E., Oishi, S., & Suh, E. (2000). Facets of affective experiences—A framework for investigations of trait affect. *Personality and Social Psychology Bulletin, 26,* 655–668.
Schneider, L., & Schimmack, U. (2009). Self-informant agreement in well-being ratings: A meta-analysis. *Social Indicators Research, 94,* 363–376.
Schneider, L., & Schimmack, U. (2010). Examining sources of self-informant agreement in life-satisfaction judgments. *Journal of Research in Personality, 44,* 207–212.
Schyns, P. (2003). *Income and life satisfaction: A cross-national and longitudinal study*. Delft: Eburon.
Simon, H. A. (1955). A behavioral model of rational choice. *Quarterly Journal of Economics, 69,* 99–118.
Simon, H. A. (1959). Theories of decision-making in economics and behavioral science. *American Economic Review, 21,* 253–283.
Simon, H. A. (1982). *Models of bounded rationality*. Cambridge: MIT.
Simon, H. A. (1990). *The sciences of the artificial* (3rd edn.). Cambridge: MIT.
Simon, H. A. (1993). Altruism and economics. *American Economic Review, 83*(2), 156–161.
Smith, V. L. (2008) *Rationality for economics: Constructivist and ecological forms*. Cambridge: Cambridge University Press.
Sober, E., & Wilson, D. S. (1998). *Unto others: Evolution and psychology of unselfish behavior*. Cambridge: Harvard University Press.
Solomon, R. (2005). Emotional leadership, emotional integrity. In J. Ciulla, T. Price, & S. Murphy (Eds), *The quest for moral leaders* (pp. 28–44). Cheltenham: Edward Elgar.
Spence, L. (1999). Does size matter? The state of the art in small business ethics. *Business Ethics: A European Review, 8*(3), 163–174.
Starr, M. A. (2009). The social economics of ethical consumption: Theoretical considerations and empirical evidence. *The Journal of Socio-Economics, 38,* 916–925.
Sun, W., Stewart, J., & Pollard, D. (2010). Reframing corporate social responsibility. In W. Sun, J. Stewart, & D. Pollard (Eds.). *Reframing corporate social responsibility: Lessons from the global financial crisis* (pp. 1–18). Bingley: Emerald Group Publishing.
Thaler, R. H., & Sunstein C. R. (2009). *Nudge: Improving Decisions About Health, Wealth, and Happiness*. New York: Penguin.
Tomer, J. F. (1987). *Organizational capital-the path to higher productivity and well-being*. New York: Praeger Publishers.
Tomer, J. F. (1999). *The human firm: A socio-economic analysis of its behavior and potential in a new economic age*. London: Routledge.

Tomer, J. F. (2011). Enduring happiness: Integrating the hedonic and eudaimonic approaches. *The Journal of Socio-Economics, 40,* 530–537.

Veenhoven, R. (1991). Is happiness relative? *Social Indicators Research, 24,* 1–34.

Veenhoven, R. (1994). *World database of happiness: Correlates of happiness: 7837 findings from 603 studies in 69 nations 1911–1994*. Rotterdam: RISBO.

Veenhoven, R. (1998). *Quality of life in individualistic society: A comparison of 43 nations in early 1990*. Rotterdam: Springer.

Veenhoven, R. (2000). Well-being in the welfare state: Level not higher, distribution not more equitable. *Journal of Comparative Policy Analysis, 2,* 91–125.

Von Neumann, J., & Morgenstern, O. (1947). *Theory of games and economic behavior*. Princeton: Princeton University Press.

Walker, C. (2004). A charitable view of altruism: Commentary on what is altruism?' by Elias Khalil. *Journal of Economic Psychology, 25,* 129–134.

Woźniak, M. G. (2011). *Gospodarka Polski 1990–2011. Transformacja. Modernizacja. Droga do spójności społeczno-ekonomicznej. Vol. 1: Transformacja* (*Polish economy 1990–2011. Transformation. Modernisation. The road to economic and social cohesion. Vol. 1: Transformation*). Warsaw: Wydawnictwo Naukowe PWN.

Woźniak, M. G., & Jabłoński, Ł. (2011). Nierówności społeczne, kapitał ludzki a wzrost gospodarczy w krajach OECD [Social inequality, human capital and economic growth in OECD countries]. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Poznaniu, 176.

Wymenga, P., Spanikova, V., Barker, A., Konings, J., & Canton, E. (2012). EU SMEs in 2012: At the crossroads. Ecorys and Cambridge econometrics. http://www.ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf. Accessed 26 Jan 2014.

Zafirovski, M. (2008). Classical and neoclassical conceptions of rationality–Findings of an exploratory survey. *The Journal of Socio-Economics, 37,* 789–820.

Zak, P. J. (2011). Moral markets. *Journal of Economic Behavior & Organization, 77,* 212–233.

Zak, P. J., & Knack, S. (2001). Building trust: Public policy, interpersonal trust, and economic development. *Supreme Court Economic Review, 10,* 91–107.

Zettler I., & Hilbig, B. E. (2010). Attitudes of the selfless: Explaining political orientation with altruism. *Personality and Individual Differences, 48,* 338–342.

Economic Development and the Implementation of CSR Initiatives in National Economies

8

Marek Ćwiklicki and Łukasz Jabłoński

Contents

8.1 Introduction . . . 148
8.2 Current Interpretations of Economic Development . . . 149
8.3 CSR and its Initiatives . . . 150
8.4 CSR and Economic Development: Theoretical Relations . . . 152
8.4.1 The Influence of CSR on Economic Development . . . 152
8.4.2 The Influence of Economic Development on CSR . . . 153
8.5 Research Method, Chosen Variables, and Sources of Statistical Data . . . 155
8.6 Calculation Results . . . 160
8.7 Summary and Conclusions . . . 163
References . . . 164

The chapter was prepared within a framework of research project financed by the National Science Centre of Poland, contract no. DEC-2011/03/D/HS4/01659.

M. Ćwiklicki (✉)
Department of Management and Organisation Methods, Cracow University of Economics,
Rakowicka 27, 31-510 Krakow, Poland
e-mail: marek.cwiklicki@uek.krakow.pl

Ł. Jabłoński
Department of Applied Economics, Cracow University of Economics,
Rakowicka 27, 31-510 Krakow, Poland
e-mail: lukaszj@uek.krakow.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_8

Abstract

The aim of the chapter is to identify theoretical, methodological, and empirical arguments for the relationship between economic development and the introduction of corporate Social Responsibility (CSR) in national economies. The chapter consists of three major parts. In the first part, the authors overviewed the literature dedicated to CSR and economic development. This results in the identification of the main features of both these categories. Within this research perspective, the authors draw special attention to the current interpretations with respect to the essence of economic development, which includes not only monetary, but mainly its qualitative aspects, such as: ethical, related with fairness, trust, and sustainability. Moreover, the theoretical arguments for the direction of inter-dependence between the CSR and economic development are discussed. The second part of the chapter addresses the methodological dilemmas related with the research which aim to analyse the inter-dependence between these two categories. This highlights three issues including: the threshold level of economic development as a condition for the introduction of CSR, the role of globalisation as a factor of economy and company development, and difficulties in measuring the achievement in CSR introduction from a comparative perspective. The third part of the chapter discusses the findings of empirical research on CSR and emphasises the arguments for causality between economic development and CSR introduction in companies within national economies. The chapter concludes by summarising the main findings from the research conducted.

8.1 Introduction

The aim of this chapter is to identify theoretical, methodological, and empirical arguments for the inter-dependence between economic development and the implementation of corporate social responsibility (CSR) in national economies. The main features of these two categories were identified on the basis of a literature review. Within this research perspective, the authors draw special attention to the current interpretations with respect to the essence of economic development, which includes not only monetary, but mostly qualitative aspects, such as: ethical, related to fairness, trust, and sustainability. Moreover, theoretical arguments regarding the direction of inter-dependence between the CSR and the economic development are discussed. In this regard, the chapter relates to "the missing link" issue by looking at the connections between the economy and corporate responsibility as expressed by O'Riordan et al. (2013). The text presents methodological dilemmas related to the research which aims to analyse the relations between these two categories. The chapter discusses the findings of empirical research on CSR and emphasises the arguments for the inter-dependence between economic development and the implementation of CSR in companies in national economies. The chapter concludes by summarising the main findings of the conducted research.

8.2 Current Interpretations of Economic Development

Economic development usually implies positive changes regarding quantitative and qualitative dimensions (conditions) of human life. In other words, it occurs when in a given time period, individual and common well-being increases in a certain spatial arrangement (region, country, group of countries, and world).

The current understanding of well-being goes beyond and, in a sense, breaks with utilitarianism and reductionism[1] stemming from the welfare economics. Therefore, it stops being associated only with the value of generated income per capita that allows individuals to consume a certain amount of goods and services. It means that the level and the increase of income (consumption) per capita are necessary, but they are neither sufficient for economic development to occur nor to describe well-being. As a result of the development of social sciences—mostly sociology and psychology—as well as of the increasing popularity of inter-disciplinary studies, the concepts of well-being and economic development, especially since the 1970s, have been enriched with non-economic dimensions of human life and activity. Above all, they concern the satisfaction with life and happiness in a broad sense which is not reflected merely in the monetary value of the results of the economic progress (Ng 2003, pp. 307–350; Frey and Stutzer 2002; Potocki 2013). Thus, well-being is more and more often associated with quality of life, therefore; physical, social, ecological, and any other type of conditions under which human beings exist (Kot et al. 2004, pp. 111–112).

That is why, economic development must be perceived as a multi-dimensional process. Apart from changes in the national income and production, it concerns also institutional, social, environmental and administrative changes, as well as those of social relations and types of behaviour, including the evolution of habits and opinions (Todaro 1986, pp. 61–62).

[1] During the *Marginal Revolution*, the subject of economic analysis became the state of economic balance understood as a pursuit by rational and perfectly informed subjects of the optimisation of their goals with given resources and under determined institutional conditions. From that moment on, economic analysis became ahistorical and antisocial, because *de facto* the institutional arrangement of the functioning of markets was pushed outside the mainstream of economic research and conventionally reserved for heterodox research. Economic analysis became specified by the mathematical formalisation of the concept of market and economic balance and—thanks to that—it came closer theoretically and methodologically to the status of the natural sciences. At that time, some of the primary ideas of Adam Smith included in the *Theory of Moral Sentiments* were impoverished especially by Malthus and Ricardo (Sedlacek 2011), and because of that, as explained by Polanyi (1944), a thesis that contradicted the historical research was disseminated, namely that the economy, understood as a system of self-regulating markets, requires a subordination of social life to the logic of the market.

8.3 CSR and its Initiatives

CSR is a concept which is well rooted in the literature and in practice. According to the definition of CSR adopted by the European Commission in 2011, it is the responsibility of enterprises for their impacts on society (European Commission 2011, p. 6). Emphasis put on ethical, ecological, and social issues has resulted in the fact that not only governments of particular countries have promoted the idea of CSR, but also enterprises have adopted it voluntarily. What should also be stressed is the fact that issues regarding CSR and sustainable development are formulated in CSR-related report guideline in a complex way. For example, the categories included in the fourth edition of report guidelines formulated by the Global Reporting Initiative comprise the following issues: economic, environmental, social, including those related to work, human rights, society, and product responsibility (G4 2013, p. 9).

Since the 1980s, various initiatives have been undertaken, including activities that were supposed to assist in the systematisation of activities related to subject. The differentiation of tools helpful in implementing CSR in enterprises is very high. As a result, what was noticed during an attempt to register them was a "proliferation of CSR instruments: codes, reporting standards and guidelines, labelling schemes, management systems, screening methodologies for socially responsible investment. Not all these tools are comparable in scope, intent, origin, implementation or applicability to particular businesses or sectors" (European Commission 2003, p. 3). For example, from a perspective of large, international enterprises, the relevance of the following guidelines should be emphasised: ten principles of the UN Global Compact; the OECD Guidelines for Multinational Enterprises; the ISO 26000 guidance standard on social responsibility; the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy; and the UN Guiding Principles on Business and Human Rights (Schimanski 2013, p. 2). As a result, the set of solutions dedicated to CSR is diverse. One attempt to classify them is presented in Table 8.1.

The most important guidelines in the promotion of CSR and those related to CSR are:

- ISO standards, above all, ISO 14000 related to environmental management and ISO 26000, which directly refers to social responsibility. It should be highlighted that "ISO 26000:2010 provides guidance rather than requirements", so it does not permit certification unlike some other well-known ISO standards (ISO 260002013).
- SA 8000—Social Accountability 8000 formulated in 1998 on the basis of standards related to employment and human rights and referring to ISO 14000. The areas covered by the standard include: child labour; forced labour; health and safety; freedom of association and collective bargaining; discrimination; disciplinary practices; working hours; compensation; management systems (SA 8000 2013).
- Global Reporting Initiative (GRI)—Refers to ISO 26000 and it allows adherence to the guidelines developed by OECD and the United Nations. Reporting in accordance with

Table 8.1 Classification of CSR instruments

Type	Examples
Aspirational principles and codes of practice	UN Global Compact, the Ethical Trading Initiative, Global Sullivan Principles, the OECD Guidelines for Multinational Enterprises
Guidelines for management systems and certification schemes	EMAS (Eco-Management and Audit Scheme), SA 8000, the family of ISO standards including ISO 14000 and 26000
Accountability and reporting frameworks	Global Reporting Initiative, AA 1000
Rating indices typically used by socially responsible investment agencies	FTSE4Good, Dow Jones Sustainability Indices, RESPECT Index

Note: Own elaboration. Adapted from European Commission (2003, p. 12)

the guidelines takes into account the following issues: economic, environmental, and social, including employment, human rights, society, and product responsibility.

- AA 1000—AccountAbility's AA 1000 encompasses above all the issues of sustainable development and communication with stakeholders. It comprises three standards (AA1000 2013):
  - The AA 1000 AccountAbility Principles Standard (AA 1000APS) regarding identification, prioritising, and responding to an organisation's sustainability challenges;
  - The AA 1000 Assurance Standard (AA 1000AS) for the evaluation of the nature and the extent to which an organisation adheres to the AccountAbility Principles;
  - The AA 1000 Stakeholder Engagement Standard (AA 1000SES) which helps organisations to ensure stakeholder engagement processes are purpose-driven, robust, and deliver results.
- Global Compact—An initiative from 1999 announced by the UN Secretary-General Kofi Annan. It is a "call to companies around the world to align their strategies and operations with ten universal principles in the areas of human rights, labour, environment, and anti-corruption and to take action in support of broader UN goals" (UN Global Compact Management Model 2010, p. 1).

The above-mentioned initiatives differ from each other in the degree of popularity, as well as in the time of their appearance. For example, ISO 14000 was published in 1996 and ISO 26000, which is devoted exclusively to CSR, only in 2010. Therefore the access to statistical data on the number of issued certificates is limited.

It is worth noting that, according to the latest research, the CSR concept is perceived as the source of social capital, which, based on the trust among economic entities (employees, enterprises), is associated with the driving forces of economic development. Sacconi and Antoni (2008) presented convincing arguments suggesting that:

1. The level of cognitive SC [social capital] plays a key role in inducing the firm to adopt and observe CSR practices that respect all the stakeholders;
2. The decision to adopt formal instruments of CSR contributes to create cognitive SC that is endogenously determined in the model;
3. The level of cognitive SC and the decision to adopt CSR practices creates structural SC in terms of a long-term relationship between the firm and weak and strong stakeholders (Sacconi and Antoni 2008, p. 3).

8.4 CSR and Economic Development: Theoretical Relations

8.4.1 The Influence of CSR on Economic Development

The literature provides theoretical arguments supporting the inter-dependence between economic development and the concept of CSR. According to the conventional approach, which is very well established in the literature, the characteristics of CSR are inscribed in the debates on the driving forces of economic development. The current economic tradition favours searching for new supportive factors and barriers that hinder economic development. The representatives of various schools of economics (classical, neoclassical, liberal, and neoliberal) became aware that the factors and the barriers to the economic expansion, which were distinguished by them or their predecessors, turned out to be insufficient to explain complex, socio-economic processes occurring in different countries. Traditional factors and barriers, i.e., land, employees, and (physical) capital, which stem from the solutions of classical economics, were complemented by modern conditions, such as qualifications and skills of employees (human capital[2]), as well as exogenous and endogenous knowledge of science and technology[3] (Jabłoński 2013).

Only in the last two decades of the twentieth century was the attention drawn to social capital as a factor of economic development.[4] Social capital stems from those values that enable people to co-operate. From this point of view, family, friends, acquaintances,

[2] Of particular contribution to the dissemination of the role of human capital in economic growth and economic development was the theory of human capital by Becker (1975) and the later works of Romer (1986) and Lucas (1988), which established the endogenous direction of studies on economic growth.

[3] It should be stressed that the representatives of the neoclassical theory of endogenous growth give a special role to international economic cooperation, as well as to the creation and diffusion of scientific and technological knowledge. However, neoliberals, who are clustered around institutions of global capitalism, as well as institutionalists emphasise the important role of institutional factors connected, among others, with the right form and scope of interventionism, the effectiveness of the model of capitalism and the competition order that is normalised by the principles of international cooperation, freedom of an individual, tradition, and the culture of societies.

[4] Social capital holds a special place in the works of North (1990, 2005). However, the theory of social capital stems from the works of Coleman (1988); Helliwell and Putnam (1995).

and the social environment (broadly understood) create an important resource of values supporting the efficient functioning of every individual and of a group. Therefore, it stimulates innovation, education, self-education, an increase in the work efficiency, and economic effectiveness. Social capital in this sense is a production input and, similar to other inputs, it has a productive character (Woolcock and Narayan 2000). It should be emphasised that the influence of social capital on economic development is indirect. Thus, it supports the accumulation of physical capital (Hall 2003; Durlauf and Fafchamps 2004) and human capital (Keefer and Knack 1997; Fukuyama 1995), as well as the use of technology (Barro 2001).

However, in highlighting the role of social capital, with respect to the characteristics of CSR, in the economic development of a given country or a group of countries, we should note one important matter: social capital, similarly to other production inputs, functions in a given natural, technological, and institutional environment. Thus, the inter-relationship of these complex and mutually complementary factors determines whether we are dealing with either economic development or stagnation, as "things happen the way they happen because [of the impact of] many things happening at the same time" (Kołodko 2011, p. 26).

8.4.2 The Influence of Economic Development on CSR

The literature also highlights the inter-dependence of opposite direction, i.e., the economic development of a national economy facilitates the dissemination of CSR practices in enterprises. It should be stressed that this direction of inter-dependence has a speculative character as it is poorly described by the theory of the economy. However, a few arguments could be set forth that suggest its validity.

Based on the theory of endogenous growth, as well as on the experiences of many countries, it can be concluded that on a higher level of economic development, qualitative factors of economic growth become important. Such qualitative factors include those that are connected not only with the human capital and technology, but also with the co-operation between economic entities (enterprises, employees), or in other words, with social capital.[5]

According to the theory of endogenous economic growth, a higher level of economic development implies greater resources of human capital in economic entities (employees, enterprises, and citizens). A higher level of human capital does not imply merely a higher level of qualifications, competencies, and health of the entities, thanks to which they can fulfil their work-related duties (leading to a maximisation of profits), but also a greater

[5] Matthews et al. (1982, p. 137); Abramovitz and David (2000); Goldin and Katz (2001); and Osborne (2006). It can be concluded that on a higher level of economic development, the contribution of physical capital to the economic growth and development decreases, whereas the contribution of human capital increases.

awareness of non-physical aspects of human life, i.e., sustainability of the natural environment, spiritual, and emotional development.

Thus, it can be assumed that a higher level of economic development in a country determines an increase in the awareness of economic entities regarding the protection of the natural environment, the quality of inter-personal relations, principles of fair-play, and intra- and inter-generational justice. In other words, economic development understood as an improvement of the conditions of living helps to include the characteristics conceived within the concept of CSR in the business activity of an individual. Such a theoretical and descriptive conclusion seems to be reflected in the results of empirical studies. Reinhardt et al. (2008) draw our attention to the results of a study conducted in a group of 23 developed and developing countries. From these results it could be concluded that higher levels of economic development increases the importance of higher ethical standards in the functioning of enterprises.[6]

However, a theoretical conclusion suggesting a positive influence of economic development on CSR in the enterprises of a national economy does not have a universal character and because of that it seems to be controversial. As already mentioned, every production input functions in a certain natural, technological, and institutional environment. The inter-relationship among them additionally determines the economic impact on the accumulation of production inputs. An important influence on the implementation of CSR initiatives comes from the legal system which is very often a product of history and tradition, or even colonial heritage. Nevertheless, it determines the rules of the economic game among economic entities. This is the source of basic differences between Europe (especially continental Europe), Japan—both with systems of constitutional law or code law—and countries formed on the British common law system, i.e., the United States, Australia, New Zealand. Sutton (2004) and Roe (2000) explain that in the European countries and in Japan, where there is a culturally conditioned social democracy and loyalty towards the employees, the legal systems foster the fulfilment of stakeholders' needs by legally permitting different forms of profit-sacrificing. Therefore, in these countries (especially in Europe), the concept of CSR is reflected in the investment climate and in the strong principles of social participation of stakeholders (e.g., in Germany and France). However, in the USA and in other countries which are based on common law, managers can engage in public utility activity if it is congruent with the shareholders' needs (Borok 2003; Lynch-Fannon 2007 quoted in Reinhardt et al. 2008, p. 10). Thus, the USA, Australia, Canada and New Zealand create a less favourable environment to develop CSR practices in comparison to European countries. Therefore, it can be assumed that economic development has a positive influence on the implementation of CSR initiatives

[6] Reinhardt et al. (2008, p. 28) claim that in the western countries (highly developed ones) society is more in favour of "higher ethical standards and help[ing to] build a better society" as compared to the less-developed countries (China and Kazakhstan), where a view suggesting that enterprises should "make profits, pay taxes, create jobs, and obey all laws" dominates.

even though this influence differs among countries based on their development within the framework of different legal systems.

8.5 Research Method, Chosen Variables, and Sources of Statistical Data

In order to empirically verify the theoretical hypothesis regarding the relationship between economic development and the implementation of CSR in enterprises within national economies, a statistical study was conducted. It comprised an analysis of correlation coefficients between variables illustrating the level of economic development and the intensity of the use of the CSR concept in enterprises of the analysed countries (see footnote 13 below for further details). For the correlation coefficients of tested variables, values of indicators were calculated reflecting their statistical significance; Student's *t*-distribution and the level of significance.

Cross-sectional data were employed in the study which encompassed five indicators, i.e., two regarding the level of economic development and three illustrating the use of the CSR concept within enterprises in the countries analysed (see footnote 13 for further details).

GDP per capita was used as a measure of the level of economic development and the Human Development Index (HDI) was employed to reflect the non-material economic development dimension of well-being (education and health). Choosing these particular indicators to reflect the level of economic development (well-being) in the analysed countries requires a brief explanation. A few indicators of economic development or economic well-being are distinguished in the literature. It should be emphasised that not many of them can be used to conduct international comparative studies on economic development. This is because they very often have an arbitrary character (e.g., the Index of Sustainable Economic Welfare, Genuine Progress Indicator, Net National Welfare, and Measure of Economic Welfare)[7] as they are calculated on the basis of selected partial measures with attributed weights. Furthermore, the values of some indicators are frequently calculated for a very limited group of countries, not for all of them, or not even for the majority of countries in the world.[8] What is worse, for many of the indicators which are cognitively interesting, there is a lack of comparative time series of their numerical values.

[7] Methodological assumptions regarding the construction of these indicators stem from the conviction that economic growth contributes to the increase of well-being only up to a certain point. After it is reached, the growth of GDP per capita generates costs that sometimes exceed the benefits of progress (Lawn and Sanders 1999; Lawn 2005, pp. 185–208; Slesnick 1998). In the Polish literature, these indicators are the subject of theoretical, methodological and empirical research conducted by Borys (2005a, pp. 126–143, b, 2007, pp. 271–292).

[8] For example, Gender Development Index, Gender Empowerment Measure, Human Poverty Index (Borys 2007, p. 286; Low and Aw 1997, pp. 1–17).

The numerical values of GDP per capita[9] and HDI were obtained from the databases of the World Bank (WDI 2013) and the United Nations (UNDP 2013) respectively. In order to eliminate the influence of business fluctuations on the level of economic development,[10] the study employed average values of GDP per capita and HDI from the years 2002 to 2011 calculated for the analysed countries.

The choice of typical initiatives of CSR, which indicate its presence in a given country and represent its different types (codes, norms, and guidelines), resulted from the need to include both, detailed matters of CSR concerning the environment together with those devoted only to social responsibility, as well as a broader perspective and issues of an international nature. The complementary criterion was the time of how long a given initiative has been in use. For instance, the first version of AA 1000 was created in 1999 but AA 1000SES was formulated only in 2005 and in 2008—AA 1000APS. Taking into consideration the "youth" of these and similar initiatives (e.g., ISO 26000), such norms were not included in the study. In consequence, the authors decided to collect statistical data regarding: the environmental standard ISO 14000, social responsibility (SA 8000) and complex reporting (GRI). The rationale for this choice was that these three initiatives are considered to reflect the full range of possible issues within the concept of CSR.

However, to measure how the CSR concept is being used in the economic process of business life, three indicators were taken that illustrate the number of implemented norms and standards regarding the environmental responsibility (ISO 14000), social responsibility (SA 8000) as well as the sustainable development (GRI) per 1000 enterprises operating in the economies of the countries analysed.[11] The numerical values of indicators constructed in this way, *i-14000*, *i-8000* and *i-GRI* respectively, concern the situation in 2011. Comparable values of the number of certified enterprises in the analysed countries were obtained for:

- The ISO 14000 standard—From the ISO Survey of Management System Standard Certifications database (1999–2013) available on the website of the International Organisation for Standardisation (ISO 2012);
- The SA8000 standard—From the SA 8000 Certified Facilities database available on the website of Social Accountability Accreditation Services (SA 8000 2013);
- The GRI—From the Sustainability Disclosure Database available on the website of Global Reporting Initiative (GRI 2013).[12]

[9] GDP per capita, in PPP, international dollars, constant prices of 2005.

[10] Using the average values of GDP per capita and HDI from the years 2002 to 2011 served the purpose of eliminating the negative influence of the financial crisis in 2008 on well-being.

[11] The number of enterprises (employers) compared among the countries, thus without the self-employed, was obtained from the World Development Indicators database (WDI 2013).

[12] There are currently four types of reporting guidelines: first was published in 2000, the second (the so-called G2) in 2002, the third (G3) in 2006, and the fourth in 2013. The collected data concerns all types of reports without being divided according to the version number.

The study encompassed 105 world countries,[13] for which comparable numerical values of HDI are available, especially of indicators illustrating the number of enterprises certified by the standards and norms of CSR and reporting in accordance with GRI. Due to the considerable variation regarding the level of economic development, as well as legal, property and institutional solutions which are of crucial importance to the popularity of the CSR concept, all analysed countries (referred to as the *Total*) were divided according to two criteria (compare Table 8.2):

1. Geographical regions—According to this criterion, 105 countries from the *Total* group were divided into:
   - 37 European countries (referred to as *Europe*);
   - 68 non-European countries (referred to as *non-Europe*), from which the following groups were distinguished:
     - 18 African countries (referred to as *Africa*),
     - 19 Latin American countries (referred to as *Latin America*),
     - 23 Asian countries (referred to as *Asia*).
2. Groups of countries which are either economically integrated, or they exhibit certain similarity due to the historical conditions of economic development. Therefore, to capture the differences regarding the analysed relations, the following groups were distinguished:
   - Highly developed countries which are members of OECD (referred to as *OECD*) and those outside of this integration grouping (referred to as *non-OECD*);
   - Member countries of the EU (referred to as *EU*), with further division into:
     - 15 countries of Western Europe (referred to as EU-15),
     - 11 post-socialist member countries of the EU from Central Europe (as referred to EU-11);
   - Commonwealth of Independent States (referred to as *CIS*).

[13] This group is comprised of: Algeria, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belgium, Bhutan, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Chile, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Fiji, Finland, France, Georgia, Germany, Greece, Guatemala, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Korea Rep., Kyrgyz Republic, Latvia, Liberia, Lithuania, Luxembourg, Macao, Malaysia, Maldives, Mali, Malta, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nepal, Netherlands, New Zealand, Niger, Norway, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Syrian Arab Republic, Tanzania, Thailand, Trinidad and Tobago, Turkey, Uganda, United Arab Emirates, United Kingdom, United States, Uruguay, Venezuela, Vietnam, Zambia.

Table 8.2 Analysed countries divided into groups

Criterion	Group name (number)	Countries
Geographical region	*Europe* (37)	Armenia, Austria, Azerbaijan, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom
	Non-Europe (68)	Algeria, Argentina, Australia, Bahrain, Bangladesh, Barbados, Bhutan, Bolivia, Botswana, Brazil, Burkina Faso, Burundi, Cambodia, Chile, Colombia, Congo, Costa Rica, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Guatemala, Honduras, Hong Kong, India, Indonesia, Israel, Japan, Jordan, Kazakhstan, Korea, Rep., Kyrgyz Republic, Liberia, Macao, Malaysia, Maldives, Mali, Mauritius, Mexico, Mongolia, Morocco, Mozambique, Namibia, Nepal, New Zealand, Niger, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Singapore, South Africa, Sri Lanka, Syrian Arab Republic, Tanzania, Thailand, Trinidad and Tobago, Uganda, United Arab Emirates, United States, Uruguay, Venezuela, Vietnam, Zambia
	Africa (18)	Algeria, Botswana, Burkina Faso, Burundi, Congo, Rep., Cote d'Ivoire, Egypt, Liberia, Mali, Mauritius, Morocco, Mozambique, Namibia, Niger, South Africa, Tanzania, Uganda, Zambia
	Latin America (19)	Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela
	Asia (22)	Bangladesh, Bhutan, Cambodia, Fiji, Hong Kong, India, Indonesia, Japan, Kazakhstan, Republic of Korea, Kyrgyz Republic, Macao, Malaysia, Maldives, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Vietnam

Table 8.2 (continued)

Criterion	Group name (number)	Countries
Integration groupings	*OECD* (32)	Australia, Austria, Belgium, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Republic of Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Sweden, Switzerland, Turkey, United Kingdom, United States
	Non-OECD (73)	Algeria, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Barbados, Bhutan, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Colombia, Congo, Rep., Costa Rica, Cote d'Ivoire, Croatia, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Georgia, Guatemala, Honduras, Hong Kong, India, Indonesia, Jordan, Kazakhstan, Kyrgyz Republic, Latvia, Liberia, Lithuania, Macao, Malaysia, Maldives, Mali, Malta, Mauritius, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nepal, Niger, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Romania, Russian Federation, Singapore, South Africa, Spain, Sri Lanka, Syrian Arab Republic, Tanzania, Thailand, Trinidad and Tobago, Uganda, United Arab Emirates, Uruguay, Venezuela, Vietnam, Zambia
	EU (28)	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom
	EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom
	EU-11	Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia
	CIS	Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation

Note: Own elaboration

8.6 Calculation Results

The correlation analysis was conducted in order to empirically test the inter-dependence between the level of economic development, measured by GDP per capita and HDI, and the intensity of implementing the initiatives of CSR in enterprises of the countries analysed. The values of correlation coefficients were calculated for all combinations of variables of the level of economic development and of the use of CSR instruments in the economies of the analysed countries. Table 8.3 contains values of correlation coefficients between GDP per capita and HDI, and between indicators of the use of CSR initiatives (*i-1400*, *i-8000*, *i-GRI*), which were characterised by satisfactory statistical significance of the calculated indicators, i.e., $p < 0.1$.

Table 8.3 The value of correlation coefficients between the tested variables

No.	Group	Indicator	GDP per capita			HDI		
			Correlation	*N*	*p*-value	Correlation	*N*	*p*-value
1	*Total*	*i-14000*	0.451	105	0.000	0.412	93	0.000
2	*Total*	*i-GRI*	0.648	105	0.000	0.398	93	0.000
3	*Africa*	*i-GRI*	0.402	18	0.098	0.486	15	0.066
4	*Africa*	*i-14000*	0.564	18	0.015	0.542	15	0.037
5	*Africa*	*i-8000*	0.507	18	0.032	0.490	15	0.064
6	*Latin America*	*i-14000*	0.494	19	0.032	0.605	18	0.008
7	*Asia*	i-GRI	0.577	22	0.003	0.648	18	0.004
8	*Asia*	i-14000	0.693	22	0.000	0.658	18	0.003
9	Europe	i-GRI	0.668	37	0.000	0.523	36	0.001
10	*Non-Europe*	*i-GRI*	0.625	68	0.000	0.345	57	0.009
11	*Non-Europe*	*i-14000*	0.783	68	0.000	0.437	57	0.001
12	*OECD*	*i-GRI*	0.564	32	0.001	0.457	31	0.010
13	*Non-OECD*	*i-GRI*	0.621	71	0.000	0.261	62	0.040
14	*Non-OECD*	*i-14000*	0.461	71	0.000	0.343	62	0.006
15	*EU*	*i-GRI*	0.650	26	0.000	0.558	27	0.003
16	*CIS*	*i-14000*	0.868	7	0.011	0.743	7	0.056
17	*EU-15*	*i-GRI*	0.525	13	0.045	*NSS*	*NSS*	*NSS*
18	*EU*	*i-14000*	*NSS*	*NSS*	*NSS*	−0.342	27	0.081
19	*EU*	*i-8000*	*NSS*	*NSS*	*NSS*	−0.398	27	0.040
20	*EU-11*	*i-8000*	*NSS*	*NSS*	*NSS*	−0.566	11	0.070

Note: Correlation = the value of the correlation coefficient between variables of economic development (GDP per capita or HDI) and CSR initiatives (i-14000, i-GRI, i-8000); N sample size, NSS not statistically significant, *p* value = statistical significance of Student's t-distribution. Own calculations

From the statistically important values of correlation coefficients we can draw a few conclusions which are consistent with the deduced inter-dependence between the level of economic development and the use of the CSR concept in the functioning of enterprises in the analysed countries.[14]

First of all, a higher level of economic development (well-being), measured by GDP per capita and HDI, is accompanied by a higher number of reports of sustainable development (*i-GRI*) per 1000 enterprises (employers) in the majority of the distinguished groups of countries. A positive value of the correlation coefficient between GDP per capita and HDI, as well as the *i-GRI* index occurred not only in the group of all countries under study (*Total*), but also in a cross-section of continents (*Africa*, *Asia*, and *Europe*). Moreover, we can conclude from the positive values of these correlation coefficients for the groups of highly developed EU and OECD-countries, as well as those from (the last) integration grouping (*non-OECD*) and outside of Europe (*non-Europe*), that this inter-dependence has a universal character. Therefore, it may be assumed that on higher levels of economic development, balancing the economic, social, and environmental dimensions of how enterprises function, gains in importance in the economies of the majority of countries. Furthermore, this rising importance increases the likelihood of GRI reporting.[15]

Second, positive inter-dependence between changes in the level of economic development (GDP per capita, HDI) and the *i-14000* index was also observed in the following groups of countries: *Total Africa*, *Latin America*, *Asia*, and *non-OECD*. It can be concluded that a higher level of economic development (well-being) in these countries increased the enterprises' care of the natural environment which was reflected by the implemented ISO 14000 standards.

Third, only in the group of African countries was a positive and statistically significant value of correlation coefficient between the level of development (GDP per capita, HDI) and *i-8000* index observed. This means that only for this group of countries can we formulate a statistically reliable conclusion, namely that a higher standard of living (GDP per capita, HDI) is accompanied by a higher social responsibility of enterprises that operate there. It should however be noted that such a conclusion should be approached with caution. In Africa, only 5 out of 18 countries that were analysed, i.e., Egypt, Mauritius, Namibia, Morocco, South Africa, introduced SA 8000 standards. These are countries with an average or higher level of GDP per capita and HDI compared with the other countries from this group. However, in the majority of countries from this group, the standard of living is either low or very low. Another explanation for this correlation can be the will-

[14] In this group of conclusions, attention was drawn to those calculations which were characterised by the expected (positive) and statistically significant values of correlation coefficients between the CSR variables (*i-14000*, *i-8000*, *i-GRI*) and two alternative indicators of economic development, i.e., GDP per capita and HDI.

[15] It should be noted that this conclusion is not easily applicable to the countries of Latin America, for which the correlation coefficient between GDP per capita, HDI, and *i-GRI* index had an unsatisfactory statistical significance, i.e., p value >0.1.

ingness to demonstrate that business activity is being conducted in an ethical way which does not violate human and employment rights in comparison to the countries from other groups.

Some of the calculation results in Table 8.3 turned out to be inconsistent with previous expectations, namely the correlation coefficients had either a negative value or unsatisfactory level of statistical significance. To those observations the following should be added:

- The statistically insignificant values of correlation coefficients between variables of economic development (GDP per capita, HDI) and *i-14000* index for countries from the *EU*, *EU-15*, *EU-11* groups, as well as for the whole of Europe.[16]
- The values of correlation coefficients between the HDI and *i-14000* index, as well as between the HDI and *i-8000* index calculated for the group of EU countries had negative values. This results from the fact that at higher levels of economic development, measured by HDI in the EU countries, the number of introduced ISO 14000 and SA 8000 standards per 1000 enterprises (employers) was decreasing.

However, these conclusions that were formulated on the basis of a restrictive statistical interpretation of the calculation results should be approached carefully. It is worth noticing that in the EU, the protection of the natural environment holds a high position in the hierarchy of strategic national goals. This results not only from the "Lisbon Strategy", but also from the current "Europe 2020" strategy. Therefore, the legislation of the member countries, which is consistent with the priorities of the EU strategic documents, stimulates the national enterprises (both directly and indirectly) to introduce and obey the standards of environmental protection, including ISO 14000. Moreover, the EU created its own tool of environmental management; the so-called Eco Management and Audit Scheme (EMAS) which may constitute an alternative for the ISO 14000 standard. What is more, corporate social responsibility in the countries of Western Europe (*EU-15*) has a longer history than in the post-socialist countries of the *EU-11* group. Thus, the countries of Central Europe (*EU-11*) are still in a position of catching-up when it comes to the organisational culture and institutions of market functioning in comparison to the economies which have fully formed market and capitalist systems (*EU-15*). Its approximation can be a scale of formalised and non-formalised standards of social responsibility (e.g., SA 8000). This means that the countries of Central Europe attempt to diminish the distance between themselves and the countries of the *EU-15* regarding the social and environmental dimensions of the way in which their enterprise sector functions.

This process of "becoming similar" results from the comparison of the number of implemented norms and ISO 14000 and SA 8000 standards per 1000 enterprises (employers) in the EU countries which are on different levels of economic development. In the group of countries with the highest number of implemented ISO 14000 and SA 8000

[16] Due to the limited space, Table 8.3 contains only the statistically significant calculation results. The full set of calculations is available on request.

standards per 1000 enterprises (employers) were, apart from the countries with a relatively high GDP per capita and HDI, Great Britain, Sweden, Finland, and also the less developed countries of Central Europe, i.e., Romania, Lithuania, Slovakia, Czech Republic, and Slovenia. Therefore, the differences regarding the implemented ISO 14000 and SA 8000 standards per 1000 enterprises are not consistent with the differentiation of these countries based on their level of economic development, measured by GDP per capita and HDI. Thus, in this way we can explain either statistically insignificant or negative values of correlation coefficients between HDI and *i-14000* and *i-8000* indices in the countries that belong to the *EU, EU-15* and *EU-11* groups.

However, it should be highlighted that the calculation results presented here furnish convincing empirical arguments that suggest positive relationships occurring between the level of economic development and the implementation of CSR in enterprises in national economies.

8.7 Summary and Conclusions

In this chapter, we discussed the theoretical and empirical relationships which occur between economic development and the implementation of CSR in national economies. Based on the overview definition of CSR presented, we can conclude that this concept has recently shown semantic similarity to the social capital theme, which has become an integral part of the (macro-economic) debate about the driving forces of economic development in economies that stand on different levels of economic development.

From the theoretical and descriptive analysis of the relationships between the results of the analysed categories bi-directional inter-dependence between the implementation of a CSR concept in national economies and economic development was established. Therefore, the implementation of CSR, while inscribing itself in the discourse on the driving forces of economic development, creates favourable conditions for economic development to occur. Moreover, there are convincing arguments which suggest that economic development, especially on a certain threshold level, facilitates the development of CSR practices in enterprises of national economies. Thus, economic development and the implementation of a CSR concept in national economies may be treated as occurring in parallel, and as such, comprising processes that propel each other.

The conclusions presented above address the missing link theme by reflecting the scope of initiatives within which reporting about business's influence on economic, ecological, and social spheres is included. The development of Corporate Responsibility practices can be perceived as a step forward in changing the mental construct discussed by O'Riordan et al. (2013, p. 3) in one of the missing link's components which has been referred to as the "separation of ownership and responsibility". The findings presented in this chapter could be partially considered as an attempt to fill gaps regarding "sufficiently reliable, accessible, user-friendly, actionable data for those attempting to recognise and address these missing links" (O'Riordan et al. 2013, p. 4). The presented study on the relationships between economic development and the implementation of CSR in national economies endeavours to shed some light on this issue.

Due to cognitive reasons, the attempt to empirically verify the inter-dependence between economic development and the implementation of CSR in economies on different levels of economic development was deemed particularly important. The pilot study encompassed 105 countries that have a diversified level of economic development, are located on different continents and belong to different integration groupings. During the study, it was concluded that there are convincing arguments suggesting positive inter-dependence between the analysed economic categories. Therefore, it was shown that on higher levels of economic development the intensity of enterprises to implement CSR initiatives increases.

However, it should be emphasised that the research results are insufficient to positively verify the thesis suggesting that a higher level of economic development of national economy is accompanied by a higher intensity of enterprises operating there to implement CSR initiatives. Having overviewed the debate on correlation and causality, Aldrich (1995, p. 364) explains that "correlation does not indicate a direct casual relation". As a result, establishing a correlation between variables is not a sufficient condition for proving casual relationships. In order to formulate conclusions that do not raise considerable doubts and suggest positive (or negative) inter-dependence between the level of economic development and the implementation of CSR initiatives in national economies, we can however formulate some recommendations for future studies:

1. Identification of differences among countries on different levels of economic development and developing in different integration groupings due to the institutional (formal and informal) conditions (factors and barriers) of implementing the CSR initiatives in enterprises;
2. Identification of the extent to which the implementation of the CSR concept is an endogenous phenomenon of a given national economy and to what extent it results from globalisation as a dominating factor in the current processes of economic development of economies and enterprises;
3. Diagnosis of to what extent the implementation of CSR initiatives in enterprises in national economies poses a driving force, therefore a factor of real economic processes, and to what extent it results from an increase in the demand for a broadly understood business responsibility of functioning of enterprises.

References

AA1000. (2013). The AA1000 Standards. http://www.accountability.org/standards/index.html. Accessed 3 Nov 2013.

Abramovitz, M., & David, P. A. (2000). American macroeconomic growth in the era of knowledge-based progress: The long-run perspective. In S. L. Engerman & R. E. Gallman (Eds.), *The Cambridge economic history of the United States* (pp. 1–92). New York: Cambridge University Press.

Aldrich, J. (1995). Correlations genuine and spurious in pearson and yule. *Statistical Science, 10*(4), 364–376.

Barro, R. J. (2001). Human capital and growth. *The American Economic Review, 91*(2), 12–17. doi:10.1257/aer.91.2.12.

Becker, G. S. (1975). *Human capital: A theoretical and empirical analysis, with special reference to education*. Chicago: University of Chicago Press.

Borok, T. (2003). A modern approach to redefining "In the best interests of the corporation". *Windsor Review of Legal and Social Issues, 15*(113), 127–136.

Borys, T. (2005a). Pomiar trwałego i zrównoważonego rozwoju (Measuring stable and sustainable sevelopment). In B. Poskrobko & S. Kozłowski (Eds.), *Zrównoważony rozwój. Wybrane problemy teoretyczne i implementacja w świetle dokumentów Unii Europejskiej* (*Sustainable development. The chosen theoretical problems and implementations in the light of the European Union's documentation*) (pp. 126–143). Bialystok-Warsaw: "Human and Environment" Committee at the Presidium of the Polish Academy of Sciences.

Borys, T. (Ed.). (2005b). *Wskaźniki zrównoważonego rozwoju* (*Sustainable development indicators*). Bialystok: Wydawnictwo Ekonomia i Środowisko.

Borys, T. (2007). W poszukiwaniu syntetycznego wskaźnika zrównoważonego rozwoju (Looking for composite sustainable development indicator). In B. Poskrobko (Ed.), *Obszary badań nad trwałym i zrównoważonym rozwojem* (*Research areas in stable and sustainable development*) (pp. 271–292). Bialystok: Wydawnictwo Ekonomia i Środowisko.

Coleman, J. S. (1988). Social capital in the creation of human capital. *The American Journal of Sociology, 94*(Supplement), 95–120.

Durlauf, S. N., & Fafchamps, M. (2004). Social capital. NBER Working Paper 10485. http://www.nber.org/papers/w10485.pdf. Accessed 12 Nov. 2013.

European Commission. (2003). *Mapping instruments for corporate social responsibility*. Luxembourg: Office for Official Publications of the European Communities. http://www.coc-runder-tisch.de/inhalte/texte_grundlagen/ke1103002_en.pdf. Accessed 12 Nov. 2013.

European Commission. (2011). A renewed EU strategy 2011–14 for corporate social responsibility. European Commission, COM (2011) 681. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF. Accessed 12 Nov. 2013.

Frey, B. S., & Stutzer, A. (2002). What can economics learn from happiness research? *Journal of Economic Literature, 40*(2), 402–435.

Fukuyama, F. (1995). *Trust: The social virtues and the creation of prosperity*. New York: Free Press.

G4. (2013). G4. Sustainability reporting guidelines. http://www.globalreporting.org/reporting/g4/Pages/default.aspx. Accessed 22 May 2013.

Goldin, C., & Katz, L. F. (2001). The legacy of US educational leadership: Notes on distribution and economic growth in the 20th century. *American Economic Review, 91*(2), 18–23.

GRI. (2013). Sustainability disclosure database. http://database.globalreporting.org/search. Accessed 10 Nov 2013.

Hall, P. V. (2003). Regional institutional convergence? Reflections from the Baltimore waterfront. *Economic Geography, 79*(4), 347–363.

Helliwell, J. F., & Putnam, R. D. (1995). Economic growth and social capital in Italy. *Eastern Economic Journal, 21*(3), 295–307.

ISO. (2012). The ISO survey of management system standard certifications (1999–2012). http://www.iso.org/iso/iso-survey_2012.zip. Accessed 10 Nov 2013.

ISO 26000. (2013). ISO 26000—Social responsibility. http://www.iso.org/iso/home/standards/iso26000.htm. Accessed 3 Nov 2013.

Jabłoński, Ł. (2013). Theoretical issues of economic convergence. In D. Lukianenko, V. Chuzhikov, & M. G. Woźniak (Eds.), *Convergence and divergence in Europe: Polish and Ukrainian cases* (pp. 50–67). Kiev: Kneu.

Keefer, P., & Knack, S. (1997). Why don't poor countries catch up? A cross-national test of an institutional explanation. *Economic Inquiry, 35*(3), 590–602.
Kołodko, G. W. (2011). *Truth, errors and lies. Politics and economics in a volatile world*. New York: Columbia University Press.
Kot, S., Malawski, A., & Węgrzecki, A. (Eds.). (2004). *Dobrobyt społeczny, nierówności i sprawiedliwość dystrybutywna* (*Social well-being, inequalities, and distributive justice*). Krakow: Wydawnictwo Akademii Ekonomicznej in Kraków.
Lawn, P. A. (2005). An assessment of the valuation methods used to calculate the index of sustainable economic welfare (ISEW), genuine progress indicator (GPI), and sustainable net benefit index (SNBI). *Environment, Development and Sustainability, 7,* 185–208.
Lawn, P. A., & Sanders, R. (1999). Has Australia surpassed its optimal macroeconomic scale: Finding out with aid of "benefit" and "costs" accounts and a sustainable net benefit index. *Ecological Economics, 28,* 213–229.
Low, L., & Aw, T. C. (1997). The human development index revisited. *Singapore Management Review, 19*(1), 1–17.
Lucas, R. E. (1988). On the mechanics of economic development. *Journal of Monetary Economics, 22*(1), 3–42.
Lynch-Fannon, I. (2007). The corporate social responsibility movement and law's empire: Is there a conflict? *Northern Ireland Legal Quarterly, 58,* 1–28.
Matthews, R. C., Feinstein, C. H., & Odling-Smee, J. C. (1982). *British economic growth 1856–1973*. Stanford: Stanford University Press.
Ng, Y. K. (2003). From preference to happiness: Towards a more complete welfare economics. *Social Choice and Welfare, 20,* 307–350.
North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
North, D. C. (2005). *Understanding the process of economic change*. Princeton: Princeton University Press.
O'Riordan, L., Jonker, J., & Marsh, N. (2013). The missing link in corporate responsibility: Connecting for sustainable growth. KCC White Paper 1, Essen. http://www.fom.de/fileadmin/fom/kc/kcc/KCC_White_Paper_1_ONLINE.pdf. Accessed 22 Jan 2014.
Osborne, E. (2006). The sources of growth at different stages of development. *Contemporary Economic Policy, 24*(4), 536–547.
Polanyi, K. (1944). *The great transformation. The political and economic origins of our times*. Boston: Beacon Press.
Potocki, T. (2013). Subjective well-being in transition economies. In Ł. Jabłoński & M. D. Gavriletea (Eds.), *Selected issues of economic modernization: A Central-East European perspective* (pp. 15–39). Krakow: Cracow University of Economics Foundation.
Reinhardt, F. L., Stavins, R. N., & Vietor R. H. K. (2008). Corporate social responsibility through an economic lens. *Review of Environmental Economics and Policy, 2*(2), 219–239.
Roe, M. (2000). Political preconditions to separating ownership from corporate control. *Stanford Law Review, 53,* 539.
Romer, P. (1986). Increasing returns and long run growth. *Journal of Political Economy, 94,* 1002–1037.
SA 8000. (2013). SA8000 certified facilities list, social accountability accreditation services. http://www.saasaccreditation.org/certfacilitieslist.htm. Accessed 10 Nov 2013.
Sacconi, L., & Antoni, G. (2008). A theoretical analysis of the relationship between social capital and corporate social responsibility: Concepts and definitions. http://dx.doi.org/10.2139/ssrn.1182982. Accessed 12 Nov. 2013.

Schimanski, C. (2013). An analysis of policy references made by large EU companies to internationally recognised CSR guidelines and principles. http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/csr-guide-princ-2013_en.pdf. Accessed 12 Nov. 2013.

Sedlacek, T. (2011). *Economics of good and evil. The quest for economic meaning from Gilgamesh to Wall Street*. New York: Oxford University Press.

Slesnick, D. T. (1998). Empirical approaches to the measurement of welfare. *Journal of Economic Literature, 36*(4), 2108–2165.

Sutton, M. (2004). Between a rock and a judicial hard place: Corporate social responsibility reporting and potential legal liability under Kasky v. Nike. *University of Missouri-Kansas City School of Law Review, 72*(Summer), 1159.

Todaro, M. (1986). *Economic development in the third world*. London: Longman.

UNDP. (2013). UNDP statistical data. "Hybrid HDI". http://www.undp.org. Accessed 10 Jan 2013.

UN Global Compact Management Model. (2010). UN Global Compact management model. Framework for implementation human rights, labour environment, anti-corruption. http://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2010_06_17/UN_Global_Compact_Management_Model.pdf. Accessed 3 Nov 2013.

WDI. (2013). World development indicators online database. http://www.worldbank.org. Accessed 15 Sept 2013.

Woolcock, M., & Narayan, D. (2000). Social capital: Implications for development theory, research, and policy. *The World Bank Research Observer, 15*(2), 225–249.

Income Inequality and Public Debt in OECD-Countries from a CSR Perspective

9

Łukasz Jabłoński, Piotr Zmuda and Linda O'Riordan

Contents

9.1 Introduction . . . 170
9.2 What Lesson Can be Learned from the Comparison of Statistical Data on Income Stratification and Public Debt? . . . 171
9.3 Income Inequalities as a Contributing Factor to Public Debt Growth . . . 175
9.4 Research Method, the Applied macro-Economic Variables, and the Sources of Numerical Data . . . 177
9.5 The Results . . . 180
9.6 Summary and Conclusions . . . 184
References . . . 186

Abstract

Against the backdrop of the financial crisis which triggered the occupy movement, income inequality, and unsustainable levels of public and private debt elicit concerns regarding the health of the economic system. These issues, which are increasingly gaining public awareness, trigger over-arching questions which reach to the funda-

Ł. Jabłoński (✉)
Department of Applied Economics, Cracow University of Economics,
Rakowicka 27, 31-510 Krakow, Poland
e-mail: lukaszj@uek.krakow.pl

P. Zmuda · L. O'Riordan
FOM University of Applied Sciences, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: piotr.zmuda@fom.de

L. O'Riordan
e-mail: linda.oriordan@fom.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_9

mental roots of the model of capitalism. Although capitalism can be considered to have served society well in helping to reduce global poverty and expand access to healthcare and education, the distribution of the wealth which is created by capitalism undoubtedly concurrently generates, as a spin-off, costs for society. In particular, some authors suggest that the growing gap in income inequality and public debt, which have both widened and currently reached an historic high in some countries, negatively affects the economy and thereby society. Consistent with the contemporary interest in addressing social problems and welfare in a new more inclusive approach to capitalism based on stakeholder theory, key to advancing our knowledge in this area would be the identification of the conditions under which public debt and income inequality are growing. A salient question in this debate is the (negative) role that a widening income gap plays in influencing and increasing public debt. This research gap is the missing link upon which the chapter focuses. To address these themes, the aim of the chapter is to present the theoretical and empirical arguments for causality between growing income inequality and increasing public debt within capitalist economies. However, in establishing this causal link and identifying income inequality as a contributing factor to public debt growth, the chapter does not focus on evaluating the role of public debt in society *per se*. Instead this theme is consigned to the scope of separate research in this field.

9.1 Introduction

Against the backdrop of the financial crisis which triggered the occupy movement (e.g., The Guardian Newspaper 2014a), public awareness is intensifying with respect to a range of economic concerns including the expanding income inequality gap, unsustainable levels of public and private debt, and related concerns regarding misdirected consumerism. Despite the fact that the income inequality gap is widening and has currently reached an historic high in some countries (e.g., George 2013), recently emerging research suggests that equality is better for society (e.g., Wilkinson and Picket 2010). Intrinsically linked with this view is the concern about growth in public debt (McKinsey Quarterly 2014; Blommestein and Turner 2012). A key question in this debate is the (negative) role that a widening income gap plays in society and in the deterioration of its economic health. Some authors suggest that these increasing gaps not only negatively affect the economy but potentially democracy itself (Reich 2014).

The development of contemporary globalisation driven by the expansion of global capitalism led to the emergence of two negative and acute consequences, which escalated within the global economy, and sent ripples of various magnitudes to many countries of the world. These consequences included excessive public debt and far-reaching income inequalities. Consistent with the contemporary interest in addressing social problems and welfare in a new more inclusive approach to capitalism based on stakeholder theory, key to advancing our knowledge in this area would be identifying the conditions which affect public debt and income inequality.

Many authors maintain that structural causes for the current economic crisis could be attributed to the growing income inequalities found within a number of countries, and between the developing and developed countries (e.g., Tomkiewicz 2012). Also, public debt in many countries which had been growing for a few decades, gained in significance during the period of the current crisis (Blommestein and Turner 2012). Yet, due to the slowdown of economic activity in times of economic crisis, the excessive disparity between the volume of public debt and the possibilities available to finance it with funds allocated from the budget, was clearly exposed.

In the first decade of the twenty-first century, economists often began interpreting income inequalities not just as a cause, or a result of real economic processes (growth, development, and modernisation), but also as a determinant of the growing public debt of capitalist economies.

Consequently, this chapter focuses on presenting theoretical and empirical arguments explicating the causality between the aggravating income inequalities within the countries under investigation and the increasing public debt of capitalist economies. To achieve this, the chapter consists of two key parts. The first part discusses the long-term changes in value of public debt and income inequality within countries, and presents the theoretical arguments for causality between these two categories. The second part of the chapter is an attempt to investigate the impact of inequality in upper and lower parts of income distribution on an increase of public debt in a sample of the OECD-countries for the period 1995–2010. The statistical analysis is based on calculations of (a) correlation coefficients between income inequality and public debt, and (b) parameters of regression equations of the level and rate of growth of public debt in a sample of countries. The parameters of regression equations were calculated with ordinary least squares and fixed effects methods. The results of these calculations illustrate that growing income inequality in the upper and lower parts of distribution stimulated an increase in the value of public debt in the OECD-countries between 1995 and 2010.

9.2 What Lesson Can be Learned from the Comparison of Statistical Data on Income Stratification and Public Debt?

Statistical data illustrating the volume of public debt, measured as a percentage of GDP (see Fig. 9.1a, c) and in absolute numbers (Fig. 9.1b) indicate that up until the 1970s debt was on the rise during the time of World War I and World War II, as well as in the economic crisis of the 1930s. The data further suggests that its decline coincided with the period of economic growth driven by on-going economic globalisation particularly up to 1913 (Reynolds 1983; Fisher 2003), and with the activities associated with rebuilding war damages. Hence, over a long period of time, there was a relatively strong positive correlation between the varying volume of public debt and the war effort. This had a major impact on and significant consequences for many sectors (e.g., armaments, post-war reconstruction; Azzimonti et al. 2012).

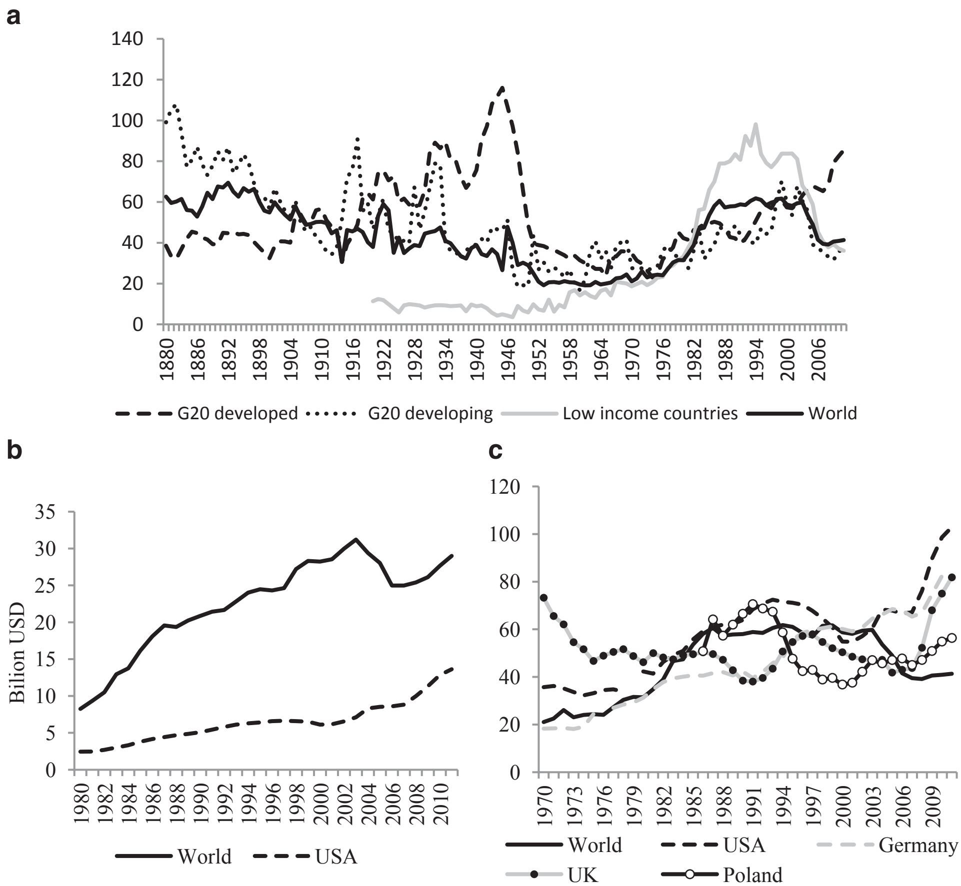


Fig. 9.1 Public debt of the selected groups of countries for the period 1980–2011. **a** Volume of public debt of the selected groups of countries measured as a percentage of GDP, **b** public debt, **c** volume of public debt of selected countries, measured as a percentage of GDP. (*Own elaboration using the data of* HPDD 2012; WTID 2012)

That tendency swung around at the turn of the 1970s and the 1980s. The switch from a fixed to a floating exchange rate,[1] which took place in many capitalist economies brought about a dramatic increase in capital turnover, which caused an increase in globalisation in the financial sphere. At that time, a suitable platform emerged for applying on-going financialisation[2] to raising funds to finance growing public expenditure with the issue of

[1] The floating exchange rate (fluctuating monetary system) was introduced in the majority of capitalist countries before 1973.

[2] Financialisation is a process of an increase in the size and importance of country's financial sector relative to its overall economy. It has occurred as countries have shifted away from industrial capitalism. Consequently, the financial markets and instruments break-away from real economic processes and become stand-alone (e.g., Flejtarski 2010, p. 138).

debt securities (bonds, treasury bonds, etc.). Consequently, public debt has become a lasting element of the policy and macro-economic scene of the majority of the developed and developing countries (Fig. 9.1b).[3]

Similar to public debt, the equally profound income inequality among citizens is not merely an inherent characteristic of the past decades which were dominated by a sweeping globalisation of liberal trends, universalisation of production and consumption patterns, and the information technology (IT) revolution. Acute income inequality, measured by the percentage of the highest earners in total income was also characteristic as early as the close of the 1920s, i.e., just before the eruption of the Great Crisis (Fig. 9.2a–e).

Income disparities had been intensifying until around the time of the occurrence of the Great Crisis of the 1930s. In turn, during the period of the Great Recession following 1929, the time of World War II, and then on until the 1980s, those disparities systematically declined.[4] That tendency was reversed in the 1980s, and according to some authors' suggestions, as early as the close of the 1970s. Most research[5] indicates that from the turn of the seventh and the eighth decade of the twentieth century, income inequality started to grow continuously in most countries. It is worth noting that the growing inequality is not solely due to the growing rate of the highest earners, but also to the increasing percentage of the population sliding into the lower parts of income distribution. As a result, we are witnessing a shrinking of the middle class. This process is particularly apparent in the highly developed countries (OECD).[6]

Hence, the statistical data which were presented above indicate that within-country income disparity had been growing since the turn of the seventh and the eighth decade of the twentieth century, almost in parallel with the dynamic growth of public debt within countries. What is more, particular countries and their groups encumbered with high public debt, reaching a critical point for their macro-economic stability, also display higher income inequalities in comparison to similarly developed economies. Furthermore, relatively higher disproportions are apparent in strongly financialised economies.

[3] The increase in public debt was strongly diversified between countries however, and highly concentrated in the developed economies. Consequently, in the middle of the first decade of the twenty-first century, the share of public debt (national budgets) to GDP in the developed economies (OECD, EU-15) exceeded 50 % and afterwards demonstrated a tendency to grow further.

[4] See Milanovic (2006, 2011); Bourguignon and Morrisson (2002); Sala-i-Martin (2002); Bhalla (2002); Davies (2008); Dowrick and Akmal (2005); Sutcliffe (2003); Chotikapanich et al. (1997); Chilosi (2010); Ortiz and Cummins (2011).

[5] See Ortiz and Cummins (2011); Jolly (2006); OECD (2008); Azzimonti et al. (2012); Bourguignon and Morrisson (2002).

[6] See Voitchovsky (2005); Bordo and Meissner (2011); European Commission (2010).

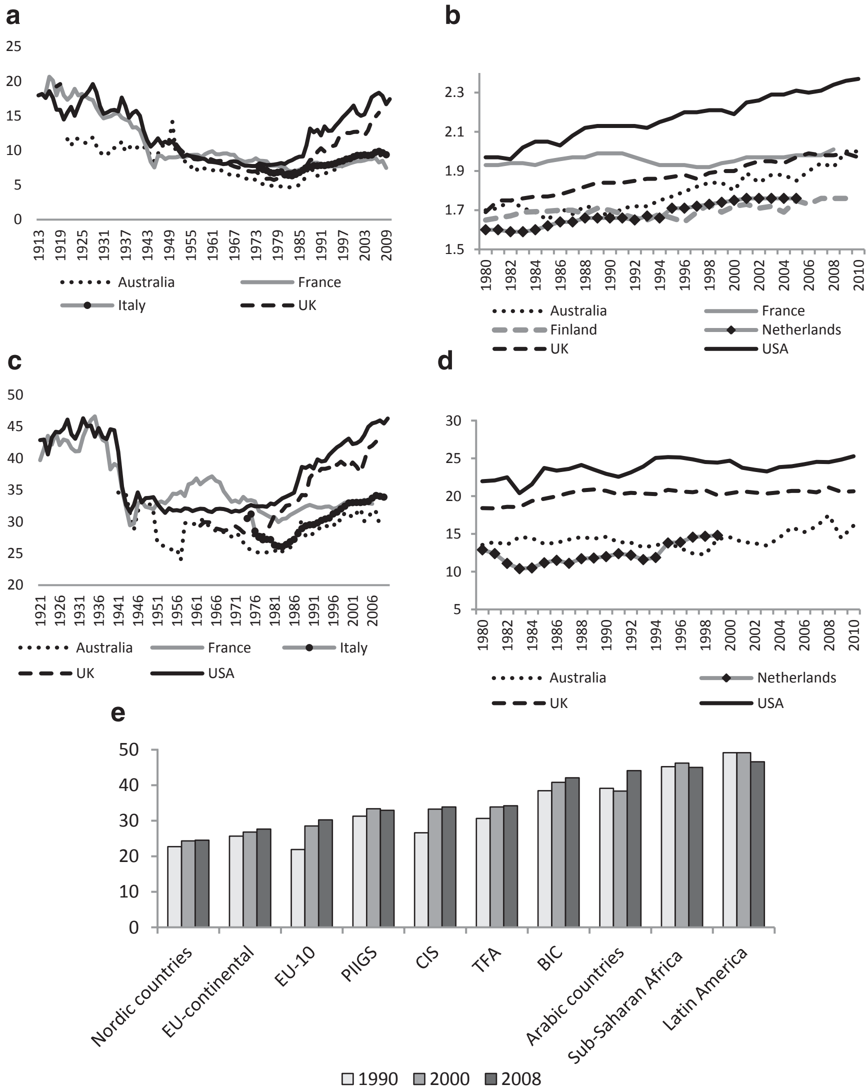


Fig. 9.2 Differentiation of incomes in the selected groups of countries for the period 1920–2010. **a** Top 1% income share—upper part of income distribution. **b** decile ratio (decile 9/decile 5) of gross earnings—upper part of earning income distribution. **c** top 10% income share—upper part of income distribution. **d** share of full-time workers earning less than two-thirds of gross median earnings of all full-time workers. **e** gini index (disposal income) for selected group of countries. *Note:* (*TFA* (*Technology Frontier Area*)*—Australia, Canada, USA, UK, New Zeeland, Japan; EU-Continental—Austria, France, Germany, Netherlands, Belgium; PIIGS—Portugal, Ireland, Italy, Greece, Spain; Nordic states—Sweden, Norway, Denmark, Finland; EU-10—Czech Rep., Hungary, Latvia, Lithuania, Poland, Romania, Bulgaria, Slovakia, Slovenia, Estonia; CIS* (*Commonwealth of Independent States*)*—Georgia, Kazakhstan, Kirgiz Rep., Ukraine, Russia, Tajikistan, Azerbaijan, Belarus; BIC—Brazil, India, China; Latin America—Chile, Brazil, Mexico, Peru, Venezuela; Arabic countries—Algeria, Jordan, Lebanon, Morocco, Yemen; Sub-Saharan Africa—Botswana, Burkina Faso, Burundi, Cameron, Côte d'Ivoire, Ethiopia, Ghana, Mozambique, Namibia.* (*Own elaboration using the data of* WTID 2012; OECD 2012; Ortiz and Cummins 2011)

9.3 Income Inequalities as a Contributing Factor to Public Debt Growth

A similar dynamic of changes in income inequality and volume of public debt is indicated by the comparison of empirical data presented in Figs. 9.1 and 9.2. Nevertheless, up until the close of the first decade of the twentieth century, economists had been struggling to construct theoretical models that would explain such dynamics. Consequently, the attempts made to explain the causal relationship between those categories were also, for a long time, doomed to failure.

It is worth noting that even though the theoretical models which were constructed in the 1990s did not fully illustrate the relationships between income inequalities and public debt, they nevertheless did succeed in suggesting them.[7] For example, Persson and Tabellini (1991), as well as Alesina and Rodrik (1994) presented a theoretical mechanism in line with which initial high-income inequalities strengthen the support given to redistributive economic policies. Therefore, it can be assumed that this creates favourable conditions which encourage increasing public spending, central budget deficits, and consequently, the growth of public debt.

Theoretical arguments in favour of the growing indebtedness are also rooted in the analysis of forces shaping the volume of debt by reliance on citizen preferences for public spending,[8] changing the scope of redistributive policy,[9] or finally, the need to balance excessive volumes of private capital on the financial market.[10] Hence, the use of a theoretical model greatly facilitated the explanation of the rising wave of public debt in the capitalist countries, particularly apparent with the onset of the 1980s.

Nevertheless, the economists were not able to find a model which would explain the widening income inequalities amidst the systematically growing public debt. Most research undertaken within that area indicated that, in line with the growing public debt (as a consequence of the rising social support for redistribution of wealth), income disparity should be declining instead of growing. Also sheer ignorance shunned theoretical arguments explaining those issues in some economies of the EU and the OECD, viz. income inequalities were growing at a different pace, and at times they would even decline (Atkinson et al. 2011), while the volume of public debt clearly displayed a growth tendency.

[7] There is a bulk of literature discussing the relationship between change (increase and decrease) in public debt and change in inequality of income and wealth distribution (see Röhrs and Winter 2011). However, the majority of this literature does not address an influence of income inequality on change in public debt.

[8] For instance Alesina and Tabellini (1990); Persson and Svensson (1989); Battaglini and Coate (2008); Caballero and Yared (2008); Ilzetski (2011); Aguiar and Amador (2011).

[9] For instance Krusell and Rios-Rull (1999); Golosov et al. (2003); Albanesi and Sleet (2006); Corbae et al. (2009).

[10] For instance Aiyagari and McGrattan (1998).

The quite common tendency to adopt the exogenous interest rate in the research focused in this field further prevented explanation of those dependencies.[11] Consequently, it was inferred that public debt evolves with the changes in demand preferences of (domestic) economic entities for debt securities issued by central budgets. Another inference maintained that the domestic market of debt securities was independent of the international, supranational, or global financial markets. That is why, among other reasons, theoretical models which combined those two processes were difficult to consider in the on-going occurrence of financialisation. Nevertheless, financialisation was gaining importance in explaining real economic processes, particularly from the onset of the 1980s.

Within that context, it is worth noting that Azzimonti et al. (2012) managed to present an interesting explanation for the theoretical issues of the impact exerted by income inequalities on public debt, viewed against the background of the on-going financialisation of domestic economies and the world economy. What is interesting is that by leaving out the premise of the exogenous interest rate, those authors were able to give a satisfactory empirical explanation for the varying public debt and income inequalities from the turn of the twentieth and twenty-first century.

The model elaborated by those authors addresses many open economies engaged in the free flow of capital. Those economies show differences in terms of the level and dynamics of income inequality changes between economic entities, i.e., the working population and entrepreneurs. Growing income inequalities in economies increase the risk of reducing future consumption of the economic entities. What is more, government bonds issued to finance public debt are purchased by private investors aiming to lower the risk of reduced consumption in the future, or in other words, to smoothen the interim consumption.

Consequently, the resultant increase of income inequalities connected with the growing risk of reducing future consumption pushes up the investor demand (workers and entrepreneurs) for bonds issued by national governments. In turn, government decisions on the volume and changes of public debt are dictated by the voters' preferences (entrepreneurs and workers). Thus growing income inequalities reinforce social preference for purchasing government bonds. By the same token, they also exert pressure on the government which by democratic election (voting) is forced to increase the issue of government bonds, thereby increasing public debt. In this way, growing income inequalities increase both the demand as well as the supply of government bonds ear-marked for financing public debt.

However, entrepreneurs and employees express their wish via the democratic vote to subscribe for treasury debt securities, in this way creating public debt demand for differing reasons. The former vote for a larger issue of treasury debt securities as it allows them to invest their money in safe financial instruments, i.e., treasury bonds. In turn, as

[11] The research referred mainly to the literature emphasising an impact of preferences of economic agents (investors, workers) on a demand for government bonds that determine the volume of public debt. See Alesina and Tabellini (1990); Persson and Svensson (1989); Battaglini and Coate (2008); Caballero and Yared (2008); Ilzetski (2011); Aguiar and Amador (2011); Persson and Tabellini (1991).

already mentioned, the purchase of those instruments permits entrepreneurs to limit the unhedged risk of reducing consumption in the years to come. That risk is growing in line with deepening income disproportions in society. By the same token, employees are aware of the fact that the growing demand on the part of entrepreneurs for treasury debt securities (public debt) lowers international interest rates. This results in lowering the cost of credit, which is particularly attractive for the working population.

Hence, both entrepreneurs as well as workers support increases in the public debt via their democratic vote. The resulting deepening income disparities raise public debt until it reaches a critical volume. Once the critical volume level has been reached, the cost of debt dramatically increases. This results in raising interest rates and reducing benefits, particularly for the workers due to the further increase of public debt.

It is worth mentioning that Azzimonti et al. (2012) are credited with the explanation of the process by which deepening inequalities in one country lead to increasing public debt in other countries, where income inequalities do not necessarily grow. That was possible due to the application of the provisions of free flows of capital among economies, as well as to the influence of the endogenous international interest rate. Consequently, an increase in the issue of treasury debt securities, raising the levels of public debt in one country, decreases international interest rates, thus stimulating demand for public debt in other countries, in particular among working population. What is important is that the impact affected by the issue of treasury debt securities on the international interest rate depends on the size of economy, i.e., the bigger the economy going into debt, the more volatile the fluctuations of that rate.

Azzimonti et al. (2012) conducted empirical research which positively verified the theoretical hypothesis from the theoretical model considerations which they developed. The three researchers proved, based on statistical data from 1973 to 2005 for the OECD-countries,[12] that public debt grew faster in times of economic slow-down, i.e., when the economic growth rate was declining, when a higher percentage of public debt to GDP occurred, and when an increase in the share of the 1 % of wealthiest citizens with respect to total income arose.

9.4 Research Method, the Applied macro-economic Variables, and the Sources of Numerical Data

The statistical research study which forms the basis for this chapter was conducted to verify the conclusions drawn from the literature discussed immediately above with respect to the causal relationships between growing income disparity and increasing public debt. The analysis was performed in two stages.

[12] The group of analysed countries excluded Poland, Hungary, Slovakia, Slovenia, Czech Rep., Israel, Turkey, Mexico and Luxembourg.

The first stage consisted of the identification of relationships between income inequalities and the volume of public debt. Calculated measures of correlation coefficients of the analysed variables reflected their statistical significance, hence t Student statistics and significance levels.

The second stage comprised identification of the impact of hypothetical macro-economic variables on the level and growth rate of public debt in the countries in question. To encompass the dependencies found among income inequality, public debt, and economic growth suggested in the literature into the calculating procedure, in addition to the variable depicting income inequality, the rate of economic growth and the volume of relative public debt measured as a percentage of GDP were also included in the calculated multiple regressions. To alleviate the assumed uniformity of the analysed countries, the research included the use of Ordinary Least Square Method (later OLS) and the Fixed Effects (later FE) method. Hence, that stage of research consisted of computing two regression equations:

a. Multiple regression of Public Debt in the analysed countries. A regression similar to that applied by Azzimonti et al. (2012) was used to facilitate a comparison of the obtained results with the results of other authors, viz.

$$PubDebt_{j,t} = \alpha + \beta Debt_{j,t-1} + \gamma dGDP_{j,t} + \delta Ineq_{j,t.} \tag{9.1}$$

b. Multiple regression of the Public Debt growth rate in the analysed countries:

$$dPubDebt_{j,t} = \alpha + \beta Debt_{j,t-1} + \gamma dGDP_{j,t} + \delta Ineq_{j,t.} \tag{9.2}$$

Where: α, β, γ, δ parameters of regression equation; $PubDebt_{j,t}$, $dPubDebt_{j,t}$, $Debt_{j,t-1}$, $dGDP_{j,t}$, $FrIneq_{j,t}$ macro-economic variables, whose explanation, including the source of numerical data was listed in Table 9.1.

The research employed ten annual, cross-sectional and time-frame measures for 34 OECD-countries (six illustrating income inequalities, particularly income disparities, and four demonstrating public debt and the rate of economic growth).

The analysis utilised measures indicating inequalities in the upper and lower parts of income distribution to facilitate proper identification of the impact made by income inequalities on the level, as well as the growth rate of public debt in the analysed countries. In overview, the following macro-economic variables were employed as the measures of income stratification in the lower parts of the distribution:

- The percentage of workers earning less than 2/3 of the average income calculated for the median ($LowPay_{j,t}$);
- The fifth and first decile of workers average pay ratio ($Decile(5/1)_{j,t}$;)
- The minimum income and the average income ratio calculated for the (arithmetic) mean of full-time workers ($Mean_{j,t}$);
- The minimum income and the average income ratio calculated for the median of full-time workers ($Median_{j,t}$).

Table 9.1 Macro-economic variables, their symbols and sources of numerical data

Code	Variable	Period	Countries	Source of data
$PubDebt_{j,t}$	Log of public debt volume (in PPP, constant prices of 2011) of country j in year t	1994–2010	OECD (34)	(OECD 2012; TEDB 2012)
$dPubDebt_{j,t}$	Log-change in $PubDebt_{j,t}$ of country j in year t	1994–2010	OECD (34)	
$Debt_{j,t-1}$	Log of ratio of public debt to the GDP of country j in year $t-1$	1994–2010	OECD (34)	(OECD 2012)
$dGDP_{j,t}$	Log-change in GDP of country j in year t	1994–2010	OECD (34)	(TEDB 2012)
Inequality measures ($Ineq_{j,t}$)				
$Decile(9/1)_{j,t}$	Decile ratio (decile 9/decile 1) of gross earnings of country j in year t	1995–2010	OECD (26) without: Chile, Estonia, Israel, Mexico, Netherlands, Slovakia, Slovenia	(OECD 2012)
$Decile(5/1)_{j,t}$	Decile ratio (decile 5/decile 1) of gross earnings (lower part of earnings distribution) of country j in year t	1995–2010	OECD (26) without: Chile, Estonia, Israel, Luxembourg, Mexico, Slovakia, Slovenia, Turkey	(OECD 2012)
$Decile(9/5)_{j,t}$	Decile ratio (decile 9/decile 5) of gross earnings (upper part of earnings distribution) of country j in year t	1995–2010	OECD (26) without: Chile, Estonia, Israel, Luxembuorg, Mexico, Slovakia, Slovenia, Turkey	(OECD 2012)
$Mean_{j,t}$	Ratio of minimum relative to average (mean) wages of full-time workers of country j in year t	1994–2010	OECD (22) without: Austria, Chile, Denmark, Finland, Germany, Island, Israel, Italy, Norway, Slovenia, Sweden, Switzerland	(OECD 2012)
$Median_{j,t}$	Ratio of minimum relative to average (median) wages of full-time workers of country j in year t	1994–2010	OECD (22) without: Austria, Chile, Denmark, Finland, Germany, Island, Israel, Italy, Mexico, Norway, Sweden, Switzerland	(OECD 2012)
$LowPay_{j,t}$	Share of full-time workers earning less than two-thirds of gross median earnings of all full-time workers of country j in year t	1995–2010	OECD (23) without: Chile, Estonia, France, Israel, Mexico, Norway, Slovakia, Slovenia, Sweden, Switzerland, Turkey	(OECD 2012)

Own elaboration

In turn, the ratio of the average income of the ninth and the fifth decile of workers was employed to illustrate income inequality in the upper parts of the distribution ($Decile(9/5)_{j,t}$). Owing to numerous deficiencies of the Gini index,[13] the ratio of average income of the ninth and the first decile of workers was used to illustrate general income disparities.

The focus on income disparities in the upper and lower parts of the distribution was dictated by two reasons: In the first place, many authors (Voitchovsky 2005; Bordo and Meissner 2011; European Commission 2010) demonstrate that growing disparities are not merely attributable to the increasing share of the highest earners in total income, but also to the growing percentage of population shifting to lower parts of the distribution. In other words, the poverty level among workers is on the rise.

9.5 The Results

Table 9.2 lists the values of the calculated correlation coefficients of the volume of public debt (in Purchasing Power Parity [PPP], USD, and constant prices of 2011) and income inequality measures for OECD-countries between 1995 and 2010. To prove statistical credibility of the calculated coefficients, the table includes information on their statistical significance, as well as the quantity of the samples used in the calculations. The table indicates that all the statistical significance of the calculated correlation coefficients is satisfactory, i.e., value $p < 0.2$.

Correlation coefficients which are listed in Table 9.2 above:

1. The positive value of the correlation between $PubDebt_{j,t}$ and $Decile(9/1)_{j,t}$ indicates that income inequalities were deepening at times of growing public debt.
   However, it is worth highlighting the fact that the growing public debt in OECD-countries was not merely accompanied by an increase in income inequalities in the upper parts ($Decile(9/5)_{j,t}$), but also in the lower parts of income distribution ($Decile(5/1)_{j,t}$, $LowPay_{j,t}$, $Mean_{j,t}$, $Median_{j,t}$). Hence, the process of deepening income inequalities in the investigated countries consisted of more rapid increase of pay of relatively better remunerated workers, and a slower increase recorded among relatively worse remunerated, relative to the mean pay rise.
2. The negative correlation values of the coefficient between the variables $dGDP_{j,t}$ and $PubDebt_{j,t}$ indicate that the rise of public debt in OECD-economies was noted in times of a rising economic growth rate in those countries and *vice versa*. Hence, between 1995 and 2010, the volume of public debt in OECD-countries was growing in times of economic slowdown and recession, and declining in times of economic upturn.
   What is more, on average, OECD-countries were increasing their public debt faster than the growth of production, i.e., GDP.

The analysis of multiple regression (Eq. 9.1) and the growth rate (Eq. 9.2) of public debt in OECD-countries has been conducted on the basis of the annual cross-sectional data

[13] See Woźniak and Jabłoński (2012).

Table 9.2 Correlation coefficients of the volume of public debt (in PPP, USD, constant prices of 2011) and the selected macro-economic measures of OECD-countries

Variable	Volume of Public Debt (USD)		
	Corr. coefficients	No. of observations	*p* value
Ratio of public debt to the GDP ($Debt_{j,t-1}$)	0,420	517	0,0000
Log-change in GDP ($dGDP_{j,t}$)	−0,164	522	0,0002
Decile ratio (decile 9/decile 1) of gross earnings ($Decile(9/1)_{j,t}$)	0,289	310	0,0000
Decile ratio (decile 5/decile 1) of gross earnings ($Decile(5/1)_{j,t}$)	0,276	308	0,0000
Decile ratio (decile 9/decile 5) of gross earnings ($Decile(9/5)_{j,t}$)	0,219	312	0,0001
Share of full-time workers earning less than two-thirds of gross median earnings of all full-time workers ($LowPay_{j,t}$)	0,165	236	0,0107
Ratio of minimum relative to average (mean) wages of full-time workers ($Mean_{j,t}$)	−0,250	342	0,0000
Ratio of minimum relative to average (median) wages of full-time workers ($Median_{j,t}$)	−0,316	326	0,0000

p value = statistical significance of T-Student statistics. Own elaboration based on data described in Table 9.1

including the time factor of all variables, descriptions of which can be found in Table 9.1. Regression parameters have been calculated using two methods, i.e., Least Square Method (LSM) and Fixed Effects method (FE). Having analysed all the derived variants of calculations comprising the number of observations, the signs and statistical significance of parameters, a few estimates were selected, which are illustrated in Tables 9.3–9.5.

The results of the calculations of Eq. 9.1 using the OLS method have been listed in Table 9.3, and those calculated using the FE method can be found in Table 9.4. In both variants of calculations, the parameters with independent variables display high statistical significance. What is more, high values of coefficients of determination (adjusted R^2) prove a good fit (match) with (to) the results to the empirical data distribution. Hence, OLS calculations yield 30–49 %, while FE estimates generate a staggering 94 % explanation of the real distribution of empirical data. The results of Eq. 9.2 produce a lesser match to the empirical data distribution. Nevertheless, they still seem to fulfil the criterion of statistical significance.

Hence, the obtained results may prove the basis of credible economic interpretation and allow a few interesting conclusions:

1. The obtained results (OLS3, OLS7, FE3, and FE7) illustrate a strong, positive impact that is exerted by growing income disparities in the volume of public debt within the analysed countries. Hence, the value of a parameter with variable $Decile(9/1)_{j,t}$ indicates

Table 9.3 The results of calculations of Eq. 9.1 according to OLS

Variable	Dependent variable: $PubDebt_{j,t}$			
	OLS1	OLS2	OLS3	OLS4
Constant (*p* value)	8.939 (0.0000)	5.498 (0.0000)	8.630 (0.0000)	8.165 (0.0000)
$\mathrm{Dept}_{j,t-1}$ (*p* value)	3.277 (0.0000)	3.229 0.0000	2.906 0.0000	2.722 0.0000
$\mathrm{dGDP}_{j,t}$ (*p* value)	− 12.429 (0.0000)	− 11.899 (0.0000)	− 12.845 (0.0000)	− 11.370 (0.0000)
$\mathrm{LowPay}_{j,t}$ (*p* value)	0.133 (0.0000)	–	–	–
$\mathrm{Decile(5/1)}_{j,t}$ (*p* value)	–	3.351 (0.0000)	–	–
$\mathrm{Decile(9/1)}_{j,t}$ (*p* value)	–	–	0.836 (0.0000)	–
$\mathrm{Decile(9/5)}_{j,t}$ (*p* value)	–	–	–	1.700 (0.0000)
Adjusted R^2	0.459	0.485	0.440	0.371
No. of observations	237	309	311	313
No. of countries	22	26	26	26

p value = statistical significance of T-Student statistics. Own elaboration based on data Described in Table 9.1

that increased diversity of overall income was conducive to the growing public debt in the analysed OECD-countries.

2. An equally strong, positive impact on the volume of public debt of OECD-countries was exerted by the growing income disparities in the upper parts of income distribution (OLS4, OLS8, and FE4). Hence, the values of parameters with variable $Decile(9/5)_{j,t}$ indicate that a faster increase of incomes (relative to the average income characteristic of most workers in the researched countries) of relatively better paid workers was conducive to increasing public debt in the analysed OECD-countries.[14]
3. The calculations also proved the assumption with respect to the positive impact exerted by growing disparities within the lower income parts on the volume of public debt in the researched countries. The calculations illustrate that the volume of public debt in OECD-countries was largely affected by the growing:
   - Mean variations of incomes characteristic of the first and the fifth decile of workers ($Decile(5/1)_{j,t}$);
   - Percentage of workers earning less than 2/3 of average pay ($LowPay_{j,t}$);
   - Spread between the minimum and average pay ($Mean_{j,t}$, $Median_{j,t}$).
4. All the presented calculation variants prove that the volume of public debt in the researched countries was dependent on the rate of economic growth. More specifically, the negative value of a parameter with variable $dGDP_{j,t}$ indicates that an economic

[14] Consequently, the presented calculations were in line with results of Azzimonti et al. (2012).

Table 9.4 The results of calculations of Eq. 9.1 according to FE

Variable	Dependent variable: $PubDebt_{j,t}$					
	FE1	FE2	FE3	FE4	FE5	FE6
Constant (*p* value)	11.112 (0.0000)	10.337 (0.0000)	9.774 (0.0000)	8.311 (0.0000)	10.322 (0.0000)	0.004 (0.0000)
$Dept_{j,t-1}$ (*p* value)	1.376 (0.0000)	1.355 (0.0000)	1.313 (0.0000)	1.414 (0.0000)	1.312 (0.0000)	1.246 (0.0000)
$dGDP_{j,t}$ (*p* value)	−2.462 (0.0000)	−2.441 (0.0000)	−1.900 (0.0000)	−1.469 (0.0022)	−3.030 (0.0000)	−2.944 (0.0000)
$LowPay_{j,t}$ (*p* value)	0.0456 (0.0000)	–	–	–	–	–
$Decile(5/1)_{j,t}$ (*p* value)	–	0.860 (0.0004)	–	–	–	–
$Decile(9/1)_{j,t}$ (*p* value)	–	–	0.629 (0.0000)	–	–	–
$Decile(9/5)_{j,t}$ (*p* value)	–	–	–	1.826 (0.0000)	–	–
$Mean_{j,t}$ (*p* value)	–	–	–	–	3.188 (0.0000)	–
$Median_{j,t}$ (*p* value)	–	–	–	–	–	3.170 (0.0000)
Adjusted R^2	0.982	0.983	0.986	0.987	0.983	0.985
No. of observations	237	309	311	313	343	327
No. of countries	22	26	26	26	23	22

p value = statistical significance of T-Student statistics. Own elaboration based on data described in Table 9.1

down-turn or recession, i.e., a declining growth rate of GDP, significantly increased the volume of public debt in the OECD-countries. In turn, an economic up-turn was conducive to decreasing public debt in the researched countries. As a result, it has been empirically demonstrated that the problem of increasing or excessive public debt gains importance in periods of declining dynamics of economic growth.

5. The value of a parameter with variable $Dept_{j,t-1}$ indicates that a growing ratio of public debt to GDP in the preceding year results in an increase in the debt in the following year (OLS1-OLS4 and FE1-FE6). In view of the above, it was proven (and it seems quite apparent) that the economic policy practiced in the preceding years, particularly the enforcement of severe fiscal measures, is a significant statistical factor of public debt of OECD-countries. At the same time, it was proven that growing public debt in proportion to GDP visibly hampers the future growth rate of that debt (MNK5-MNK10 and FE7). Consequently, it was demonstrated that the high public debt in proportion to GDP observed within the analysed OECD-countries slowed the growth of public debt in the successive years.
6. Hence, the conducted empirical research indicates that the income inequalities noted between 1995 and 2010 exerted a positive impact on the growth of public debt in

Table 9.5 The results of calculations of Eq. 2 according to OLS and FE

Variable	Dependent variable: $dPubDebt_{j,t}$						
	MNK5	MNK6	MNK7	MNK8	MNK9	MNK10	FE7
Constant (*p* value)	−0.086 (0.1470)	−0.100 (0.0565)	−0.014 (0.6391)	−0.0594 (0.2197)	0.228 (0.0000)	0.213 (0.0000)	−0.2678 (0.1990)
$\mathrm{Dept}_{j,t-1}$ (*p* value)	−0.043 (0.0551)	−0.0399 (0.0516)	−0.0474 (0.0184)	−0.0549 (0.0056)	−0.073 (0.0072)	−0.079 (0.0048)	−0.113 (0.0197)
$\mathrm{dGDP}_{j,t}$ (*p* value)	−1.421 (0.0000)	−1.441 (0.0000)	−1.453 (0.0000)	−1.409 (0.0000)	−1.732 (0.0000)	−1.751 (0.0000)	−1.502 (0.0000)
$\mathrm{LowPay}_{j,t}$ (*p* value)	0.0641 (0.0015)	–	–	–	–	–	–
$\mathrm{Decile}(5/1)_{j,t}$ (*p* value)	–	0.1088 (0.0002)	–	–	–	–	–
$\mathrm{Decile}(9/1)_{j,t}$ (*p* value)	–	–	0.0315 (0.0001)	–	–	–	0.1206 (0.0589)
$\mathrm{Decile}(9/5)_{j,t}$ (*p* value)	–	–	–	0.0791 (0.0016)	–	–	–
$\mathrm{Mean}_{j,t}$ (*p* value)	–	–	–	–	−0.269 (0.0140)	–	–
$\mathrm{Median}_{j,t}$ (*p* value)	–	–	–	–	–	−0.167 (0.0822)	–
Adjusted R^2	0.142	0.136	0.142	0.130	0.121	0.115	0.235
No. of observations	229	297	298	300	324	309	300
No. of countries	22	26	26	26	23	22	26

p value = statistical significance of T-Student statistics. Own elaboration based on data described in Table 9.1

OECD-countries. What is more, the dependencies between income inequalities and the volume of public debt that were ascertained within the researched period provide an explanation for the volatility of the economic growth rate of the countries included in the research.

9.6 Summary and Conclusions

The chapter presented arguments for causality between deepening income inequalities within OECD-countries and the growing public debt of the highly developed economies. The theoretical and empirical research which focused on those dependencies proved that it might be ascertained that the deep, ever-growing public debt, often deemed as a threat to the macro-economic stability of some countries, is attributable to growing internal income disparities. Also, it was proven on the basis of statistical data of the analysed OECD-countries for 1995–2010, that growing income disparities in the upper and lower parts of the distribution exerted strong positive impact on the volume of public debt in those economies.

It is worth noting that the theoretical considerations included in the chapter, as well as the calculation results presented do not suffice to adopt a hypothesis claiming that growing income inequalities contribute to increasing public debt in capitalist countries in general, or in particular those that belong to the OECD. Neither, however, does it mean that such a hypothesis may be discarded. The presented considerations should be regarded as a certain argument, also of empirical nature, that can be applied to reformulate the debate on public debt, as well as the debt crisis taking place in many highly developed countries. Hence, it is worthwhile to focus more attention on the far-reaching income inequalities as one of the causes of the current crisis. This connection between income inequality and the economic performance of many countries is the missing link which presents the main contribution of this chapter.

Nevertheless, as a prerequisite, one crucial issue must be remembered while formulating our postulate in this way with respect to such connections. Namely, putting forward a thesis about the need to limit, if not the volume, then at least the rate of growth of income inequalities within countries, logically leads to another theorem. Further theoretical and empirical research, in particular research focused on inequalities, as well as the premises of economic policy, should be based on a methodological foundation reaching beyond the mainstream of economics. It is worth noting that according to Jenkins (2011), most research on inequalities, in particular the work which is published in prestigious magazines and journals, hence meriting the recognition of a growing body of economists, directly reverts to paradigms of the mainstream economy, that is to say, to liberal and neo-liberal views in economic research.

In establishing the causal link and identifying income inequalities as a contributing factor to public debt growth, this chapter focused not on evaluating the role of public debt in society *per se*, as this would comprise the role and scope of separate research in this field. In this regard however, some authors suggest that the growing gap in income inequality and public debt, which have both widened and currently reached an historic high in some countries, negatively affects the economy and thereby society. A salient question in this debate is the negative role that a widening income gap plays in influencing and increasing public debt. While clearly outside the scope of this research study, the results established in the theoretical and empirical arguments presented in this chapter could highlight social risk implications with respect to equal opportunities for the countries involved. Because the growing gap in income inequality and public debt negatively affects the economy and thereby potentially society, some authors suggest that this impact could possibly be considered to influence public discontent (Podder 1998) and even democracy itself (Gradstein and Milanovic 2004).[15]

[15] It is worth emphasising that while earlier research failed to detect any significant correlation between democracy and inequality (Deininger and Squire 1996), later studies cautiously suggest the existence of a negative relationship between the two (Gradstein and Milanovic 2004). However, the recent research of Timmons (2010, p. 755) does not indicate a systematic relationship between democracy and inequality.

Consequently, a possible area for further research in this field is the negative role that a widening income gap and increasing public debt might play in society and in the deterioration of its economic performance. This triggers potential questions about the aptness of previous economic mechanisms to generate a fairer distribution of the wealth they created. Furthermore, such questions indicate the requirement for consideration and identification of new economic mechanisms which better serve the needs of society with respect to income equality and equal opportunities. Significantly, a sign that this topic may be moving into the mainstream was indicated by the fact that the key theme at the recent Conference on inclusive capitalism in London in May, 2014[16] was the need for a more socially responsible form of capitalism that benefits everyone, not just a wealthy minority (The Guardian Newspaper 2014b).

References

Aguiar, M., & Amador, M. (2011). Growth in the shadow of expropriation. *Quarterly Journal of Economics, 126*(2), 651–697.

Aiyagari, S. R., & McGrattan, E. R. (1998). The optimum quantity of debt. *Journal of Monetary Economics, 42*(3), 447–469. http://dx.doi.org/10.1016/S0304-3932(98)00031-2. Accessed 15 Nov. 2012.

Albanesi, S., & Sleet, C. (2006). Dynamic optimal taxation with private information. *Review of Economic Studies, 73,* 1–30. http://dx.doi.org/10.1111%2Fj.1467-937X.2006.00367.x. Accessed 15 Nov. 2012.

Alesina, A., & Rodrik, D. (1994). Distributive politics and economic growth. *Quarterly Journal of Economics, 109*(2), 465–490. http://dx.doi.org/10.2307%2F2118470. Accessed 15 Nov. 2012.

Alesina, A., & Tabellini, G. (1990). A positive theory of fiscal deficits and government debt. *Review of Economic Studies, 57*(3), 403–414. http://dx.doi.org/10.2307/2298021. Accessed 15 Nov. 2012.

Atkinson, A. B., Piketty, T., & Saez, E. (2011). Top incomes in the long run of history. *Journal of Economic Literature, 49*(1), 3–71. http://dx.doi.org/10.1257%2Fjel.49.1.3. Accessed 15 Nov. 2012.

Azzimonti, M., de Francisco, E., & Quadrini, V. (2012). Financial globalization, inequality, and the rising of public debt. http://www-bcf.usc.edu/~quadrini/papers/PDpap.pdf. Accessed 15 Nov. 2012.

Battaglini, M., & Coate, S. (2008). A dynamic theory of public spending, taxation, and debt. *American Economic Review, 98*(1), 201–236. http://dx.doi.org/10.1257%2Faer.98.1.201. Accessed 15 Nov. 2012.

Bhalla, S.S. (2002). Imagine there's no country: Poverty, inequality and growth in the era of globalization. Institute for International Economics, September 26, 2002. http://siteresources.worldbank.org/INTPGI/Resources/342674-1206111890151/12978_Surjit_Bhalla_Two_Policy_Briefs.pdf.

[16] Inclusive Capitalism Conference at the Mansion House on May 27, 2014, in London, United Kingdom. The Conference on Inclusive Capitalism was co-hosted by the City of London Corporation and EL Rothschild investment firm.

Blommestein, H. J., & Turner, P. (2012). Interactions between sovereign debt management and monetary policy under fiscal dominance and financial instability. OECD Working Papers on Sovereign Borrowing and Public Debt Management, 3. http://www.bis.org/publ/bppdf/bispap65l_rh.pdf. Accessed 15 Nov. 2012.

Bordo, M. D., & Meissner, C. M. (23–24 Sept 2011). Do financial crises always raise inequality? Some evidence from history. Paper presented at the JIMF 4th Annual Conference at UC Santa Cruz, USA. http://sciie.ucsc.edu/JIMF4/Revised_Bordo_Meissner.pdf. Accessed 10 Dec 2012.

Bourguignon, F., & Morrisson, C. (2002). Inequality among world citizens: 1820–1992. *The American Economic Review, 92*(4), 727–744. http://dx.doi.org/10.1257%2F00028280260344443. Accessed 15 Nov. 2012.

Caballero, R., & Yared, P. (2008). Future renting-seeking and current public savings. NBER Working Paper, 14417.

Chilosi, A. (2010). Poverty, population, inequality, and development: The historical perspective. *The European Journal of Comparative Economics, 7*(2), 469–501.

Chotikapanich, D., Valenzuela, R., & Rao, D. S. P. (1997). Global and regional inequality in the distribution of income: Estimation with limited and incomplete data. *Empirical Economics, 22,* 533–546. http://dx.doi.org/10.1007%2FBF01205778. Accessed 15 Nov. 2012.

Corbae, D., D'Erasmo, P., & Kuruscu, B. (2009). Politico-economic consequences of rising wage inequality. *Journal of Monetary Economics, 56*(1). http://dx.doi.org/10.1016%2Fj.jmoneco.2008.08.012. Accessed 15 Nov. 2012.

Davies, J. B. (Ed.). (2008). *The world distribution of household wealth*. Oxford: Oxford University Press. http://dx.doi.org/10.1093%2Facprof%3Aoso%2F9780199548880.003.0019. Accessed 15 Nov. 2012.

Deininger, K., & Squire, L. (1996). A new data set measuring income inequality. *World Bank Economic Review, 10,* 565–591.

Dowrick, S., & Akmal, M. (2005). Contradictory trends in global income inequality: A tale of two biases. *Review of Income and Wealth, 51*(2), 201–230. http://dx.doi.org/10.1111%2Fj.1475-4991.2005.00152.x. Accessed 15 Nov. 2012.

European Commission. (2010). Why socio-economic inequality increases? Facts and policy responses in Europe. http://ec.europa.eu/research/social-sciences/pdf/policy-review-inequalities_en.pdf. Accessed 15 Nov. 2012.

Fisher, S. (2003). Globalization and its challenges. *American Economic Review, 93*(2), 1–30. http://dx.doi.org/10.1257%2F000282803321946750. Accessed 15 Nov. 2012.

Flejtarski, S. (2010). Globalny kryzys bankowo-finansowy. Geneza, aktorzy, konsekwencje [The global banking and financial crisis. Genesis, actors, consequences]. In G. W. Kołodko (Ed.), *Globalizacja, kryzys i co dalej?* [*Globalization, crisis and what next?*] (pp. 134–154). Warsaw: Wydawnictwo Poltext.

George, J. M. (2013). Compassion and capitalism: Implications for organizational studies. *Journal of Management*, *40*(1), 5–15. January 2014.

Golosov, M., Kocherlakota, N., & Tsyvinski, A. (2003). Optimal indirect and capital taxation. *Review of Economic Studies, 70,* 569–587. http://dx.doi.org/10.1111%2F1467-937X.00256. Accessed 15 Nov. 2012.

Gradstein, M., & Milanovic, B. (2004). Does Liberté=Egalité? A survey of the empirical links between democracy and inequality with some evidence on the transition economies. *Journal of Economic Surveys, 14,* 515–537.

HPDD. (2012). Historical public debt database. Fiscal Affairs Department, IMF. http://www.imf.org. Accessed 27 Dec 2012.

Ilzetzki, E (2011). Rent-seeking distortions and fiscal procyclicality, *Journal of Development Economics, 96*(1), 30–46.

Jenkins, S. (2011). The economic debate on inequality: Past, present and future. *International Journal of Business and Social Science, 2*(18), 46–56.

Jolly, R. (2006). Inequality on historical perspective. UNU-WIDER Research Paper, no. 2006/32, March. http://www.rrojasdatabank.info/rp2006-32.pdf. Accessed 15 Nov. 2012.

Krusell, P., & Rios-Rull, J. V. (1999). On the size of U.S. government: Political economy in the neoclassical growth model. *American Economic Review, 89*(5), 1156–1181. http://dx.doi.org/10.1257%2Faer.89.5.1156. Accessed 15 Nov. 2012.

McKinsey Quarterly. (2014). Business, society, and the future of capitalism. http://www.mckinsey.com/Insights/Sustainability/Business_society_and_the_future_of_capitalism?cid=other-eml-alt-mkq-mck-oth-1405. Accessed 19 May 2014.

Milanovic, B. (2006). Global income inequality: What it is and why it matters? DESA Working Paper, No. 26. http://www.un.org/esa/desa/papers/2006/wp26_2006.pdf. Accessed 15 Nov. 2012.

Milanovic, B. (2011). *The haves and the have-nots: A brief and idiosyncratic history of inequality around the globe*. New York: Basic Books.

OECD. (2008). *Growing unequal? Income distribution and poverty in OECD-countries*. Paris: OECD Publishing.

OECD. (2012). OECD statistics portal. http://stats.oecd.org/WBOS/index.aspx. Accessed 27 Dec 2012.

Ortiz, I., & Cummins, M. (2011). Global inequality: Beyond the bottom billion. A rapid review of income distribution in 141 countries. UNICEF Social and Economic Policy Working Paper, April 2011. http://www.unicef.org/socialpolicy/files/Global_Inequality.pdf. Accessed 15 Nov. 2012.

Persson, T., & Svensson, L. (1989). Why a stubborn conservative would run a deficit: Policy with time-inconsistent preferences. *Quarterly Journal of Economics, 104*(2), 325–345. http://dx.doi.org/10.2307%2F2937850. Accessed 19 June 2014.

Persson, T., & Tabellini, G. (1991). Is inequality harmful for the growth? Theory and evidence. NBER Working Papers Series, No. 3599. http://www.nber.org/papers/w3599. Accessed 19 June 2014.

Podder, N. (1998). The implications of economic inequality for social welfare and social conflict. *International Journal of Social Economics, 25*(6/7/8), 1244–1254.

Reich, R. (2014). Robert Reich: 10 ways to close the inequality gap. http://www.salon.com/2014/05/13/robert_reich_10_ways_to_close_the_inequality_gap_partner. Accessed 16 May 2014.

Reynolds, L. L. (1983). The spread of economic growth to the third word. *Journal of Economic Literature, 21,* 941–975.

Röhrs, S., & Winter, C. (2011). Wealth inequality and the optimal level of government debt. Working Papers Series, no. 51. http://ideas.repec.org/p/zur/econwp/051.html. Accessed 19 June 2014.

Sala-i-Martin, X. (2002). The disturbing 'rise' of world income inequality. NBER Working Paper, No. 8904. http://www.nber.org/papers/w8904. Accessed 19 June 2014.

Sutcliffe, B. (2003). World inequality and globalization. *Oxford Review of Economic Policy, 20*(1), 15–37.

TEDB. (2012). Total economy database. http://www.conferenceboard.org. Accessed 27 Dec 2012.

The Guardian Newspaper. (16 May 2014a). Occupy movement. The Guardian Newspaper. http://www.theguardian.com/world/occupy-movement. Accessed 19 June 2014.

The Guardian Newspaper. (1 June 2014b). Inclusive capitalism initiative is trojan horse to quell coming global revolt. *The Guardian Newspaper*. http://www.theguardian.com/environment/earth-insight/2014/may/28/inclusive-capitalism-trojan-horse-global-revolt-henry-jackson-society-pr-growth. Accessed 19 June 2014.

Timmons, J. F. (2010). Does democracy reduce economic inequality? *British Journal of Political Science, 40*(4), 741–757.

Tomkiewicz, J. (2012). Zmieniająca się struktura dochodów jako jedna z przyczyn kryzysu finansowego [The changing structure of income as one of the causes of the financial crisis]. *Nierówności społeczne a wzrost gospodarczy, 24,* 103–111.

Voitchovsky, S. (2005). Does the profile of income inequality matter for economic growth? Distinguishing between the effects of inequality in different parts of the income distribution. *Journal of Economic Growth, 10*(3), 273–296. http://dx.doi.org/10.1007 %2Fs10887-005-3535-3. Accessed 19 June 2014.

Wilkinson, R., & Picket, K. (2010). *The spirit level: Why equality is better for everyone*. New York: Penguin.

Woźniak, M. G., & Jabłoński, Ł. (2012). Social inequality, human capital and economic growth in OECD-countries. Synthesis. *Nierówności społeczne a wzrost gospodarczy, 28,* 24–40.

WTID. (2012). The world top incomes database. http://topincomes.parisschoolofeconomics.eu. Accessed 3 Oct 2012.

10 Vroom's Participation Model as a Foundation of Organisation Audit: A New Approach to CSR

Ryszard Stocki and Agnieszka Łapot

Contents

10.1 Introduction . . . 192
10.2 Personal Norm and Participation . . . 193
10.3 Efficacy, Self-determination and Responsibility in Organisations . . . 194
10.4 Co-operative Values . . . 194
10.5 Organisational Isomorphism—Why Organisations Become Similar? . . . 195
10.6 Elementary Concepts in the Study of Theories as Cognitive Structures . . . 196
10.6.1 Specificity of Theories in a Domain . . . 196
10.6.2 Framework and Specific Theories . . . 198
10.7 Implicit (Tacit) and Explicit Theories . . . 198
10.7.1 Naive, Novice, and Expert Theories . . . 199
10.7.2 From Teams to Organisations—Theoretical Model of the Practice of Participation . . . 200
10.7.3 Leader, Group, and Situational Antecedents or Organisational Determinants . . 202
10.8 In Search of an Authentic Auditing Method: First Attempts—Co-op Index . . . 203
10.9 Principles for the Construction of a New Auditing Tool Based on Vroom's and Wojtyła's Theories of Participation . . . 204
10.10 Summary and Conclusions . . . 209
References . . . 209

R. Stocki (✉)
University of Social Sciences and Humanities (SWPS)
ul. Techników 9, 40-326 Katowice, Poland
e-mail: ryszard@stocki.org

A. Łapot
Wojtyla Institute,
Smoleńsk 29, II p, 31-112 Krakow, Poland
e-mail: agnieskalapot@interia.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_10

Abstract

This chapter presents an overview of a personalistic, participative approach to management in socially responsible business organisations. We believe that dialogue is a principle vehicle in CSR communication and this is a missing link to sustainable management. In order to fully explain the link between participation and socially responsible business behaviour, we recall the philosophical work of Karol Wojtyła on the nature of participation. We additionally discuss the connection between two phenomena: organisational isomorphism and "tacit knowledge". We focus our analysis on participative dialogue with employees. For a better understanding of participation, we present the Vroom model. It helps to build a diagnostic tool, which is the main contribution of this chapter. While this tool is designed to improve "human" management in organisational settings, we conclude the chapter by explaining why participative management and co-operative values are so difficult to implement. Finally, we explain how the diagnostic tool could help to fill the missing link noted.

10.1 Introduction

When preparing this chapter, we have focused on CSR in modern organisations of all types and sizes.

A common aspect was a focus on engaging more and more individuals in the projects, and making them believe in the concrete, honest goals. This reflects the general CSR strategy of the European Commission from 2011: A focus on CSR as a benefit to society as a whole (The European Commission 2011).

Thus we came to a conclusion stated in one of the guidelines of the international standards of social responsibility (OECD 2009): To encourage effective participation at all levels for employees in the organisation's decision-making on issues of social responsibility. This social responsibility is understood by modern organisations which implement CSR not merely as the charitable nature of projects and actions, but first of all as collective and active participation. The importance of participation is also visible in labour practices, which includes recognition of worker organisations and representation and participation of both—worker and employer organisations—in collective bargaining, social dialogue and consultation to address issues related to employment.

In this chapter our aim is to promote participation as an effective form of so-called democratic management. It was accepted as a form of management many centuries ago, and should have become the model of organisational audit a long time ago. We propose why it was not accepted and present a psychological view of organisational isomorphism as a potential way to overcome this gap. From this angle, isomorphism is founded on tacit knowledge with false philosophical anthropology that does not recognise participation as a fundamental principle of being human. But that should be recognised in management.

10.2 Personal Norm and Participation

> …the wish to participate in the direction, guidance, and control—in short, in management—of affairs is one of the deepest desires of man … (Schell 1952).

Schell asks the question why participation was not implemented in management. He called this phenomenon "an amazing oversight". The first forms of participation may be found in ancient China (for more details Stocki et al. 2012b). Historical arguments convince us that participation may go beyond cultural differences and religions because it has a universal nature. We find this perspective in the less-known anthropological writings of Karol Wojtyła. Wojtyła proposed an outline of participation theory that may have universal implications in contemporary management. The first assumption is that every person, without exception, is a being bestowed with indispensable dignity and deserving not to be treated solely as a means to even the noblest goal, but being, first of all a goal in oneself (Merecki 1999). Wojtyła distinguishes between two forms of participation. The first, common sense participation of acting with others, and the second philosophical sense where he defines participation as "the person's transcendence in the act, when the act is being performed together with others" (Wojtyła 1979, p. 268). The dynamic element of transcendence will become a crucial aspect of participation. According to the historical accounts, Wojtyła sees the universality of personalism as it "represents the feature of the person itself […] which determines that the person existing and acting together with others does so as a person." It is not only admitting the "social nature" of humans but first of all upholding participation as a defining feature of the person.

This complex definition pinpoints the ontological difference between working together and participation. It is based on a triangle of three concepts: the person, the act and the transcendence.

What is so special about a person, according to Wojtyła is, at first, our direct cognition of ourselves. The "sense" that we are both the object and subject of cognition. The second human-specific feature is free-will, closely related to our self-cognition. But what differentiates the human act—a voluntary choice of values—from any other behaviour? We can speak about an act when a person has a real, potential choice and is conscious that he or she is making a difference in the world by performing this action. This way, it concerns trust. To check whether it is an act we have to look at the three aspects of this behaviour: efficacy, self-determination, and responsibility. We shall develop this issue further on, as it is essential for total participation companies.

Transcendence, an important concept for participation, occurs when an object or a person surpass their limits. Every human act—that is the conscious, voluntary behaviour of a person aware of the consequences and moral value of their decision—makes the person a different person. Wojtyła calls this the personalistic value of an act. This value, as the most important one, has primacy over any other values. This is so, because a real choice of other values is conditioned by the personalistic value. It is one of the assumptions of Total Participation Management as well. Transcendence could easily be psychologically defined as learning and development, while an act could be defined as either a positive or a negative experience in that process.

10.3 Efficacy, Self-determination and Responsibility in Organisations

For an act to be a real act and not just behaviour, it has to embody the following key aspects: efficacy, self-determination, and responsibility. Webster's dictionary defines efficacy as "the power to produce an effect." Self-determination is defined as the "free choice of one's own acts or states without external compulsion," while responsibility is defined as "the quality or state of being responsible, as (a) moral, legal, or mental accountability, (b) reliability, trustworthiness." These qualities all assume a deep knowledge and understanding of the world. We can apply the concepts of efficacy, self-determination, and responsibility in the management context. When we speak of efficacy, it means that an employee has a real influence on his or her job and he or she is a real doer of some action. No doubt all employees have this opportunity in total participation companies. Self-determination means that a person has the opportunity to choose, to execute his or her free will. Finally, responsibility is related to obligation. "A person can be responsible for X only when he or she was obliged to do X or, conversely, was obliged not to do X" (Wojtyła 1979, p. 169). Of course a person may only be responsible for something he or she has influence on. So efficacy preconditions responsibility. If we were to look historically for a most popular and universal set of management practices that fit the above concepts it would probably be Co-operative Values and Principles. The set of values is generally accepted by the co-operative movement all around the world.

10.4 Co-operative Values

Co-operative values include: (1) Self help and (2) Self-responsibility, which are clearly related to the principle of autonomy and independence. (3) Democracy, (4) Equality, (5) Equity and (6) Solidarity clearly signify that a co-op is not a capital but personal venture which means it does not have an external capital based organiser—decision maker. And Co-operative principles include: (7) Voluntary and open membership; (8) Democratic member control; (9) Member economic participation; (10) Autonomy and independence; (11) Education, training, and information; (12) Co-operation among co-operatives; (13) Concern for the community. If we agree that participation is not a value but an indispensable aspect of human dignity, co-operative values, and principles gain universal character. The question is why the universal, person-orientated anthropology in general and co-operative values and principles in particular are in defence? Why they are not universally applied? The concept of organisational isomorphism may help us understand this phenomenon.

10.5 Organisational Isomorphism—Why Organisations Become Similar?

One of the oldest accounts of organisational isomorphism can be found in the Bible, Samuel 8, 5. when Israeli asked Samuel to nominate a king. The key phrase here is "as all the other nations have." Israeli knew exactly the form of governance elsewhere and they treated it, against the warnings of Samuel, as a solution to their problems. After 3000 years the phenomenon looks the same. Given their character of being difficult to learn and apply in practice on the one hand, and market pressure on the other, co-ops are susceptible to isomorphism. This co-op isomorphism and loss of identity is noted in a number of studies (e.g., Côté 2000). The reasons for this isomorphism are traditionally sought for in areas delineated by the classical studies of DiMaggio and Powell (1983) who propose three forces of institutional isomorphism: (a) Coercive—the way professionalism is defined, i.e. educational and career path of institutions; (b) Mimetic—the patterns and practices used in cases of ambiguity; (c) Normative—the legal and regulatory structures similar to different types of organisations. The market and financial power of corporations to influence culture may seem responsible for isomorphic abandoning of co-operative values. In sociology the concept evolved into the concept of institutional logics (Friedland and Alford 1991; Thornton et al. 2012). We may also view the phenomenon from a psychological point of view. Assumptions about human nature, sometimes called implicit anthropology, are an under-valued aspect of social behaviour (Wrightsman 1991). We claim that co-operative–corporate isomorphism has its roots in implicit anthropology and implicit knowledge (McGregor 1960; Heslin and Van den Walle 2008; Wrightsman 1974, 1991). In other words, to answer an economic problem we should refer to other non-economic concepts, as suggested by Novkovic (2006, 2008).

Some researchers are convinced that individual motives translate into forming institutions (e.g., Morgan 1986; Gudeman 2001). They usually refer to the role of the organisation's leaders. Others try to grasp the influence of individual mentalities found in members of larger groups and how popularity of an individual character translates into decision-making (such attempts may be found in the classical writings of Kwiatkowski 1947; Milgram and Toch 1969; Turner and Killian 1957; Sperber 1996). We can answer the question of isomorphism by understanding the role of Co-operative Values and Principles in contrast to implicit values and principles in other types of companies (analogically to Rothschild-Witts' 1979 analysis). We daresay that those two institutional value sets are determined by different implicit anthropologies. However co-ops express them explicitly, while other companies may not.

Institutional isomorphism reflected in co-operative practices is the result of isomorphism of implicit anthropologies of members of institutions but it depends on the relative popularity of the implicit anthropologies. This epidemiological rule also refers to mental models of economic reality. The Polish economist Kwiatkowski (1947) formulated the following rule that can be translated to the institutional practices of co-operatives:

> The structure of the economic mechanisms is complex […]. Political and economic development and progress are quantitative functions of understanding the mechanisms involved. It is equivalent to the relationship between the number of people who understand the assumptions, goals and methods, often distant in their consequences, and the number of people who are driven by ad-hoc or thoughtless reflexes in a given society. (Kwiatkowski 1947, p. 95)

To put it in the contemporary language of cognitive psychology Kwiatkowski claims that isomorphism is the result of an inadequacy of the cognitive mental models of economic reality. We propose the same rule on the organisational level. If the complexity of reality is accounted for by a proper understanding of the mechanisms and appropriate cognitive structures reflecting the causal relations in reality, the greater are the chances for good, participative co-operative governance. We will later find the specification of the rule in the Vroom theory.

From the many complex mechanisms of economic reality, we have decided to take into consideration those related to Co-operative Values and Principles which refer to governance and ethics, and not to business strategy. We would like to trace how co-operative values are being translated into personal implicit anthropologies and then into concrete institutional practices. Co-operative governance and its effectiveness also translate into implicit anthropologies. In other words, isomorphism in organisational practices and value systems is derived from implicit anthropologies and the implicit anthropologies are shaped in part by the co-operative governance. There seems to be a two directional loop of mutual relationships between the four variables. To investigate these loops, requires a psychologically sound model of co-operative governance. The contingency model of leadership proposed by Vroom and Jago (1988) serves this purpose. It accounts for such governance issues as: Alignment of interests, agency problems, strengthening the importance of participation, increasing a feeling of belonging and characteristics for good governance. As the concept of tacit knowledge in a domain is not very common and it goes beyond elementary psychological knowledge, some of these concepts require coverage here if we are to understand the mechanism of isomorphism.

10.6 Elementary Concepts in the Study of Theories as Cognitive Structures

10.6.1 Specificity of Theories in a Domain

Organisational theories so far were general. When the Hawthorn experiments were conducted, researchers were convinced that the results can be generalised to all situations and all people. Critical management studies (Mills et al. 2005) have shown that we should be careful with generalising conclusions to other situations. The gender perspective has proven that the Hawthorn effect does not take place with male subjects (Mills et al. 2005). Race ethnicity, culture, and religion may all influence our mode of thinking. A growing number of researchers in cognitive studies opt for domain-specific approach. They claim that many cognitive processes are specialised to handle specific kinds of information content (Hirschfeld and Gelman 1994). In the domain-specific approach we find specific rules of human cognition, which cannot be easily generalised to different phenomena, but apply to a narrow set of them usually within a properly defined domain.

This domain-specific approach has clear consequences for management. When general knowledge from a business school (developed on the basis of analyses of large corporations) did not work for family firms, co-operatives, small enterprises or individual entrepreneurs, instead of looking for new specific theories and solutions they—similarly to Israelis 3000 years ago—decided to change their companies so they fit the general theories. This process led to organisational isomorphism. Along with this line of thinking Peter Drucker in his *Practice of Management* (1954) will say that the only way for a small company to survive is to become a big company. Management was rather late in discovering its domain-specific character. But the mentioned Drucker (1994) as well as Bettis and Prahalad (1995) and Obłój (2003) in Poland, support the specificity of a company, although they do not use the psychological notions of domain-specificity. We should remember that discovery of specificity started with Chomsky's studies of language acquisition as a separate domain (Chomsky 1980). Similarly to Chomsky, other researchers started to describe other cognitive processes as separate, independent cognitive modules (e.g., Marr 1982; Fodor 1983). What followed was an explosion of domain-specific studies. In the mid 1980s, an increasing amount of research demonstrated the importance of content in solving cognitive tasks. Johnson-Laird (1983) identified that the subjects in his experiments solving syllogisms might have or not have problems with syllogisms, depending on what the syllogism was about. This was the theme. The solution has turned out to be contextually sensitive. Similarly important were attempts at generalising the findings regarding the internal structure of concepts investigated by Rosch onto other kinds of concepts different from natural concepts upon which her research was undertaken. These attempts resulted in studies of concept structure within specific domains such as: psychology, biology, physics, astronomy, sociology. The conceptual structure of natural objects has turned out to be specific only to living kinds (Berlin 1972; Atran 1994, after Hirschfeld and Gelman 1994). From our point of view, we assert that by using the domain-specific view of cognition we may hope to find a theoretical language to psychologically interpret the phenomena of organisational life.

A modular view of cognition has been the first step to confront the general-domain view. We should stress that domain-specificity is going a step further into the psychological interpretation of knowledge data. In modular approaches, the researchers stress the specificity of functional cognitive architecture, while domain-specific approach focuses on specialisation of specific kinds of knowledge (Hirschfeld and Gelman 1994).

The question is how this domain-specific approach and treating each company as requiring a separate theory relate to about the theme of generality of participation. To understand and later apply the concepts requires the introduction of several concepts related to the domain of reflection about theories as cognitive constructs. Within the context of the local character of theories and given the need for caution regarding any generalising, it is hard not to mention the work of the Polish philosopher Kotarbiński (1929, 1955) who was the first to establish a scientific reflection on practical activity—praxeology. Similarly to contemporary cognitive psychologists, Kotarbiński started his reflection from very deep reflection on the nature of general concepts. Being a materialist, he not only negated the existence of psychological objects, but also negated events, states, relationships, properties. According to him these are only hypostases of concepts, abstractions. There is no fight, there are only fighting armies, there is no rain only water drops, no justice, but just judges.

All our difficulties in everyday functioning are rooted in using words which refer to nothing. As a result we take fiction for reality. According to Kotarbiński, our knowledge and everyday functioning has to be radically changed. He proposes rules for a new way of functioning in reality—praxeology. Many domain-specific orientated psychologists would agree with him.

10.6.2 Framework and Specific Theories

To understand the difference between the generality of participation theory and the specificity of organisational theories we propose to use the differentiation between framework and specific theories introduced by Wellman (1990, after Carey 1995). Framework theories set the ontological rules, "ground" for the development of specific theories. They pre-suppose which explanation methods a person uses in a given developmental and environmental context. Thus Wojtyła's anthropology may be considered a framework theory.

10.7 Implicit (Tacit) and Explicit Theories

Explicit theories are ones we are aware of, and implicit theories are those that we use, but are not aware of using or developing them. One of the first to focus our attention on tacit knowledge who used the term tacit knowledge was a practising scientist Polanyi, who, in the middle of his career, gave up the study of chemistry and spent most of his remaining life on reflecting how unscientific scientific knowledge is. His thinking revolutionised science in general. An important context within which to consider implicit and explicit theories is their level of formality. Scientific theories are certainly formalised ones. We propose to use the distinction used by Anderson and Lindsay (1998) into formal and informal contexts of judgements. Informal contexts are those of everyday situations. We implicitly build thousands of theories to be able to operate in everyday life, but although they are one big improvisation, they have great impact on what we do. The theories constructed in informal contexts are usually called naive or folk theories, if they refer to specific theories, or intuitive theories if they refer to framework theories (Wellman 1990). Formal contexts, on the other hand, are those of explicit judgement, being aware of creating a theory and doing it according to predefined rules of theory-making. Such formal contexts are not a guarantee for a right decision. The question is to what extent such implicit practical everyday theories impact the formal explicit ones?

10.7.1 Naive, Novice, and Expert Theories

The theories in formal contexts may be divided into novice and expert ones, depending on the experience and knowledge of the individual who makes them. There is more and more research regarding different domains of expertise. For instance Chi (Chi et al. 1989; Wiser 1987) has found that memory for chess location is superior in chess experts, and it does not extend to memory for chess pieces placed randomly on the board. More recent surveys have shown that level of expertise is related to superior memory performance for representative stimuli in the associated domain (Ericsson et al. 2000). This research result has far-reaching consequences for the studies of management. We may presume that the skills and knowledge of managers may similarly have very limited scope. Transferring marketing knowledge from the tobacco industry to for example fish products may be disastrous for a company. What is important from the methodological or measurement point of view is that the researchers should take experts, novices and naive subjects to study knowledge structures. Expertise in any task is so obvious and socially validated that there can be no doubt about whether this variable has been properly measured. At the same time, the domain expertise cannot be reduced to some more general domain, e.g., chess cannot be reduced to visual pattern recognition. This would not allow for detailed analysis of domains.

When we introduce the term "private" theory, we also underline the psychological character of the theory. Psychology is concerned with cognitive processes of an individual. In an extreme case, we can imagine a situation when a scientific theory is nobody's private theory in the sense that nobody uses this theory as a cognitive knowledge-structure when making decisions. This may be particularly the case with complex, mathematically formalised theories. Many scientific theories are most probably cognitively simplified and in this simplified version become private theories. So even if someone refers to some formal concepts of a formal scientific theory, their usage may be different from those used by the theoreticians. We shall be aware of this in our discussion of private theories. For instance, most economic theories start with assumptions concerning the context or other variables. So what economists call ceteris paribus is a methodological method of formulating any rules in economics, yet when practitioners try to apply the rules, they often forget the simplifying assumptions and make a private theory, simplified version out of a scientific theory. Sometimes scientists themselves encourage such simplification, as was the case with Skinner's "Walden I and II" The requirements of pop-culture and media additionally encourage such simplifications. Scientific theories undergo similar distortions as our private theories. Participation theory is unquestionably complex. Its simplification leads to another form of isomorphism.

10.7.2 From Teams to Organisations—Theoretical Model of the Practice of Participation

The experimental psychologists Vroom, Jago, and Yetton, arrived at their theory in a process of observing small groups solving tasks under controlled conditions. The participants were not aware of why they were more or less effective in their work. Only when thousands of group's results were clustered, could what had been tacit, informal knowledge of a few, become formal, explicit theory. In comparison to other psychological theories it not only focussed on the process, but it also took situational factors into account and as a result, produced a whole family of theories depending on context. In this sense, the theory recognises domain-specificity. Many of the situational factors describe a domain in which a narrower theory has to be developed. The whole theory is a general theory of domain-specific theories or in other words—a meta-theory. Its value is even greater because, as will be shown later, some of the factors can be considered as the key parameters for formulating framework theories. Thus Wojtyła's participation theory would be a framework theory within the same Vroom general theory.

Vroom's (Vroom 2003; Vroom and Jago 1988) model of leadership distinguishes between five forms of participation of team members in decisions. The model refers to teams, but due to internet technology contemporary work environments often resemble small teams. If we remember that the boards of large corporations are also small teams, the model has direct application not only on teams but also at organisational level. Vroom distinguishes five forms of decision-making:

1. Individual decision without consultations—most common practice in organisations.
2. Individual decision after individual consultations—meaning the leader (decision-maker) still makes the decision, but this time he or she discusses the decision with some people individually. Although the leader is not obliged to obey or listen to the advice, the mere fact of consulting evokes some reality that may be important for future interaction. If, for instance, the leader does not include any of the comments in the decision, the next time the consulted persons may be reluctant to offer their opinions. By being offered the opportunity to voice their opinions, the team members are granted some limited efficacy.
3. Individual decision after group consultations—the situation is similar to situation (2) but this time the pressure on the leader is even higher, as the team members not only have the opportunity to voice their decision, but they also know what the others had to say. Speaking aloud in a group causes "infecting" others with the expressed opinions. This method changes the psychological reality (mental concepts of participants) although the decision still superficially belongs to the leader. This urges the leader at least to comment on why his decision is different from the advice (assuming of course that it is). What is important in all three situations is that the leader takes all the responsibility for the decisions. Only the level of shared knowledge changes.

4. Facilitation—group decision moderated by the leader—making the decision means also taking the responsibility for it. In this situation the leader is responsible only for the process and not for the content.
5. Delegation—group decision not moderated by the leader—the group takes care both of the process of decision-making and its content. What should be noted at this point is the difference in efficacy of the employees on each level.

If we apply the multi-stakeholder approach (Waddock 2001) to these five types of decision making, the crucial issue will be the knowledge and the good shared or not. A leader who relies solely on his or her knowledge will have less chance to secure the good of all the stakeholders. In individual decision-making, both shared knowledge and recognition of the individual interests are limited. When team members are consulted individually, the shared knowledge increases. But the recognition of the individual and the common good are still in the hands of the leader. The same is true with group consultation. When the decisions and responsibility are taken by the group with or without the leader, the condition of acting together with others is met. Wojtyła (1985) distinguishes between two extreme systems: (1) individualism, when the individual's good is the utmost goal of the decision-making, and (2) totalism when the good of the individual is subordinate to the good of the group or community. In both systems, the members of the group are deprived of real participation. Only in situations in which the group takes responsibility for the information-sharing and decision-making real participation is secured. In participative organisations, the common good is negotiated to secure both—individual and group interests. What is important is that the information and interests may be both voiced and heard by the stakeholders. Participation is a middle way between individualism and totalism.

As noted before, responsibility is also related to freedom of choice. This means that members of organisations with an external supplier of capital or information (such as franchising companies, investor-owned companies, and state-owned organisations) may only take limited responsibility for their actions. And the new approach to CSR for these organisations shall focus on standardising the guidelines to social responsibility of their business. This way organisations identify and debate what they regard as "appropriate business behaviour" in a process called "stakeholder dialogue" (O'Riordan and Fairbrass 2008).

The great achievement of Vroom and his collaborators is their work on distinguishing 11 factors determining which participation form should be used for the best effectiveness of the decision-making process. This contingency model has broad consequences for organisations in their different aspects. Particularly in the detailed down-to-earth functioning related to their processes and not just general, cultural aspects (Vroom and Jago 1988). The proposal presented in this chapter is first to generalise the Vroom and Jago's model to the organisational level and second, to use it as the basis for diagnosing an organisation. We can treat the agreement with certain statements about the organisation as a reflection of shared stakeholders' knowledge which may be used to detect what is missing in an organisation in order to allow full participation. In other words, we propose treating the

Vroom model as the basis for detecting the spreading of certain cognitive structures about the organisation (Sperber and Hirschfeld 2004).

10.7.3 Leader, Group, and Situational Antecedents or Organisational Determinants

In their more recent expert system and papers (Vroom and Jago 2007) Vroom and Jago specify 11 factors that determine the choice of a decision-making form for the group. We claim that only few of them are limited to the group situation. Most of them are usually results of specific organisational decisions and culture. The authors themselves (Vroom and Jago 1988) speak of participation trends. Although the decisions are always related to concrete situations and concrete groups, the repeated practice allows dialogue about business trends, organisational culture and leadership styles. Thus what happens at operational level has impact on the organisational level. To better grasp the trends at organisational level, we group the 11 factors into four categories related to three organisational phenomena: strategy, personal values, and expertise, and one related to the decision specifics.

The first group of determinants depends on sector specifics, so when treated on a strategic level they should be assigned to the domain of organisational strategic choices. Here we have: Geographical dispersion, size of the enterprise and time, which cause more centralised decision-making. Before the internet revolutionised communication, choice or working in geographic dispersion meant abandoning co-operative principles. Today, it is possible to be a large, 3 million member co-op, such as the Mountain Equipment Co-operative in Canada.

The factors from the second group have more ethical or even anthropological character. They refer to primary stakeholders' personal values such as goal alignment—the alignment of the mission of the organisation with personal goals. Other values are personal development and likelihood of disagreement about what should be done. The more development and agreement, the more chances for participation. Here, we are closing the loop of Wojtyła theory. Namely, for many organisations personal development is an option. For co-operatives and the increasing number of modern organisations—it is a must. Vroom's model provides a general choice from which first framework theory may evolve and thereafter, domain-specific theories. The other two features have a less important character and would probably be associated with a specific theory of an organisation. The third group of determinants is related to the subject matter expertise and team and management competence: expertise of the team and leader's expertise. Business complexity makes this determinant less and less relevant, as there is little chance of the leader being expert in all of the activities of a company. Here, there is an opportunity for the leaders of traditionally managed organisations. As some surveys show (Lapot 2011), many leaders expect from themselves that they are experts in every field of company's activity. Thus professional competence and common sense thinking fight a never-ending war in managers' minds. Implementing participation in their organisations would be a good step in the right direction for achieving effective CSR. However, participative decision-making requires the team members (employees) and the leader to have the skill to make decisions in a participatory way. This requires the following values: Team competence in participatory decision-making and leader's competence in working in a participatory way (this factor is absent in the Vroom model). Vroom and his colleagues' effort was to help the leader to make proper decisions. In this managerial perspective however, they lost the leader as a variable. As a result, managers may not be participative because they lack the very skill that is to be trained by the Vroom's expert system. But for auditing purposes, from an outsider's point of view, we should add leader's participative competence as the 12th factor that influences the level of participation.

The remaining fourth group of determinants are also psychological in nature as they refer to characteristics of decisions as perceived by people: Decision significance, importance of employees' commitment in decision implementation, and likelihood of commitment in executing them. They all relate to trust—in the leader—and have psychological repercussions. Before we move to discussing how this model could be applied to investor-owned companies, let us see how the model functions in co-operatives with both financial and decision-making participation included in their values and principles.

If this is the case, by defining the specificity of a domain, Vroom's situational factors are a good starting point for locating an organisation on its road to participation which may be considered in this normative approach. An image of a fully mature organisation.

As a version of co-operative inquiry (Heron 1996) a group of co-operative leaders and developers by means of oval mapping formulated an image of an ideal co-operative, which later served as a starting point for formulating a new tool for diagnosing co-operatives (Novkovic et al. 2012; Stocki et al. 2010; Stocki et al. 2012). As the tool was to be used by Co-operatives, it is very sensitive to Co-operative values and principles and participation. This is why it seems to be an ideal tool for diagnosing participation in companies.

The new organisational phenomena on one hand and the crisis of the corporate model of business on the other will require new management tools. Vroom's model may be an attractive instrument because of its simplicity and practical applicability.

10.8 In Search of an Authentic Auditing Method: First Attempts—Co-op Index

So far we have based Vroom's general model of participation and a well-defined theoretical deep participation framework theory on team experiences. The question is how these two concepts could assist us in diagnosing and auditing organisations. This task seemed relatively easy for worker co-operatives as they declare obeying co-operative values and principles as part of their operating principles. So in a sense their framework theory is well defined. Following these assumption Stocki, Novkovic, Hugh, and Prokopowicz created the tool: *Co-op Index*.

The *Co-op Index* is a questionnaire with 172 questions regarding the organisation. Work on the tool consisted of three phrases and a conducted survey based on co-operative inquiry with a group of representatives of Canadian and USA co-ops. Although the tool was presented at several conferences and the use of the tool was offered for free, only a surprisingly small group of co-ops used it. To elaborate, the tool has a universal character, report writing and data analysis were automated. Being too close to equivalent tools in the corporate world the application of the tool may be another cause for organisational isomorphism, as it is based on assumptions which might be false in a specific co-operative. What follows is a description how the tool could be corrected by means of applying Wojtyła's concept of participation and Vroom's general participation theory. These corrections should not only allow for focussing and tuning the tool to the specifics of a single co-operative, but generality of the Vroom theory should allow application of the new tool to additional organisations other than co-operatives. Although such tuning will increase the internal complexity of the tool, it may result in shortening the tool and developing it into an instrument that encourages both individual and organisational transcendence.

10.9 Principles for the Construction of a New Auditing Tool Based on Vroom's and Wojtyła's Theories of Participation

► **Principle Number One** *Individual diagnosis and reflection should precede organisational diagnosis.*

The specificity of individual experience broadens our reflection on diagnosis to focus not only on experience outside a person, or observable in his or her behaviour, but we are also interested in experiencing oneself and experiencing others through the perspective of oneself. In other words, instead of reducing the reflection only to the effectiveness in the world, we should also take into consideration the personal—so to say "private" effectiveness. What is more, we should be ready to accept that the private personal perspective is primary to the outside effectiveness. Final understanding of oneself consists of many understandings (Wojtyła 1979) similarly to final experience of oneself which consists of many types of experience. What is important in this principle is the numerical character of the experience. The more people happened to be in the scope of our experience the bigger and richer is our experience. Such experience may lead to what Polanyi calls tacit knowledge and auditing tools should test this tacit knowledge. Management knowledge is certainly knowledge about other people. Even if this knowledge encompasses objects (e.g., technology, equipment), or ideas (e.g., profit, obedience), everything is always viewed in relation to people, and people are at the core of understanding these concepts. Knowledge not only flows from experience, but also influences those experiences. Other people are a different source of knowledge than each person acting on their own.

► **Principle Number Two** *Clear statement of what is assumed and what is diagnosed.*

The most common influence of philosophical thinking on management is so-called management ethics. Ethics as Wojtyła put it (1979) is a reflection on acting which assumes the human as a person. In such an approach, we view managerial decisions from the point of view of a certain set of norms or values. This approach concerns evaluating human actions, and is one of the weaknesses of the *Co-op Index*. It takes for granted the Co-operative Values and principles. But what if the legal form of a co-operative is only the historical heritage or a burden and is more or less openly negated by the employees, executive board and the leaders? This is often the case in Poland, where co-operative leaders only wait to grant themselves property rights in quiet support from the government and complete ignorance and passiveness of the public. In diagnosis, we may be forced to choose the opposite approach. We shall adopt an anthropological approach and study the human acts as revealing the truth about individuals and organisations. Our goal is not to make moral judgements, but to reveal the person by studying their acts.

► **Principle Number Three** *Only real-life situations and concrete responses to them should be the main focus, while general and abstract introspective statements should be avoided as much as possible.*

The usefulness of introspection for the study of cognitive processes is debated by researchers. The value of such studies has been admitted by many distinguished researchers. Tyszka (1995) quotes such researchers as Newell, Simon, Erickson, who consider the verbal data as a main source of data in problem-solving research. In the collection of papers assembled by Tyszka there is a detailed analysis of introspection as an investigation tool for the contemporary researcher. Many reservations concerning introspection, starting with Nisbett and Wilson (1977), admit that people do not have access to cognitive processes. In answer to these objections, Ericsson and Simon (1984) formulated a model of interpretation of introspective data. We can broaden this model within the assumption we have made at the beginning, about the nature of consciousness. We treat it (after Wojtyła) as a kind of one more sense, with its limitations, sensitivity thresholds, and scope. Such an approach to consciousness relates it very closely to short-term memory. According with Ericsson and Simon, only information which is present in short term memory may be verbalised. We would say that only information that is conscious may be verbalised. Thanks to the long and repetitive experience mentioned in principle one, we gain the knowledge we are not aware of. If we deal with a set of many complex causal relationships, it is highly possible that they cannot be formed all at once in the short-term memory. There are two possibilities, our cognitive system probably uses to deal with such complexity. The first is the process of abstraction and simplification, where a complex set of data may be reduced to a simpler, more manageable entity. This is probably the role of stereotypes, scripts, and other cognitive structures. This process may be compared to viewing a picture of a landscape as one cannot view every detail of the surroundings. Of course, many details are lost, but for certain purposes this "general" picture may be sufficient. The second possibility is the detailed perception of the whole picture which is somehow transformed to be embraced without simplification. For instance, it may be cut into smaller pieces—each fitting short-term memory. Newell and Simon (1972) have identified this way of solving complex problems, and the technique of verbalising the process of thinking (thinking aloud) has been found quite adequate in the studies. If there are complex relationships to be grasped, a person may, or may not be aware of the fact that the relationships make a whole. This awareness should also be present in their verbal statements. In the second instance, the private theory goes beyond what a person may consciously grasp. Here we meet another problem of creating private theories while answering questions.

In view of all these reservations, we propose to test this supposedly tacit knowledge using the method applied by Sternberg (Sternberg et al. 2000). Sternberg presented the subjects with concrete situations in which the respondent was to imagine he or she is the person solving the problems. Then they were presented with ten different solutions and their task was to evaluate the goodness of the solutions. In the pilot stage of their study, Bożek and Stocki (2013) encouraged the respondent to add their own solutions. However, very few respondents used this opportunity.

► **Principle Number Four** *The diagnostic tool should recognise any organisation as a specific domain.*

In the criticism of the *Co-op Index* the authors have enumerated many reasons why organisation audit should be seen from the point of view of specific domains. In principle three, the potential role of stereotypes and scripts in organisational diagnosis was also mentioned. The study of domains is in a way two-fold. On the one hand, there is a strong tradition in studying some domains such as psychology, sociology, biology, physics, etc. On the other hand, there is a multiplicity of domains, such as the domains of management, that are knowledge domains, but little or no research is conducted on them. This connection may be made following Sperber (1994) distinction between actual and proper domains and his encouragement to apply this distinction to "cultural domains". Proper domains are domains or cognitive modules which developed phylogenetically in order to respond to the requirements of the environment. Social and emotional intelligence, face recognition, language, naive physics, and naive biology are certainly among those cognitive structures that have helped us to survive. These natural domains, which are usually so specialised that they have special physiological mechanisms accompanying them, are sometimes called core domains. However, the environment changed, this is why many of the very specific mind-domains such as "fight or flight" mechanisms are used in stress situations (domains) which are completely different from the situations they were formed for. This reaction is triggered by some stimuli, which are similar to the stimuli of the proper domain. Sperber called such secondary domains "actual domains". Management is an actual domain which has to borrow automatics and cognitive-developed mechanisms from the proper domains. Judging from the bulk of research strictly on management domains, assuming such mechanism of adoption of old domains by new environmental requirements, suggests the discovery that we know more about management domains than we might expect. Yet, before we delve deeper into the overview of management-related domains, a few remarks on the process and assumptions of migration of a proper domain to an actual one should be made. This discussion is necessary here as judging from the universality of the concept of participation important for both Wojtyła and Vroom, most domains probably belong to proper domains.

It should be made clear that if we want to believe that proper domains may serve as cognitive vehicles for actual domains of management, we have to assume to be externalist, assuming that the same brain-state that realises a given concept might realise a different concept in another environment, similarly to identical biological features that have different functions (Sperber 1994). Once we accept this assumption, we may imagine the whole mechanism. A proper domain through its adaptive activities shapes a mode of construal within a mental module. That is (Keil 1992) a disposition to organise information in a certain manner and to perform computations of a certain type.

Our social activities are more and more numerous. The transfer of experience from one human to another makes the number of actual domains quite large in comparison to the available proper domains they can use. And also the complexity and amount of information that reaches the mechanisms of a proper domain exceed those for which the module evolved. Sperber argues that some representations become widely distributed. According to his epidemiological perspective, the information involved competes for private and public space and time similarly to species which compete for survival. This "epidemic" may explain the resemblance of organisations—organisational isomorphism. According to Sperber, the cognitive modules play the dual role of encouraging the formulation of information distributed and received by an individual to "fit" the proper domains. Such a domain which is formed by the people themselves so as to fit the proper domains is called by Sperber a cultural domain. Cultural domains, like music, would be derived from proper domains, but would be neither proper domains nor actual domains. They are something like second generation proper domains. This is exactly what happened to the corporate view of management. What makes the idea dangerous is the relative independence of the proper or cultural domains, which behave like selfish genes of, or in this case, as selfish memes. Furthermore, the proper domains undergo changes, in a way that is perhaps not so radical as culture, but noticeable enough to be observed in the history of human thought. A good example in management is Morgan's *Images of Organisations* (1986). According to Morgan we may use different metaphors to grasp the complexity of organisational life. A metaphor may be interpreted as a specific proper domain for the actual domain of an organisation.

Then we would process the information concerning the organisation and its problems within the framework of the selected metaphor. Now the most important issue of awareness follows. We may be aware of the metaphor we use, or we may not be aware of the fact. According to Minzberg, different organisations at different phases of their development fit different structural schemes, and should be viewed differently. This means that for the understanding of a structure of an organisation we may need multiple domains at our disposal. From this multiplicity of choices arises a set of our private theories concerning organisations in general and a concrete organisation in particular. And according to Sperber, there are modules which can neither be classified as actual, proper or cultural domains. These are meta-representations, or representations about representations. There are different views of the function of that module. Some researchers claim that such statements belong to the domain of naïve psychology. Since management as an art is a heterogeneous domain, we may look at it from many points of view which have been studied in detail. The domains may be proper, actual, cultural and reflective or meta-representational. Practically, for our purposes, we shall prepare the questions in our diagnostic tool to fit the specificity of the organisation. This specificity should be diagnosed first by introductory questions. Some of them may be based on the Vroom's model, so as to make the respondent highly competent in what is diagnosed.

► **Principle Number Five** *Respondents should be treated as partners in the research process the research should be done with them rather than on them* (Heron 1996).

In open-book management, the employees are not only openly presented with the financial data of their organisations, but first of all they are introduced to the domain of financial management. They become business-literate. If the diagnosis is so important both for the individual and the organisation, the participants should also be aware of the nature of the process in which they participate. This is the first requirement to keep and develop their efficacy and as well as to turn the process into action.

We believe that the process of answering the questions and tasks during the audit may and should serve as the explication process. The Vroom model may not only be used for the purposes of directing the content of what we want to study, but also may show how participative the research may be within a given organisation (Stocki et al. 2012). Were it used for this purpose, the first individual stage of the diagnosis might set the best possible procedure for the remaining part of the audit.

► **Principle Number Six** *The diagnosis should lead to practical conclusions.*

Another advantage of using the Vroom model is its practicality. All 12 participation determinants are sufficiently concrete to initiate concrete actions after their measurement. This principle like no other is highly conditioned by a time perspective. What may seem practically useful today, may turn out detrimental in the long run. Ideally, this original approach to the audit should find an equivalent in organisational theory and practice. Much hope is related to the recently developed critical management studies. Their relevance to Wojtyła's thinking has been pointed out elsewhere (Stocki 2009).

10.10 Summary and Conclusions

Answering the question concerning the new approach to the social responsibility of organisations, we are convinced that dialogue and participation are a good start. We proposed the general guidelines for the organisations interested in introducing CSR. All the members of the organisations shall participate in this process and collectively set the goals and expectations. Organisational success starts with results. But it ends when there is lack of satisfaction, development—in human and organisational aspects—as well as trust. Building trust (internally and externally) currently seems to pose the biggest challenge for organisations. Trust consists of three elements: ability, sincerity, and history.

According to the report conducted by Kenexa Research Institute (2010), an organisation's active participation in corporate social responsibility efforts has a significant influence on employee's engagement levels and the views of senior management. Across six surveyed countries, research indicates that working for an organisation where employees positively view CSR efforts has a favourable impact on the degree of pride in their organisation. Social responsibility shall be enlisted on business performance-measurement indices (Kaufman and Olaru 2012) regardless of whether this is a co-op or any other type of organisation. Accordingly, social responsibility builds stronger organisation—in multiple domains.

What this text proposes is not what popular science likes best—that is a simple model for complex data. As many domain-specific approaches, it underlies the complexity and variation in the world, and offers a proposal which is neither simple nor easy to apply. If our contemporary organisations do not satisfy our needs and do not respond to our expectations, it is because their construction is simplified in comparison to the complexity of data with which they have to deal. Contemporary information processing instruments make it possible to construct complex tools that solve problems easily if they are based on a good algorithm. Only with this hope may we present this complex solution, hoping that the construction of such a tool is possible. The positive point is that CSR is emerging as a core cultural ethos. According to survey conducted by Forbes Magazine in 2011, about 94% of consumers would like companies to evolve their business-practices to make as positive an impact as possible. Consequently, it seems that CSR is a missing link between management and the results measured in KPIs.

References

Anderson, C. A., & Lindsay, J. J. (1998). The development, perseverance, and change of naive theories. *Social Cognition, 16,* 8–30.

Atran, S. (1994). Core domains versus scientific theories: Evidence from systematics and Itzaj-Maya folk biology. In L. A. Hirschfeld & S. A. Gelman (Eds.), *Mapping the mind: Domain specificity in cognition and culture* (pp. 316–340). New York: Cambridge University Press.

Berlin, B. (1972). Speculations on the growth of ethno-botanical nomenclature. *Language in Society, 1,* 51–86.

Bettis, R. A., & Prahalad, C. K. (1995). The dominant logic: Retrospective and extension. *Strategic Management Journal, 16,* 5–14.

Bożek, A., & Stocki, R. (2013). Mastery in happiness: The role of expertise in everyday life. The second international conference in positive psychology, 22–24 May, 2013, Brno, Czech Republic.

Carey, S. (1995). On the origin of causal understanding. In D. Sperber, D. Premack, & A. J. Premack, (Eds.), *Causal cognition: A multidisciplinary debate* (pp. 268–302). Oxford: Clarendon.

Chi, M. T. H., Hutchinson, J., & Robin, A. F. (1989). How inferences about novel domain-related concepts can be constrained by structured knowledge. *Merrill-Palmer Quarterly*, *35,* 27–62.

Chomsky, N. (1980). On cognitive structures and their development: A reply to Piaget. In M. Piattelli-Palmarini (Ed.), *Language and learning: The debate between Jean Piaget and Noam Chomsky* (pp. 35–45). Cambridge: Harvard University Press.

Côté, D. (2000). Co-operatives and the new millennium. In B. Fairbairn, I. McPherson, & N. Russel (Eds.), *Canadian Co-operatives in the year 2000, memory, mutual aid and the millennium* (pp. 250–266). Saskatoon: Centre for the Study of Co-operatives, University of Saskatchewan.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organisational fields. *American Sociological Review, 48,* 147–160.

Drucker, P. F. (1954). *The practice of management*. New York: Harper & Brothers.

Drucker, P. F. (1994). The theory of the business. *Harvard Business Review, 72*(5), 95–104.

Ericsson, A. K., & Simon, H. A. (1984). *Protocol analysis: Verbal reports as data*. Cambridge: MIT.

Ericsson, K. A., Patel, V. L., & Kintsch, W. (2000). How experts' adaptations to representative task demands account for the expertise effect in memory recall: Comment on Vincente and Wang 1998. *Psychological Review, 107,* 578–592.

Fodor, J. (1983). *Modularity of mind*. Cambridge: MIT.

Friedland, R., & Alford R. R. (1991). Bringing society back. Symbols, practices, and institutional contradictions. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 232–263). University of Chicago Press.

Gudeman, S. (2001). *The anthropology of economy*. Madden: Blackwell.

Heron, J. (1996). *Co-operative inquiry: Research into the human condition*. London: SAGE.

Heslin, P. A., & VandeWalle, D. (2008). Managers' implicit assumptions about personnel. *Current Directions in Psychological Science, 17,* 219–223.

Hirschfeld, L. A., & Gelman, S. A. (Eds.). (1994). *Mapping the mind: Domain specificity in cognition and culture*. New York: Cambridge University Press.

Johnson-Laird, P. N. (1983). *Mental models*. Cambridge: Harvard University Press.

Kaufman, M., & Olaru, M. (2012, March 7–10). The impact of corporate social responsibility on business performance—Can it be measured, and if so, how? Paper presented during The Berlin International Economics Congress 2012. http://www.culturaldiplomacy.org/academy/content/pdf/participant-papers/2012–03-biec/The_Impact_of_Corporate_Social_Responsibility_on_Business_Performance_-_Malte_Kaufmann.pdf. Accessed 27 April 2014.

Keil, F. (1992). The origins of an autonomous biology. In M. R. Gunnar & M. Marstsos (Eds.), *Modularity and constraints in language and cognition. The Minnesota symposium on child psychology, 25* (pp. 103–137). Hillsdale : Erlbaum.

Kenexa Research Institute. (2010). Being socially responsible has a positive impact on employees as well as their local communities and the environment. Executive summary, No.10.

Kotarbiński, T. (1929). *Elementy teorii poznania, logiki formalnej i metodologii nauk* (*Elements of the theory of cognition, formal logic and methodology of science*). Lvov: Ossolineum.

Kotarbiński, T. (1955). *Traktat o dobrej robocie* (*The treaty on good work*). Warsaw: Wydawnictwo Naukowe PWN.

Kwiatkowski, E. (1947). *Zarys dziejów gospodarczych świata* (*An outline of the history of the world economy*). Warsaw: Książka i Wiedza.

Lapot, A. (2011). Spółdzielnia czy spółka? Korzyści partycypacyjnego modelu zarządzania [Coop or a company? Advantages of participative model of management], Krakow, Poland, unpublished speech.
Marr, D. C. (1982). *Vision: A computation investigation into the human representational system and processing of visual information*. San Francisco: Freeman.
McGregor, D. (1960). *The human side of enterprise*. New York: McGraw-Hill.
Merecki, J. (1999). Słowo do czytelnika [The word of the reader]. In G. M. A. Gronbacher (Ed.), *Personalizm ekonomiczny* (*Economic personalism*) (p. 2). Lublin: Instytut Liberalno-Konserwatywny.
Milgram, S., & Toch, H. (1969). Collective behavior: Crowds and social movements. In G. Lindzey & E. Aronson (Eds.), *The handbook of social psychology* (2nd ed., pp. 507–610). Reading: Addison-Wesley.
Mills, A. J., Simmons, T., & Mills, J. H. (2005). *Reading organisation theory: A critical approach to the study of organisational behaviour and structure*. Aurora: Garamond.
Morgan, G. (1986). *Images of organizations*. London: Sage.
Nisbett, R. E., & Wilson, T. D. (1977). Telling more than we can know: Verbal reports on mental processes. *Psychological Review, 84,* 231–259.
Newell, A., & Simon, H. A. (1972). *Human problem solving*. Englewood Cliffs: Prentice-Hall.
Novkovic, S. (2006). Co-operative business: The role of co-operative principles and values. *Journal of Co-operative Studies, 39*(1), 5–16.
Novkovic, S. (2008). Defining the co-operative difference. *Journal of Socio-Economics, 37*(6), 2168–2177.
Novkovic, S., Prokopowicz, P., & Stocki, R. (2012). Staying true to co-operative identity: Diagnosing worker co-operatives for adherence to their values. *Advances in the Economic Analysis of Participatory and Labour-Managed Firms, 13,* 23–50.
Obłój, K. (Ed.). (2003). *Dominująca logika firmy. Strategie polskich liderów* (*The dominant logic of business. Strategies of polish leaders*). Warsaw: Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania.
OECD. (2009). Employment and industrial relations—2008 annual report on the OECD guidelines for multinational enterprises. http://www.oecd.org/investment/mne/1922428.pdf. Accessed 30 May 2014
O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.
Rothschild-Witt, J. (1979). The collectivist organisation: An alternative to rational-bureaucratic models. *American Sociological Review, 44,* 509–527.
Schell, E. H. (1952). Industry's amazing oversight. Motivating the employee on today's production front. AMACOM a Division of American management association.
Sperber, D. (1994). The modularity of thought and the epidemiology of representations. In L. A. Hirchfeld & S. A. Gelman (Eds.), *Mapping the mind: Domain specificity in cognition and culture* (pp. 39–67). New York: Cambridge University Press.
Sperber, D. (1996). *Explaining culture: A naturalistic approach*. Oxford: Blackwell.
Sperber, D., & Hirschfeld, L. A. (2004). The cognitive foundations of cultural stability and diversity. *Trends in Cognitive Sciences, 8*(1), 40–46.
Sternberg, R. J., Forsythe, G. B., Hedlund, J., Horvath, J. A., Wagner, R. K., Williams, W. M., Snook, S. A., & Grigorenko, E. L. (2000). *Practical intelligence in everyday life*. New York: Cambridge University Press.
Stocki, R. (2009). Personalistic psychology of management. An option for critical management studies. *Nowy Sacz Academic Review, 5,* 4–10.
Stocki, R., Novkovic, S., & Hugh, P. (2010). *CoopIndex—for worker coops*. Unpublished Report.

Stocki, R., Prokopowicz, P., & Novkovic, S. (2012a). Assessing participation in worker co-operatives: From theory to practice. In D. McDonnell & E. Macknight (Eds.), *The Co-operative model in practice: International perspectives* (pp. 119–132). Glasgow: Co-operative Education Trust Scotland.

Stocki, R., Prokopowicz, P., & Żmuda, G. (2012b). *Pełna partycypacja w zarządzaniu* (Total participation management) (2nd ed.). Krakow: Wolters Kluwer.

The European Commission. (2011). The European Commission's strategy on CSR 2011–2014: achievements, shortcomings and future challenges. http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/public-consultation/index_en.htm. Accessed 22 Jan 2014.

Thornton, P. H., Ocasio, W., & Lounsbury, M. (2012). *The institutional logic perspective: A new approach to culture, structure and process*. Oxford: Oxford University Press.

Turner, R. H., & Kiillian, L. M. (1957). *Collective behavior*. Englewood Cliffs: Prentice-Hall.

Tyszka, T. (Ed.). (1995). *Czy powrót do introspekcji? Zbieranie i analiza danych Słownych* (*Is this a return to introspection? Collection and analysis of verbal data*). Warsaw: Wydawnictwo Naukowe PWN.

Vroom, V. H. (2003). Educating managers in decision making and leadership. *Management Decision, 10,* 968–978.

Vroom, V. H., & Jago, A. G. (1988). *The new leadership: Managing participation in organisations*. Englewwod Cliffs: Prentice Hall.

Vroom, V. H., & Jago, A. G. (2007). The role of the situation in leadership. *American Psychologist, 62*(1), 17–24.

Waddock, S. (2001). The multiple bottom lines of corporate citizenship: Social Investing, reputation, and responsibility audits. *Business and Society Review, 105*(3), 323–345.

Wellman, H. M. (1990). *The child''s theory of mind*. Cambridge: MIT.

Wiser, M. (1987). Novice and historical thermal theories. In S. Straus (Ed.), *Ontogeny, phylogeny, and the history of science*. Norwood: Ablex.

Wojtyła, K. (1979). The acting person. In A. T. Tymieniecka (Ed.), *Analecta Husserliana. The yearbook of phenomenological research* . (Vol. X, pp. 189–258). Boston: D. Reidel Publishing.

Wojtyła, K. (1985). *Osoba i czyn* [*The acting person*]. Krakow: Polskie Towarzystwo Teologiczne.

Wrightsman, L. (1974). *Assumptions about human nature: A social-psychological approach*. Monterey: Brooks Cole.

Wrightsman, L. S. (1991). Interpersonal trust and attitudes toward human nature. In J. P. Robinson, L. S. Wrightsman, & F. M. Andrews (Eds.), *Measures of personality and social psychological attitudes* (pp. 373–412). Oxford: Elsevier.

Corporate Social Performance, the Meaning of Work, and Applicant Attraction: A Cognitive Perspective

11

Piotr Prokopowicz and Grzegorz Żmuda

Contents

11.1 Introduction 214
11.2 Social Responsibility and Company Perception 215
11.2.1 Corporate Social Performance 215
11.2.2 Dimensions of Corporate Social Performance 216
11.2.3 Applicant Attraction 217
11.2.4 Signalling and Social Identity 217
11.2.5 Main Predictors of Applicant Attraction 218
11.2.6 Corporate Social Performance and Applicant Attraction 218
11.3 Dimensions of Employer Perception 220
11.3.1 Stereotype Content Model 220
11.3.2 Behaviour Related to Stereotypes—The BIAS Map 221
11.3.3 Stereotype Formation and Change 221
11.3.4 CSR Stereotypical Employer Brand and Applicant Attraction 223
11.3.5 Meaning of Work 223
11.3.6 Work as a Job, a Career, and a Calling 224
11.4 Conclusions 225
References 226

P. Prokopowicz (✉)
Institute of Sociology, Jagiellonian University
Grodzka 52, 31-044 Krakow, Poland
e-mail: piotr.prokopowicz@uj.edu.pl

G. Żmuda
Institute of Psychology, Jagiellonian University
Ingardena 6, 30-060 Krakow, Poland
e-mail: grzegorz.zmuda@uj.edu.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_11

Abstract

The purpose of this chapter is to identify the extent to which the perception of socially responsible policies and the behaviour of employers may be considered important by employees in guiding their career decisions.

In order to understand and outline the possible relationship between Corporate Social Performance and applicant attraction, we employ the theoretical frameworks of Stereotype Content Model (SCM), the BIAS Map and the subjective meaning of work. It appears that people relate to organisations or brands in a similar manner to the way they relate to individuals, making decisions based on how they perceive social actors on the fundamental dimensions of social perception—Warmth and Competence. Thus, the SCM and BIAS Map together may not only explain how people perceive the social world, but also allow the prediction of their emotions and behavioural intentions towards perceived agents, including organisations. Introducing this well-developed and cross-culturally tested theory of social perception into Corporate Social Responsibility (CSR) discourse may, in our opinion, provide the grounds for an inspiring theoretical and profoundly practical perspective on developing sound CSR organisational practices.

The chapter draws heavily on the theories of social cognition, social identity, and signalling, as well as, with regard to the moderating impact of the subjective meaning of work, on the Job–Career–Calling distinction. By analysing candidates' preferences and perceptions, the possible relationship between the subjective meaning of work, the various types of social perceptions of corporate social policies, and applicant attraction are analysed, and a new model for understanding applicant attraction is presented.

11.1 Introduction

Applicant attraction is the leading challenge in many businesses, particularly in those which thirst for unique knowledge, skills, and abilities (Chapman et al. 2005). This pressure for attracting the most qualified applicants has become prevailing in the beginning of the twenty-first century with some of the scholars and writers going as far as to call it "the war for talent" (Michaels et al. 2001). In the environment of competition for the best people available on the job market, searching for the most valid predictors of applicant attraction seems to be of paramount importance for reaching and retaining competitive advantage for firms, public institutions and non-governmental organisations alike.

Many factors have been suggested as effective predictors of applicant attraction: Company location, the remuneration system, and the work environment are among the most often examined (Ehrahrt and Ziegert 2005). It appears however, that one of the most significant predictors of a company attracting a high quality applicant pool is its Corporate Social Performance (Greening and Turban 2000; Turban and Greening 1996). Studies that focused on the relationship between applicant attraction and CSP explored the general links between socially responsible corporate practices and various job attraction indicators.

Still, hardly any frameworks exist that take into consideration either the moderating effect of the various types of stereotypical perceptions (Fiske et al. 2002) of socially responsible companies, nor the subjective employee meanings of work on applicant attraction (Wrzesniewski et al. 1997). This appears to pose a major underdevelopment in previous research in the field, given that the relationship between Corporate Social Performance and applicant attraction may not be universal due to the differences in the meaning that employees attach to various aspects of the organisational environment. Hence, what is the role of socially responsible employer branding in attracting high-quality candidates? Which types of socially responsible policies are perceived as the most important in forming applicant perceptions of an organisation? Finally, can the personal meanings attached to work mediate applicant attraction? This theoretical chapter is aimed at addressing these questions, employing the theoretical framework of Stereotype Content Model and the BIAS Map.

11.2 Social Responsibility and Company Perception

11.2.1 Corporate Social Performance

Before undertaking a more comprehensive analysis of how cues of socially involved actions form the employer brand of a company, it is crucial to first understand the role of corporate social performance and the related concepts in the context of modern organising.

Wood, drawing on the definition by Wartick and Cochran (1985), defines corporate social performance as "a business organisation's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationship" (Wood 1991, p. 693). This definition has had a substantial influence on how researchers approach studying responsibility in business. Such inquiries typically focus on the adherence to CSR principles, application of social responsiveness and, in more practical terms, the existence and characteristics of socially responsible policies, programs, and actions.

As observed by Wood (1991), the main assumption of CSR is that "business and society are inter-woven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes." (p. 695). This echoes Frederick's (1986) definition, who believed that "the fundamental idea of 'corporate social responsibility' is that business corporations have an obligation to work for social betterment." (p. 4) and the one provided by Carroll (1979), who, in line with the approach which treats corporate responsibility as a consequence of a set of societal expectations towards business, observed that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time." (p. 500). Not all authors regarded the relationship between business and society as consequential for Corporate Social Performance. Davis (1973), for example, seemed to have ignored the society-organisation relationship, and offered a classic definition of corporate social responsibility (CSR) as "the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm" (p. 312). This approach, though accurately indicating the phenomenon at hand, may be not sufficient to account for the variety of its manifestations present in modern businesses.

All of the above-mentioned definitions can be viewed the first attempts at creating the criteria for identifying the core of socially responsible corporate actions. Nevertheless, such endeavours may be futile, as in practice, Corporate Social Performance might vary according to the context and operational level at which it manifests itself.

11.2.2 Dimensions of Corporate Social Performance

Wood (1991) distinguishes three levels of expectations that give rise to CSR—institutional, organisational, and individual. At the basic, institutional level, CSR principles are considered to be a set of expectations placed on business solely based on their role as economic institutions. This is what Wood calls "The Principle of Legitimacy"—as society provides legitimacy to institutions, it may as well take it away when given organisations tend to abuse the power vested in them. The second level of CSR principles—organisational—are a set of specific expectations placed on specific businesses in their given field of action. Wood calls this "The Principle of Public Responsibility." It means that companies are held accountable based on their areas of involvement with society. Finally, the third level described by Wood focuses on individual principles, and is linked to "The Principle of Managerial Discretion". It means that managers, as moral actors, are expected to act responsibly within their domains.

Based on Wood's (1991) typology, it would be possible (and quite tempting) to describe the ideal of a socially responsible corporation. In such cases, a company's social performance would be linked to the principles of social responsibility, following the objectives of upholding the legitimacy of business in society (institutional), improving the firm's responsibility within its business domain (organisational), and creating a culture of moral choice, which would support and encourage individual actors to exercise the options available to them in the fulfilment of CSR (ethical behaviour). On the other side of the continuum, we would find a company whose actions are not legitimised by society, which behaves harmfully to its environment or does not support its managers and employees in making individually responsible decisions.

Apart from the general contribution to the clarification of intricacies of CSR, Wood's paper provides a sound basis for considering a hierarchy of three different levels of Corporate Social Performance. Wood suggests that the three basic principles—Legitimacy, Responsibility, and Discretion, may be ordered, with Legitimacy (institutional level) being the lowest, and Discretion (individual level) being the highest embodiment of responsible organisational actions. Within this context, the relationship between the level of Corporate Social Performance principles and applicant attraction, one of the main tenets of this chapter, is, however, a complex issue. In order to explore it further, we must construe the various mechanisms which are recognised as key to applicant attraction itself.

11.2.3 Applicant Attraction

Ehrhart and Ziegert (2005) define applicant attraction broadly, after Rynes (1991), as "getting potential candidates to view the organisation as a positive place to work". According to the authors, individuals, when faced with some level of uncertainty, tend to process information regarding environmental characteristics and, in consequence, develop unique perceptions of the environment and their attraction to it. This assumption constitutes the basis for two theories used in this chapter to understand applicant attraction: signalling and social identity theory.

11.2.4 Signalling and Social Identity

One of the theories that has been used in explaining employee attraction is signalling theory (Rynes 1991; Ehrhart and Ziegert 2005). According to this theory, applicants use the information they have about the organisation as cues for organisational characteristics whenever they lack other relevant information. When applying for a job, individuals tend to use various environmental characteristics—from recruiter's behaviour to corporate policies—as signals about the company's properties (Rynes 1991; Cable and Judge 1994; Turban 2001).

A theory that might be considered equally relevant for understanding applicant attraction is one that considers the role of self and positive perceptions in attraction. According to social identity theory (Tajfel and Turner 1986; Ehrhart and Ziegert 2005), the self-concept is influenced by the evaluation of the group with whom an individual identifies. "When an organisation is viewed in a positive light," Ehrhart and Ziegert write, "this reflects favourably on the individuals within it, who receive positive outcomes such as approval from others" (2005, p. 909). Consequently, when applicants perceive an organisation as having a positive image, they are attracted to it.

Some authors, following these assumptions, have claimed that people tend to be more attracted to companies with a high reputation when it comes to socially responsible practices (Turban and Greening 1996, reviewed further in this chapter). This effect of the self-concept, positive perceptions, and organisational signals form the basis for most of the available research on applicant attraction and its predictors. However, as we will show later in this chapter, social perception is more intricate than a simple "positive–negative" opposition would suggest. Multiple studies demonstrate that a two dimensional (warmth and competence) structure is more relevant for understanding inter-personal and organisational attraction—a finding of crucial importance for companies using their Corporate Social Performance for employer branding.

11.2.5 Main Predictors of Applicant Attraction

As attracting high-quality applicants has been recognised as an important challenge by many academics and practitioners (Chapman et al. 2005; Rynes and Barber 1990; Pfeffer 1994; Rynes 1991), the effort to identify the main predictors of applicant attraction is one of the most important challenges outlined in the literature on this subject. One of the most comprehensive approaches has been introduced by Chapman et al. (2005). In their study, they conducted a meta-analysis of relationships between various predictors with job–organisation attraction, job pursuit intentions, acceptance intentions, and job choice.

According to their analysis, applicant attraction can be predicted to a large extent by job–organisation characteristics, recruiter behaviour, perceptions of the recruiting process, perceived fit, and hiring expectancies (Chapman et al. 2005). A more detailed account of their study reveals the substantial influence of organisational characteristics on candidate attraction, especially in job-organisation attraction, where it yields the highest correlation coefficients (Chapman et al. 2005). The question that Chapman et al. (2005) have not addressed however is the following: Which of the organisational characteristics are the most important for employee attraction? And more importantly for the theses in this chapter, are socially responsible actions more important than compensation or benefits?

11.2.6 Corporate Social Performance and Applicant Attraction

The influence of the socially responsible practices of an organisation on its competitive advantage, mainly through attracting high quality applicants, has been a recognised relationship in personnel psychology. For example, Turban and Greening (1996), drawing on theories of social identity signalling, posit that an organisation's Corporate Social Performance is related positively to its attractiveness as an employer. To verify their claims, they conducted a small-scale correlational study, in which they measured levels of employer attractiveness based on corporate social performance, indicated by different policies taken from the Kinder, Lydenberg, and Domini (KLD) database (this method will be described in greater detail further on in the chapter). Their results suggest that corporate social performance may play an important role in attracting a high quality applicant pool, improving human resource management and ultimately leading to better overall company performance.

In another paper, Greening and Turban (2000), using a similar set of tools, but a wider sample and a more diverse set of measurement instruments, found that job applicants are more likely to pursue jobs from companies which rank highly on social responsibility rather than those which have poor social responsibility reputations. The authors conducted a study to verify how job applicants value Corporate Social Performance of companies in relation to compensation and employee advancement when looking for a job. They prepared a set of company profiles with different levels of Corporate Social Performance (Community Relations, Employee Relations, Environment, Product Quality, and Treatment of Women and Minorities), and measured subjective organisational attractiveness of an employer via job pursuit intentions, probability of attempting to interview and probability of accepting a job offer.

The results of Greening and Turban's (2000) study are quite surprising. They suggest that it is possible for firms to develop competitive advantage by offering unique practices in preserving product quality, diversity, and environment, and not necessarily by offering high levels of compensation (the latter result proved to yield insignificant correlation). It may be that applicants will not only be attracted to socially responsible companies, but will also pursue jobs in these type of firms, building their organisational commitment and thereby competitive advantage for their employers.

Apart from being an innovative study in the field of Corporate Social Performance research, Greening and Turban's paper provides many insights on how to measure and analyse various policies and behaviours. In an attempt to establish different levels of Corporate Social Performance dimensions, they employ the KLD database. This database provides information which permits the benchmarking of different companies on the dimensions of employee relations, environment, product quality, treatment of women and minorities, and community relations. KLD evaluates businesses by giving them a "strength" or a "concern" score for each dimension (Greening and Turban 2000). Of the five dimensions included in the KLD database, three are especially relevant for the perceptions of Corporate Social Practices; employee relations, community relations and the environment.

While the studies we have described so far focus either on general determinants of applicant attraction (Chapman et al. 2005) as well as on the role that Corporate Social Performance plays in the process (Turban and Greening 1996; Greening and Turban 2000), neither takes into consideration the possible moderating influence of how employees perceive the organisations as a whole nor the purpose of their work. Specifically, is it possible that people who perceive their work as a source of meaning tend to focus on the Corporate Social Performance of a prospect company, while those who focus on their careers tend to put emphasis on competency development opportunities, and those who look at their work mainly as a source of income, focus on compensation levels? We believe that in order to address this question it is necessary to incorporate promising branches of research on social perception (see Fiske et al. 2002) and the meaning of work (see Wrzesniewski et al. 1997) into the Corporate Social Performance research.

11.3 Dimensions of Employer Perception

11.3.1 Stereotype Content Model

It seems that people relate to organisations or brands in a similar manner to the way they relate to individuals or groups (Fournier 2009; Kervyn et al. 2012a) and thus make decisions based on their perceptions with respect to the two fundamental dimensions of social perception. Even though these two dimensions are described using different terms–task- and relationship–orientated (Bales and Slater 1955), morality and competence (Wojciszke 1994), intellectually good-bad and socially good-bad (Rosenberg and Sedlak 1972), self- and other-profitability (Peeters 2002) or warmth and competence (Fiske et al. 2002)—there seems to be a general consensus that social perception is organised around two universal dimensions (Judd et al. 2005; Abele and Wojciszke 2007; Fiske et al. 2002; Cuddy et al. 2008; Wojciszke 1994, 1997, 2005a, b). One of the dimensions refers to qualities such as efficacy and competence, the other one to warmth and communalism. Among many "two-dimensional" theories, the Stereotype Content Model (SCM) by Fiske et al. (1999) is probably the most widely accepted, partly due to the complementary theory of the BIAS Map (Behaviours from Inter-group Affect and Stereotypes; Cuddy et al. 2007). The SCM together with the BIAS Map offer an original contribution explaining the relationship between stereotype content, emotions, and behavioural tendencies. Recently, some attempts have been made to apply the SCM framework to brand perception, which resulted in a formulation of the Brands as Intentional Agents Framework (Kervyn et al. 2012a).

According to the SCM and the BIAS Map (Fiske et al. 1999, 2002), the way people perceive, evaluate, and act towards other people and groups (social agents) is organised around two universal and orthogonal dimensions of social perception: warmth and competence. The universality of these dimensions reflects the evolutionary pressures in the social world, as they allow agents to answer two questions fundamental for the survival of human beings. Firstly, when meeting another person one must assess this person's intentions—whether they are good or bad. In such settings, we are dealing with qualities of morality, trustworthiness, friendliness, honesty, and kindness that together, form an impression on the warmth dimension (Cuddy et al. 2008). The second step necessary upon meeting a total stranger is to identify whether he or she is capable of pursuing his or her intentions (good or bad). In this phase of social cognition, we try to infer the competence traits such as efficiency, ability, creativity, confidence, and intelligence.

The combination of warmth and competence judgments elicit four different stereotypes: positive (high warmth and high competence), negative (low warmth and low competence), paternalistic (high warmth and low competence), or envious (low warmth and high competence). A large number of studies exist which confirm that such stereotype content structure can be found in many different inter-personal and inter-group relations across many different cultures (see Cuddy et al. 2008).

11.3.2 Behaviour Related to Stereotypes—The BIAS Map

According to the BIAS Map (Cuddy et al. 2007, 2008), the varying contents of stereotypes evoke specific combinations of emotions that directly predict behavioural responses (Frijda et al. 1989). Perceived warmth predicts the valence of behaviour (facilitation versus harm), while perceived competence predicts activity-passivity behaviour. Active behaviour is undertaken in order to exert a direct impact on the group or another person, while passive behaviour is characterised by a lower intensity and intentionality that is not goal-orientated. Thus:

- The positive univalent stereotype, guided by positive emotions of admiration and/or respect, induces the tendency to support, co-operate, help, and defend others (acting for and acting with).
- The negative univalent stereotype, guided by negative emotions of contempt and disgust, predicts active and passive harm (acting against and acting without) focused on both harming the other group/object and avoiding contact with them. Groups stereotyped in that manner are quite often also blamed for their position which can elicit some additional emotions such as anger.
- Paternalistic stereotypes, guided by ambivalent emotions of pity, lead to active facilitation and passive harm (acting for and acting without). Pity is ambivalent, as it covers compassion, sadness and lack of respect. Groups stereotyped in that way are very often disregarded but not blamed for their position, which leads to complex behavioural patterns—desire to help, avoid, and condescend.

Envious stereotypes, guided by envy and hostility, lead to passive facilitation and active harm (acting with and acting against). On the one hand, this exhibits behaviours expressing tolerance and acceptance of forced or convenient co-operation, while on the other hand, we have tendencies attack the envied group and harm it (such groups very often become natural "scapegoats" in cases of instable social situations).

11.3.3 Stereotype Formation and Change

In general, while warmth and competence are orthogonal dimensions, they can however in some situations be positively or negatively correlated. A positive relationship between the two dimensions is observed when people judge themselves or people that know well (Eagly and Chaiken 1993; Wojciszke and Abele 2008). That effect is usually explained by cognitive consistency theories (Festinger 1957) or by the halo effect (Rosenthal and Jacobson 1968). In many cases, however, the correlation between the perceived warmth and competence is negative. The explanation proposed by Judd et al. (2005) concentrates on the compensation effect. For example, when people are rating two objects (people or groups) and one of them is rated higher on competence dimension, the other one will be rated higher on the warmth dimension as if it would be compensated for the worse rating on the competence scale. The natural consequence of this mechanism in such settings is that people rated as warm will be rated as incompetent ("nice but dumb") while people perceived as competent will be attributed bad intentions (Kervyn et al. 2009). The compensation effect is even stronger if individuals have access to information or clues about one dimension only (Kervyn et al. 2012b)—e.g., saying that a female employee has kids (warmth clue) will determine that she is rated as less competent. One of the results of this negative correlation between dimensions is the fact that ambivalent stereotypes are so common—the vast majority of inter-group stereotypes are ambivalent (Cuddy et al. 2008).

When it comes to impression formation, in most cases, warmth is the more important of the two perceptional dimensions—individuals process information on warmth faster and the evaluation process is quicker (Wojciszke et al. 1998; Wojciszke and Abele 2008; Cuddy et al. 2011). Information on the intention(s) of others has clearly more value in the social world. In that sense, it is more important to know whether somebody is willing to help us or harm us than to know if he or she is actually able to do it. That effect, however, can be context sensitive. Studies (Abele and Wojciszke 2007; Wojciszke and Abele 2008) indicate that the importance of perceived competence increases in the case of self-perception, as well as the perception of significant others who are usually rated as considerably warm anyway. Perceived competence may take primacy in organisational contexts—e.g., candidates' ratings (Cuddy et al. 2011).

When it comes to stereotype formation and change it seems that there are two different mechanisms related to warmth and competence. It is much easier to lose high ratings on the warmth dimension than on competence, and it is more difficult to recover from such a loss in warmth than in competence (Cuddy et al. 2011; Reeder et al. 1992; Singh and Teoh 2000; Skowronski and Carlston 1987; Reeder et al. 2002). It is also relatively hard to change impressions of low warmth when it has already been formed—even a series of goodwill manifestation may not be enough. Conversely, even one clear manifestation of effective behaviour or success in that manner will most likely lead to an increased competence rating. That asymmetry in the positive and negative information processing is often explained by the different diagnosticity of information related to both dimensions (Reeder et al. 2002). Honest behaviour is seen as easy to pretend (Reeder et al. 2002)—therefore if someone behaves in a fair manner, it may be because he really is an honest man, but he may also be manipulative or simply following social constraints. In this context, all forms of dishonest behaviour are much more important and thus people focus on information that disconfirms warmth. It is even more understandable when we take the potential consequences of making a bad call while judging another person or group into account. If we decide to trust somebody with bad intentions, our loss will be greater than if we decide be suspicious toward somebody with good intentions. When it comes to perceived competence the situation is different. First of all, competent or effective behaviours are perceived as not that easy to pretend (Reeder et al. 2002)—no matter how much we would like to pretend, if we do not have the adequate skills or knowledge, it is unlikely that we will be able to perform a given action. Thus, in the case of competence, positive information is more diagnostic.

11.3.4 CSR Stereotypical Employer Brand and Applicant Attraction

Making use of the SCM and the BIAS Map in the applicant attraction field carries a lot of interesting applications, particularly important in the field of CSR. Here we address three which we find particularly crucial:

- Firstly, CSR practices can be certainly recognised as a legitimate way of building positive employer brands to the extent that they increase warmth ratings. Therefore they may be a good tool to attract candidates and prevent attacks (active harm). Positive ratings on the warmth dimension should translate into positive emotions (in the best situation admiration and respect) and friendly behavioural responses (acting for and acting with)—a conclusion consistent with previous research on Corporate Social Performance and applicant attraction;
- The second conclusion results from the negative information asymmetry observed in the warmth dimension. It provides another argument that Corporate Social Performance should be used in a systematic and—above all—authentic fashion. Any mis-step in this area can result in nullifying all previous achievements and can lead to the situation in which the company is perceived as exploitative;
- The final conclusion—and this is a unique contribution that the SCM offers to the field of applicant attraction—is that the CSR practices themselves may not be sufficient. In order to be perceived positively, companies cannot limit their employer branding practices to emphasising their socially responsible policies—they also need to highlight their abilities (both in the context of their market performance and the opportunities they provide for the professional development of employees). That is the only way they can find themselves in the "golden quadruple" and be considered an admired employer (Aaker et al. 2012). Highlighting the warmth of the employer brand, with the information on abilities made inaccessible, may lead to the paternalisation of the brand. Activation of this kind of stereotypical content, together with the emotions of pity or compassion, can facilitate volunteer recruitment, but not necessarily top talent acquisition. This conclusion is related closely to a final moderating factor between Corporate Social Performance and applicant attraction we propose in the chapter—the subjective meaning of work.

11.3.5 Meaning of Work

The changing nature of work in post-industrial societies (Casey 1995) brought an increase in the interest on how people perceive work. Some scholars proposed an empirical approach to the question of what it means to work in the modern world (Ruiz-Quintanilla and England 1994; Peterson and Ruiz-Quintanilla 2003), others focused on more theory-informed approaches. Both came to similar conclusions in their reflection on the condition of modern work orientations. Nevertheless, as the latter branch of research delivers more vivid distinctions in the analysis of work orientations, it will constitute the basis for our model (Wrzesniewski 2002; Wrzesniewski et al. 2003).

In their ground-breaking research conducted among nearly 5000 employees, Wrzesniewski et al. (1997) suggested that people generally perceive their work as either a financial necessity ("work as a job"), socially beneficial fulfilment ("work as a calling") or social advancement ("work as a career"). As this typology will be the background for our model, it is necessary to describe it in detail.

11.3.6 Work as a Job, a Career, and a Calling

The distinction between jobs, careers, and calling was first introduced in *Habits of the Heart,* by Bellah et al. (Bellah et al. 1985; see Wrzesniewski et al. 1997). According to the authors, the three relationships that people have to their work are distinct in the main meaning that they attach to it and the main source of rewards that they receive by engaging in work activities.

Work as a job means that employees in this category are predominantly interested in financial rewards and treat work as a necessary burden. They do not seek self-fulfilment, development or advancement. They sell their time for money in order to self-realise after hours with the money they earned on the job. Work is hence separated (or, to use a long forgotten term, alienated) from life and is just a mean to an end.

Work as a career is similar to "Work as a job" in that it plays an instrumental role to a person, yet it is substantially different in that it is crucial for a person's self-definition and fulfilment. People who are focused on their career and the social advancement that they can achieve through work are keen to invest their time and effort to obtain a high social strata ranking. Development and advancement alone, but not the characteristics of the work itself, are the main source of rewards in this group of people.

Work as a calling is a distinct type of relationship to work. For people who perceive their effort as a calling, work is not separate from life—it is its main manifestation. The main source of rewards for the people who perceive their work in this manner is not money or advancement—it is the work itself. They engage in socially or individually significant work, and, as such, can experience the feeling of being one with what they are doing.

As Wrzesniewski et al. (1997) emphasise, the job–career–calling distinction does not have to be dependent upon occupation. While it is common knowledge to consider social work as more significant and service work as simply a job, this relationship does not have to be clear. What is important for this chapter is the link between how people perceive work and the main sources of significant rewards.

Based on the typology used by Wrzesniewski et al. (1997), it is possible to argue that applicants with "job" orientations will tend to focus on monetary rewards no matter how stereotyped a given company might be; applicants with "career" orientation will tend to focus on advancement opportunities provided by the companies perceived as "competent" (no matter how high its warmth); and applicants with "calling" orientation will tend to focus on Corporate Social Performance—a signal for "warmth"—when choosing their prospect employers. Consequently, all applicants will be attracted to companies perceived as both warm and competent.

11.4 Conclusions

Based on the theoretical and empirical analyses presented in the chapter, it is possible to posit that Corporate Social Performance will be positively related to applicant attraction, but only if certain assumptions related to social perception and the meaning of work are fulfiled. Although further research is needed in order to discern the factors and improve the model, the summary of our framework in presented in Fig. 11.1.

Based on the model, the employers perceived as high on ability (Corporate Business Performance) and high on warmth (Corporate Social Performance) will attract the candidates that understand work as a job, career, and calling, while the employers perceived as low on both ability and warmth will attract only those candidates who see work as a mere source of income. The workplaces stereotyped as paternalistic will attract people who

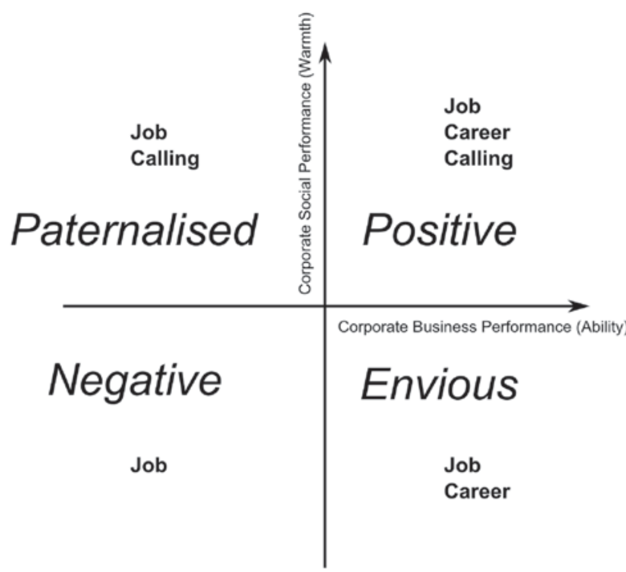


Fig. 11.1 Corporate social performance, applicant attraction and meanings of work: Framework

desire to earn a wage, but also those who perceive their work as calling (e.g., volunteers). Finally, the employers who activate the envious stereotype might expect applications from candidates who understand work as job, but also the ones who look for advancement opportunities. This perspective has a profound meaning for practicing CSR, especially in the high-stakes war for talent. In order to widen the pool of high-quality candidates, socially responsible organisations (including NGOs and public institutions) must communicate not only their Corporate Social Performance, but also the actions that build their image of high effectiveness and organisational performance. This is especially important, because, as depicted in Fig. 11.2, we conclude that applicant attraction is not a static phenomenon,

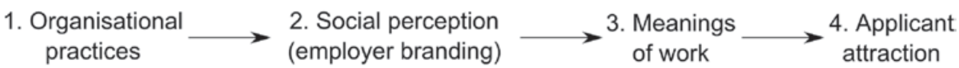


Fig. 11.2 Applicant attraction as a communication process: Framework

it stems directly from (1) organisational practices, (2) social perceptions of the practices, and (3) the applicant's subjective meaning of work.

While employers cannot directly influence the meaning the candidates associate with work, in order to attract the widest pool of candidates possible, they can build their practices, and, even more importantly, shape their communication strategy to balance both the social and market dimensions of their organisational performance.

References

Aaker, J. L., Garbinsky, E. N., & Vohs, K. D. (2012). Cultivating admiration in brands: Warmth, competence, and landing in the "golden quadrant". *Journal of Consumer Psychology, 22*(2), 191–194.

Abele, A. E., & Wojciszke, B. (2007). Agency and communion from the perspective of self versus others. *Journal of Personality and Social Psychology, 93,* 751–763.

Bales, R. F., & Slater, P. E. (1955). Role differentiation in small decision making groups. In T. Parsons & R. F. Bales (Eds.), *Family socialization and interaction processes* (pp. 259–306). New York: Free Press.

Bellah, R., Madsen, R., Sullivan, W., Swidler, A., & Tipton, S. (1985). *Habits of the heart: Individualism and commitment in American life*. Berkeley: University of California Press.

Cable, D. M., & Judge, T. A. (1994). Pay preferences and job search decisions: A person-organization fit perspective. *Personnel Psychology, 47,* 317–350.

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate social performance. *Academy of Management Review, 4,* 497–505.

Casey, C. (1995). *Work, self and society: After industrialism*. London: Routledge.

Chapman, D. S., Uggerslev, K. L., Carroll, S. A., Piasentin, K. A., & Jones, D. A. (2005). Applicant attraction to organizations and job choice: A meta-analytic review of the correlates of recruiting outcomes. *Journal of Applied Psychology, 90*(5), 928–944.

Cuddy, A. J. C., Fiske, S. T., & Glick, P. (2007). The BIAS map: Behaviours from intergroup affect and stereotypes. *Journal of Personality and Social Psychology, 92,* 631–648.

Cuddy, A. J. C., Fiske, S. T., & Glick, P. (2008). Warmth and competence as universal dimensions of social perception: The stereotype content model and the BIAS Map. *Advances in Experimental Social Psychology, 40,* 61–149.

Cuddy, A. J. C., Glick, P., & Beninger, A. (2011). The dynamics of warmth and competence judgments and their outcomes in organizations. *Research in Organizational Behavior, 31,* 73–98.

Davis, K. (1973). The case for and against business assumption of social responsibilities. *Academy of Management Journal, 16,* 312–322.

Eagly, A. H., & Chaiken, S. (1993). *The psychology of attitudes*. Fort Worth: Harcourt Brace Jovanovich.

Ehrhart, K. H., & Ziegert, J. C. (2005). Why are individuals attracted to organizations? *Journal of Management, 31,* 901–919.

Festinger, L. (1957). *A theory of cognitive dissonance*. California: Stanford University Press.

Fiske, S. T., Xu, J., Cuddy, A. J. C., & Glick, P. (1999). (Dis)respecting versus (dis)liking: Status and interdependence predict ambivalent stereotypes of competence and warmth. *Journal of Social Issues, 55,* 473–489.

Fiske, S. T., Cuddy, A. J., Glick, P., & Xu, J. (2002). A model of (often mixed) stereotype content: Competence and warmth respectively follow from the perceived status and competition. *Journal of Personality and Social Psychology, 82,* 878–902.

Fournier, S. (2009). Lessons learned about consumers' relationships with their brands. In J. Priester, D. MacInnis, & C. W. Park (Eds.), *Handbook of brand relationships* (pp. 5–23). Armonk: M.E. Sharpe.

Frederick, W. C. (1986). *Theories of corporate social performance: Much done, more to do. Working paper*. University of Pittsburgh: Graduate School of Business.

Frijda, N. H., Kuipers, P., & Schure, E. (1989). Relations among emotion, appraisal, and emotional action readiness. *Journal of Personality and Social Psychology, 57,* 212–228.

Greening, D. W., & Turban, D. B. (2000). Corporate social performance as a competitive advantage in attracting a quality workforce. *Business and Society, 39*(3), 254–280.

Judd, C. M., James-Hawkins, L., Yzerbyt, V., & Kashima, Y. (2005). Fundamental dimensions of social judgment: Understanding the relations between judgments of competence and warmth. *Journal of Personality and Social Psychology, 89,* 899–913.

Kervyn, N., Yzerbyt, V. Y., Judd, C. M., & Nunes, A. (2009). A question of compensation: The social life of the fundamental dimensions of social perception. *Journal of Personality and Social Psychology, 96,* 828–842.

Kervyn, N., Fiske, S. T., & Malone, C. (2012a). Brands as intentional agents framework: How perceived intentions and ability can map brand perception. *Journal of Consumer Psychology, 22*(2), 166–176.

Kervyn, N., Bergsieker, H. B., & Fiske, S. T. (2012b). The innuendo effect: Hearing the positive but inferring the negative. *Journal of Experimental Social Psychology, 48,* 77–85.

Michaels, E., Handfield-Jones, H., & Axelrod, B. (2001). *The war for talent*. Boston: Harvard Business School Press.

Peeters, G. (2002). From good and bad to can and must: subjective necessity of acts associated with positively and negatively valued stimuli. *European Journal of Social Psychology, 32,* 125–136.

Peterson, M. F., & Ruiz-Quintanilla, S. A. (2003). Cultural socialization as a source of intrinsic work motivation. *Group and Organization Management, 28*(2), 188–216.

Pfeffer, J. (1994). Competitive advantage through people. *California Management Review, 36*(2), 9–28.

Reeder, G. D., Pryor, J. B., & Wojciszke, B. (1992). Trait-behaviour relations in social information processing. In G. Semin & K. Fiedler (Eds.), *Language and social cognition* (pp. 37–57). Beverly Hills: SAGE.

Reeder, G. D., Kumar, S., Hesson-McInnis, M. S., & Trafimow, D. (2002). Inferences about the morality of an aggressor: The role of perceived motive. *Journal of Personality and Social Psychology, 83,* 789–803.
Rosenthal, R., & Jacobson, L. (1968). *Pygmalion in the classroom: Teacher expectations and pupils' intellectual development*. New York: Holt, Rinehart & Winston.
Rosenberg, S., & Sedlak, A. (1972). Structural representations of implicit personality theory. *Advances in Experimental Social Psychology, 6,* 235–297.
Ruiz-Quintanilla, S. A., & England, G. W. (1994). *How working is defined: Structure and stability*. Ithaca: Center for Advanced Human Resource Studies, Cornell University, ILR School.
Rynes, S. L. (1991). Recruitement, job choice, and post-hire consequences: A call for new research directions. In M. D. Dunnette & L. M. Hough (Eds.), *Handbook of industrial and organizational psychology* (Vol. 2, pp. 399–444). Palo Alto: Consulting Psychologists Press.
Rynes, S. L., & Barber, A. E. (1990). Applicant attraction strategies: An organizational perspective. *Academy of Management Review, 15,* 286–310.
Singh, R., & Teoh, J. B. P. (2000). Impression formation from intellectual and social traits: Evidence for behavioural adaptation and cognitive processing. *British Journal of Social Psychology, 39,* 537–554.
Skowronski, J. J., & Carlston, D. E. (1987). Social judgment and social memory: The role of cue diagnosticity in negativity, positivity, and extremity biases. *Journal of Personality and Social Psychology, 52,* 689–699.
Tajfel, H., & Turner, J. C. (1986). The social identity theory of intergroup behaviour. In S. Worchel & W. G. Austin (Eds.), *Psychology of intergroup relations* (pp. 7–24). Chicago: Nelson-Hall.
Turban, D. B. (2001). Organizational attractiveness as an employer on college campuses: An examination of the applicant population. *Journal of Vocational Behavior, 58,* 293–312.
Turban, D. B, & Greening, D. W. (1996). Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal, 40,* 658–672.
Wartick, S. L., & Cochran, P. L. (1985). The evolution of the corporate social performance model. *Academy of Management Review, 10,* 758–769.
Wojciszke, B. (1994). Multiple meanings of behavior: Construing actions in terms of competence or morality. *Journal of Personality and Social Psychology, 67,* 222–232.
Wojciszke, B. (1997). Parallels between competence-versus morality-related traits and individualistic versus collectivistic values. *European Journal of Social Psychology, 27,* 245–256.
Wojciszke, B. (2005a). Morality and competence in person and self perception. *European Review of Social Psychology, 16,* 155–188.
Wojciszke, B. (2005b). Affective concomitants of information on morality and competence. *European Psychologist, 10,* 60–70.
Wojciszke, B., & Abele, A. E. (2008). The primacy of communion over agency and its reversals in evaluations. *European Journal of Social Psychology, 38,* 1139–1147.
Wojciszke, B., Bazinska, R., & Jaworski, M. (1998). On the dominance of moral categories in impression formation. *Personality and Social Psychology Bulletin, 24,* 1245–1257.
Wood, D. (1991). Corporate social performance revisited. *The Academy of Management Review, 16*(4), 691–718.
Wrzesniewski, A., McCauley, C., Rozin, P., & Schwartz, B. (1997). Jobs, careers, and callings: People's relations to their work. *Journal of Research in Personality, 31,* 21–33.
Wrzesniewski, A. (2002). 'It's not just a job': Shifting meanings of work in the wake of 9/11. *Journal of Management Inquiry, 11,* 230–234.
Wrzesniewski, A., Dutton, J. E., & Debebe, G. (2003). Interpersonal sensemaking and the meaning of work. *Research in Organizational Behavior, 25,* 93–135.

The Art of Balancing: Enabling the Realisation of Multiple and Shared Values Through a New Generation of Business Models

12

Jan Jonker, Linda O'Riordan and Nina Marsh

Contents

12.1 Introduction . . . 230
12.2 Theoretical Review of the Literature . . . 232
12.2.1 Shared Value . . . 232
12.2.2 Translating the Concept of Sustainable Management into Business Practice . . . 233
12.2.3 (New) Business Models . . . 234
12.3 Methodology . . . 234
12.4 Findings . . . 235
12.4.1 New Values for Creating and Sharing Value . . . 235
12.4.2 New Forms of Integrated Collaboration . . . 235
12.4.3 New Strategic Intent Behind Sustainable Value Creation . . . 236
12.4.4 Summary of Findings . . . 237
12.5 Critical Discussion . . . 238
12.5.1 The Role of Profits in the Long-Term Survival of Organisations . . . 239
12.5.2 The Powerful Potential Impact of NBMs for Creating MSV . . . 240
12.6 Summary . . . 241
12.7 Some Conclusions . . . 242
12.8 Outlook . . . 243
References . . . 244

J. Jonker (✉)
Nijmegen School of Management (NSM) at the Radboud University Nijmegen (RU-Holland), PO Box 9108, 6500 Nijmegen, HK, The Netherlands
e-mail: j.jonker@fm.ru.nl

L. O'Riordan
FOM University of Applied Sciences, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: linda.oriordan@fom.de

N. Marsh
PO Box 9108, 6500 Nijmegen, HK, The Netherlands
e-mail: ninamarsh@me.com

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,* FOM-Edition, DOI 10.1007/978-3-658-06794-6_12

Abstract

As the public perception of the role of business in society continues to change, managers face new-fangled challenges when attempting to secure an optimal strategy for the long-term survival of their firms. The increasing awareness that business operates as part of (and not in isolation from) society necessitates an inspired management approach when investing a firm's resources to create value which is driven by the perspective and needs of a broader range of stakeholder interests.

These ongoing developments in societal expectations have prompted the need for a new management "mind-set" with respect to the way in which profit is perceived. Most particularly, the current rationale on key questions such as: What constitutes profit? and how to organise the business for its optimal generation? is undergoing transition. These questions highlight the "missing link" which establishes the primary focus of this chapter. To address this missing link, a theoretical review of the latest emerging literature surrounding the concept of multiple shared value (MSV) is combined with fresh empirical data to investigate the effectiveness (or otherwise) of the new business model (NBM) concept for translating the concept of sustainable management into everyday business practice.

The qualitative, exploratory data findings presented in this chapter in response to these questions were obtained via in-depth interviews. They serve to furnish the information-base for a critical discussion about the suitability of the new business model concept as a mechanism for delivering the new management methods needed.

Ultimately, this chapter proposes that NBMs can act as a catalyst for creating collective, shared, balanced triple bottom line impact. Consequently, the evidence presented in this chapter implies that by delivering a fairer distribution of the wealth created by business via a stronger focus on creating welfare for human beings and nature, NBMs can serve as an important mechanism for both sustainable social progress and business wealth generation.

12.1 Introduction

This chapter addresses the issue of how to translate the notion of multiple and shared value creation (MSV) into a contemporary generation of (emerging) business models. As concepts of corporate social responsibility (CSR) and sustainable development (SD) become increasingly salient within the mainstream management sciences, multiple sources from within and outside academia support two key trends. First, that sustainability is a significant management challenge which justifies leadership attention, and second, that business is both part of the problem *and* part of the solution (Jonker 2012a; O'Riordan 2010). A growing awareness of these aspects has led to an increase in practitioner concern for sustainability and stakeholder management (see for example ISO 2011, p. 4; International Business Leaders Forum (IBLF) 2010; WBCSD 2002; OECD 2001; UN Global Compact

1999) in parallel with an escalation of academic research on the topic of CSR (e.g., Lindgreen and Swaen 2010; Carroll 1979).

In the resulting pursuit for management responses which has ensued from the growing awareness of the trends noted immediately above, the debate is no longer focused on why and whether to manage sustainably, but *how*? Resolutely, underlining this missing link, recent scholarship highlighting how the existing economic structures are not sustainable (e.g., Jonker 2012b, p. 9; Wagner 2009; Hart and Milstein 2003; Hawken 1993) indicates the need for new ways of organising[1] in which the *scope and quality of values* such as sustainability are central. Crucially, a prerequisite in the quest for more innovative sustainability solutions is an inspired management approach focused on new conceptions of the *purpose and role of business* in society. This necessitates a transformation in the mental construct regarding the way in which organisations are perceived and designed within society. Significantly, the precondition for the type of progress required is to re-design the *interface between business and society* while maintaining their essential economic rationale as suggested for example by transaction cost theory (e.g., Williamson 1985). In turn, this triggers the requirement for novel forms of collaboration around new sets of values. It implies shaping a transformation process (Jonker 2012b; O'Riordan and Fairbrass 2012; O'Riordan 2010). From this more inclusive approach to value creation, a new vision of what constitutes business becomes conceivable. Such transformation requires a re-examination of what business *is*, i.e., how it creates value, and what it could *become*, i.e., how value that promotes the "public good" (to contribute to stability, strength, and harmony to advance the basic beliefs of our society[2]) could be generated in the future (O'Riordan 2010, pp. 433–452). To facilitate this transition, this chapter reasons that the concepts of multiple and shared value creation could serve as a useful catalyst. To explore these ideas, the chapter examines how the *new business model* (NBM) notion is currently translating the concept of sustainable management into everyday business practice. In doing so, it aims to provide a deeper understanding of the mechanisms and the theoretical nature of sustainable development at the heart of NBMs.

To achieve these aims, this chapter first briefly summarises the recent academic debate with respect to creating MSVs. This review focuses on the notion of NBMs as the prime transaction concept enabling the creation of such value. Central to the argument is the idea that if the way value is created changes, the nature in which the underlying values are organised *within* organisations and *between* various constituents also changes. This can be reasoned theoretically but it can also be observed in emerging practices. To demonstrate

[1] Here we define the verb "organising" as a dynamic system (as opposed to a structural dimension) which reflects the undertakings in and between organisations. In this definition, organisations are groups of people (or systems) organised for a particular purpose (e.g., their business proposition). In this interpretation, the business undertaking *is* an organisation [system] (as opposed to *has* an organisation [structure]) (See Kutschker and Schmid 2008, pp. 1084–1085 for further details).

[2] Drucker was one of the first to observe the change from where businesses were assumed to minimise societal impact to where they were expected to "produce a good society" (Drucker 1974, p. 319, 1955, p. 382 noted in Connelly et al. 2011, p. 86).

the latter, the methodology and results of qualitative research undertaken in Germany as part of a broader comparative European project during Spring 2013 are outlined. This forms the basis for a critical examination of the usefulness of the NBM notion for transforming the concept of sustainable management. The chapter concludes by addressing the limitations of the work and proposing some recommendations for future research.

12.2 Theoretical Review of the Literature

A review of the literature which addresses the NBM notion reveals three primary and inter-related notions, namely the concepts of multiple, shared, and collective value creation. The concept of *multiple value* creation originated from the triple-bottom-line principle by Elkington (1997). It proposes that in striving to become sustainable, corporations are obliged to concurrently consider environmental (ecological) and social (societal) responsibilities in parallel with their economic (financial) duties. While business traditionally tended to focus primarily on creating economic value, the quest for a more effective (sustainable) *balance* in the relationship between people, the planet, and profits requires a fundamental reconsideration of the business and its challenges and opportunities. In this regard, results from the research upon which this chapter is based (Jonker 2012b) demonstrate entrepreneurial discoveries regarding new ways of organising. Crucially, these focus on the potential for business opportunities lying in the *white space* at the central intersection of Elkington's triple bottom line principles. Significantly however, tapping into this latent potential requires balancing different values instead of merely concentrating on economic variables measured exclusively by money only (Jonker 2012b, p. 7). This requires managers to make choices about how to balance those diverse needs and interests to achieve more sustainable relationships and equitable reciprocation for the optimal mutual benefit of both society and business.

Attempting to translate the multiple value creation concept into business practice creates a complex management challenge for decision-makers (O'Riordan 2010). To address this challenge, the next section explains how benefits that have been generated via collaboration between business and society are shared among a broader range of constituents.

12.2.1 Shared Value

The concept of *shared value*, as suggested among others by Porter and Kramer (2011), indicates that a company should be able to organise itself in such a way that the value it creates is not only distributed among shareholders, but reaches beyond organisational boundaries to other stakeholders. Accordingly, individual benefit is generated for a broader range of parties through *open* structures in which *values* are easily shared and exchanged between the associated constituents within the *value* network. A key prerequisite to achieving this notion involves organising *between* organisations. This approach focuses on balancing stakeholder interests with a view to generating a more equitable reciprocation of the wealth created through organisations that is then shared among a broader collection of constituents (O'Riordan and Fairbrass 2012). This means that multiple value creation occurs when organisations construct collaborations with the purpose of leveraging the synergies of their individual interests (Jonker 2012a, p. 14).

12.2.2 Translating the Concept of Sustainable Management into Business Practice

Recent research proposes that it is precisely at the intersection between the stakeholders and the company that new business opportunity awaits. It is in this "space" that the prospect for creating the most valuable impact can be found (O'Riordan and Fairbrass 2012). Effectively translating the concept of multiple and shared value(s) creation into practice presupposes two key prerequisites. First, that the primary subject of organising is the *intentional translation of a value promise into delivered value*. This value is either directly or indirectly delivered to customers and other stakeholders via an exchange proposition. *Transactions* can only occur if the parties "agree" to "perform" these roles. Essentially, this means that organisations are not capable of working in isolation as an "island"—they are instead *dependent* on a chain of other parties in the network to *supply and/or deliver*. The second prerequisite concerns the *currency* used in this transactions. Typically, customers express their perceived value for an offering by buying it. In this exchange, money is the conventional transaction value. Customers and other stakeholders often do not have a choice in this course of events with respect to the type of currency employed (Jonker 2012a, p. 14).

This lack of choice in the value exchange process identifies the need for improvement in the current management mind-set regarding the way in which decision-makers use and invest the resources they employ when creating value. Managers need to consider the overall and long-term impact of their business investments (including both the costs and the benefits for a broader range of stakeholders as opposed to focusing exclusively on the interests of their shareholders in the first instance) when developing their value propositions.

This idea develops upon theories of social exchange which views *relationships* as social entities within the context of a social structure (Granovetter 1985). This perspective constitutes the basis for creating *multiple value* (Jonker 2012a) or *shared value* (Porter and Kramer 2011). This form of social or relational exchange concentrates on the relationship and the inter-action between the parties in the affiliation instead of only on the act of the transaction (e.g., Håkansson 1982; Ford 1990). This theory accepts the self-interest motivation of the parties within the relationship and crucially recognises that in this exchange, the overall best interest is achieved when actors behave equitably, i.e., in both their own and the best interests of the partnership (e.g., Smith 1776/2005; O'Riordan 2010, p. 353; O'Riordan and Fairbrass 2012). This chapter suggests as its core theoretical contribution that the notion of "new" business models is the primary transaction concept which can serve as a mechanism for linking partners via new collaborative opportunities to enable multiple and shared value to collectively arise.

12.2.3 (New) Business Models

The emerging central theme when debating the notion of value creation and NBM's is the search for more balanced value creation. To create value, businesses manage their activities in a systematic if not coherent way of thinking. More specifically, the inherent inter-related activities of planning, leading, organising (in terms of its structural dimension) and controlling can be depicted via a business model. By describing this organisational logic and the resulting processes from which value creation and delivery ensue, business models give insight into the value that an organisation or co-operation can offer to different parties (Jonker 2012a, p. 14). In doing so, this model illustrates both the network of parties as well as the different capabilities involved in creating, marketing, and delivering value (Osterwalder and Pigneur 2010). Recent research suggests that the key, to creating value is a process which involves organising *in* and *between* organisations (Jonker 2012a, p. 16). The development of a "new" generation of business models is crucially dependent upon the underlying *values* in the emerging *mutual benefit relationship*.

These include preliminary investigations that re-assess the role of money as the primary currency in trade. Instead, a mix of additional (hybrid) values such as nature, time, care, silence, attention, or energy, become more salient. Furthermore, in NBMs, *access* to the means of production becomes more important than their actual ownership. Likewise, *using* becomes more salient than controlling the key factors and resources of production. Consequently, value creation focuses on "*access* and *use*." Significantly, as a key consequence, an economy with transactions based on hybrid values can only be organised through a co-operative approach centred on the long-term commitment of the parties. This makes securing trust in relations and in collaboration a necessary pre-condition (Jonker 2012a, p. 8).

12.3 Methodology

To investigate how the NBM notion is currently translating the concept of sustainable transactions into everyday business practice, a theoretical perspective was developed via a review of recent publications. These perspectives form the basis for presenting some qualitative empirical data collected in Germany as part of a broader ongoing comparative European research project that was initiated at the Radboud University Nijmegen (the Netherlands) in 2011.

This new research conducted in aimed to broaden the scope of the original study to gain more substantial evidence from across Europe. It comprised seven in-depth interviews, which were conducted in Germany in Spring 2013 as part of the comparative European research project that included 11 countries involved in the study across Europe. The in-depth interviews were performed based on a standard interview protocol employed by all of the research institutes involved. Each in-depth interview was held with the founder of the model and lasted on average for 1 hour. Subsequently, the interviews were transcribed and summarised into country reports. Because society is considered as an integral part of each model, the target sample was chosen accordingly. To elaborate, the model of *Food-sharing*, as an example of one of the targets, aims to draw attention to how much food is thrown away by providing citizens with the opportunity to share their food with each other. In turn, the concept of *Hostacamper*, another example of one of the sample targets, aims to enhance the dialogue between local farm shops and urban people by offering free camping spaces on farms which additionally allow the campers to buy their food in the farm shops or for example to offer their help with the harvest during their stay. Following this brief explanation of the research design, the next section now synthesises the results of the German study.

12.4 Findings

12.4.1 New Values for Creating and Sharing Value

The data analysis of the cases indicates a strong orientation towards multiple and shared value creation. This manifests itself in a focus on community building related to a product and or service, based on the active pursuit of balancing multiple values. These include hybrid transaction values such as nature, care, attention, and money, in contrast with traditional business models that are based more exclusively on money. A central feature of multiple value creation is the implementation of new means of transaction. The employment of money as the primary currency in the exchange process is substituted with those alternative transaction values. This indicates that the central principle of a NBM is based on creating values within a value network. This network in turn, relies on the exchange of these values between the co-operative collaboration parties.

In order to foster the incorporation of transaction values other than money, a crucial point of the NBM cases studied emerged as undefined credits in return for a particular value. This intangibility of those value exchanges appears to be crucial, as economic traffic within NBMs is based on the fulfilment of needs. Thus, the market orientation of NBMs appears to manifest itself in a challenging mix of managing social and monetary market "factors" (Heyman and Ariely 2004). It is clear that the organisation of transaction value(s) other than money is not yet fully exploited and only expressed through the cautious experimentation with alternative values (currencies) such as "time," "attention," and "care." Nevertheless, these findings indicate that the meaning of profit is currently undergoing a transition in certain lines of business.

12.4.2 New Forms of Integrated Collaboration

A key missing link component which was identified as central to the principle of value creation is the integration (or connection) with society. When co-operative collaboration becomes an inevitable aspect for the exchange of values within the value network, establishing relationships with mutual responsibilities throughout the NBM "community" permits the achievement of a greater level of equality among the participants. Due to the close integration of those collaborations, the success of the NBM is thus strongly dependent on local organisational forms. This may however inflict an inhibiting impact on the application of common analytical frameworks (i.e., Porter 2008) to determine the success of the NBM in the market environment, as the acceptance and the willingness of community involvement may be difficult to predict. Nevertheless, despite the overall positive impact on community involvement, some NBMs may exhibit a tendency to shift towards passive value creation when too much responsibility is expected of other parties. Consequently, the value streams drift away from the initial idea of the NBM. This implies that a NBM, which is exclusively operated by the community within its value network, relies even more heavily on the implementation and definition of transaction values other than money. The evidence suggests that establishing financial sustainability in such structures can be particularly challenging.

12.4.3 New Strategic Intent Behind Sustainable Value Creation

When analysing the strategic intent behind NBMs with respect to triple-bottom-line outcomes the evidence suggests that the profit motive generally appears to be secondary to the interests of people and the planet. To elaborate, the main force behind the initial idea and throughout the actual operation of a NBM culminates from an initial intention to change the current situation to achieve some "greater" purpose. This is often rooted in the passion or motivation of the founders rather than reasons to generate profit in the first instance. This finding questions the value or need for phenomena such as "property and ownership" in NBMs. This is supported by data which suggest that the most distinctive characteristic of a NBM exhibits a decline in the perception of property and ownership in place of a stronger emphasis on access and use. The notion of NBMs points to processes which are less about transactions of property but more about transactions of value(s).

A comparison of the different NBMs indicates an orientation towards an experimental nature. More specifically, the cases inherently plan for "change" by design, as almost every founder (owner) reported to intentionally strive to sustain a dynamic space within the NBM in order to be able to further develop and adapt it to internal and external changes within the value network. This change aspect allows the incorporation of alternative currencies as transaction value(s) at a later stage of the project's development.

While the initial concept of a NBM can be described to be intentionally built on long-term commitment by the parties involved, at the time the interviews were conducted it was not possible to establish sufficient data on their long-term operation. The concept of long-term commitment itself could be considered to stand in contradiction with the vibrant and dynamic nature of NMBs *per se*. These two factors may be the reason why the study revealed diverse and ambiguous results here. Given the structure of value exchange within the triple bottom line concept, financial sustainability was identified as a key concern for the long term sustainability of NBMs. One reason for the difficulty to establish a solid financial sustainability might result from the challenge that NBMs tend to operate on both monetary and social markets using a set of hybrid values. While monetary markets focus on economic exchange characterised through a monotonic relationship between supply and demand, social markets mostly represent non-monetary relationships in which effort is largely independent of incentive levels (Heyman and Ariely 2004; Fiske 1992). To elaborate, NBMs currently operate at the interface between two types of markets: monetary and social (or non-monetary). Both markets by definition deliver different types of values. The non-monetary relationships lead to what can be described as "non-financial values" such as environmental protection, attention or care. The position of NBMs at the intersection of these two markets poses a challenge for a society which is market driven to discern these differences and offer regulatory and institutional space so that their full potential can be explored and unfold (Sandel 2012; Gneezy and List 2013; Heyman and Ariely 2004). Significantly, the study findings indicated that due to these issues, ensuring a sustainable financial performance for NBMs remains a key issue going forward which specifically involves (re)defining and (re)balancing market values (e.g., buying mobile phones or cars) and non-market values (e.g., offerings related to protecting/respecting nature and/or humanity).

12.4.4 Summary of Findings

NBMs exhibit a strong orientation towards multiple value creation as a central principle which focuses on building a value network at the interface between a need and a product or service. The NBM notion aims for a fairer distribution of wealth through a stronger focus on creating welfare for human beings and the environment. Due to their novel nature, NBMs can for now be best described as experimental. Their design is frequently architected to purposefully facilitate a constant development and adaption of the model over time. This shapes the NBM with a sense of a vibrant vitality, while its dynamic nature is inevitably reliant and linked to social exchanges within the value network. Fig. 12.1 below graphically illustrates in a summary overview this novel dynamic of NBMs with respect to the four underpinning concepts of: Principles; Community; Values; and Design. Within this context it turns out that the most distinct alteration (change) in the structural body of a NBM is characterised by a decline in the perception of property and ownership towards attaching a greater importance to access and use as a central principle. To enable the evolvement of value exchanges within the network, the focus on co-operative collaboration through community-building around a need, as well as the close integration of the community into the model itself, were identified as the key components of a NBM (Fig. 12.1).

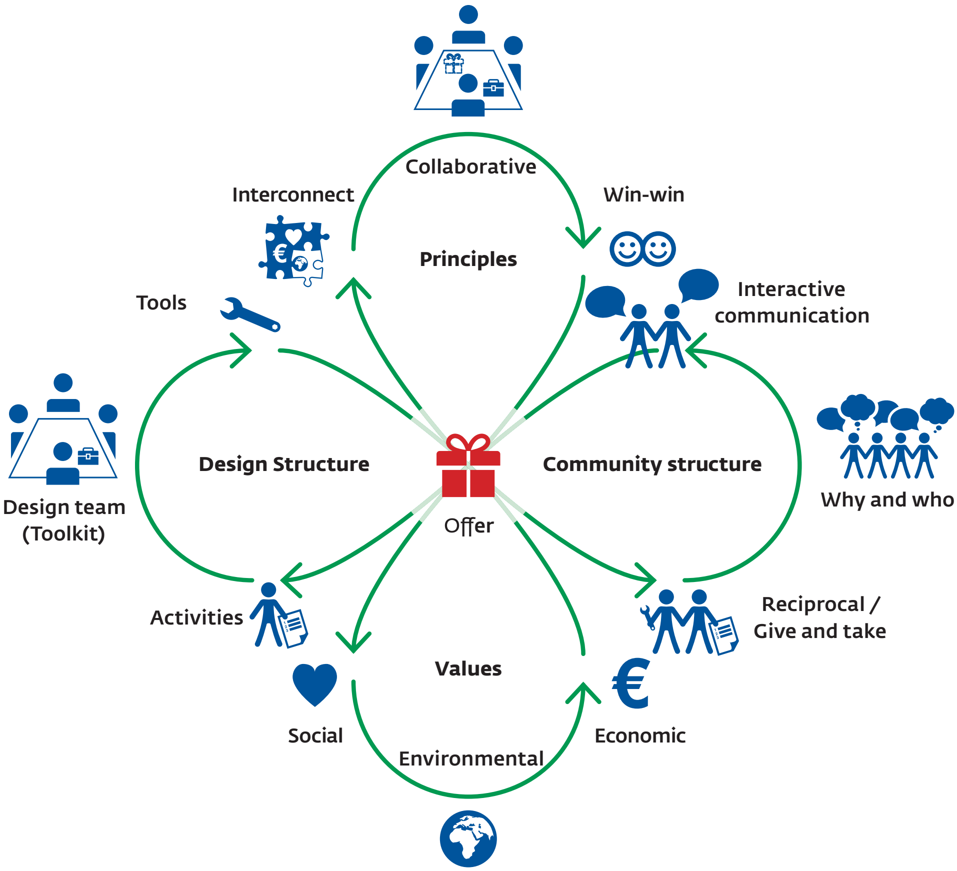


Fig. 12.1 Figure used with permission from Jonker. J. (eds.) (2014). Nieuwe Business Modellen: samen Werken aan waardecreatie. Den Haag : Academic Service.

12.5 Critical Discussion

The evidence presented in this chapter suggests that NBMs can act as a catalyst for creating collective, shared, balanced bottom line impact. They achieve this by delivering a fairer distribution of the wealth created by business via a stronger focus on creating welfare for human beings and nature. But do NBMs incorporate the necessary components for translating a sustainable management approach required to achieve the transformation needed? The findings presented above advise caution when applying the NBM notion in three specific areas. First, with respect to interpretations about what is “new” about NBMs, second, regarding the meaning of profits, and third, with a view to the potential impact of the NBM approach.

NBMs focus on the main principle of placing equal emphasis on creating alternative mutual benefit for business, societal, and environmental value concurrently. In contrast with the narrower motive of purely economic value, examples of such novel values can include time, care, silence, attention, or energy etc. Accordingly, NBMs pave the way for creating different, more holistic, probably more basic, human values. In this regard, new movements have emerged toward the evolvement of environmental value such as the reduction of wasted food, reducing the spread of conventional camp-grounds in order to protect nature, as well as enhancing societal value through social inter-actions via books or education where value is conveyed from people for people. Notwithstanding the benevolent and charitable nature of many of these endeavours, significantly, the scope for value creation via NBMs is not restricted to altruistic-type cases. Importantly, some of the leading, as well as the most forward-looking and promising examples of successful value creation in business today exhibit many of the concepts of NBMs. For instance, within the scope of their typical "transactions" with their customers, some of the most innovative companies in the world such as Google, Facebook, Twitter, or Wikipedia do not "sell" anything directly to their vast communities of loyal followers. They have instead amassed these users of their services by providing access and use to their offerings. But their "customers" do not typically "pay" directly with money for the services they obtain. Neither (or potentially as a result) do they "own" these services. Significantly, to secure reliable value streams for the various individual parties involved, these companies have all established business partnerships via collective webs of shared exchanges in which the transactions are based on the "interests" or the "motivations" and "needs" of the network intermediaries as "currency" alternatives to money. In this may, for instance, Google finances its information search service to its users via the innovative click and pay advertising technology which it developed. As a result, Google's search service which provides users with timely information is financed by the advertisers who are interested in promoting their business. Thus the needs of the users are cleverly connected with the needs of the financers to the ultimate benefit of both parties with Google providing the organisational system and technological competence to achieve this. These and other examples, including approaches such as company trusts e.g., the Johnson and Johnson Corporate Trust (see for example O'Riordan and Zmuda 2015) establish the governance structures which enable business to create triple bottom line value by focusing on the *white space* opportunities at the point of intersection between economic, social, and environmental interests. These findings indicate that NMBs can generate MSV from unconventional collaborations in both the for-profit as well as the non-profit sector.

12.5.1 The Role of Profits in the Long-Term Survival of Organisations

The novelty of the NBM concept limits the ability to predict its future as a feasible approach for business *per se*. The findings presented in this chapter indicate that although the idea and design of NBMs are typically based on commitment intentions which strive to achieve a more enduring and innovative business purpose, lack of both data and experience with respect to their long-term operation advises caution when designing models with new transaction rules and means. Given that a key prerequisite in the (re-)distribution of wealth is in the first instance its generation, by definition, all business ventures have to ensure appropriate financial sustainability if they are to continue to exist to make a (positive) impact in their operating environment. Consequentially, economic responsibility, profits, and accordingly money are likely to remain an important transaction currency as a means and metric of wealth creation going forward.

Nevertheless, this chapter proposes that the role of money as a transaction currency will change. In this regard, a crucial prerequisite for decision-makers who seek innovative MSV solutions via the NBM approach is an enlightened mind-set with respect to both the use of money as a mode of transaction and as an ultimate goal of economic exchange. Rather than directly aiming for profit and sales in the first instance, this new mind-set advises that the greatest collective long-term sustainable MSV can be most reliably achieved by searching for new ways to provide customer/non-customer access to the company's offerings via innovative collaborations within the *white space* at the centre of the triple bottom line principles (as demonstrated by Google and co. in the examples noted in the previous sections).

Significantly however, in attempting to more equitably address the mutual needs of societal groups via *white space* business opportunities, the research findings indicate a key uncertainty in relation to NBMs in practice. A central enabling principle of the new value exchanges within the proposed NBM networks focuses on *building co-operative collaborations* as a key missing link aim. Significantly, this means that as co-operative collaborations become increasingly incorporated into "normal" business practice, the greater the reliance on alternative transaction values other than money to meet the new needs in these (alternative) value exchanges. As a result, the importance of money as a transaction currency decreases. More specifically, the founders of some of the NBM cases indicated that it is often difficult to estimate the actual acceptance and the willingness of society (as one of the key collaborators in the NBM transaction process) to get involved and sustain the NBM venture. Consequently, this dependency has been noted as a major concern which creates uncertainty with respect to the sustainable operation of NBMs. Moreover, NBMs which exhibit "overstretch" of dependency in their co-operative collaborations have the tendency to experience a shift towards passive value creation. As a result, the value streams drift away from the initial course of the NBM. Consequently, this implies that NBMs, whose operations depend exclusively on the community within a value network, rely even more heavily on the implementation of transaction values other than money. This triggers the need for the development of innovative alternative motivation, measurement, and control mechanisms to address the identified challenges.

12.5.2 The Powerful Potential Impact of NBMs for Creating MSV

Recent research proposes that it is precisely at the intersection between the stakeholders and the company (i.e., on the point of interface between social, environmental, and economic factors or the *white space* at the centre of Elkington's triple bottom line concept), that new substantial, sustainable, and dependable business opportunity (i.e., competitive advantage as defined by Porter (1985)) awaits (O'Riordan and Fairbrass 2012). Significantly, it is anticipated that in this *white space* the greatest impact of invested corporate resources can be realised. This is achieved via the identification of business opportunities which hold the greatest balanced sustainable impact (see for example Abdulai 2015). Specifically, strategic business practices of this nature, when authentically communicated to employees, customers, and society in general, have the intrinsic capability to result in improved credibility for the company and as a result in improved image, reputation, and positive brand awareness (e.g., Johannsdottir and Olafsson 2015). Importantly, such value is enabled by the combination of enlightened entrepreneurship and the implementation of the new concepts via innovative collaborations across the entire (triple bottom line) value chain. The interim results from this new research initially suggest that developing the capability to connect with and interlink these phenomena is the route to long-term sustainable value creation (i.e., multiple shared value). This is where "…renewal, innovation and new business models come into existence" (Jonker 2012a, p. 7). In short, these insights which are interpreted from the fresh evidence presented in this chapter, shed light on new ways in which a forward-thinking, inclusive understanding of the impact of business decisions on communities throughout the value chain can bring long-term, sustainable benefits both to the company and to society.

Significantly, the numerous examples of companies that are currently successfully applying the NBM approach to generate MSV indicate that to achieve greater positive impact within the corporate operating environment, a fundamentally different approach to doing business is required. In this new approach, managers who actively seek to more holistically leverage the resources they employ to exploit their full triple bottom line potential focus not on *what* they do in the first instance, but more crucially on *why* and *how* (Sinek 2009). To this end, an internal corporate culture based upon inspired purpose, authentic values, skill, and intent that is delivered via effective processes by people who believe in what they are doing is simultaneously more intrinsically motivating to internal employees, and inherently easier to credibly communicate to customers and other stakeholders (see for example, Johannsdottir and Olafsson 2015). Moreover, such an approach is unique and thereby difficult to copy by rivals. As such, the NBM approach for creating MSV basically presents a new way of doing good (common sense) business (see for example O'Riordan and Zmuda 2015).

12.6 Summary

The findings presented in this chapter suggest that if decision-makers were to follow a decision-making approach based on social or relational exchange theory, that better (i.e., more *enduring*) stakeholder relationships might be achieved. Crucially, this calls for new business solutions in which companies (via their decision-makers) who are arguably amongst the most powerful organisations in society, are required to act as catalysts in re-designing a system in which commerce and production more positively impact living systems. Instead of the current narrow focus on economic/financial tools for measuring business impact based on agency and transaction cost theories (e.g., Donaldson and O'Toole 2007, pp. 21–36; Eisenhardt 1989), such a transformation necessitates a fundamental move towards a restorative economy in which the power of business is harnessed to better distribute the wealth they create, thus generating growth and profits via more stable (less destructive) methods which could more efficiently meet the world's exponentially increasing needs (e.g., Hawken 1993, p. 17). A crucial part of this change requires new corporate governance solutions which liberate companies from the shackels of the profit maximisation aim in the exclusive interests of their shareholders and instead permits and encourages a broader stakeholder focus on MSV optimisation. Significantly, this requires a considerable change from the traditional managerial *mind-set* which often forgets (the missing link) that our self-interest is inextricably connected with the interests of society.

12.7 Some Conclusions

As the need for sustainable business is becoming recognised as one of the most significant global challenges in the twenty-first century (Horrigan 2010), there is an urgent need to not only change habits, but to also transform the traditional business approaches to enable and cultivate multiple and shared value creation. This challenge consists mainly of shifting sustainability from being a marginal issue as was the case with traditional business models to becoming a central matter in everyday business operations through re-defining and re-structuring the business proposition.

In a capitalist world, however, an inherent issue in such a shift is that traditional business models often fail to effectively create those values. This occurs primarily because they are managed towards the exclusive creation of economic value (Jonker 2012b). Furthermore, while specific recent trends appear to be well-intentioned, they prove insufficient in achieving the radical degree of change that is required to (re-)distribute the value created by business more equitably to a broader range of constituents. This demonstrates that the current economic model and the (financial) values that we as a society pursue are no longer sustainable. Consequently, we face the imperative need to re-organise ourselves to consider innovative alternatives for conducting business which focus on creating value(s) at the (*white space*) intersection of the triple bottom line principles.

The research presented in this chapter furnishes initial indications which suggest that while the investigated NBM cases all strive to establish co-operative collaborations, the utilisation of transaction values other than money is still underdeveloped. A key conceptual barrier to progress in this area is a current mind-set which is focused on the "cost" of doing business in the first instance rather than on seeing the bigger picture of the huge potential "needs" which generate long-term sustainable demand in society. The main contribution of this chapter to the academic literature and management practice is its claim that the NBM approach permits the creation of sustainable, new, innovative, and more effective business *opportunities*. Most importantly, this approach facilitates access to fulfil the needs of large groups in society whose interests are currently largely ignored by conventional business approaches.

In the endeavour to create long-term mutual triple bottom line benefit, the focus is not merely on 'what' activities the company undertakes but more essentially about *how* it interacts with its stakeholders and other constituents. In this regard, leadership styles which establish a collaborative, supportive internal culture which is customer-focused and combined with implementation approaches across the entire scope of all business functions, build credibility (O'Riordan 2010; O'Riordan and Fairbrass 2008). They generate long-term advantage by building consumer trust via the identification of innovative unique business strategies in the *white space* at the intersection of the business interface with society and the ecological environment.

In proposing a better way forward to address these issues, this chapter encourages decision-makers to make conscious choices via a re-constructionist view of strategy to re-create the boundaries of their industry. Managers of existing businesses thus become the architects of new ways of doing business in an approach which focuses on identifying novel opportunities via new role(s) and relationships within the resulting emergent constructs. Consequently, a key outcome of this chapter is the reasoning that by following the NBM approach, decision-makers create a new market space which inherently generates a distinctive society-driven competitive advantage, which thereby secures the long-term survival of their business in society while simultaneously serving the needs of that society in a positive way.

12.8 Outlook

The challenges we as a society face are vast and complex, but come down to the issue of optimally (equitably and sustainably) addressing the well-being over 7 billion people who are all using the same limited resources. The process of fulfilling their needs is stripping the earth of its natural capacity to produce life. A climatic burst of consumption by the human species is overwhelming the skies, earth, waters, and fauna. A critical review of our progress to date with respect to Elkington's (1997) triple bottom line principles could arguably reason that the previous track record with respect to the *environment* could be leading to disastrous consequences. A variety of recent events suggests that *society* is beginning to question the "ethics" of capitalism as well as the appropriateness and stability of the current *economic* system in providing the necessary mechanisms for the fair distribution of the wealth created by business to fulfil the needs of society.

Do NBMs incorporate the necessary components for translating a management approach to achieve the transformation needed for securing a better way forward for society and business on our planet? At the current point in time, insufficient evidence exists to reliably establish whether the multi-layered value creation concept embedded in NBMs is *the* solution to the problems we face. In that regard, the evidence presented in the chapter advises managers to exercise caution when applying the NBM notion with respect to both their understanding of what is new about NBMs, as well as with regard to the meaning of profits in relation to the long-term survival of the firm.

Most significantly however, the findings offer abundant indications of the powerful potential impact of the MSV and NBM approach which signal that these concepts could at least be *part* of the solution. In essence, the resulting debate concerning sustainable development calls into question our civilisation in transition. Sustainability concerns a debate about how civilised we as a society actually are. No longer viewed as a marginal matter, sustainability has finally become a part of our business-society thinking. No self-respecting company nowadays can afford not to pay attention to "sustainable entrepreneurship."

However, transition—perceived as a radical move towards a new order—requires vision and dedication of great leaders from business, politics, and other spheres. In this way, the innovative answers needed to address the complex issues of our time (one of which is sustainable development) can be collectively achieved (Jonker 2012a). Ominously however, the key missing link which was addressed in this chapter is that this is not currently happening to the degree necessary to create the kind of change needed to significantly make the difference to improve life on this planet for huge segments of its population. To address these issues, a new interpretation of what counts as value, as well as new methods and metrics to measure performance are required. Additionally, further research examining the role of NBMs in a scaled-up scenario with respect to a broader range of business sectors and activities is needed.

This chapter is based on a paper which originally was prepared for and presented by the authors at the Corporate Responsibility Research Conference, held at the University of Graz (Graz/Austria) from the 11th to 13th September 2013.

References

Abdulai, D. (2015). From charity to mutual benefit: A new and sustainable look at CSR in Africa. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility: Locating the missing link*. Wiesbaden: Springer-Gabler.

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of Management Review, 4*(4), 497–505.

Connelly, B. F., Ketchen, D. J., & Slater, S. F. (2011). Toward a "theoretical toolbox" for sustainability research in marketing. *Journal of the Academy of Marketing Science, 39,* 86–100.

Donaldson, B., & O'Toole, T. (2007). *Strategic market relationships: From strategy to implementation* (2nd ed.). Hoboken: Wiley.

Drucker, P. F. (1955). *The practice of management*. London: Heinemann.

Drucker, P. F. (1974). *Management: Tasks, responsibilities, practices*. London: Heinemann.

Eisenhardt, K. (1989). Agency theory: An assessment and review. *Academy of Management Review, 14*(1), 57–74.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Fiske, A. P. (1992). The four elementary forms of sociality: Framework for a unified theory of social relations. *Psychological Review, 99,* 689–728.
Ford, D. (Ed.). (1990). *Understanding business markets–Interaction, relationships and networks*. London: Academic.
Gneezy, U., & List, J. A. (2013). *The why axis: Hidden motives and undiscovered economics in everyday life*. New York: Public Affairs.
Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Psychology, 91*(3), 481–510.
Håkansson, H. (Ed.). (1982). *International marketing and purchasing of industrial goods: An interaction approach*. Chichester: Wiley.
Hart, S. L., & Milstein, M. B. (2003). Creating sustainable value. *The Academy of Management Executive, 17*(2), 56–67.
Hawken, P. (1993). *The ecology of commerce: A declaration of sustainability*. New York: Harper.
Heyman, J., & Ariely, D. (2004). Effort for payment: A tale of two markets. *Psychological Science, 15*(11), 787–793.
Horrigan, B. (2010). *Corporate social responsibility in the 21st century: Debates, models and practices across government, law and business*. Chaltenham: Edward Elgar.
IBLF. (2010). Integrating CSR into mainstream business practice. *International Business Leaders Forum. TPI Working Paper No. 2/2010*. http://www.thepartneringinitiatives.org. Accessed 19 Dec 2010
ISO. (2011). Guidance on social responsibility. International Organisation for Standardisation, International Standard ISO/DIS 26000, Geneva, Switzerland. http://www.iso.org/iso/catalogue_detail?csnumber=42546. Accessed 25 May 2014.
Johannsdottir, L., & Olafsson, S. (2015). The role of employees in implementing CSR strategies. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility: Locating the missing link*. Wiesbaden: Springer-Gabler.
Jonker, J. (2012a). *New business models. An exploratory study of changing transactions creating multiple value(s)*. Nijmegen: Nijmegen School of Management, Radboud University.
Jonker, J. (2012b). *Sustainable thinking acting 2011–2035: An inspirational book for shaping our common future*. Alphen aan den Rijn: Kluwer Academic.
Jonker, J. (2014). From from Jonker. J. (eds.) (2014). *Nieuwe Business Modellen: samen Werken aan waardecreatie*. Den Haag : Academic Service.
Kutschker, M., & Schmid, S. (2008). *Internationales Management* (*International management*) (6th ed.). Munich: Oldenbourg.
Lindgreen, A., & Swaen, V. (2010). Corporate social responsibility (Special issue). *International Journal of Management Reviews, 12*(1), 1–7.
OECD. (2001). Public policy and voluntary initiatives: What roles have governments played? *Working Papers on International Investment, 2001/4*.
O'Riordan, L. (2010). *Perspectives on corporate social responsibility* (*CSR*): *Corporate approaches to stakeholder engagement in the pharmaceutical industry in the UK and Germany*. Doctoral thesis, Bradford University School of Management, Bradford, UK. http://ethos.bl.uk/OrderDetails.do?uin=uk.bl.ethos.545644. Accessed 15 May 2014.
O'Riordan, L., & Fairbrass, J. (2008). CSR—Theories, models and concepts in stakeholder dialogue—A model for decision-makers in the pharmaceutical industry. *Journal of Business Ethics, 83*(4), 754–758.
O'Riordan, L., & Fairbrass, J. (26–29 June 2012). *Managing CSR stakeholder engagement: A new conceptual framework*. Paper presented at the 11th World Congress of Congress of the International Federation of Scholarly Associations of Management (IFSAM), University of Limerick, Ireland.

O'Riordan, L., & Zmuda, P. (2015). Conceptual framework for CR management: A critical review of sustainable business practice based on a case study of a leading transnational corporation. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility: Locating the missing link*. Wiesbaden: Springer-Gabler.

Osterwalder, A., & Pigneur, P. (2010). *Business model generation: A handbook for visionaries, game changers, and challengers*. Hoboken: Wiley.

Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: Free Press.

Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review, 86*(1), 78–93.

Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1/2), 62–77.

Sandel, M. J. (2012). *What money can't buy*. London: The Penguin Group.

Sinek, S. (2009). *Start with why: How great leaders inspire everyone to take action*. New York: The Penguin Group.

Smith, A. (2005). An inquiry into the nature and causes of the wealth of nations. In J. Manis (Ed.), *An electronic classics series publication* (Pennsylvania State University). http://www2.hn.psu.edu/faculty/jmanis/adam-smith/wealth-nations.pdf (Original work published 1776). Accessed 25 May 2014.

UN Global Compact. (1999). *United nations global compact*. http://www.unglobalcompact.org. Accessed 15 May 2014.

Wagner, M. (2009). Innovation and competitive advantages from the integration of strategic aspects with social and environmental management in European firms. *Business Strategy and the Environment, 18*(5), 291–306.

WBCSD. (2002). *The business case for sustainable development: Making a difference towards the Johannesburg summit 2002 and beyond*. http://www.wbcsd.org/pages/edocument/edocumentdetails.aspx?id=197. Accessed 10 Jan 2014.

Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: Free Press.

Part II

Practical Realm

The Un-balanced Sheet: A Call for Integrated Bottom Line Reporting 13

Robert Sroufe and Diane Ramos

To get all businesses involved in solving the world's toughest problems, we must change the accounting rules.
Peter Bakker, President of the World Business Council on Sustainable Development, at the United Nations Conference on Sustainable Development, Rio + 20, 2012

Contents

13.1 Chapter Objectives . . . 250
13.2 Introduction . . . 251
13.3 Evolution of Integrated Bottom Line Reporting . . . 252
13.3.1 The Myopic Focus on the Bottom Line? . . . 254
13.4 Creating Shared Value . . . 257
13.4.1 IBL as Enabler of Shared Value . . . 259
13.4.2 Garnering Momentum for IBL . . . 261
13.5 Integration Already in Motion . . . 263
13.6 Enabling Organisations . . . 266
13.6.1 Accounting Firms . . . 267
13.6.2 Financial Accounting Standards Board (FASB) . . . 268
13.6.3 Sustainable Accounting Standards Board (SASB) . . . 269
13.7 Challenges . . . 269
13.8 A Call to Action . . . 270
References . . . 271

R. Sroufe (✉) · D. Ramos
Palumbo-Donahue School of Business, Duquesne University, Forbes Avenue, Pittsburgh, PA 15282, USA
e-mail: sroufer@duq.edu

D. Ramos
e-mail: ramos@duq.edu

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,* FOM-Edition, DOI 10.1007/978-3-658-06794-6_13

Abstract

This chapter offers a blueprint for the integration of financial, environmental, social, and governance reporting, an emerging practice that has profoundly changed the way organisations develop strategic plans, approach decision-making, measure success, and manage risks in the twenty-first century. Overlooked in the act to prepare a traditional balance sheet are the 80% of a company's assets and liabilities, including social and environmental, that conveniently fall outside the scope of modern accounting. In this chapter, we ask the question, why have we continued to take an "unbalanced" approach? We envision a future when a balanced sheet, renamed the *value statement*, captures the financial, social, and environmental conditions of a firm over multiple periods of time and this information is further supported by a statement of change in stakeholder's equity (rather than stockholders' equity). By quantifying assets, liabilities, and performance related to all forms of capital, businesses worldwide are leveraging Integrated Bottom Line (the analysis and disclosure of financial, social, and environmental assets and liabilities to internal, and external stakeholders of a firm) to achieve long-term value creation, innovation, and competitive advantage. IBL goes beyond an accounting practice to become a catalyst for sustainable management solutions, risk management, and stakeholder engagement. To help demonstrate this transformation of performance measurement, the information within this chapter reviews the evolution of integrated reporting, the need for more involvement from accountants to go beyond a myopic focus on the bottom line to enabling shared value through evidence based management, and a review of enabling organisations. The chapter concludes with a call to action for business schools and business organisations to work together at the intersection of integrated reporting to develop solutions for tomorrow's measurement problems.

13.1 Chapter Objectives

Wrapped in the context of sustainability, a global imperative, this chapter offers a blueprint for the integration of financial, environmental, social, and governance reporting, an emerging practice that has profoundly changed the way organisations develop strategic plans, approach decision-making, measure success, and manage risks in the twenty-first century. By quantifying assets, liabilities, and performance related to all forms of capital, businesses worldwide are leveraging Integrated Bottom Line (IBL) reporting to achieve long-term value creation, innovation, and competitive advantage.

Contemporary businesses operate in a complex system of global commerce that connects an ever-expanding array of sellers with customers for products and services. Publics and governments, employees and consumers are powerful forces in these modern value chains. A diverse and growing number of stakeholders demand transparent reporting about the varied activities of a company and its suppliers, distributors, and customers, including the social and environmental impacts of products and services throughout their lifecycles.

After reading this chapter, you will understand why IBL is a fundamental tenet of sustainable enterprise management and a growing priority for organisations of all kinds.

In addition, you will discover the extent to which disclosure of performance beyond quarterly profits has evolved since the turn of the twenty-first century. Specifically, you will gain insight to:

1. The limitations of traditional financial reporting practices and standards for assessing the health of a firm;
2. How assets and risks associated with natural, manufactured, social, and informational capital affect a firm's valuation;
3. Emerging trends in financial, environmental, social, and governance reporting;
4. Internal and external drivers for adopting Integrated Bottom Line reporting;
5. Benefits of integrated analysis and reporting for internal and external stakeholders;
6. Obstacles to implementation of integrated reporting.

13.2 Introduction

Reconciliation of revenues versus costs is as old as commerce itself. Throughout history, merchants and service providers have translated transactional data into financial summary information for taxing authorities, financial backers, and the general public. As organisations grew larger and more complex, preparing and interpreting financial statements required more expertise and higher education assumed the role of preparing accountants and analysts. Nevertheless, the basic approach to reporting remains unaltered; standard financial reports focus on capturing a company's status at a single point in time. Despite an explosion in sustainability reporting and ever-advancing computing technologies, the accounting discipline has been slow to adopt the data analysis techniques and comprehensive reporting practices that inform today's corporate decisions and investor choices in a global economy.

The Triple Bottom Line (TBL), a concept that integrates financial, social, and environmental performance measurements (Elkington 1994), prompted a significant shift in management thinking, although it was not embraced by the accounting profession. A TBL reporting approach helps organisations organise a vast amount of internal and incoming information across a wider range of risks and opportunities. When corporate performance is evaluated against a Triple Bottom Line, an organisation can spot economic, social, and environmental issues before they become crises (Savitz and Weber 2006). Unfortunately, TBL reporting does not go far enough. Many firms and industries are already operating in or approaching crisis mode. When liabilities arise from natural disasters or unintended consequences of industrial processes, it is too late for risk management measures.

If sustainability is the responsible utilisation of all resources, and accounting is the universal language for comparing worth from company to company, then it should come as no surprise that integrated reporting has emerged as the next revolution for managing performance, raising capital, and leveraging innovation.

For the purposes of this chapter, an Integrated Bottom Line (IBL) is defined as analysis and disclosure of financial, social, and environmental assets and liabilities to the internal and external stakeholders of a firm. This definition takes IBL beyond an accounting prac-

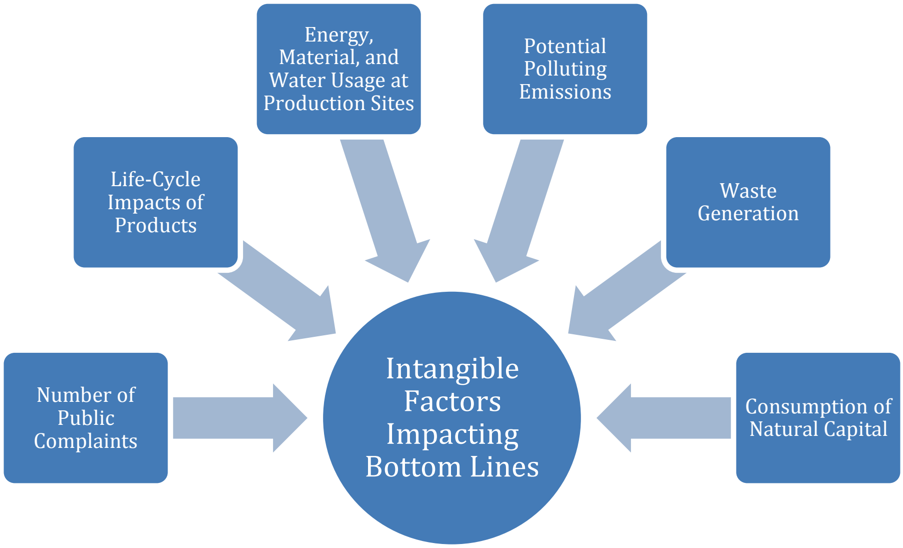


Fig. 13.1 Intangible factors impacting bottom line

tice to a catalyst for sustainable management solutions, risk management, and stakeholder engagement.

The formal and informal systems required for IBL reporting already exist in processes for reporting financial, human resource, sustainability and corporate social responsibility activities. However, many businesses struggle to quantify the intangible assets and liabilities that affect profitability and liquidity, even though intangibles account for up to 80 % of a typical company's valuation (Barry 2013, p. 7). The missing link to sustainable management solutions for many in business is the ability to fully understand natural and human capital and monetise the firm's impacts on the environment and society. The result is that a financially-at-risk company can appear to be highly profitable on paper if the environmental and social assets and liabilities have not been assessed and reported accurately (Fig. 13.1).

This chapter takes a theoretical and practical look at the intersection of accounting, management systems and sustainability and challenges businesses (and business schools) to reassess the balance sheet by exploring the potential for Integrated Bottom Line reporting and analysis. Our goal is to provide evidence of an emerging paradigm and prepare managers to assess the true value of a firm for a new era in transparent reporting.

13.3 Evolution of Integrated Bottom Line Reporting

It took little more than a decade for multi-national, Fortune 500 and mid-tier companies to adopt the practice of issuing regular Sustainability and Corporate Social Responsibility (CSR) reports. Consolidating financial, CSR, and sustainability information into a single report that presents a comprehensive and accurate picture of the firm's true value is the next frontier for performance disclosure for companies of every size in every industry.

As far back as 2000, companies such as Novozymes began issuing integrated reports. A diverse group of firms from Europe, North America, Africa, Asia, and South America—including Novo Nordisk, Disco, Kumba Iron Ore, United Technologies, Natura, Philips, American Electric Power, PepsiCo, and Southwest Airlines—were among the pioneers in IBL reporting for their varied industries. In October 2011, the International Integrated Reporting Council (IIRC) launched the Pilot Programme Business Network, engaging over 100 businesses from 37 countries in dialogue about developing and testing frameworks for integrated reporting (IIRC 2013). According to the National Association of Corporate Directors, over 80 of the world's largest multi-national corporations—including Coca-Cola, HSBC, Microsoft, Volvo, and Unilever—were piloting integrated reporting in the first quarter of 2013, and Bayer announced intent to issue integrated reports in 2014.

Not surprisingly, banks are positioned to lead adoption of integrated reporting and capitalise on the risk management benefits of IBL analysis. In 2013, the banking sector represented nearly 10% of the businesses in the Pilot Programme of the International Integrated Reporting Council (IIRC). Participating banks included: BBVA (Spain); BNDES and Itau Unibanco (Brazil); DBS Bank (Singapore); Deutsche Bank (Germany); HSBC (UK); Bankmecu and the National Australia Bank (Australia); and Vancity (Canada). Proactive reporting exemplars in the industry include the SBG or Standard Bank Group (South Africa). The SBG was highlighted by the IIRC for integration of information, risk identification, transparency in disclosing how it generates revenues, and projected impacts of market forces (Adams 2013) (Fig. 13.2).

Companies that have adopted Integrated Bottom Line Reporting (Headquarter location) - *Industry*	
2002	• **Novozymes** (Denmark) issues first integrated report – *Biotechnology*
2003	• **Dell Inc.** (U S) – *Computer technology* • **BP International Ltd.** (U K) – *Energy*
2004	• **Novo Nordisk** (Denmark) – *Healthcare* • **Coca-Cola Company** (U S) – *Food* • **Disco** (Japan) – *Equipment*
2005	• **Shell Canada** (Canada) – *Energy*
2007	• **Kumba Iron Ore** (South Africa) – *Mining*
2008	• **United Technologies** (U S) – *High-tech* • **Natura** (Brazil) – *Skincare and cosmetics* • **Philips** (Netherlands) – *Health care/lighting*
2009	• **American Electric Power** (U S) – *Utilities* • **PepsiCo** (U S) – *Food* • **Southwest Airlines** (U S) – *Transportation*
2010	• **Puma** (Germany) – *Sportswear*
2011	• **Domex Group** (Vietnam) – *Consumer Durables*
2013	• **Deutsche Börse Group** (Germany) – *Market place organiser* • **Hyundai Engineering and Construction** (South Korea) – *Construction* • **Vancouver City Savings Credit Union** (Canada) – *Financial services*
2014	• **Bayer** (Germany) – *Healthcare, nutrition, high-tech materials*

Fig. 13.2 Integrated Bottom Line Reporting Adoption Timeline. (Sources: Eccles, Robert and Daniela Saltzman. Achieving Sustainability Through Integrated Reporting. Stanford Social Innovation Review. Summer 2011. "Integrated Reporting." GlobalReporting.org. Global Reporting Initiative, 7 May 2012. Web. 1 Nov. 2013)

Noticeably absent in the movement toward Integrated Bottom Line reporting has been leadership from the accounting profession.

13.3.1 The Myopic Focus on the Bottom Line?

While the formal practice of accounting emerged in the late fifteenth and early sixteenth centuries, it was the commercialisation of a reliable adding machine by William Burroughs in the 1880s that upgraded the repetitive, clerical tasks of bookkeeping to trade status and transformed accounting into a profession responsible for analysing and using financial information (Badua and Watkins 2011, pp. 76–77).

The American Institute of CPAs (AICPA), the world's largest professional organisation for accountants, traces its origins to 1887. This association encompasses 394,000 members from 128 countries. AICPA sets U.S. auditing standards and develops and grades the Uniform CPA Examination. Through a joint venture with the Chartered Institute of Management Accountants, AICPA established the Chartered Global Management Accountant designation to elevate management accounting globally (American Institute of CPAs 2013). Although the chairman's letter in the organisation's 2012–2013 annual report includes a reference to integrated reporting as offering "a fuller picture of a business by mapping how an organisation's strategy, governance, risks, performance and prospects lead to value" (American Institute of CPAs 2013), the association's web site featured no navigation links to Integrated Bottom Line resources or publications that focused on IBL at the end of 2013, and a site search produced no publications or web-presented narrative on integrated reporting or association involvement in developing standards. Perhaps the accounting profession is hampered by allegiance to its own traditions, including methodologies for preparing basic financial reports (Fig. 13.3).

The four standard financial reports reflect a firm's status at a single point in time. The balance sheet offers what is considered the most comprehensive snapshot of a company's financial position. It presents *assets = liabilities + shareholders' (owners') equity* on a specific date. From a balance sheet, investors in publicly held companies can see exactly what the company owns and owes, as well as the amount invested by the shareholders,

The four standard financial reports reflect a single point in time:

The **Income Statement** shows profit (or loss) for a specific period of time.

The **Balance Sheet** is a snapshot of an organization's financial condition at a designated point in time.

A **Statement of Change in Stockholders' Equity** is a supplement to the Balance Sheet that shows any withdrawals or additions to contributed capital based from transactions between owners and entity.

A **Cash Flow Statement** shows sources and uses of cash during a specific period

Fig. 13.3 Description of Standard Financial Reports thus getting a snapshot of a company's financial health at a given moment. The balance sheet must always balance; the left side, assets, is always equal to the right side, liabilities and shareholders' equity.

Overlooked in this balancing act to prepare a proper balance sheet are the 80% of a company's assets and liabilities, including social and environmental, that conveniently fall outside the scope of modern accounting. So, why have we continued to take an unbalanced approach?

The reference to "bottom" describes the relative location of the net income figure on a company's income statement, the financial report that captures profit or loss status, again at a single point in time. The net profit or loss figure will almost always be the last line at the bottom of the page—the point where all expenses have been subtracted from revenues. This stands in contrast to revenues, which are the "top line" figures on an income statement. To improve bottom line profits, companies focus on increasing revenue through growth and/or cutting costs through efficiencies.

By capturing a company's financial health at a single point in time, without considering the full impacts and value created by a firm, the balance sheet and income statement reflect an incomplete and biased view of financial health and liquidity. McKinsey and Company have recently asked for change in the way the Generally Accepted Accounting Principles (GAAP) income statement is structured to help investors find the information they need for decision making in one place and in a format that is easy to understand and compare (Jagannath and Koller 2013). As such, these standard financial reports should be a transparent disclosure of a company's revenues and expenses that investors can readily interpret. Not surprisingly, the call for measurement and reporting of sustainability practices that impact top and bottom lines is coming from a diverse group of stakeholders, including accounting firms, corporate executives, investment analysts, sustainability thought leaders, and business educators. The prevailing sentiment across stakeholders is that new performance measures should reside with known financial reporting mechanisms such as the income statement, balance sheet, and cash flow statements. We envision a time when a truly balanced sheet, perhaps renamed the *value statement*, captures the financial, social, and environmental conditions of a firm over multiple periods of time accompanied by a statement of change in *stakeholder's equity* (rather than stockholders' equity).

Which stakeholders should lead the way? As Paul Hawken once said, "Despite our management schools, thousands of books written about business, and despite multitudes of economists who tinker with the trim tabs of a world economy, […] our understanding of business—what makes for healthy commerce, what the role of such commerce should be within society—is stuck at a primitive level" (Hawken 1993, p. 1). We know that newly formed organisations, such as the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC), have already realised that a Triple Bottom Line approach does not remove the focus from costs. One stakeholder group—business schools—is poised at the crossroads of theory and practice where research and pedagogy collide to inform business leaders.

Companies and business schools have been working on new ways of measuring performance as evidenced by changing practices in corporate reporting and international recognition for MBA programmes that integrate aspects of sustainability in curricula, including alternative MBA rankings such as "Beyond Grey Pinstripes" by the Aspen Institute and "Green MBA" rankings from *Corporate Knights*. Lovins et al. 2010, Elkington and others suggest that adoption of a Triple Bottom Line framework by corporations and business schools has brought about greater awareness of environmental and social capital on the income statement, yet TBL reporting is neither complete nor accurate. In practice, the TBL approach tends to consider programmes that protect the planet and enhance people as expenses rather than assets, and this has led companies to a "bolted-on" or cost-centre-driven approach to sustainability. Such a cost-centred perspective blinds executives to significant business value that sustainability-orientated practices could contribute. In our own research, sustainability has emerged as the primary driver of innovation and competitive advantage at better-managed companies that focus on value creation, not cost-cutting (Sroufe et al. 2012).

Even the best managed companies cannot fully capture the value of sustainability on traditional income statements, balance sheets, and cash flow statements. These companies may be building social and environmental capital, but they lack a way to succinctly provide this information to their stakeholders. Companies in some industries cannot survive without monitoring and managing use of mission-critical natural resources. Some are required to report their conservation efforts and results; others voluntarily disclose such information in keeping with their industries' norms. For example, Duquesne Light, a regional energy distribution company near Pittsburgh, Pennsylvania, and H. J. Heinz, a multi-national food company, monitor, and manage energy and water usage. However, all companies use energy and water. Why are so few held accountable for ethical use and preservation of natural resources?

Business schools have an obligation to teach a new generation of leaders to measure and disclose performance, fully and accurately. Peter Bakker, President of the World Business Council for Sustainable Development, offers context for this appeal: "We need to ensure that corporate reporting makes clear how a company is making its money, not just how much money it has made. For every robust measure of return on financial capital, we need an equally robust measure of return on natural capital—the supply of natural ecosystems that businesses turn into valuable goods or services—and yet another for social capital—the economic benefits that derive from intellectual capital and co-operation among groups" (Bakker 2012).

Encouragingly, in April 2013, Joanne Barry, publisher of *The CPA Journal*, urged CPAs to take part in the standards-setting process. In her appeal to the accounting profession, she defined integrated reporting as "presenting information to investors and other stakeholders about a company's financial health, along with information about its environmental, social, and corporate governance (ESG) performance […] which […] make up as much as 80 % of market capitalisation" (Barry 2013, p. 7). We believe that active involvement of accounting professionals in the design of reporting standards for a new era will accelerate the adoption of IBL reporting and improve the integrity of methodologies for quantifying assets and liabilities based on all types of capital.

13.4 Creating Shared Value

Deloitte calls integrated reporting the most significant change in years with importance that extends beyond changing report formats: "Corporate reports—whose growing sophistication and range have been a reflection of the development of the global economy over the past two centuries—are in some sense the rulebook that investors and society at large use to 'keep score.' Change the rulebook and you will almost certainly change the game" (Main and Hespenheide 2013).

Shared value creation offers a different view of capitalism. In their 2011 *Harvard Business Review* article, Porter and Kramer call for reinventing capitalism by "reconceiving the intersection between society and corporate performance." Capitalism, they maintain, is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth. Similarly, Avery Lovins has re-examined the role of commerce in society, observing that a narrow conception of capitalism has prevented business from harnessing its full potential to meet society's broader challenges (Lovins 2011). "The purpose of the corporation," Porter and Kramer suggest, "must be redefined as creating shared value, not just profit per se" (Porter and Kramer 2011, pp. 62–77). Some have claimed that a sustainable company manages its risks and maximises its opportunities by identifying key non-financial stakeholders and engaging them in matters of mutual interest (Savitz and Weber 2006). Others believe that we should ignore non-financial stakeholders and instead follow existing GAAP and Financial Accounting Standards Board (FASB) financial reporting protocols, arguing that change will come when the market is ready for it. To the contrary, we are already in the midst of a sea of change.

► *Already, Integrated Bottom Line Reporting has Achieved Worldwide Momentum.*

The Grenelle II Act in France was passed in 2012, mandating extra-financial reporting (Institute RSE 2012). As of July 2013, 509 of the world's leading business schools had become signatories of the Principles for Responsible Management Education (PRME), a United Nations' Global Compact that defines six principles as a guiding framework for integrating corporate responsibility and sustainability in business education curricula, research, teaching methodologies, and institutional strategies. The International Integrated Reporting Council (IIRC)—a global coalition of regulators, investors, accountants, companies, and non-government organisations—had active pilot programmes with 100 companies from across the world and 35 investment organisations in 2013 (IIRC 2013). In the United States, the Sustainability Accounting Standards Board (SASB) was established to create sustainability standards across 88 industries in ten sectors to complement the standards of the (FASB) and provide context for comparative ESG reporting by 2015 (Accounting for a Sustainable Future 2013) (Figs. 13.4 and 13.5).

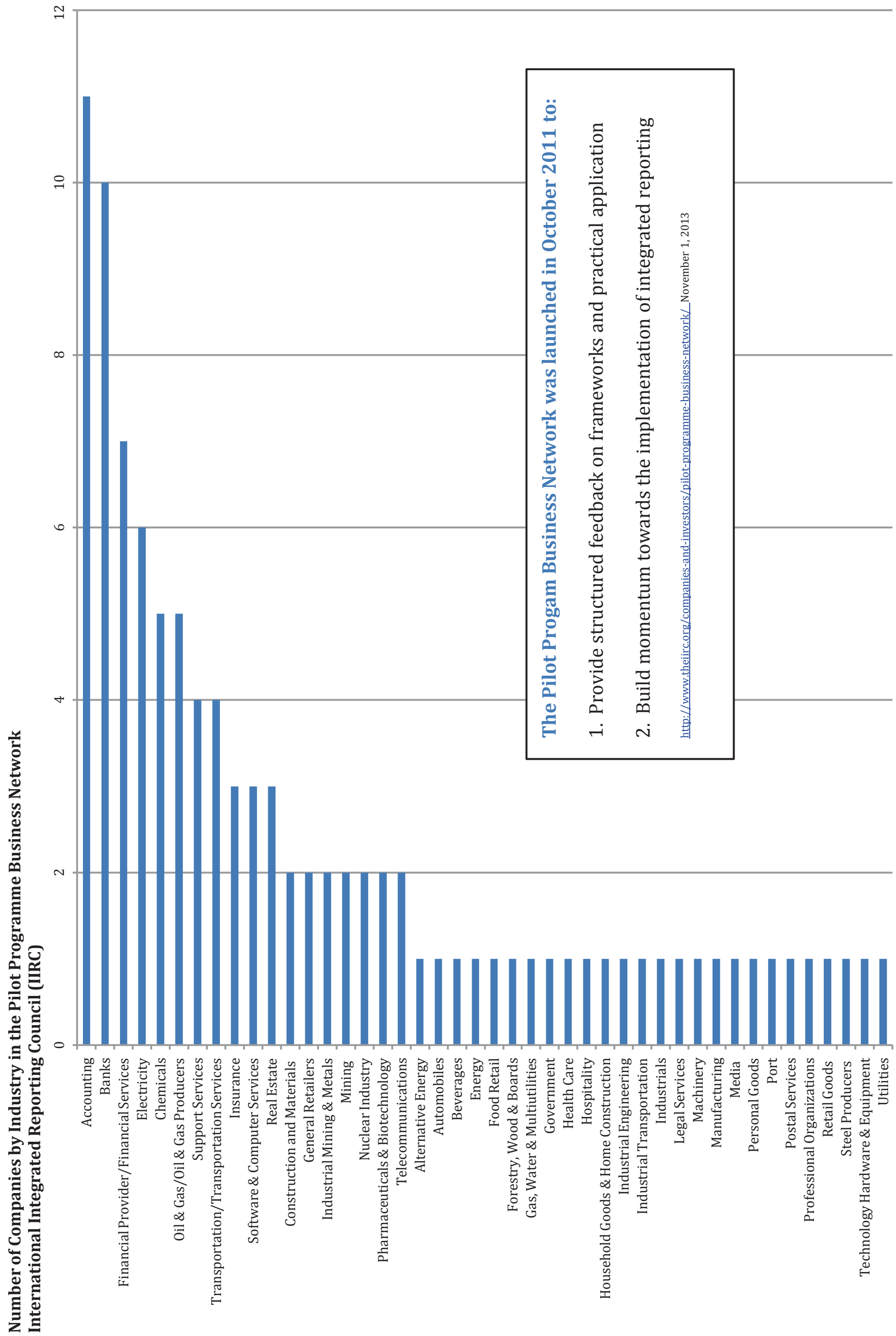


Fig. 13.4 Number of companies by industry in Pilot Programme Business Network

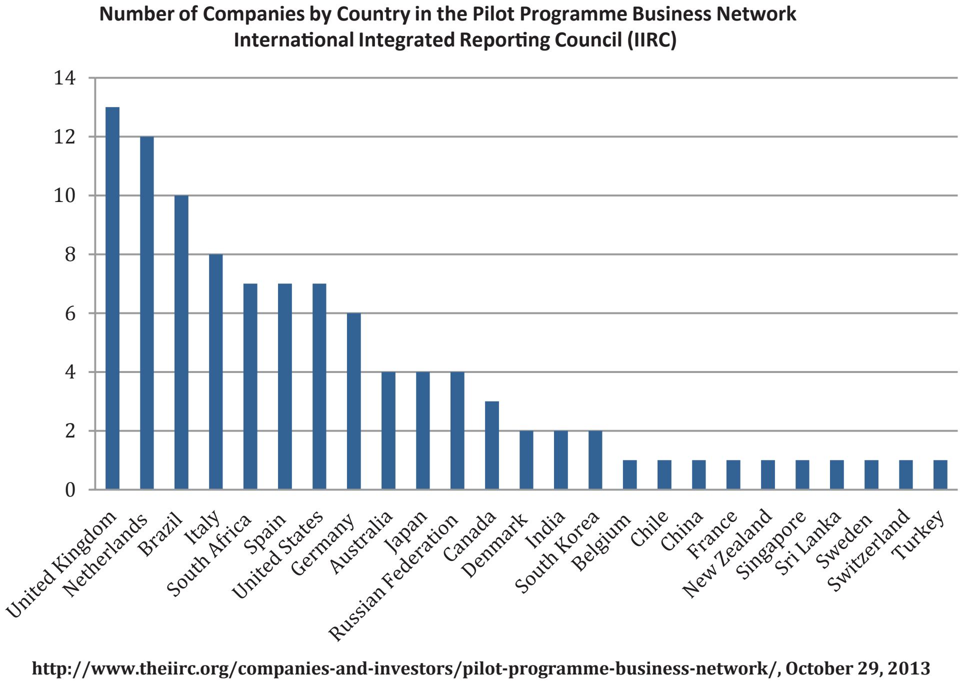


Fig. 13.5 Number of companies by country in Pilot Programme Business Network

13.4.1 IBL as Enabler of Shared Value

The strategic advantages from integrating reporting and analysis of all forms of capital are many and varied. A paradigm shift from capturing an organisation's worth at a single point in time to Integrated Bottom Line reporting offers enormous potential for improving decision support, performance management, and investment. The Integrated Bottom Line approach can and will provide more accurate analyses of business performance (Lovins 2006), informing strategic planning. IBL offers insight for designing and implementing sustainability programmes to engage stakeholders, inspire innovation, and differentiate products and services. Macro-level benefits include "greater market efficiency and lower volatility for the markets where integrated reporting is successfully delivered" (Hudson et al. 2012). The benefits of IBL have been examined in a wide range of publications (Main and Hespenheide 2013; Hudson et al. 2012; Lovins et al. 2010; Eccles and Armbrester 2011; Eccles and Krzus 2010; KPMG 2012) (Fig. 13.6).

Internal benefits

- Improves resource allocation decisions
- Increases engagement of shareholders and other stakeholders
- Lowers reputational risks
- Simplify external reporting

External market advantages

- Offers Environmental, Social & Governance (ESG) investor data
- Improve reporting transparency
- Advances company status on sustainability rankings and indices

Risk management measures

- Prepares company for future regulation
- Leads industry in establishing input standards and frameworks
- Integrate sustainability into strategy, operations, and supply chains for better performance

Fig. 13.6 Strategic implications of integrated bottom line (*IBL*) reporting

Integrated Bottom Line reporting opens opportunities for improving every aspect of a company's operation by enabling, clarifying, quantifying, valuing, improving, and integrating to achieve results:

- **Enabling**
  - Enables decision makers to assess and manage risk more accurately
  - Enables managers to identify earnings related to sustainability practices
  - Enables users to connect key pieces of information for investment decision-making process
  - Enables simplification of internal and external reporting for consistency and efficiency
  - Enables business-critical information to be found easily
  - Enables strategy and transparency more effectively
- **Clarifying**
  - Clarifies the ROI from innovation
  - Clarifies the ROI of sustainability initiatives more accurately
  - Clarifies the top, material issues impacting an organisation
- **Quantifying**
  - Quantifies how sustainability metrics translate into productivity
  - Quantifies relationships between social and environmental initiatives and productivity
  - Quantifies relationships between environmental, social, governance, and financial performance
  - Quantifies how efficiency drives profitability
  - Quantifies relationships between material financial and non-financial performance metrics
- **Valuing**
  - Values improving recruitment and lowering retention costs
  - Values long-term unquantifiable risks or opportunities
  - Values opportunities, and risks through a focus on longer-term business impacts

- **Improving**
  - Improves performance reporting across markets
  - Improves access to capital
  - Improves decision makers' ability to transform qualitative stories into quantitative data,
  - Improves compliance with regulations and corporate governance requirements
  - Improves stakeholder credibility through transparent and independently assured reporting
- **Integrating**
  - Integrates sustainability into financial and management accounting
  - Integrates relevant ESG issues linked to the firm's strategy and progress
  - Integrates material information on financial and non-financial performance in one place
  - Integrates thinking and management

13.4.2 Garnering Momentum for IBL

What will it take to turn this movement toward Integrated Bottom Line reporting into a global practice? Peter Bakker, president of the World Business Council for Sustainable Development (WBCSD), raised eyebrows when he told attendees at the 2012 United Nations Conference on Sustainable Development in Rio (also known as Rio +20) that "accountants will save the world!" He has called for all businesses to get involved in solving the world's toughest problems by changing the accounting rules (Bakker 2012).

The WBCSD is a membership organisation consisting of over 200 companies worldwide, including the Big Four accounting firms. The organisation launched a programme on reporting and investment that will collaborate with The Prince's Accounting for Sustainability Project(Prince's Accounting 2013) and the IIRC to make sustainable performance concrete, measurable, comparable, and linked to scientific priorities. The focus is on both internal sustainability reporting for improved risk and performance management, as well as on external disclosure as a driver for more accurate valuation of companies and improved allocation of capital market investments. The WBCSD plans to convene a forum for CEOs and accountants to discuss and develop large-scale solutions for finance and reporting, and they are exploring the possibility of developing a world-class training programme for CFOs on sustainability.

If the world wants to address our many sustainability challenges—if business wants to restore society's trust—business must be more transparent. IBL reporting acknowledges that the resources we exploit or conserve and the social benefits we engender or lose must be factored into a company's value and thus into the day-to-day management. This is not a matter of incremental change, but a radical transformation. As Bakker proclaimed, accountants can save the world by modernising century-old practices. Information technology will be the enabler.

From a practical perspective, perhaps the best way for a company to benefit is to make a commitment to releasing an integrated report before IBL reporting becomes commonplace. By its very nature, an integrated report is a concise communication that reveals how a business's strategy, performance, and governance lead to the creation of value over various intervals of time (Hickman and Tysiac 2013). Integrated reporting is beneficial in that it provides a "more cohesive and efficient approach to reporting, informs capital allocation decisions, enhances accountability and stewardship, and supports integrated thinking" (Hickman and Tysiac 2013).

According to the IIRC, an integrated report should meet uniform criteria. While leaders from industry, government, and academia, including practice experts from prominent accounting and consulting firms, offer input for what that criteria might be, Hickman and Tysiac (2013) have described some basic guiding principles for an integrated report (Fig. 13.7):

Assets		**Liabilities**	
Cash and Cash Equivalents	636,444	Accounts Payable	1,783,556
Net Receivables	918,667	Short/Current Long Term Debt	521,778
Inventory	1,321,333	Other Current Liabilities	597,333
Other Current Assets	579,111	Total Current Liabilities	2,902,667
Total Current Assets	3,455,556		
		Long Term Debt	**3,711,111**
Long Term Investments	**813,778**	**Other Liabilities**	**5,217,778**
Property Plant and Equipment	**8,381,333**	**Average Loss Costs**	**xxxxxxx**
Goodwiill	**2,300,000**	**Employee Turnover**	
		Management Succession Planning	**xxxxxxx**
Other Assets	**2,912,000**		
Employee Retention	**xxxxxxx**	**Cross-functional Jobs**	**xxxxxxx**
Employee Engagement	**xxxxxxx**	**Total Liabilities**	**11,831,556**
Reputation	**xxxxxxx**		
Employee Engagement Risks	**(xxxxxxx)**	**Common & Preferred Stock**	**548,000**
Green Reputational Pool	**xxxxxxx**	**Retained Earnings**	**5,087,556**
Total Assets	**17,862,667**	**Other Stockholder Equity**	**395,556**
		Sustainability Stakeholder Balance	**xxxxxxx**
		Total Stockholder Equity	**6,031,111**
		Total Liabilities and Owners Equity	**17,862,667**

Fig. 13.7 Sample balance sheet reflecting social and environmental assets and risks

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder responsiveness
- Materiality and conciseness
- Reliability and completeness
- Consistency and comparability

Integrated reports provide insight to a company's inner workings and precise valuation for immaterial objects. Integrated Bottom Line reports expose all aspects of a company's assets or liabilities, including finances, environmental effects, and human capital. Main and Hespenheide (2013), citing IIRC guidelines for a series of principles and content elements, show that these reports should include an organisational overview and business model, operating context including risks and opportunities, strategic objectives and strategies to achieve objectives, governance and remuneration, performance, and finally future outlook. Presenting a more complete picture of the health of a company will provide a more precise measurement of the company's performance to its shareholders and the community at large. If the complete scope of a company's performance and environmental/social effects are made available, consumers and investors will be enabled to make more informed decisions about their purchases of products or services. Another positive to this style of financial reporting is that an integrated report provides for more reliable comparisons to other businesses.

13.5 Integration Already in Motion

If you think reporting is not yet a big deal consider the following evidence: The Global Reporting Initiative (GRI), Global Initiative for Sustainability Ratings (GISR), and the International Integrated Reporting Council (IIRC) have combined efforts to create a collaborative framework for integrated reporting and the convergence of financial and Environmental Social and Governance (ESG) information. These organisations are now supported by the efforts of B Lab (the non-profit serving B Corporations), the Sustainability Accounting Standards Board (SASB), and the Forum for the Futures Sustainable Business Model Group. Within the next few years, there is likely to be a unified set of material criteria to rate and rank a firm's progress toward being a sustainable organisation relative to its peers.

Consider what is already happening in other regions of the global marketplace: The Hong Kong stock exchange is now making ESG disclosure a best practice. Integrated reporting is now mandatory by the Johannesburg Stock Exchange and the King III Code of Corporate Governance in South Africa as they now have one of the highest reporting ratios of carbon accounting and integrated reporting. With trends come leading and lagging companies. Next, we highlight some leading companies who have been indicators of the coming change in corporate reporting.

Innovative Companies Pushing the IBL Reporting Frontier

Some major businesses already prescribe to the Integrated Bottom Line accounting method. In fact, beginning in 2010, companies could not be listed on the Johannesburg Stock Exchange unless they provided some measure of their Integrated Bottom Line performance. Similarly, the Brazilian stock exchange (BM & FBovespa) encourages the companies on their list to disclose their sustainability reports, or explain why they don't publish them. Integrated reporting is a trend gaining ground in Brazil after Robert G. Eccles and Michael P. Krzus published their book *One Report* and it was translated into Portuguese (Global Reporting Initiative 2012, p. 4). One company in particular stands out as a pioneer in the integrated reporting arena: Natura.

Natura is a Brazilian company that first published an integrated annual report in the year 2002 (Eccles and Serafeim 2013, p. 50). It was listed in *Forbes* as one of the top ten most innovative companies in 2011, and for good reason (Eccles and Serafeim 2013, p. 50). Natura launched 435 new products over a 3-year span (2009–2011), boasts a greater market share than Unilever or Avon, and from 2002–2011 grew its revenues by 463 % (Eccles and Serafeim 2013, p. 50). In addition, Natura's average profit margin is 68 % as compared to the industry average of 40 % (Eccles and Serafeim 2013, p. 50).

At the same time, "Natura has significantly reduced its greenhouse gas emissions and water consumption, developed more environmentally friendly packaging, and provided training and education opportunities to about 560,000 consultants" (Eccles and Serafeim 2013, p. 50). This is a wonderful example of a company that has grown its businesses substantially while also being environmental and social stewards. Natura viewed integrated reporting as a great way to signal its commitment to and focus on environmental and social responsibility. Additionally, the company entwines management bonuses with reaching environmental and social goals (Eccles and Serafeim 2013, p. 50). Natura then took a leap into the future with the establishment of its sustainability social network, Natura Connecta.

Natura Connecta is a social networking site that allows members to participate in discussions about sustainability, environmental and social stewardship, and their expectations regarding sustainability in the future. Over 8000 people joined the site in its first year of operation (Eccles and Serafeim 2013, p. 50). The site had one very notable, distinctive feature: Natura Connecta members were invited to use the site to establish a WikiReport to establish and draw upon each other's ideas regarding the main site topics (Eccles and Serafeim 2013, p. 50). Natura then used the wiki in its next annual integrated report.

This is one example of how a very successful, innovative company used integrated reporting to engage not only its stakeholders but also its shareholders. Employees were financially incentivised to make responsible decisions, consumers were engaged with the social network and wiki process, and other businesses and the communities at large were able to see an integrated report first hand.

Another business that is leading the way with integrated reporting is Danish pharmaceutical company Novo Nordisk. Novo Nordisk first introduced the Integrated Bottom

Line approach to its articles of association or bylaws in 2004 (Novo Nordisk 2013a). Novo Nordisk's board of directors voted on the adding of the notion of environmental and social responsibility to their bylaws and turned this into a major focus for the company.

The company then decided to arrange a series of goals for various time intervals in order to hold itself accountable. Novo Nordisk has a 10 year, long-term strategy that is tied to the performance ranking of the executive management team. One example of a medium-term to long-term goal is the reduction of waste emissions as production increases (Novo Nordisk 2013a). Medium or long-term goals are broken into individual short-term goals that are then distributed across departments to individuals in the company. Breaking down the big goals into manageable chunks and assigning them to individuals to be used as performance goals is one way to make medium or long-term goals seem more manageable. It also increases individual accountability and participation.

Novo Nordisk emphasises doing business in a sustainable way because it believes that building trust within the community will ultimately protect its brand and attract the best and the brightest to work for the company (Novo Nordisk 2013b). There are a few ways Novo Nordisk strives to accomplish this. As previously mentioned, reduction or eradication of waste emission is an important long-term goal. Novo Nordisk also maintains a heavy focus on improving public health, which benefits patients as well as society and shareholders (Novo Nordisk 2013b).

The company shows a commitment to increasing the community's lifespan, thereby having a pronounced effect on the social aspect of Integrated Bottom Line. Novo's commitment to reversing the effect that its production has on waste emission is a contribution to the environmental category of Integrated Bottom Line. Its decision to tackle social and environmental issues displays the true intended nature of the Integrated Bottom Line approach. Novo's policy to submit an annual integrated report—whether the results are good or bad—helps keep the company and management leaders accountable to shareholders and the community.

This disclosure fosters the close relationship that Novo Nordisk seeks with its stakeholders (namely individuals with diabetes) and further demonstrates that Novo Nordisk is an innovative, responsible company with its finger on the pulse of stakeholder needs (Novo Nordisk 2013b).

A company that is relatively new to the integrated reporting game but still a heavy hitter with a strong history is Coca-Cola Hellenic Bottling Company or Coca-Cola HBC.

Coca-Cola HBC is the parent company of the Coca-Cola Hellenic Group and the second-largest bottler of products of The Coca-Cola Company in terms of volume with sales of more than two billion unit cases. It has a broad geographic footprint with operations in 28 countries serving a population of approximately 581 million people (Coca-Cola HBC 2013).

The company first published a Global Reporting Initiative corporate sustainability report in 2003 and has continuously worked to improve its commitment to sustainability since that time (Coca-Cola HBC 2013).

Coca-Cola HBC took its commitment to the next level in 2012 and became a part of the International Integrated Reporting Council's Pilot Programme. With the help of the IIRC, Coca-Cola HBC published its first official integrated report towards the end of 2012.

Coca-Cola HBC proclaimed that, “This first Integrated Report highlights the most material issues, activities, and results of 2012, and tracks the measurable progress the company has made across a range of financial, economic, social, and environmental indicators” (Coca-Cola HBC 2013).

One thing to note is Coca-Cola HBC’s commitment to working with the International Integrated Reporting Council (IIRC). The IIRC works tirelessly to assist more and more businesses in releasing integrated reports that display their Integrated Bottom Line progress. The Coca-Cola Company is one of seven American companies enrolled in the IIRC pilot programme; the other six are The Clorox Company, Microsoft Corporation, Prudential Financial, Inc., Cliffs Natural Resources, Edelman, and Jones Lang and LaSalle (IIRC 2013). The IIRC is important because as more and more businesses realise the benefits of integrated reporting and join the pilot programme, the more visibility the Integrated Bottom Line method of accounting gains. Ideally, this situation will create a reinforcing loop that continues to add more and more businesses to the ranks of integrated reporting. As more companies adopt this method, the positive effects on the environment and society as a whole will grow.

13.6 Enabling Organisations

The International Integrated Reporting Council (IIRC) also works to solidify the exact definition and framework of an integrated report across countries and industries. They launched their proposed framework in mid-April of 2013. The pilot programme that The Coca-Cola Company joined was arranged to help test and provide a trial for a universal standard for integrated reporting. The IIRC postulates that companies need to be more transparent about factors like intellectual property, brand talent, and environmental resources (Hickman and Tysiac 2013), and feels that these items have been “insufficiently integrated into strategic decision-making and reporting.”

The IIRC’s proposed framework focuses on seven key areas. Hickman and Tysiac (2013) summarise these key areas as:

1. Organisational overview. This is a summary of several key aspects affecting a business, including culture, ownership, operating structure, markets, products, revenue, environmental factors, and more.
2. Governance. This section displays a business’s organisational structure including leadership structure, strategic direction, how culture and values affect capitals, and how the governance structure creates value.
3. Opportunities and risks. This area of an integrated report identifies internal and external risks and opportunities and assesses the effects and likelihoods of these events occurring. It will also show steps that are being taken to reduce the likelihood of the risk occurrence.

4. Strategy and resource allocation. This section expounds on where an organisation wants to go and the means with which it will get there. It also discusses how the business plans to deploy resources to implement this strategy.
5. Business model. This section describes key business activities such as innovation, originality in the market, and the adaptability of the business model.
6. Performance. This section describes the organisation's progress towards its objectives and how the achievement of these goals has affected the company's financials.
7. Future outlook. This section is for future performance projections as well as any anticipated challenges that the company may face and how it plans to address these challenges.

A comprehensive, transparent report that combines all of the aspects mentioned in the IIRC's framework will help a company grow as a responsible entity. The added transparency puts more information directly into the hands of shareholders and even other organisations in the industry. Other organisations may see the data from the pilot programme organisation and feel compelled to join in the sustainable movement.

Another organisation that has made strides to universalise the Integrated Bottom Line style of accounting is the Global Reporting Initiative or GRI. It was mentioned previously that Coca-Cola HBC first worked with GRI before signing on to the IIRC's pilot programme. The Global Reporting Initiative works to help companies reach their sustainable reporting goals. GRI scores companies according to their integrated reporting measures and the level of assurances the company reaches. The panel of external auditors, which includes PricewaterhouseCoopers along with many others, can be called upon to verify the authenticity of their client's integrated report. A company that works with an external auditor through GRI and receives third party assurance of their integrated accounting methods will receive a good score that will carry more weight in the community than if the company were to self-disclose.

It is also interesting to note that the Global Reporting Initiative cofounded the International Integrated Reporting Council. The IIRC's primary objective is to clearly define and create global standards for an integrated report.

13.6.1 Accounting Firms

PricewaterhouseCoopers is a major player in assurances. They have several core competencies in their business, including providing auditing services to their clients. Their work with the GRI shows their commitment to promoting the transparent reporting of corporate social responsibility and other intangible factors. The fact that a benchmark accounting firm such as PricewaterhouseCoopers is on board with integrated reporting and actively advocates its usage is a major victory for advocates of this method.

KPMG is another accounting firm that encourages the use of integrated reporting. KPMG publishes a periodical dedicated to the subject that contains knowledge on Integrated Bottom Line and explains KPMG's attitude toward the concept. To quote their periodical, "The gap between what companies are doing and what they're reporting needs closing. Integrated reporting can help companies do this by letting them tell their story on their own terms. It places the responsibility for communicating the business's story on the reporter rather than a set of reporting rules. This represents a cultural shift from a compliance driven focus to an approach led by business activity and user-needs" (KPMG 2012).

KPMG recommends two steps, in particular, to help reach these goals. First, they believe that a company should build their report around the company's business model, its strategy for taking advantages of opportunities and facing challenges, and the company's operational context (KPMG 2012). The second recommended step is to maintain a central thread throughout the centre of the integrated report that links operational strategy, business model, governance, and performance reporting (KPMG 2012).

The fact that two of the biggest accounting firms in the United States endorse the Integrated Bottom Line method and integrated reporting is a huge victory for proponents of the idea.

13.6.2 Financial Accounting Standards Board (FASB)

One of the noteworthy proponents of the integrated reporting cause is Robert Herz. Robert Herz was the chairman of the Financial Accounting Standards Board or FASB from 2002–2010 (Tysiac 2013). Robert Herz spent 28 years as an accountant with Coopers & Lybrand and PricewaterhouseCoopers (Tysiac 2013). Herz is also an accomplished author. He wrote a memoir called *Accounting Changes: Chronicles of Convergence, Crisis, and Complexity in Financial Reporting* and also co-authored the book *The Value Reporting Revolution: Moving Beyond the Earnings Game*. Robert Herz openly supports the transparency involved in integrated report. He states, "I think the framework for integrated reporting … is a good framework for thinking about how to communicate the financial information and put it in the context of the whole business and your strategy. What's your business model? How do you create value over time, and what are the risks and opportunities? All of those things are important things to be able to communicate clearly" (Tysiac 2013).

Another proponent of integrated reporting is Ian Ball. Ball is the chairman of the IIRC working group for integrated reporting and is also the chief executive officer of the International Federation of Accountants (Hoffelder 2012). Ian Ball believes that a more comprehensive approach to reporting would assist shareholders in predicting a company's power to produce future cash flows (Hoffelder 2012). Specialists in valuing intellectual property contend, "Nearly 80% of the market value of the S&P 500 could be attributed to intangible assets that are not reported on the balance sheet" (Hoffelder 2012). With this knowledge in mind, Ball argues that the possession of definitive knowledge of intangible assets and environmental/social factors is indispensable in making informed investing decisions (Hoffelder 2012).

13.6.3 Sustainable Accounting Standards Board (SASB)

The final benchmark proponent is Dr. Jean Rogers. Dr. Jean Rogers is the founder and executive director of the Sustainable Accounting Standards board or SASB. SASB advocates adding corporate non-financial information to a 10-K instead of devising a separate sustainability report (Hoffelder 2013). This categorisation of information will allow for more efficient peer-to-peer comparison and will also force a clearly defined value to be applied to an intangible asset or challenge. SASB works to devise industry specific sustainable accounting standards for publicly traded corporations spanning 80 industries (Hoffelder 2013). Unfortunately, the Securities and Exchange Commission or SEC does not yet mandate sustainable accounting standards, although Dr. Rogers maintains that SASB "has been in constant contact with the SEC throughout its standards initiative" (Hoffelder 2013). Dr. Rogers believes that if accounting standards are modified to include intangibles on a 10-K, the process can be completed in conjunction with the SEC. This would be a triumph for SASB and for all supporters of Integrated Bottom Line accounting.

While there are many defenders of the Integrated Bottom Line concept and the logic supporting it is strong, there are some particular challenges intrinsic to using this method.

13.7 Challenges

One barrier to a large-scale migration to IBLs and integrated reporting is the short-term thinking employed by many business leaders today. Often those leading large corporations are driven primarily toward efficiency and instantaneous rewards. This may be a winning strategy for a brief time period, but years down the line the decisions made with instant gratification and efficiency in mind may begin to reap dire consequences with regards to the possible release of environmental toxins or waste emissions.

We see measurement as inhibiting progress and placing more focus on risk management. To this end, the sheer number of potential issues, and the expanding range of possible environmental risks, is reflected in the potential indicators and intangibles impacting a bottom line (see Fig. 13.1). These indicators include financial indicators such as: trends in legal compliance; fines, insurance, and other legally related costs; and landscaping, remediation, decommissioning, and abandonment costs. Compounding this is a growing need to measure environmental impacts in terms of new metrics, including: the number of public complaints; the life-cycle impacts of products; energy, materials, and water usage at production sites; potentially polluting emissions; environmental hazards, and risks including the valuation of ecosystem services; waste generation; consumption of critical natural capital; and performance against best-practice standards set by leading customers and by green and ethical investment funds (Elkington 1997).

Another hiccup for integrated reporting is that it currently lacks a clear definition. Many groups such as the GRI, IIRC, and SASB are working tirelessly to provide a framework and direction for companies to strive for while adopting these measures. However, each organisation lends itself to a slightly different point of view. It may require certain legislative bodies enforcing specific guidelines for each company to get on the same page with regards to accounting across countries and industries.

There are two more major barriers to integrated reporting: budget limitations and shortage of expertise. It takes a relatively large sum of money to begin measuring intangible aspects of a business and verifying that information with experts. Verification is a problem in and of itself because there is a dearth of experts in the world that can successfully lead the way even if a company would like to change its accounting methods. The lack of expertise problem should fade as the Integrated Bottom Line method grows in popularity and maturity, but the budget limitation issue will remain even if there is no shortage of experts to offer assurances.

Even with these barriers, integrated reporting is the wave of the future. To quote Peter Bakker, president of the World Business Council on Sustainable Development, "To get all businesses involved in solving the world's toughest problems, we must change the accounting rules." A commitment to Integrated Bottom Line reporting will increase brand recognition and goodwill for a company while improving quality of life for stakeholders.

13.8 A Call to Action

To better understand the paradox of an un-balanced sheet, we have taken a different look at the financial reporting, natural capital, shared value, and risk while exploring new bottom line opportunities. In doing so, this chapter takes a theoretical and practical look at the intersection of accounting and an emerging sustainability performance frontier. We have provided a working definition as the analysis and disclosure of financial, social, and environmental assets and liabilities to the internal and external stakeholders of a firm. This definition takes IBL beyond an accounting practice to position it as a catalyst for sustainable management solutions, risk management and stakeholder engagement.

A review of the literature supported by field studies of multi-national firms shows this area of research and pedagogy will be impactful for both scholars and practitioners. New reporting opportunities include enabling, clarifying, quantifying, valuing, improving, and integrating performance reporting in ways that investors and stakeholders will benefit. It is important that an IBL and integrated reporting become standardised and used across industries. A logical assumption is that investors want more, not less information. If an IBL is sought after by investors, then it will become part of an integrated single report capturing sustainability and financial information.

The steps for accountants and business leaders will be to get top management support to assess an organisation's current ability to measure and report ESG performance information. By understanding formal and informal systems already in use for the capture and dissemination of performance information, an organisation can ready itself for this coming shift in reporting. If an organisation already has existing sustainability efforts, teams, and a senior manager to lead these initiatives, it is ahead of the game. A renewed urgency to review material financial and non-financial performance measures, while also developing causal models showing the explicit relationships between sustainability practices, natural capital, social performance, and governance, is a logical step toward better understanding your IBL value proposition.

If instead, the organisation finds itself lagging in these areas, know that there are multiple organisations available to help with guidelines on "how to" take on these new reporting opportunities. Opportunities to close the gap between itself and other leading organisations include having the CEO appoint a Corporate Sustainability Officer, and the development of teams to enable, clarify, and quantify new practices and processes. Benchmarking itself and other firms mentioned in this chapter will go a long way toward understanding what it will take to determine the content for the first integrated report.

All firms should consider the tone from the top and include the integration of non-financial performance metrics for use in leadership team meetings including the board of directors. A plan of action for valuing, improving and further integrating IBL and report development will include the organisation's website and social media, and support of reporting to both internal and external stakeholders. Measurement and reporting needs to be aligned with the business model linked to strategy and shared value creation. As we all know, every issue and opportunity will need to be put into a business context with enough detail for decision makers to understand the implications for business value.

"The profile of corporate stakeholders and their ability to influence business has changed. Companies must demonstrate that they are managing the interests of all their capital providers in order to show that they have a sustainable business model." (KPMG 2012). This insight should be a wake-up call for business leaders and business schools to uncover and develop new opportunities for measuring and reporting natural capital, risk management, and the ability to leverage management systems that all push the bounds of a new sustainability performance frontier.

Our final question is, in part, a challenge: Are business schools providing a disservice to students and our business systems by not examining and teaching an integrated approach? A well-known thought leader in business management, Peter Drucker, once said, "Every single social and global issue of our day is a business opportunity in disguise" (Drucker Institute 2011). All business professionals across all functional disciplines have an opportunity to be part of this radical transformation. What role will you play?

References

Accounting For a Sustainable Future. (2013). Sustainability accounting standards board. http://www.sasb.org/. Accessed 1 Nov 2013.

Adams, C. (2013). The banking sector and integrated reporting: focus on HSBC. http://drcaroladams.net/the-banking-sector-and-integrated-reporting-focus-on-hsbc/. Accessed 12 July 2013.

American Institute of CPAs. (2013). AICPA annual report. http://www.aicpa.org/About/AnnualReports/DownloadableDocuments/2012-13-AICPA-Annual-Report-Narrative.pdf. Accessed 7 Dec 2013.

Aspen Institute. (2013). Beyond grey pinstripes rankings of MBA programs. http://www.beyond-greypinstripes.org/. Accessed 23 Nov 2013.

Badua, F. A., & Watkins, A. L. (2011). Too young to have a history? Using data analysis techniques to reveal trends and shifts in the brief history of accounting information systems. *Accounting Historians Journal, 38*(2), 76–77.

Bakker, P. (2012). Prince's accounting for sustainability project. Keynote address, Geneva. http://www.wbcsd.org/Pages/eNews/eNewsDetails.aspx?ID=15305&NoSearchContextKey=true. Accessed 23 Nov 2013.

Barry, J. S. (2013). The future of sustainability reporting needs CPAs. *The CPA Journal, 83*(4), 7.

Coca-Cola HBC. (2013). Coca-Cola HBC publishes its first Integrated Report and tenth GRI report. http://www.coca-colahellenic.com/investorrelations/2013-06-07/. Accessed 9 Oct 2013.

Corporate Knight's Global Green MBA Survey. (2013). Global green MBA survey. http://ggmba.corporateknights.com/. Accessed 22 Nov 2013.

Definition of a Balance Sheet. (2013). Balance sheet. http://www.investopedia.com/terms/b/balancesheet.asp. Accessed 19 April 2013.

Drucker Institute Exchange. (2011). "Opportunity in Disguise Blog Post", quoting Peter Drucker. http://thedx.druckerinstitute.com/2011/01/opportunity-in-disguise/. Accessed 12 Dec 2013.

Eccles, R. G., & Armbrester, K. (2011). Two disruptive ideas combined: Integrated reporting in the cloud. *IESE Insight, 8*.

Eccles, R. G., & Krzus, M. P. (2010). *One report: Integrated reporting for a sustainable strategy*. Chichester: Wiley.

Eccles, R. G., & Serafeim, G. (May 2013). The performance frontier. *Harvard Business Review*, 50–60. http://www.hbs.edu/faculty/Publication%20Files/May13%20BIG%20Idea%20The%20Performance%20Frontier%20v2_4f46c3d4-d009-4bf5-9162-806af156bcd8.pdf. Accessed 23 May 2013.

Elkington, J. (1994). Towards the sustainable corporation: Win-win-win business strategies for sustainable development. *California Management Review, 36*(2), 90–100.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Global Reporting Initiative. (2012). Integrated Reporting. https://www.globalreporting.org/SiteCollectionDocuments/Integrated-reporting-monthly-report-October-to-December-2011.pdf. Accessed 9 Oct 2013.

Hawken, P. (1993). *The ecology of commerce*. New York: Harper Collins.

Hickman, A., & Tysiac, K. (April 2013). Integrated reporting takes a big step with international framework draft. *Journal of Accountancy*.

Hoffelder, K. (2012). The value of sustainability. *CFO Magazine (November)*.

Hoffelder, K. (31 July 2013). Standards call for green disclosure in SEC filings. CFO Magazine. http://ww2.cfo.com/gaap-ifrs/2013/07/standards-call-for-green-disclosure-in-sec-filings/. Accessed 31 July 2013.

Hudson, J., Jeaneau, H., & Zlotnicka, E. (2012). "Q-Series" What is integrated reporting. UBS investment research. http://www.theiirc.org/wp-content/uploads/2012/06/UBS-What-Is-Integrated-Reporting.pdf. Accessed 6 Dec 2013.

IIRC Pilot Programme. (2013). International Integrated Reporting Council. http://www.theiirc.org/companies-and-investors/. Accessed 1 Nov 2013.

Institute RSE Management. (2012). The Grenelle II Act in France: A milestone towards integrated reporting. http://www.capitalinstitute.org/sites/capitalinstitute.org/files/docs/Institut%20RSE%20The%20grenelle%20II%20Act%20in%20France%20June%202012.pdf. Accessed 12 Dec 2013.

Jagannath, A., & Koller, T. (2013). Building a better income statement. http://www.mckinsey.com/insights/corporate_finance/building_a_better_income_statement. Accessed 6 Dec 2013.

KPMG. (2012). Integrated reporting: Performance insight through better business reporting. KPMG Integrated Reporting, 2. http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/integrated-reporting/Documents/integrated-reporting-issue-2.pdf. Accessed 12 Dec 2013.

Lovins, H. (2006). Sustainable executives, effective executive. http://www.natcapsolutions.org/publications_files/2006/MAY06_India_EffectiveExecutive.pdf. Accessed 15 April 2013.

Lovins, A. (2011). *Reinventing fire: Bold business solutions for the new energy era*. White River Junction: Chelsea Green.

Lovins, H., Hohensee, J., & Sheldon P. (2010). Integrated bottom line concept paper. Natural Capital Solutions. Duquesne Program.

Main, N., & Hespenheide, E. (2013). Integrated reporting. *Deloitte Review*. http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/deloitte-review/f44a8df050a05310VgnVCM2000001b56f00aRCRD.htm. Accessed 6 Dec 2013.

Novo Nordisk. (2013a). Managing using the triple bottom line business principle. CSR Europe. http://www.csreurope.org/novo-nordisk-managing-using-triple-bottom-line-business-principle#.UlXIbGT723M. Accessed 9 Oct 2013.

Novo Nordisk. (2013b). Sustainability–Novo Nordisk A/S. http://novonordisk.com/sustainability/. Accessed 9 Oct 2013.

Pilot Programme Business Network. (2013). October 29-last update. http://www.theiirc.org/companies-and-investors/pilot-programme-business-network/. Accessed 1 Nov 2013.

Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1/2), 62–77.

Prince's Accounting For Sustainability Project. (2013). The prince's accounting for sustainability project. http://www.accountingforsustainability.org/. Accessed 1 Nov 2013.

Savitz, A. W., & Weber, K. (2006). *The triple bottom line: How today's best-run companies are achieving economic, social, and environmental success–and how you can too*. San Francisco: Jossey-Bass.

Sroufe, R., Steele, A., & Jolliff, D. (2012). Operationalizing sustainability: Clarity and compliance project. http://www.duq.edu/Documents/business/beard-institute/Operationalizing%20Sustainability%20Project%20White%20Paper.pdf. Accessed 22 Nov 2013.

Sustainability-Coca-Cola Journey. (2013). Sustainability. http://www.coca-colacompany.com/topics/sustainability. Accessed 9 Oct 2013.

Tysiac, K. (2013). Managing change, people and transparency: An interview with former FASB chairman Robert Herz. *Journal of Accountancy, 216*(1), 40–45.

Finding the Value in Environmental, Social and Governance Performance

14

Viola Möller, Dinah A. Koehler and Ina Stubenrauch

Contents

14.1 The Value Behind Environmental, Social, and Governance Performance 276
14.2 Leveraging Companies' ESG Performance 276
14.3 The CFO's Role in ESG Value Creation Across the Globe—
A World of Differences 278
14.4 Creating Value Through Transparency in Germany 280
14.5 The Outlook 281
14.6 Summary 282
References 282

Abstract

To date, managers of approximately $ 30 trillion in financial assets—all signatories to the United Nations Principles for Responsible Investment (UN PRI)—are seeking to identify companies with higher levels of Environmental, Social and Governance (ESG) performance and strong returns. CFOs increasingly find ESG management on their agenda. However, based on insights from Deloitte Sustainability and the CFO study, in 2012, the management of ESG via the financial department varies enormously

V. Möller (✉)
Deloitte & Touch GmbH, Schwammstraße 6, 40476 Düsseldorf, Germany
e-mail: vmoeller@deloitte.de

D. A. Koehler
Brook Place 8, 10538 Larchmont, NY, USA
e-mail: dinahkoehler@post.harvard.edu

I. Stubenrauch
Deloitte & Touch GmbH, Kurfürstendamm 23, 10719 Berlin, Germany
e-mail: istubenrauch@deloitte.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_14

between industries and countries. This chapter aims to provide insights into four key areas which could be considered key links with respect to finding the value in ESG performance. First, the role of the CFOs in managing ESG performance, second, the market value of the respective information, third, the development over time towards a future outlook, and fourth the utility of transparent ESG information (in the form of internal and external reporting) going forward.

14.1 The Value Behind Environmental, Social, and Governance Performance

To date, managers of approximately $ 30 trillion in financial assets—all signatories to the United Nations Principles for Responsible Investment (UN PRI)—seek to identify those companies which achieve higher levels of ESG performance and strong returns.[1] At the same time sustainability management has landed on the agenda of Chief Financial Officers (CFO) (Deloitte 2012). The following chapter aims to provide an insight into the CFOs role in managing ESG performance and the value of the underlying information that is shared with stakeholders both inside and outside the firm. Reporting on ESG performance is presented as a key missing link which can deliver value through facilitating transparency and thereby leveraging the impact of sustainable CSR practices.

14.2 Leveraging Companies' ESG Performance

For nearly all of the world's largest publicly traded companies, reporting on ESG performance is fast becoming the norm. Of the 250 largest companies in the world, 95 % issue separate sustainability reports (KPMG 2011). At the same time the relevance of ESG risks (e.g., consumer boycotts, labour strife, industrial accidents, or extreme weather) to corporate valuations is growing, particularly in today's growth-challenged and volatile environment, where even small shocks from the outside world can determine whether a company sinks or swims. Review of the evidence on investor behaviour confirms that mainstream investors take these types of event risks seriously in their investment decisions—in fact they have been doing so for decades (Koehler and Hespenheide 2013).

Take for example supply chain risks to global companies. In the past decade, we have seen heightened financial risks, regulatory uncertainty, extreme weather, crop failures, commodity price volatility, and social unrest in countries and communities particularly vulnerable to these shocks. Concurrently, most supply chain managers strive to create lean supply chains that are more efficient. However, this only further exposes supply chains to

[1] Introduced in 2006, the UN PRI currently has over 1000 signatories, including asset owners, investment managers, and professional service partners, who seek to integrate ESG factors into investment practice. See www.unpri.org/publications/annual_report2011.pdf.

disruption risks, because, lacking sufficient redundancy (in the form of multiple suppliers of key components), there is no alternative supplier when one fails to deliver. These disruptions can unleash significant ripple-effects across supply chains and have long-term financial consequences (Hendricks and Singhal 2005). For example, companies subject to a supply chain disruption subsequently experienced 33–40 % lower stock returns lasting up to 3 years, a 10 % decline in share price relative to their benchmark portfolios, and a 13 % increase in share price volatility the year after the announcement. Accounting performance also suffered, including a 107 % drop in operating income, a 7 % decrease in growth of sales, and an 11 % growth in cost. Insurers for contingent business interruption also estimate that in 2012 companies were facing 5–12 % higher insurance rates than in 2011 (Lenckus 2012).

The mainstream investor (not only the ESG-focused investor) increasingly pays attention to these types of risks, including ESG issues. There is preliminary evidence that the investor reaction to negative ESG events has increased over time (Flammer 2013). Boycotts and other forms of protest can and do impact stock prices, e.g., news on human rights issues associated with a company have triggered an average $ 892 million drop in market value (Kappel et al. 2009; Davidson et al. 1995; Lenox and Eesley 2009). Public protests on labour and consumer issues, such as product quality, can cause a 1 % drop in stock prices in the days surrounding the event (King and Soule 2007). A general rule of thumb is that one negative story is the equivalent of five positive stories (Baumeister et al. 2001; Rozin and Royzman 2001).

In addition, the rise of social media and private politics—where all types of stakeholders are able to drive an agenda—is beginning to rival the impact of public politics and regulatory processes, including those addressing ESG issues. Social media accelerates and complicates the entire news cycle on a global scale. While traditional high-profile news media are typically still the first to report a new story, it is the dynamic blogosphere that may pick up the story within a few hours and discuss it at length, thus prolonging the focus on a company's short-comings (Leskovec et al. 2009). In this way, ESG issues can gain momentum on social media and continue to erode corporate reputations and investor confidence in corporate management for quite a while.

However, those companies that have signalled to the marketplace that they are prepared for ESG shocks can better mitigate the downside risks, both in the short- and long-term. This makes disclosure on how companies manage their ESG risks all the more critical, because it can help capture investor interest, build trust and goodwill, and demonstrate the long-term value of ESG management. Those that disclose more ESG information are also more likely to enjoy a lower cost of capital according to academic research (Dhaliwal et al. 2011). This focus on finding the value in ESG performance is the missing link which is addressed in this chapter.

Investors focus on management's preparedness for the unknown, for excessive volatility, and managers' ability to execute a business strategy without incurring too much risk. Management competence in these areas requires a better understanding of all aspects of the business. To capture value derived from ESG management, corporate leaders need to demonstrate to their investors how they are staying or intend to get ahead of ESG risks in their day-to-day management and are building resilience before the next ESG shock. This may require strategic re-thinking of the business, including new product innovation, business model changes, and other steps to increase profitability.

A number of best practices have emerged that show a direct link between ESG initiatives and profitability. *3M* saved up to US $ 1.5 billion since 1975 through their 3P program on the *prevention of pollution that pays* (Miller et al. 2008). The German drugstore chain *dm Drogeriemarkt* achieved growth in sales of 11.3 %[2] in their last business year by focusing on consumer demand for more sustainable products (Meyer and Waßmann 2011). A study conducted by Deloitte (Deloitte Consulting LLP, ASQ 2012) found that companies that are strongly engaged with their suppliers on ESG issues achieve higher earnings in 38 % of cases.

14.3 The CFO's Role in ESG Value Creation Across the Globe—A World of Differences

Organisationally, we see changes in the roles and responsibilities for ESG issues. In recent years, CFOs of international companies have increasingly committed themselves to sustainability and intend to continue doing so. The reason is obvious: Half of the respondents in a 2012 study by Deloitte and Verdantix expect a correlation between sustainable practices and positive financial results. More and more companies sharpen their green profile with investments in the million dollar range (Verdantix 2012). Many companies are issuing a sustainability report, which is used to present their investments and services to investors and other stakeholders.[3] Here, the financial department has to ensure that it is involved in the communication processes in an adequate way, as information is increasingly targeted at investors, who are in fact referring to the information. Finance departments and CFOs also have the appropriate tools to ensure uninterrupted reporting. The Information Technology (IT) infrastructure and the routine of the team members often make it much easier to collect data and check credibility and quality. This is especially important in cases in which the performance in terms of sustainability has an impact on the assurance of corporate data or remuneration.

However, how the CFO agenda has evolved and what connection CFOs see between sustainability and their companies' financial performance differs substantially in different countries and across industries, due in part to differences in regulations between regions and countries.

As the EU is in the process of making disclosure on non-financials mandatory, CFOs from France, Germany and Britain will need to focus more on ESG indicators. For example, about 48 % of CFOs, both in France and Germany, expect that upcoming regulation will strengthen their role in sustainability issues over the next 2 years (Deloitte 2012).

[2] Retrieved from http://www.dm.de/de_homepage/unternehmen/zahlen-fakten/unternehmenszahlen/.

[3] GRI Report Database, Retrieved from http://database.globalreporting.org.

Under Grenelle II companies in France are already required to disclose their sustainability performance in general. In Britain, the disclosure of greenhouse gas emissions for all companies listed on the London Stock Exchange is binding since 2013.

Today German companies already have to include ESG aspects such as environmental or employee matters in their management report, if these issues are seen as relevant for a company. In addition, the management report has to contain statements about future developments, including identified sustainability risks and opportunities. For example, it has to describe how the company intends to minimise risks of production down-times based on scarcity of resources or how legislative changes on product safety affect earnings. Risk management has to be adequately disclosed. For fiscal years starting after 31st December 2012, group management reports (DRS 20) have to present non-financial information in the context of sustainability if they are used for internal management control. This can include customer satisfaction, environmental issues such as emissions or energy consumption, social issues such as employee turnover or training activities, and indicators for research and development or social responsibility in the larger socio-cultural context.

Investors are also invited to demand declarations of companies in which they wish to invest, making the adherence of the German Sustainability Code (DNK)[4] the basis for their assessment. Stakeholders such as investors, employees and insurers are increasingly dependent on reviews by an independent third party to ensure the quality and reliability of sustainability reports to assess the illustrated relationship between ESG performance and business. To increase transparency, the credibility of the declaration should be assured by an independent third party, such as a financial auditor.

Looking beyond Europe, in South Africa for example, non-financial disclosure for companies listed on the Johannesburg Stock Exchange is mandatory since 2002 in association with the King II Report on Corporate Governance. Since the beginning of 2012 around 60 % of South African CFOs have increased their sustainability activities, and 73 % expect to see an even larger increase in the next 2 years (Deloitte 2012).

Australian CFOs are similarly becoming more familiar with sustainability efforts. In the last 2 years, thanks to a growing commitment to the Global Reporting Initiative (GRI), the number of GRI reports in Australia has almost doubled. According to the Deloitte survey (Deloitte 2012), some 40 % of CFOs are accountable to their boards for their company's sustainability strategy; 40 % are always involved in driving the execution of that strategy, while 30 % are frequently involved.

In China it seems that the official Chinese attitudes toward and commitment to sustainability may have already affected local CFOs. The fact that the government's 5-year plan calls for dramatic moves to reduce fossil fuel consumption, promote low-carbon energy sources, and invest in a sustainable future (Voigt 2013), may explain why 54 % of the Chinese respondents in a Deloitte survey say that their involvement in sustainability strategy has increased in the last year at least slightly. Another 54 % expect their role to increase even more in the next 2 years (Deloitte 2012).

[4] See http://www.deutscher-nachhaltigkeitskodex.de.

Despite the fact that the Middle East is one of the most water-constrained regions in the world, sustainability does not seem to be a top CFO priority at some companies. In fact, none of the CFOs interviewed in the 2012 Deloitte study reported that they are accountable to the board for their company's sustainability strategy and only 9 % say that they are always involved in the execution of that strategy. That is likely to change. Some 72 % of CFOs expect sustainability to impact their ability to raise capital at least slightly over the next 2 years, and another 63 % expect it to affect financial reporting.

In light of growing social and environmental challenges, as well as fierce global competition, the pursuit of sustainable corporate development will play a crucial part in whether an organisation will be able to generate a competitive advantage. While the focus has been on publicly-traded companies, today SMEs are also beginning to play a major role in demonstrating their sustainability performance as part of the global supply chains of multi-national organisations. Consequently, in the foreseeable future, investments in sustainability programs will reach a size which CFOs will not be able to ignore. According to Verdantix (2012), the total expenditure in terms of sustainability will reach $ 60 billion (with a turnover of over US $ 1 billion) in Australia, Canada, the UK and the United States. Investments will mainly aim to reduce operational and compliance costs of ESG issues.

14.4 Creating Value Through Transparency in Germany

The most transparent and comprehensive way of disclosing on ESG performance and its relation to the company's value creation today is through the sustainability report. The number of published sustainability reports of major German companies continues to rise and can even be called "state-of-the-art" for all DAX companies. At the same time, stakeholders such as customers, employees, neighbours, NGOs, politics and trade unions come to expect similar transparency on ESG issues from small and medium-sized enterprises (SMEs).

The importance of the German mid-market sector[5] as well as its unique rootedness in local communities and regions can propel sustainable development forward in Germany. External reporting is growing in importance for the mid-market as a means of differentiating from local and global competition. Baked into the DNA of the German mid-market is the principle of the "ehrbarer Kaufmann" (honourable merchant or business person), who as a member of society, ensures a balanced approach to the needs of society, the economy and the natural environment in its operations to preserve the well-being of present and future generations. This characteristic, as well as an the impending turnover on many SME boards—which often results in younger and female leaders—creates a valuable foundation for future sustainable actions and reporting in the influential mid-market sector (Commerzbank Study 2011).

[5] According to its scientific approach and due to the relevance of a practical perspective on mid-market research, the Deloitte midmarket institute has defined companies with revenue of approximately 50 million € and up to 3000 employees as mid-market corporations.

The process of creating a sustainability report in the mid-market follows the same route as that of large multi-national companies. However, small and medium-sized companies often face organisational hurdles to creating a comprehensive, high quality report due to limited personnel and financial resources. This raises the question of how sustainability reporting should be embedded most efficiently and effectively in small and medium-sized companies. Although in many ways a classical communications instrument, the sustainability report requires data on economic, environmental and social issues, which come from a broad range of departments, such as accounting, purchasing, facility management, the HR department or the board itself. Here, an effective support-team for the CFO is crucial, as accurate resource planning is required.

Some of the SMEs have access to information ranging from text material on websites, personnel and social reports, environmental statements and annual reports of their industry peers. Sustainability reports, which have often historically been developed for environmental and social reports, even in large companies, create an opportunity to unite information in one medium. Combining sustainability reporting with existing environmental and safety management systems should be considered when trying to align resources (Steinhardt and Stubenrauch 2012). The result is reduced cost, increased transparency and credibility, as well as potential recognition from stakeholders. Furthermore, investors can gain a holistic view of the business situation, including opportunities and risks, and potential employees can receive insights into the culture and values of the company.

14.5 The Outlook

Recent developments such as the Global Reporting Initiative (GRI) G4, the International Integrated Reporting Council (IIRC) framework and local or regional legislation will set the foundation for a more understandable and transparent linkage between financial and non-financial performance for companies of all types and sizes. Ultimately, this should enable company decision-makers and stakeholders alike to find the value in environmental, social, and governance performance.

Whereas initially, non-financial disclosure has been voluntary in most of the EU, in April 2014, the European Commission finalised their regulation for mandatory reporting of non-financial information in the annual report. The Council and parliament agreed that all large public-interest companies whose average number of employees exceeds 500 need to disclose non-financial information. This accounts for around 6000 companies across Europe. As a result, companies are required to disclose information on policies, risks and results with respect to environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, as well as diversity on boards of directors.[6] Internationally accepted standards, for example the of the GRI[7] framework, the

[6] See http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm.

[7] See http://www.globalreporting.org.

ISO 26001 for corporate responsibility[8] or the United Nations Global Compact,[9] will help to standardise and solidify ESG reporting.

14.6 Summary

In conclusion, it can be stated that appreciation of the value inherent in environmental, social and governance management is growing given that:

- Investors are taking a much closer look at ESG risks that might occur or have already occurred. Consequently, negative incidents have a direct impact on company valuations;
- An increased understanding of how ESG issues influence the overall company performance and the potential risks across the company's entire value chain is of relevance to all stakeholders, including investors.

An efficient management of ESG issues and the publication of ESG-relevant information will benefit not only the stakeholders' desire for transparency, but also the corporate reputation and financial valuation in the event of a crisis. Consequently, to address the current missing links identified in this chapter, all market players should follow a holistic approach when implementing decisions with respect to identifying relevant and potentially financially material ESG issues, to ensure better informed and future orientated decisions (Koehler and Hespenheide 2012).

References

Baumeister, R. F., Bratslavsky, E., Finkenauer, C., & Vohs, K. D. (2001). Bad is stronger than good. *Review of General Psychology, 5*(4), 323–370.

Commerzbank Study. (2011). Frauen und Männer an der Spitze. So führt der deutsche Mittelstand (Women and men at the top. So leads the German Mittelstand). https://www.unternehmerperspektiven.de/media/up/studien/10studie/FL_UP_10_studie_final_Ansicht.pdf. Accessed 12 Jan 2014.

Davidson, W., Worrell, D., & El-Jelly, A. (1995). Influencing managers to change unpopular corporate behavior through boycotts and divestitures. *Business and Society, 34*(2), 171–196.

Deloitte. (2012). Nachhaltigkeit: Warum CFOs auf Einsparungen und Strategie setzen (Sustainability: Why CFOs focus on savings and strategy). http://www.deloitte.com/view/de_DE/de/focus_on/cfo_connect/d195c8ddc364b310VgnVCM3000003456f70aRCRD.htm. Accessed 12 Jan 2014.

Deloitte Consulting LLP, ASQ. (2012). Institute for supply management, & corporate responsibility officer association. Resilience and growth through supply chain collaboration. http://www.deloitte.com/assets/Dcom-UnitedStates/Local percent20Assets/Documents/IMOs/Corporate percent20Responsibility percent20and percent20Sustainability/us_ds_supplier_collaboration_050613.pdf. Accessed 12 Jan 2014.

---

[8] International Organization for Standardization. See http://www.iso.org/iso/home/standards/iso26000.htm.

[9] See http://www.unglobalcompact.org/.

Dhaliwal, D., Zhen Li, O., & Tsang, A. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review, 86*(1), 59–100.

Flammer, C. (2013). Corporate social responsibility and shareholder reaction: The environmental awareness of investors. *Academy of Management Journal, 56*(3), 758–781.

Hendricks, K. B., & Singhal, V. R. (2005). The effect of supply chain disruptions on long-term shareholder value, profitability, and share price volatility. http://www.supplychainmagazine.fr/TOUTE-INFO/ETUDES/singhal-scm-report.pdf. Accessed 12 Jan 2014.

Kappel, V., Schmidt, P., & Ziegler, A. (2009). Human rights abuse and corporate stock performance—An event study analysis. http://www.feemdeveloper.net/attach/Peter percent20Schmidt.pdf. Accessed 20 Jan 2014.

King, B. G., & Soule, S. A. (2007). Social movements as extra-institutional entrepreneurs: The effect of protests on stock price returns. *Administrative Science Quarterly, 52*(3), 413–442.

Koehler, D. A., & Hespenheide, E. J. (2012). Disclosure of long-term business value: What matters? http://dupress.com/articles/disclosure-of-long-term-business-value. Accessed 20 Jan 2014.

Koehler, D. A., & Hespenheide, E. J. (2013). Finding the value in environmental, social, and governance performance. *Deloitte Review, 2,* 97–110.

KPMG. (2011). International survey of corporate responsibility reporting. http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/2011-survey.aspx. Accessed 19 Oct 2013.

Lenckus, D. (2012). Huge business interruption losses spur new "information age". Property Casualty 360. http://www.propertycasualty360.com/2012/07/09/huge-business-interruption-losses-spur-new-informa. Accessed 19 Oct 2013.

Lenox, M., & Eesley, C. (2009). Private environmental activism and the selection and response of firm targets. *Journal of Economics Management and Strategy, 18*(1), 45–73.

Leskovec, J., Backstrom, L., & Kleinberg, J. (2009). Meme-tracking and the dynamics of the news cycle. KDD '09 Proceedings of the 15th ACM SIGKDD international conference on knowledge discovery and data mining, pp. 497–506.

Meyer, M., & Waßmann, J. (2011). Strategische Corporate Social Responsibility. Konzeptionelle Entwicklung und Implementierung in der Praxis am Beispiel "dm-drogerie markt" (Strategic corporate social responsibility. Conceptual development and implementation in practice the example of "dm-drogerie markt"). Research Papers on Marketing Strategy, No. 3/2011. http://www.bwl.uni-wuerzburg.de/fileadmin/12020100/Research_Papers/Meyer_Wassmann_2011_RP3_Strategische_CSR.pdf. Accessed 12 Jan 2014.

Miller, G., Burke, J., McComas, C., & Dick, K. (2008). Advancing pollution prevention and cleaner production—USA's contribution. *Journal of Cleaner Production, 16*(6), 665–672.

Rozin, P., & Royzman, E. D. (2001). Negativity bias, negativity dominance, and contagion. *Personality and Social Psychology Review, 5*(4), 296–320.

Steinhardt, R., & Stubenrauch, I. (2012). Nachhaltige Unternehmensführung und Reporting (Sustainable corporate management and reporting). Deloitte Finance & Accounting Forum, 2, 10–12.

Verdantix. (5 Dec 2012). Global sustainability leaders survey: Budgets and priorities. http://www.verdantix.com/index.cfm/papers/Products.Details/product_id/467/global-sustainability-leaders-survey –2013–budgets-and-priorities/-. Accessed 12 Jan 2014.

Voigt, B. (2013). Wirtschaftsmacht China: Die Konjunktur springt wieder an (Economic power of China: The economy starts up again). http://www.tagesspiegel.de/wirtschaft/wirtschaftsmacht-china-die-konjunktur-springt-wieder-an/7592014.html. Accessed 6 Jan 2013.

Corporate Social Responsibility (CSR) Reporting—Administrative Burden or Competitive Advantage?

15

Matthias Fifka and Cristian R. Loza Adaui

Contents

15.1 Introduction . . . 286
15.2 Historical Development and Status Quo of CSR Reporting . . . 287
15.3 Characteristics of CSR Reporting . . . 289
15.4 Benefits and Burdens of CSR Reporting . . . 291
15.4.1 Benefits of CSR Reporting for Stakeholders . . . 291
15.4.2 Benefits of CSR Reporting for Companies . . . 292
15.4.3 Burdens of CSR Reporting for Companies . . . 293
15.5 Recommendations . . . 295
15.6 Conclusion and Outlook . . . 297
References . . . 298

Abstract

CSR Reporting has recently received widespread attention in the business community due to the introduction of mandatory CSR reporting at European Union (EU) level. Against this background, intense debate transpires regarding whether companies should be forced to report on their social and environmental performance, considering the underlying financial and technical effort necessary to measure and disclose the respective information. On the one hand, especially with regard to small and medium-sized enterprises (SME), such a burden is widely regarded as unbearable. Taking this

M. Fifka (✉) · C. R. Loza Adaui
Universität Erlangen-Nürnberg, Kochstraße 4, 91054 Erlangen, Germany
e-mail: matthias.fifka@fau.de

C. R. Loza Adaui
e-mail: cristian.loza.adaui@fau.de

L. O’Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_15

argument into account, the EU has reacted by limiting the reporting requirement to large companies. This reaction clearly reflects the widespread notion that CSR reporting is an administrative and financial burden and supports the necessity of mandatory laws to motivate its realisation. Unfortunately, on the other hand, potential business benefits resulting from reporting—such as improved stakeholder communication, a better understanding of one's own value chain, and enhanced risk management—tend to be disregarded.

The purpose of this chapter is to address this discussion. It briefly presents the nature, development, and status quo of CSR reporting as an introduction, before the connected challenges and chances are discussed. Based on this evaluation, recommendations are developed on how CSR reporting should be implemented by companies in order to generate a benefit for them so that a seemingly administrative burden is turned into a competitive advantage.

15.1 Introduction

Since the European Commission adopted a proposal that requires large companies to disclose CSR-related information in April 2013, there has been an extensive discussion in business and political circles on the implications of this requirement (European Commission 2013). While advocates of such regulation point out that it will create a benefit for stakeholders by making business operations more transparent, opponents—first and foremost large business associations such as the Deutscher Industrie- und Handelskammertag (DIHK 2013)—regard it as a burden for business and an unnecessary political intervention.

The controversy revolves particularly around smaller companies that are not seen to have the necessary financial and technical capabilities to conduct CSR reporting. The European Commission has taken this argument into account by restricting mandatory disclosure to large companies with more than 500 employees and assets of more than € 20 million or a turnover of more than € 40 million annually. It is interesting to note that it had originally planned to target companies with more than 250 employees, but revised this position after fierce opposition by German top-level politicians (Von der Leyen 2011). The directive in its revised form will affect approximately 18,000 companies. Though this number seems to be large at first glance, it is only a mere 0.3 % of all European companies (Bizzarri 2013).

Due to the controversial discussion surrounding mandatory CSR disclosure, the purpose of this chapter is to discuss the benefits and burdens of reporting for business as well as for its stakeholders. Moreover, to create the link to business practice, we develop recommendations on how to implement CSR reporting successfully. Before we take these steps, we briefly describe the historical development and the status quo of CSR reporting and identify its major characteristics in order to frame this broad subject area. We conclude with a short outlook.

15.2 Historical Development and Status Quo of CSR Reporting

Information disclosure about the financial performance of companies is a long established business practice and often mandatory for large businesses. Already in the nineteenth century, companies published financial data for investors. Disclosure of non-financial information, however, is relatively new in comparison. It has its origins in the 1970s, when companies, especially large multi-national corporations (MNCs) began to publish information about their performance (Fifka 2013b). They did so in reaction to the question raised by the public about how MNCs would contribute to the social welfare. Thus, companies began to disclose information on issues such as tax payments, employment created, benefits provided for workers and their families, and employee treatment (Gray et al. 1990). Primarily Western European and American companies led this development by publishing a respective "social balance sheet," a "bilan social," or a "Sozialbilanz."

Evolving from merely social measurements, voluntary disclosure increasingly began to shift to environmental aspects in the 1980s (Fifka 2012b). Environmental disasters that were globally recognised, such as the nuclear accidents in Harrisburg (1979) or Chernobyl (1986), chemical disasters such as the one in Bhopal, India (1984), and the Exxon Valdez oil spill in Alaska (1989), had created widespread attention for the negative ecological impact of business operations. Nevertheless, for some time, social issues remained at the core of non-financial reporting.

It was only in the 1990s, that environmental reporting moved to the forefront of disclosure (Gray 2002; Owen 2008). Due to the growing awareness for environmental protection among customers and out of the fear of public scrutiny for the environmental damage created, businesses began to realise that comparative advantages could be generated by environmentally friendly business practices and products (Welford and Gouldson 1993). Especially the incidents around the attempted deep-sea disposal of the oil platform "Brent Spar" by Shell in 1995 demonstrated the willingness of consumers to boycott companies that were perceived as environmentally irresponsible (Fifka 2012a). Thus, the "environmental report" replaced the "social report" as the standard in non-financial disclosure before the turn of the millennium.

It was only in the last decade, that a holistic perspective with regard to reporting was taken. Social and environmental data were merged with financial aspects of business operations, thus following the triple bottom line of sustainability as advocated by Elkington (1997). With a change in content, a change of titles also occurred. The traditional social report and environmental report were replaced by "corporate citizenship reports," "corporate (social) responsibility reports," and "sustainability reports," whereas the latter two are now the most common labels used (Fifka and Drabble 2012).

However, not only was CSR reporting—for reasons of simplicity we will use this term in the remainder of this chapter—expanded in scope by merging social, environmental, and economic issues, it also expanded geographically. Whereas until the turn of the millennium CSR reporting was mostly conducted in Europe, North America, and Japan, companies from emerging countries rapidly caught up in terms of reporting. Despite this de-

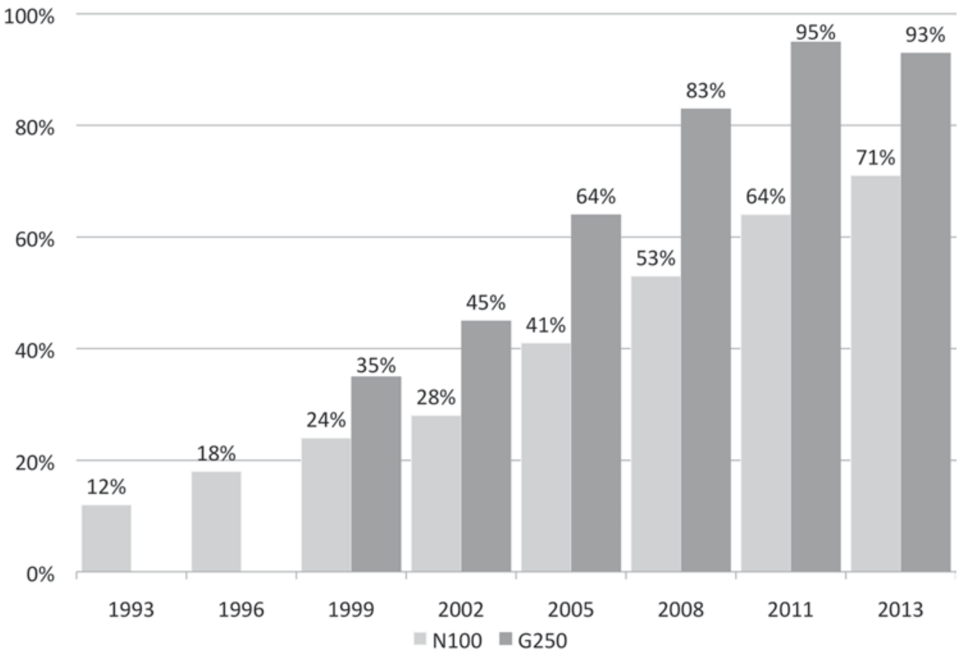


Fig. 15.1 Percentage of companies with CSR reports since 1993

velopment, especially Africa, Latin America, and Central Asia are still mostly blank spots on the map of CSR reporting (Fifka 2012b).

A recent study by KPMG covering 4100 companies from 41 primarily industrialised and emerging countries evidenced "how CR reporting has evolved into a mainstream business practice over the last two decades" (KPMG 2013, p. 11). This study shows the rapid increase in CSR reporting rates. While in 2011 only 49 % of the full sample had been reporting, 71 % did so in 2013. Considering that in 1993—the first time that KPMG conducted its report—only a meagre 12 % of the companies surveyed published a non-financial report, the significant development that CSR reporting has undergone during the last two decades becomes clear (Fig. 15.1). Today, especially for large MNE issuing a CSR report has become a standard. Out of the world's largest 250 corporations, 93 % are doing so (KPMG 2013).

On the contrary, small and medium sized enterprises (SME) are significantly lacking behind with regard to reporting (Boston College Center for Corporate Citizenship 2009; Center for Corporate Citizenship Deutschland 2007; for an overview see Fifka 2013a). Thus, for SME in the European Union, the introduction of mandatory CSR reporting would have serious implications as most of them have not dealt with this issue yet. The crux in this context is that SME would not be directly affected by the EU directive, as by definition they have less than 500 employees, but it is likely that they would be affected indirectly, when they act as suppliers for corporations that fall within the scope of the directive. Seeking transparency in their supply chains, these corporations will most likely ask their suppliers to provide information on their social and environmental performance, and thus the respective SME will also have to report to their corporate customers.

The current discussion revolves around the question on whether CSR reporting is of voluntary or mandatory nature, which we will now discuss.

15.3 Characteristics of CSR Reporting

Due to the historical development described above, CSR reporting today is a subject with many facets and names. We are far from a widely accepted definition on what CSR reporting actually is or should be. With regard to names, as pointed out, there is no consensus, although the terms *corporate (social) responsibility reporting* and especially *sustainability reporting* have come to dominate the field. Technically speaking, *reporting* itself only describes the second step in the entire disclosure process. It follows the *audit*, in which the relevant information is gathered, before it can actually be disclosed internally and externally. Sometimes, and actually more accurately, the whole process is described as *sustainability accounting*, *CSR accounting* or *social and environmental accounting* (Yongvanich and Guthrie 2006), although the terms *reporting* and *accounting* are also mostly used synonymously today (Spence 2009).

Whilst differences in names mostly result from personal tastes and do not lead to a fundamental exchange of arguments, the discussion on the voluntary nature of CSR reporting has sparked controversy. Traditionally, CSR reporting has been regarded as a voluntary activity, a view that has also dominated in the academic world. Most studies on CSR reporting have exclusively looked at material that was provided voluntarily (for an overview see Fifka 2013a), but some studies also incorporated mandatory reports (e.g., Holgaard and Jørgensen 2005; Nyquist 2003). Although most scholars—following the actual situation—have regarded CSR reporting as voluntary, some already called for mandatory reporting a considerable time ago. In 2001 already, Gray argued for making CSR reporting mandatory because "[v]oluntary initiatives do not produce widespread, consistent, and systematic practice. Only changes in organisational regulation can produce this" (p. 13).

The realisation that voluntary reporting did not produce the desired results as it simply was not undertaken to a significant extent by most companies—except for large MNEs—eventually led governments to enforce reporting of CSR-related issues in different ways. Some countries like Denmark, South Africa, and France (Delbard 2008) have directly introduced rules that require the disclosure of environmental, social, and governance issues. Other countries have resorted to other measures to indirectly enforce reporting. They have modified stock exchange rules that imply more extensive disclosure of information, included CSR reporting into public procurement, or strengthened safety and health protection laws. As it is not the purpose of this chapter to provide an overview of reporting rules in different countries, for further details, we point to a study under the leadership of the United Nations Environment Programme (UNEP, KPMG Climate Change and Sustainability Services, GRI and Centre for Corporate Governance in Africa 2013) that has identified 180 national reporting policies and initiatives, from which approximately 120 correspond to policies establishing what amounts to mandatory CSR reporting. Therefore, we can conclude at this point that reducing CSR reporting to voluntary disclosure does not reflect the actual state of affairs. CSR reporting today encompasses the voluntary and mandatory provision of information and—as the example of pending legislation in the EU demonstrates—an increasing trend towards mandatory disclosure is visible.

As long as disclosure is voluntary, reporting companies are fully free to select the information they would like to disclose. This freedom is restricted by regulation that requires the disclosure of certain data. Although not mandatory, so-called "reporting standards" pursue the same aim. Companies that decide to design their report according to a certain standard thus agree to disclose prescribed information. This creates a unique situation. Though the application of a reporting standard itself is still voluntary in most jurisdictions (i.e., *if* a company discloses), the information that needs to be disclosed when a standard is applied, is pre-determined to a certain degree (i.e., *what* a company discloses). Such *standardisation* is especially helpful because it creates the possibility to compare CSR performance across companies. If companies would disclose different kinds of information, then such comparison would not be possible. The most popular information disclosure standard by far is the Global Reporting Initiative (GRI). In its newest version, the GRI 4.0 contains 58 core indicators on social, environmental, and economic issues that companies are asked to disclose if appropriate (GRI 2014). How dominant the GRI has become as a reporting standard has been demonstrated in the study by KPMG (2013) previously mentioned. Over three quarters (78 %) of the largest 100 companies in 41 countries make use of the GRI in their reports, an increase of 9 % since 2011. Among the world's largest 250 companies the number is even higher. It increased from 78 % in 2011 to 82 % in 2013.

Since most standards, like the GRI, require the disclosure of measurable data, *quantification* is another trend that is visible in CSR reporting. Previously, many CSR reports were rather qualitative in nature, as companies described their activities in nice words supported by glossy photographs. Today, not only because many standards require quantitative measurement, but also due to more critical stakeholders, not providing numbers on CSR performance is hardly an option. Credibility is inevitably linked to quantifiable information.

Although a standard pressures companies to provide information on specific indicators, the question remains how it can be guaranteed that the numbers provided have not been altered or even simply made up. Thus, companies increasingly verify their CSR reports via independent auditors, as is the case—or requirement—for their financial reports. *Assurance*, thus, is another trend that can be identified in CSR reporting. KPMG (2013) found that among the 4100 large companies surveyed, 38 % already had their report testified in 2013. Among the world's 250 largest companies, more than half (59 %) used external auditors to assure their reports, up from 46 % two years before. Assurance is another vital step in creating credibility.

If companies decide to include social and environmental information in their annual report, then independent assurance is inevitable, as the report as a whole is testified. The provision of this kind of information in traditional annual reports, which were previously limited to the disclosure of financially relevant information, is referred to as *integrated reporting*. It has experienced a boom recently. While in 2009, only 4% of the world's largest 250 companies integrated social and environmental data into their annual report, in 2011, 27% already did so, and the number rose further to 49% in 2013 (KPMG 2013). Often, large companies only provide selected CSR information in their annual report and keep on issuing a full-fledged stand-alone CSR report, as it is not possible to provide extensive CSR information in the annual report, if exceeding 150 pages is to be avoided. The benefit of including social and environmental information into the annual report is the possibility to address financial stakeholders more directly and to demonstrate that social and environmental performance is of importance to the company.

This development demonstrates that CSR reporting also is characterised by a certain "multi-mediality" today. Companies are using various media to disclose their CSR efforts. Aside from a stand-alone report or the inclusion of data into the annual report, the company homepage is widely used for disclosure. The homepage offers the significant advantage of enabling the user to directly select the CSR information of interest to him, which is not possible in a printed report. Some companies even allow users to build a customised CSR report on their homepage, while still providing the full report as a pdf-file for downloading. Moreover, the homepage can be updated more frequently and at lower cost. Other media that can be used to convey CSR are newsletters and press releases, although they certainly do not only encompass CSR disclosure. In 2010, 82% of the 100 largest companies in Germany published CSR information on their homepage, 76% made use of press releases, but only 7% issued a regular CSR newsletter (Fifka 2011).

These developments characterising the nature of CSR reporting make evident that it has become a complex and sophisticated part of CSR, which provides for challenges and opportunities alike.

15.4 Benefits and Burdens of CSR Reporting

Benefits of CSR reporting can be identified for two sides, companies and stakeholders alike, as both can profit from reporting, as we will discuss. However, the burden of reporting, primarily the financial and administrative effort connected to it, falls almost exclusively on the company side.

15.4.1 Benefits of CSR Reporting for Stakeholders

Stakeholders can benefit significantly from CSR reporting by companies as it simply gives them access to information that they would most likely not have otherwise (Fifka 2013b; Reynolds and Yuthas 2008). There is a certain risk that the information is biased or even manipulated, but companies can hardly afford to risk providing altered information, as there is a high chance of such manipulation being uncovered by NGOs or journalists through investigative practices. As just pointed out, standardisation and assurance reduce this risk even further. Therefore, it is almost certain that stakeholders are provided with trustworthy and correct information. Even if the information disclosed by the company is mostly qualitative in nature, which is often the case for companies that have just started to engage in reporting, stakeholders receive an impression of how committed a company is to CSR, and of the activities it undertakes to achieve it. In the best case, CSR reporting allows stakeholders to compare the economic, social, and ecological performance of companies, and to react. CSR reporting gives stakeholders an instrument to sanction companies that are performing poorly or do not take the adequate steps. Moreover, they can put pressure on companies to disclose and to improve, because after all it is a competitive situation. Progress on the company side—be it financial, social, or ecological—will in turn be beneficial for a company's stakeholders (Fifka 2013b).

In this context, it is often argued that the critical NGOs and journalists mentioned above are the only groups interested in CSR reports, aside from academics and some investors, and indeed we know relatively little about who actually reads CSR reports (Spence 2009). However, even if activists, journalists, and academics were the only readers, CSR reporting would still be beneficial for stakeholders overall, because it is these groups that act as "catalysts and distillers" (Fifka 2013b, p. 242), creating public awareness for crucial CSR issues.

It is this information that allows stakeholders to hold companies accountable for what they do. Accountability pressures companies to stand in and assume the responsibility for the economic, social, and environmental effects of their operations. Such accountability cannot exist without the transparency created by CSR disclosure. From the point of view of ethics and governance, these enforcement mechanisms are justified, because companies are members of one or more societies and cannot exist without such membership, as they are dependent on it in numerous ways. They get access to public infrastructure, can draw on employees provided through the educational system, and depend on citizens as buyers of their products. (Fifka 2013b).

15.4.2 Benefits of CSR Reporting for Companies

Reporting creates numerous advantages for business, which go beyond maintaining legitimacy as one of the motives most frequently mentioned for disclosure (Deegan 2007; O'Dwyer 2002). Legitimacy is built on maintaining the so-called "license to operate," which is not an administrative license, but a social license grounded on the stakeholders' consent with an organisation's operations (Schaltegger and Burritt 2010). In order to "issue" this license, stakeholders expect companies to allow them an insight into their way of doing business and the economic, social, and environmental impacts resulting from it.

Closely linked to maintaining legitimacy is an improvement of reputation and image, which are also based on stakeholder perception, through CSR reporting. While legitimacy is the foundation for an organisation's operations, improved reputation, and image create competitive advantage. Such advantage can be obtained through a company's efforts to maximise the positive and minimise the negative impacts of its operations on stakeholders, and the accurate disclosure of these efforts (Hooghiemstra 2000). Thus, initiative and transparency can create significant goodwill.

While a better image and reputation are mostly seen in the context of increasing customer attraction and potentially the opening of new markets, they are also essential for attracting and retaining qualified employees and for a higher work satisfaction (Fifka 2013b). Especially for younger generations, non-financial benefits of employment, such as self-realisation and an adequate work-life balance, have become major factors in the selection of employers, as numerous studies have shown (Becker et al. 2009). So, in the "war for talent," as McKinsey has coined the increasingly competitive situation on the labour market, CSR reporting as a means to convey social and environmental responsibility to current and future employees is not to be underestimated.

Another internal advantage of CSR reporting is that it allows companies a better understanding of their own operations and products, and the respective cost structures. CSR reporting, if undertaken on a meaningful level, forces companies to analyse their entire value chain. By doing so, potential risks to value creation and possibilities to improve operations and products as well as to reduce costs can be identified. Thus, companies can become aware of more efficient production methods, alternative materials and technologies, and improved products and services. All of these aspects create a benefit for the business as well as for its stakeholders. In particular, the potential to reduce costs and environmental damage through more eco-efficient production methods has been shown to be significant (Aras and Crowther 2009; Schaltegger and Burritt 2006).

Finally, the voluntary disclosure of information can lead to a prevention of tighter governmental legislation, as political decision makers will be inclined to refrain from making reporting mandatory if companies provide the desired information without regulatory enforcement (Fifka 2013b). This aspect can be clearly demonstrated by the current discussion at EU level described above. The major argument by the regulators for introducing obligatory disclosure was the small number of European companies actually reporting. The Commission found that less than 10 % of large companies—this is not to be confused with the largest MNEs examined by KPMG in its studies—were actually providing CSR information.

15.4.3 Burdens of CSR Reporting for Companies

There are many challenges and difficulties for businesses regarding the successful implementation of CSR reporting. The first challenge is actually a rather psychological one. CSR reporting is usually perceived to be an administrative hardship that only brings high costs but no benefit. This widespread attitude is clearly visible in the current discussion on the EU's directive. The view that CSR may lead to additional costs may also be present among employees, which makes the introduction of CSR reporting difficult, as the employee's reluctance will hamper the respective organisational change process.

From the ranks of those opposed many arguments can be brought forward. First of all, the costs of introducing CSR reporting from collecting the data to publishing it can be determined quite precisely, while it is difficult if not to say impossible to monetise the advantages of reporting. Moreover, it can be argued that it is not sensible to disclose information that might give competitors an insight into one's own business and that might make the company become vulnerable to attacks by the public and the media if the disclosed information could be interpreted negatively (Dando and Swift 2003). This argument is not without substance, as reporting according to far-reaching standards such as the GRI does indeed require the disclosure of a broad spectrum of information. However, it must be kept in mind that the increasing use of standards and the pressure to do so create a level playing field, as competitors will also disclose information (Fifka 2013b). Finally, in the context of attitude based arguments, it might also be stated that even well-meant disclosure can be portrayed as a mere marketing effort. It is no surprise that against such background companies are reluctant to release information on their social and environmental performance.

Aside from over-coming reservations against reporting, there are also substantial technical and financial hurdles with which companies are confronted. As pointed out above, meaningful CSR reporting needs to go beyond the publication of superficial information based on portrays of dispersed charitable activities and nice photographs. However, the provision of hard facts in the form of quantifiable data requires technical expertise and financial resources, especially if aspects such as emissions, recycling quotas, and materials used are analysed. Many companies will neither have the expertise because they lack the needed engineers and accounts nor the financial resources to hire them externally. Thus, especially for SME, encompassing CSR reporting is a considerable challenge (Fifka 2013b).

Moreover, technical expertise and financial resources are not only needed for the assessment stage. A potential second stage in the entire reporting process—the external assurance of the data by an independent auditor—can also be costly; especially when a large pool of data needs to be verified as it is the case when far-reaching reporting standards such as the GRI are applied. Due to the increasing tendency to obtain such external verification to underline the credibility of the report, this step becomes harder to avoid. In a last step, the information needs to be made available to the stakeholders. As pointed out, there are diverse media for doing so: printed reports, online-reports (mostly in pdf-format), the company homepage, press releases, or newsletters. Depending on what and how many media are used, different costs will be incurred. Especially the publication of printed reports—which is still a standard among large corporations though ironically it runs counter to sustainability considerations as extensive printing and transportation processes are needed—is costly.

Due to the various challenges, we will now develop recommendations for the successful implementation of CSR reporting, so that the benefits discussed can be achieved.

15.5 Recommendations

A successful implementation of CSR reporting requires the commitment of senior managers and the top management staff. When managers are motivated and convinced of the relevance and benefits of CSR reporting, the whole process can be introduced more efficiently and effectively. Lacking commitment at the top managerial level is likely to hamper or even prevent the whole reporting process by diminishing its relevance and reducing the motivation of employees directly responsible for the reporting process. Furthermore, the employees who are needed to provide relevant, precise, and exact information about the environmental and social performance of the firm, as well as the information regarding corporate governance structures and practices, will question the usefulness of their tasks (Collier and Esteban 2007; Weaver et al. 1999).

Besides top management commitment, adequate employee preparation is required. This does not only concern those who are responsible for the report, but many other employees as well who will be involved in the gathering and analysis of data. Especially the heads of functional units are of great importance here. The benefits of reporting need to be conveyed to the employees in order to create an open-minded atmosphere for this organisational change. Likewise, the arguments frequently brought against reporting have to be addressed. It is vital to point out that a company might be confronted with criticism for the content it reports and that there is a chance of it being accused of only doing it for marketing purposes, but the potential damage from not reporting at all is far greater because this will be judged either as ignorance or as an attempt to hide unfavourable information (Fifka 2013b).

In the context of organisational change, companies will have to understand that CSR reporting requires a learning process and gradual implementation. Issuing a full-scale CSR report right from the beginning is a difficult undertaking, especially for SME. Instead, companies should start out by providing information which is easy to collect and key to the stakeholders. Applying a comprehensive standard such as the GRI is arduous to accomplish for a company that has just started CSR reporting. However, even in the initial stage of reporting, the consideration of a standard can provide valuable information on what could be reported and how. Such a step-by-step approach to reporting can also be helpful for overcoming the reluctance towards reporting. As pointed out above, it is often regarded as a costly administrative burden, and thus a comprehensive CSR report might be problematic to justify internally when a company is just about to start implementing such of reporting.

Moreover, a CSR report should be material in nature and convey the CSR efforts which have been made in the core business. Merely communicating charitable activities, usually paired with a large number of glossy photographs, will not be convincing. It is this superficial style of reporting that nurtures the critical claim that CSR reporting is nothing but a marketing initiative. This is not to say that charitable initiatives should not be reported, but they should not constitute the core of the report. In order to ensure that CSR reporting is meaningful, it needs to be aligned with the CSR strategy. However, in turn, that means that CSR reporting can only be convincing if a well-developed CSR strategy exists. If a CSR strategy is flawed or absent, it will be difficult to undertake credible CSR communication, because inconsistencies between what is reported and what is actually being done are bound to become obvious. Thus, it has to be understood that reporting must follow strategy, and not the other way around.

The alignment with strategy also ensures that a CSR report is genuine. Simply applying templates, which have become widely available, does not create such an individual character. This also has implications for hiring a public relations agency to develop the report. While these agencies may be communication professionals, they often simply apply a certain previously used scheme, which runs counter to the creation of a CSR report characterised by individuality (Fifka 2013b).

Certainly, the application of a framework such as the GRI also takes away a certain degree of individuality as standardised information is required, but this does not mean that the report as a whole is or should be a standardised document. Despite the necessary provision of standardised data required by a reporting framework, there is still plenty of room and need for unique information on the company's CSR activities. Simply providing the numbers demanded by a standard does not create a good CSR report. While quantifiable data is necessary to underscore the company's economic, social, and environmental performance and willingness to disclose it (Perrini and Tencati 2006), a good CSR report also tells a story, which makes qualitative data just as important. No one, especially non-experts without technical knowledge, would like to read through tables of numbers without explanations of what they actually mean and how they represent what the company is trying to achieve. A CSR strategy itself is hard to convey in numbers. Thus, a good CSR report strikes a balance between quantitative and qualitative data. It communicates in a convincing and understandable manner what the company does and seeks to achieve in terms of CSR.

The need for quantitative and qualitative information raises the question of what specific issues should be addressed by the report, since an almost infinite number of subjects that could be addressed exist. While a framework reduces the resulting discretion with regard to issue selection—as pointed out, this is one of the core aims of a standard—to a certain degree, there is still significant room to manoeuvre, especially with regard to the verbal part and the issues addressed in detail. To use this room wisely, an exchange with the stakeholders is helpful. After all, a CSR report is addressed at them, and so it is only sensible to ask them what they would like to know about the company. Therefore, companies need to identify the themes that their stakeholders would like to see reported (Azzone et al. 1997; Fifka 2013b).

Moreover, companies should be aware of the requirement to provide accurate quantifiable data sooner or later, not only because it will be desired by stakeholders, but also because there is an increasing tendency towards regulatory enforcement. While regulation will most likely ask for a specific frequency of reporting, providing a report on a regular basis is also essential for voluntary disclosure. Publishing information irregularly at the company's own discretion is not convincing, as the impression that the company is only disclosing information when it is convenient will be created (Fifka 2013b).

As pointed out, there is a growing need for the disclosure of quantifiable data. In that context, precise goals should be articulated, e.g., it should be mentioned by when a certain emission-reduction goal is to be achieved. Numbers alone are not meaningful if they do not allow conclusions on the progress that has been made. This is not only in the interest of stakeholders, but also in the prime interest of business, as this allows an analysis of the effectiveness and efficiency of the measures taken. With regard to the stated measurable goals, companies should not refrain from disclosing when they have not achieved a certain goal. Admitting the less successful parts of CSR performance makes a report credible, and hardly any stakeholder will expect a flawless performance.

Moreover, applying a standard is recommendable, especially when a company has the financial and technical capabilities to live up to the expectations of the respective standard. Thus, the selection of the reporting standard used should also be chosen with care in order to make sure that the company does not place an unbearable burden on itself by choosing a far too ambitious standard. The application of an appropriate standard is not only helpful to counter the potential claim that a company would only be disclosing selected data that makes it appear in a positive light. Initially, it will also help a company to identify what content should be reported at all, as it makes provisions on what information needs to be disclosed (Fifka 2013b).

15.6 Conclusion and Outlook

As discussed in our chapter, the EU has issued a directive that makes CSR reporting mandatory and will have to be translated into national law by the end of 2016. For companies with more than 500 employees and assets of more than € 20 million or a turnover of more than € 40 million annually, the EU proposal in its current form mandates reporting on strategy, results, and risks in six areas: environmental, social and employee-related matters, human rights, anti-corruption, and bribery. Companies that fall under this classification and are additionally listed on a stock exchange will also be required to report on their diversity policy with regard to age, gender, geography, and the educational and professional background of their employees.

This legislation renders the discussion on whether or not to implement CSR reporting obsolete for the companies affected by it. As pointed out above, even smaller companies are likely to be affected if they are a part of the supply chain of larger companies. However, when reporting is understood as an unwanted administrative exercise that cannot be avoided due to legal restraints or customer requirements, then it will most likely not create competitive advantage for a company, despite the significant potential to do so. Regardless of whether reporting is voluntary or mandatory, companies should see CSR reporting as a strategic tool to maintain their license to operate, improve their reputation and market position, gear up the communication with their stakeholders, optimise cost efficiency, and attract and retain employees and investors.

Likewise, a more positive perception of CSR in the public discussion would also be desirable. This would not only make it easier for businesses to open up for reporting, as it is only natural to object to something that is portrayed in a negative light. It would also help a wider audience to understand that every citizen is a stakeholder of business and is affected by business activities in many ways, and that reporting provides society with valuable information creating the opportunity to hold companies accountable for what they do. This is an essential mechanism to reduce the negative and foster the positive social, environmental, and economic impacts of business activity.

A key question that has not been discussed so far in the context of mandatory reporting is who will actually control the reporting efforts made by companies. It seems likely that in each country a governmental agency, either existing or to be created, will control whether the respective companies disclose the required information. This, however, will only be a box-ticking exercise. The essential control, meaning the analysis, comparison, and interpretation of the data provided in order to judge a company's social, ecological, and economic performance, can only be carried out by non-governmental stakeholders. Thus, CSR reporting deserves more attention from business and society than it has received so far.

References

Aras, G., & Cowther, D. (2009). Corporate sustainability reporting: A study in disingenuity? *Journal of Business Ethics, 87,* 279–288.

Azzone, G., Brophy, M., Noci, G., Welford, R., & Young, W. (1997). A stakeholder's view of environmental reporting. *Long Range Planning, 30*(5), 699–709.

Becker, W., Krämer, J., Staffel, M., & Ulrich, P. (2009). Bamberger Absolventenbaromenter 2009. Bamberger Betriebswirtschaftliche Beiträge 170. Universitaet Bamberg.

Bizzarri, K. (2013). Refusing to be accountable. http://corporateeurope.org/eu-crisis/2013/04/refusing-be-accountable. Accessed 17 April 2013.

Boston College Center for Corporate Citizenship. (2009). *Weathering the storm: The state of corporate citizenship in the U.S. 2009*. Chestnut Hill: Boston College.

Center for Corporate Citizenship Deutschland. (2007). *Corporate Citizenship—Gesellschaftliches Engagement von Unternehmen in Deutschland und im transatlantischen Vergleich mit den USA* (*Corporate citizenship—Corporate citizenship in Germany and in the transatlantic comparison with the U.S.*). Berlin: Center for Corporate Citizenship.

Collier, J., & Esteban, R. (2007) Corporate social responsibility and employee commitment. *Business Ethics: A European Review, 16*(1), 19–33.

Dando, N., & Swift, T. (2003). Transparency and assurance: Minding the credibility gap. *Journal of Business Ethics, 44,* 195–200.

Deegan, C. (2007). Organisational legitimacy as a motive for sustainability reporting. In J. Unerman, J. Bebbington, & B. O'Dwyer (Eds.), *Sustainability accounting and accountability* (pp. 127–149). London: Routledge.

Delbard, O. (2008). CSR legislation in France and the European regulatory paradox: An analysis of EU CSR policy and sustainability reporting practice. *Corporate Governance, 8*(4), 397–405.

DIHK. (18 July 2013). Falsches Signal: Berichtspflicht für unternehmerische Verantwortung (Wrong sign: mandatory reporting on corporate responsibility). DIHK Pressemitteilung.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

European Commission. (2013). Commission to propose mandatory company reporting of environmental and social performance. http://ec.europa.eu/environment/resource_efficiency/news/up-to-date_news/08032013_en.htm. Accessed 22 Jan 2014.

Fifka, M. S. (2011). *Corporate Citizenship in Deutschland und den USA—Gemeinsamkeiten und Unterschiede im gesellschaftlichen Engagement von Unternehmen und das Potential für einen transatlantischen Transfer* [*Corporate citizenship in Germany and the U.S.—Similarities and differences in corporate citizenship and the potential for a transatlantic transfer*]. Wiesbaden: Gabler.

Fifka, M. S. (2012a). Brent Spar revisited—The impact of conflict and cooperation among stakeholders. In P. Kotler, A. Lindgreen, F. Maon, & J. Vanhamme (Eds.), *A stakeholder approach to corporate social responsibility: Pressures, conflicts, reconciliation* (pp. 57–72). Farnham: Gower.

Fifka, M. S. (2012b). The development and state of research on social and environmental reporting in global comparison. *Journal für Betriebswirtschaft, 62*(1), 45–84.

Fifka, M. S. (2013a). Corporate responsibility reporting and its determinants in comparative perspective—A review of the empirical literature and a meta-analysis. *Business Strategy and the Environment, 22*(1), 1–35.

Fifka, M. S. (2013b). Sustainability reporting—A challenge worthwhile. In C. Weidinger, F. Fischler, & R. Schmidpeter (Eds.), *Sustainable entrepreneurship—A new business concept of sustainability* (pp. 235–247). Heidelberg: Springer.

Fifka, M. S., & Drabble, M. (2012). Focus and standardization of sustainability reporting—A comparative study of the United Kingdom and Finland. *Business Strategy and the Environment, 21*(7), 455–474.

Gray, R. (2001). Thirty years of social accounting, reporting and auditing: What (if anything) have we learnt? *Business Ethics: A European Review, 10*(1), 9–15.

Gray, R. (2002). The social accounting project and accounting, organizations and society: Privileging engagement, imaginings, new accountings and pragmatism over critique? *Accounting, Organizations, and Society, 27*(7), 687–708.

Gray, S. J., Radebaugh, L. H., & Roberts, C. B. (1990). International perceptions of cost constraints on voluntary information disclosures: A comparative study of U.K. and U.S. multinationals. *Journal of International Business Studies, 21*(4), 597–622.

GRI. (2014). G4 sustainability reporting guidelines. https://www.globalreporting.org/reporting/g4/Pages/default.aspx. Accessed 19 Jan 2014.

Hooghiemstra, R. (2000). Corporate communication and impression management—New perspectives why companies engage in corporate social reporting. *Journal of Business Ethics, 27,* 55–68.

Holgaard, J. E., & Jørgensen, T. H. (2005). A decade of mandatory environmental reporting in Denmark. *European Environment, 15,* 362–373.

KPMG. (2013). *The KPMG survey of corporate responsibility reporting 2013*. Amsterdam: KPMG.

Nyquist, S. (2003). The legislation of environmental disclosures in three Nordic countries—A comparison. *Business Strategy and the Environment, 12,* 12–25.

O'Dwyer, B. (2002). Managerial perceptions of corporate social disclosure: An Irish story. *Accounting, Auditing and Accountability Journal, 15*(3), 406–436.

Owen, D. (2008). Chronicles of wasted time? A personal reflection on the current state of, and future prospects for, social and environmental accounting research. *Accounting, Auditing & Accountability Journal, 21*(2), 240–267.

Perrini, F., & Tencati, A. (2006). Sustainability and stakeholder management: The need for new corporate performance evaluation and reporting systems. *Business Strategy and the Environment, 15,* 296–308.

Reynolds, M. A., & Yuthas, K. (2008). Moral discourse and corporate social responsibility reporting. *Journal of Business Ethics, 87,* 279–288.
Schaltegger, S., & Burritt, R. (2006). Corporate sustainability accounting: A nightmare or a dream coming true? *Business Strategy and the Environment, 15,* 293–295.
Schaltegger, S., & Burritt, R. (2010). Sustainability accounting for companies: Catchphrase or decision support for business leaders? *Journal of World Business, 45*(4), 375–384.
Spence, C. (2009). Social and environmental reporting and the corporate ego. *Business Strategy and the Environment, 18,* 254–265.
UNEP, KPMG Climate Change & Sustainability Services, GRI, Centre for Corporate Governance in Africa. (2013). Carrots and sticks. Sustainability reporting policies worldwide—Today's best practice, tomorrow's trends. https://www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf. Accessed 12 Feb 2014.
Von der Leyen, U. (24 November 2011). Letter to the commissioner for industry and entrepreneurship Antonio Tajani. German Ministry for Labour and Social Affairs.
Weaver, G. R., Treviño, L. K., & Cochran, P. L. (1999). Integrated and decoupled corporate social performance: Management commitments, external pressures and corporate ethics practices. *Academy of Management Journal, 42*(5), 539–552.
Welford, R., & Gouldson, A. (1993). *Environmental management and business strategy*. London: Pitman.
Yongvanich, K., & Guthrie, J., (2006). An extended performance reporting framework for social and environmental accounting. *Business Strategy and the Environment, 15,* 309–332.

Social Management Accounting: Development of an Integrative Framework for Environmental and Social Costing

16

Thomas Heupel

Contents

16.1 From Cost Accounting to Environmental Management Accounting 302
16.1.1 Differentiation of Cost Terms 304
16.1.2 The Development of the Term "Environmental Costs" 304
16.2 Contemporary Requirements for Management Accounting 307
16.3 Consideration of Social Costs 309
16.4 A New Framework for Sustainability Orientated Cost Accounting 312
16.4.1 Environmental Costs Framework 312
16.4.2 Social Cost Framework 314
16.5 Conclusion 314
References 315

Abstract

"You can't improve what you can't measure"—To gain a better performance in corporate social responsibility (CSR) it is very important to measure developments and gain detailed cost information. Management must generate a database for the planning and efficient implementation of social tasks and schemes. Accordingly, sustainability orientated management accounting instruments have been continually developed over the last 40 years. As a result, from financial ratios and early types of social-balancing to key performance indicators and integrated performance measurement systems, widespread development in the field of environmental and social cost accounting can be observed.

T. Heupel (✉)
FOM University of Applied Sciences, Leimkugelstraße 6,
45141 Essen, Germany
e-mail: thomas.heupel@fom.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility*,
FOM-Edition, DOI 10.1007/978-3-658-06794-6_16

Various concepts of ecological cost accounting were initially developed which were subsequently implemented in the scientific, political or operational sectors. Within the context of the 40 years of this evolutionary development, a recent turn in cost accounting towards a greater consideration of social costs can now be detected. Accordingly, a factor that had previously been ignored now becomes accessible to cost accounting.

To examine these phenomena, this chapter provides a chronological overview of several environmental cost and management concepts. It additionally reconstructs the differentiation and diffusion of environmental and social costs terms and ultimately suggests a new framework for sustainability-orientated costs. This conceptualisation, which is the missing link proposed in the chapter, is designed to enable management to plan and control CSR activities more efficiently. In addition, it demonstrates win-win solutions between social benefits and economic opportunities.

16.1 From Cost Accounting to Environmental Management Accounting

Over the last four decades, economically orientated cost accounting has increasingly turned its attention to aspects of sustainability. Accordingly, this chapter focuses on the conceptual evolution and then draws attention to the differentiation of cost terms. The early approaches of environmental cost accounting can be divided into three main groups:

1. Guidelines and laws: The first group includes concepts of environmental cost accounting based on standards and legal provisions (e.g., Environmental Cost Calculation from Schulz for VCI, 1993) and national rules (UStatG: Law for environmental statistics, 1974; VDI-Guideline 3800 Emission Reduction Costs, 1979/2001; and Guideline EAS/JAE, 2000). In accordance with UstatG nearly 15,000 representative companies from the production sector were required to declare their environmental investment costs annually.
2. Cost accounting systems: Group No. 2 is formed by traditional but differentiated cost accounting systems. Therefore, in 1977 Fleischmann and Paudtke developed the first environmental cost accounting system based on a more detailed differentiation of environmental protection costs mainly limited to environmental investments and running costs. Further concepts consider of environmental remedial costs as mentioned in the approaches of Rentz (1979), Haasis (1992), and Wicke et al. (1992). Besides, the approach of Neumann-Szyszka (1994) deals with the determination of risk costs. Furthermore, Neumann-Syszka's concept considers all costs resulting from consumption of resources and environmental damage and liability. The direct costing concept of Schreiner (1990) analyses the effects of environmental protection measures on profit and return targets. Likewise Roth (1992) and Kloock (1993) deal with an environmental cost accounting system based on direct costing. These approaches are short-term, environmentally orienatted planning and decision making systems.

3. Management accounting systems: Concepts which support an integrated environmental protection view and additionally permit the planning and control with valuable data can be found in Hallay and Pfriem (1992); Fischer and Blasius (1995); Letmathe (1998); Kokubu et al. (2002); Letmathe et al. (2002); Heupel (2002, 2006); Heupel and Wendisch (2003); Heupel et al. (2003); Pilisi and Venturelli (2003). This group includes approaches based on external costs on a monetary or non-monetary basis. Müller-Wenk (1978) was the first economist showing the total environmental impact of a company, measured in conformity to existing regulations. Schaltegger and Sturm (1992) have developed a special pollution accounting system allocating ecological damage to particular cost centres. Further concepts of Freese and Kloock (1989) as well as Roth (1992) draw attention to non-internalised costs for the prevention, reduction, elimination and exploitation of industrial environmental effects. Due to different management decision situations environmental management accounting has been enriched by further accounting tools including monetary accounting methods such as environmental cost accounting, environmental investment appraisal, budgeting, or financial planning and methods focusing on physical measures such as material flow accounting, eco-budgeting, etc. (Schaltegger 2013; Burritt et al. 2002).

The above-mentioned concepts of environmental management accounting have gained considerable attention in academia as well as in practice. Several organisations have drawn attention to these concepts especially organisations such as the UN Division on Sustainable Development (UNDSD) or national and international accounting institutions like the Association of Chartered Accounts (ACCA), the Institute for Chartered Accountants of England and Wales (ICAEW), the Canadian Institute of Chartered Accountants (CICA), or the International Federation of Accountants (IFAC) have published recommendations and guidelines (Schaltegger 2013).

The Environmental Management Accounting (EMA) topic is still accepted in peer reviewed journals and a literature review of Schaltegger, covering English, French and German publications which explicitly deal with EMA shows the influence and diffusion of this topic. This literature research screens a robust bibliographic database of English, French and German publications between 1973 and 2011. It indicates that in particular the coverage of this topic by mainstream accounting and management journals has increased steadily. EMA publications found their way into mainstream accounting journals.

Nevertheless, these journals are not solely dedicated to EMA research. They additionally include integrated papers of social and environmental reporting, performance measurement and sustainability accounting on a broader basis.

16.1.1 Differentiation of Cost Terms

Regarding the development of the term "environmental costs" an increasing amount of conventional costs are now being considered to be ecologically relevant. Initially, only the

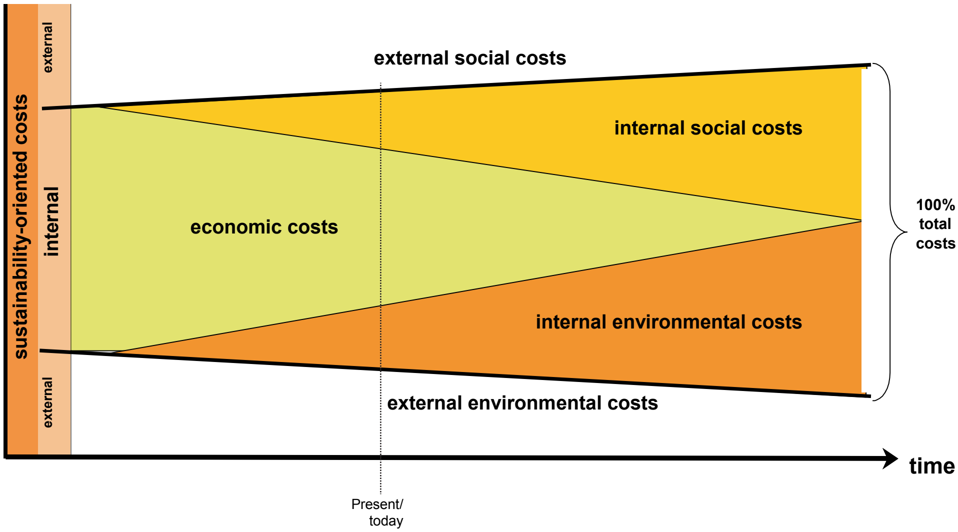


Fig. 16.1 Arising importance of environmental and social cost

investment costs for environmental protection units were declared as environmental costs. Later, running costs, costs for integrated environmental protection, disposal costs, and finally process-based environmental costs were additionally been included (Fichter et al. 1997): At that stage the term environmental costs was mostly considered without reference to the triad of ecological, economical, and social aspects and costs. Having focused on "sustainability-orientated costs," social costs will now additionally be included.

A total replacement of economic costs depends on various factors. However, in particular, the criterion of weak or strong sustainability leads to different attitudes towards the compensation of environmental damage by ecological expenditures. Nevertheless, on a long-term basis all costs are likely to be considered as ecologically or socially relevant (Interpreting the society as part of the global ecological systems, in a wider sense all social costs become environmental costs, e.g., Heupel 2006).

The impact of the above developments is illustrated in the following diagram (Fig. 16.1):

16.1.2 The Development of the Term "Environmental Costs"

The stepwise evolution of the term environmental costs is based on the development of environmental cost accounting systems as described previously. Therefore the notion has moved from the initial understanding of "environmental protection costs" to "process-based environmental costs" (as reviewed by various authors including Heupel 2002; Heupel and Wendisch 2003; Heupel 2006).

- Initial sense—*External environmental costs*: The development starts with the perception of a cost-generating phenomenon, caused by human actions. Commencing with the first settlements, the impact of human settlement and damage to nature could be determined. Long before any kind of conceptual definition was established for example agriculture and cattle breeding led for example to surface erosion, deforestation, and other types of natural damage. The first conceptual version of "external costs" was expressed by Pigou (1920) and Kapp (1963):
  External environmental costs/Environmental impact costs are costs arising from environmental pollution caused by enterprise which have not yet been internalised, reduced, eliminated, or utilised and therefore are not considered in the internal cost accounting.
- The first milestone of the development—*Environmental protection costs*: The obligation, resulting from laws and standards, led to an operational perception and reaction. Starting in the early 1970s, enterprises were forced to specify their investment in equipment and machines (UstaTG 1974). At this time, the main focus was on filters for reducing the output of pollution. They were assumed as "Environmental protection costs" resulting from "measures to reduce, prevent and/or control emissions" including product-orientated measures.
- Second milestone—*Environmental protection costs* and *running costs for environmental facilities*: Within the next step of terminology development even the permanent expenses for ecological measures (i.e., running costs) became relevant. Thus, the expenditures for the employees and the process manager's salary were added.
- Third milestone—*Environmental impact costs* and *environmental discharge costs*: In the 1980s, problems of waste disposal became more considerable. After the escalation of sewage- and waste costs, disposal costs were added to the purchasing and running costs of environmental protection plants. Altogether, the awareness of the impact on nature led to higher environmental costs and stimulated the companies to redesign or modify their production processes. Cleaner production technology and integrated environmental management became more important than additional protection measures.
  Environmental impact costs: Monetary evaluation of input aspects (environmental exploitation, environmental impoverishment) and output aspects (environmental pollution, environmental contamination) leading to critical pollution levels regarding atmosphere, hydrosphere, and/or lithosphere. When using environmental protection devices (e.g., filters), environmental impacts and environmental impact costs can be caused. As a result, even offal i.e., biological/animal wastes which is disposed of to landfill, leads to environmental impact costs.
- Fourth milestone—Conception of *residue substance costs*: The following development steps imply a further change of view. First, the disposal function becomes increasingly more dominant. Waste material and scrap are valued not only on their disposal costs. They are also valued regarding to their manufacturing costs. Thus, input orientation of waste material becomes more important.
  Residue substance costs are costs arising from collection, treatment, and/or disposal of remaining materials.

Manufacturing costs of the residual substance are costs for purchase, storage, transport, and/or treatment of all material which becomes residual material because of offal, waste, or air emission etc.

- Fifth milestone—The concept of *flow cost accounting*: In the subsequent development stage, the conceptional progress of residual substance management was transferred to saleable products (Hallay and Pfriem 1992; Wagner and Strobel 1999). Comparable to an environmental performance evaluation, all kinds of incoming and outgoing materials become relevant. In a first step, the company is analysed as a black box. In this model, all incoming materials and semi-finished products are designated as a type of input, while all outgoing products and residual substance are described as a type of output. Only in a further step are all kinds of processed material classified at their specific manufacturing step.
  Flow costs arising from the target-orientated consumption of goods and/or services which are in close connection with material and energy flows. This comprises costs for material and/or energy input (e.g., purchase costs for raw materials, supplies, semi-finished goods, and finished products) as well as internal flow costs (for internal transportation, storage, processing of material), costs for waste water treatment, waste disposal etc.
  Besides, the concept of Wagner and Strobel offers an ideal possibility for flow visualisation. However, the requirements of an integrated cost accounting system cannot be fulfilled by this concept. The quantitatively and value-based analysis of energy and material flows offers transparency but cannot be used for a conventional calculation. Though the flow cost concept specified before has access to existing data, it is not able to replace the traditional cost accounting system. Therefore, it becomes necessary to define a process-orientated cost accounting system which includes all cost categories of the operational production process and the overhead costs of the organisation. As shown in the following point immediately below, the next development step should be an integrated and also Enterprise Resource Planning (ERP) supported system with an open gateway to management accounting and business intelligence software.
- Sixth milestone—*Process-based environmental costs*: Derivative future systems must support the management controlling activities and therefore determine valid data. Process-based environmental cost accounting systems mark the peak of this evolution. These approaches are suitable for small and medium-sized companies and large scale enterprises. ERP-systems simplify the application and support of responsible operators and thereby enable efficient cost management. The term “process-based environmental costs” can be characterised as follows:
  Process based environmental costs include all environmentally relevant costs resulting from partial or main processes particularly comprising all social, environmental protection, and environmental impact costs.

The following figure illustrates the development of the term and the corresponding approaches (Fig. 16.2):

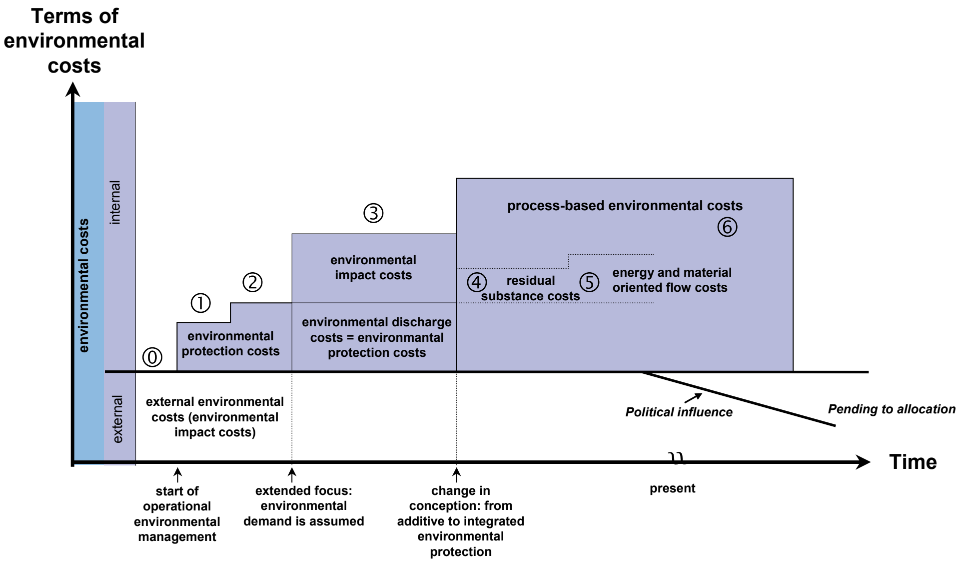


Fig. 16.2 Development of environmental costs

16.2 Contemporary Requirements for Management Accounting

When developing a framework for environmental and social costing, the further development of sustainability-orientated cost accounting must also relate to current developments of internal accounting. While conventional cost accounting was able to fulfil its purpose solely by ensuring control of the economic viability of the production process, with a view to the changing factors in an organisation's surroundings, the following additional aspects must be included in the broadened focus of conventional and environmental cost management (Heupel 2002):

- Necessity of appropriate instruments for strategic orientation—One major task attributed to modern cost accounting systems is the generation of information relevant to decision-making. Since with the reduction of product and market life-cycles, even entire locations and markets have joined technologies and processes as elements accessible to multiple-period observation, cost accounting must provide links to capital budgeting, strategic orientation and life-cycle costing (Bennett et al. 2002; Cooper 2000; Cooper and Kaplan 1988; Fichter et al. 1997; Figge et al. 2003; Krasowski 2002; Ministry of Economics, Transportation, Urban and Regional Development 1999; Schweitzer and Küpper 2003; Seidel 2003; Strobel 2001).
- Use of new technologies—As a result of technological and organisational developments, altered cost structures have emerged over recent decades. In this way, investments in the automation of production, for example, have led to a substitution of cost types. Direct costs of personnel have been replaced by increased costs of equipment

and indirect salary costs concluding environmental and social costs. The use of new technologies with increased automation has led to an increased concentration of equipment and thus to an intensification of the problem of indirect costs (Krumwiede 2000; Miller and Vollmann 1985; Seuring 2003).

- Compilation of data with electronic data processing—The continuously increased performance of computers in very short-term cycles facilitates dealing with ever more comprehensive amounts of data. A broad range of basic accounting approaches is already available through the standard electronic cost accounting systems on the market. In addition, ERP systems generate further information that can be integrated into cost accounting and then allow more comprehensive variance analyses (Küpper 1994; Scheer 1992). The large options for analysis resulting from the EDP-technical connection in cost accounting systems is also evident within environmental cost accounting implementation, e.g., within the practical projects of flow cost accounting (Ministry of Economics, Transportation, Urban and Regional Development 1999; Strobel 2001; Wagner and Strobel 1997; Heupel 1998) and the projects of IÖB (Heupel et al. 2003). An environment-based data evaluation is supported by standardised software solutions such as UMBERTO.
- Paradigm switch in controlling—During the last two decades, several notable developments in controlling have occurred: On one hand the control process has re-focused its attention from the isolated valuation of inputs to include volume components (Müller 1996; Scapens 1989; Strobel 2001; Wolf 1982). On the other hand in addition to staff-based and centralised control, there is an increasing tendency towards decentralised approaches to control. Functional and departmental thinking must now yield to more process-orientated observation (Fichter et al. 1997; Heupel et al. 2003; Stürznickel and Letmathe 2003; Wagner and Strobel 1997).
- Shift in organisational structures—With the increasing dynamics of the market, functionally structured organisations have resorted to team-related divisional structures. The cost centres in these organisations require precise budget specifications, clearly defined cost responsibility, and specialised instruments in order to come to terms with the scope of action determined by the market (Bromwich 1992; Womack et al. 1990). This dynamic has to be generated. The potential for such development is available in the many small improvements that are brought into effect by autonomous organisational units and that, in their entirety, can represent comparative know-how and cost advantages. If an organisation wants to take advantage of the potential for improvement at all levels in the hierarchy, decision-making competencies, and scope for development must be assigned to these levels. In this way, approaches emphasising "intrapreneurship" can make the potential for increasing efficiency available that has hitherto remained undetected. Furthermore, it becomes necessary to have a de-centralised management accounting toolset for management control.

The developments listed above warrant a transformation of established cost accounting systems: Systems strongly influenced by Taylorism and based on the division of labour cannot cope with the high pressure emanating from today's market. For these reasons, a form of cost accounting is necessary that, in addition to centralised planning and control tasks, also takes decentralised issues into account and is accessible to persons engaged in lower-level and intermediate-level management. If existing cost accounting systems that have become much more substantial sources of information through the use of electronic data processing are complemented by decentralised applications orientated to guiding behaviour, then, hitherto undetected potential can be unleashed for increasing efficiency in relation to social and ecological concerns.

Having reviewed the development of environmental costs and after reflecting further changes in management control, it is necessary to consider the underlying development of social cost accounting. Following this examination, it becomes possible to suggest a new framework for sustainable orientated cost accounting and cost management.

16.3 Consideration of Social Costs

At present, an increasing number of sustainability reports are published by large-scale enterprises. Herewith, the industry follows general social and political demands: In times of economic recession, questions of social security become more significant. Apart from the mandatory social contributions voluntary social incentives also become more important for the employees. Auxiliary services such as work-life balancing lead to a higher motivation of the personnel and are therefore used more frequently than in the past. On this basis, more differentiated social costs have to be considered in the underlying cost accounting system. Thus, this contribution opens the view for the cost triad of economic, ecological, and social costs. Selected concepts of environmental accounting offer a development potential for the integration of "social aspects." The basis for "sustainable controlling" can be an integrated environmental and social accounting system. For example: Due to the intensification of difficulties related with obtaining access to capital market, these criteria become more and more important for rating agencies. For this, an extended cost accounting could generate valid data in the future.

After the concept of "social costs" was first mentioned by Coase (1960), Kapp (1963), and Pigou (1920), there has been a *renaissance* and a new conceptualisation of "social costs" today: The term "social costs," as applied in the relevant literature to date (Arnold 1995; EPA 1997; Hazilla and Kopp 1990; Hufschmidt et al. 1983; Pyatt and Round 1985; Zerbe and Dively 1994), stands for social, uncompensated, and, thus, external indirect costs. Other common terms such as "external costs" (Scitovsky 1954) or "social costs of externalities" (Bartelsman et al. 1994; Caballero and Lyons 1990; Coase 1960) indicate that these costs are by no means costs that are to be accounted for and documented at the internal level of the organisation's operations. Thus, the term "social costs" in current usage is understood as costs emerging from operations but related to so-called "external effects" to be covered by third parties.

Additionally, Gray (2002) provides a structured review of contributions in the social accounting field that provides comprehensive references and an excellent introduction for anybody who is looking for an initial overview of the literature on environmental accounting.

In addition to the tendency toward internalisation of external social costs, there exist additional costs related to the human factor that are incurred within internal operations and which should similarly be subsumed under the generic term of "social costs":

- The most important production factor to be mentioned here is labour. Without this factor an organisation cannot provide any service or product. Particularly in the age of an expanding fourth sector of economy, individual knowledge attains a decisive significance for an organisation's success (Abowd et al. 1999; Acemogl 1996; Benhabib and Spiegel 1994). For such human resources, costs are incurred that we can define as "human capital costs," "labour costs," or "internal social costs"; costs that can unambiguously be assigned to this third major factor in a sustainability program. Thus, in a first step, any wages and salaries are to be included among internal social costs as "direct labour costs."
- Furthermore, social expenditures such as contributions to retirement plans, unemployment compensation, and health and nursing care insurance are, by definition, to be differentiated from other "social costs" such as social security benefits or as "indirect labour costs."
- In addition, all costs resulting from additional payments negotiated in wage settlements (e.g., holiday bonuses, Christmas, and vacation bonuses) as well as costs arising from voluntary payments (e.g., compensation for waived home flights, subsidised meals, company retirement plans).
- As a complementary consideration, costs resulting from accidents, which are computed at either the individual organisation's level or on the national economic scale, also involve the human factor and connect the internal and external costs which were previously presented as separate entities. Such costs demonstrate an orientation to the human factor and the possible increase in net product related to this factor.

As these brief remarks illustrate, the concept of social costs is multi-faceted. Any use of the human factor could immediately be linked to the idea of social costs. If these costs are covered by an organisation itself, they are designated as "internal human capital costs." If, on the other hand, these effects are only compensated for at the level of the national economy, these impairments of the human factor are called "external human capital costs" (Fichter et al. 1997; Heupel et al. 2003; Loew 2003; Schaltegger et al. 2000; Seidel 2003). Figure 16.3 demonstrates this new conceptualisation:

If we assume that any use of the human factor leads to "social costs" and that any input of materials and energy leads to "environmental costs," there is still a necessity of integration of both cost terms. On the one hand, social aspects become subordinated parts of the

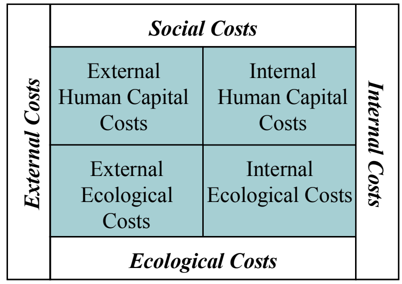


Fig. 16.3 Social and environmental costs

ecological dimension ("social compatibility of ecological measures"). On the other hand, social aspects are classified as typical parts of social policy.

A development of social costs similar to the development of environmental costs can be recognised explicitly in Germany and comparably in other countries, too. Proceeding from the initial inclusion of present "external social costs," a proceeding perception and integration engagement has developed on a legal binding as well as on a voluntary-motivated basis. This corporate socio-economic balance represents a crucial milestone and the first step to a social cost accounting. The early concepts developed in the United States during the 1950s are well recognised in Germany, too (Linowes, Dirkes, & and STEAG). A further diffusion process arose from the concepts "Ethical Benchmarking," "Corporate Social Responsibility" (Council of Europe, Lisbon, 2000) and "Social Accounting 8000."

Despite of the above-mentioned concepts and papers from Branco and Delgado (2009), Dasgupta (2002), Mathews (1997, 2004), Parker (2005, 2011) this contribution offers a differentiation of four categories of social costs.

- *Legal social costs* are traditionally paid benefits such as old age pension insurance and health insurance coverage.
- *Usual social costs* do not result from legal obligations, but they are frequently paid by smaller and bigger enterprises.
- *Voluntary social benefits* have become more relevant over the last years. Due to demographic change and the resulting war for talents, enterprises nowadays offer work-life balancing for example, to attract younger high potentials.
- *Hidden social costs* are not mentioned right now in daily practice. In particular, these costs are differentiated in the next section.

The Fig. 16.4 as a synthesis of Fig. 16.1 shows the already-described development process of environmental cost categories and the classification of social costs. The next section provides a new framework for environmental and social costs. It is more detailed than the cost terms already established in the literature.

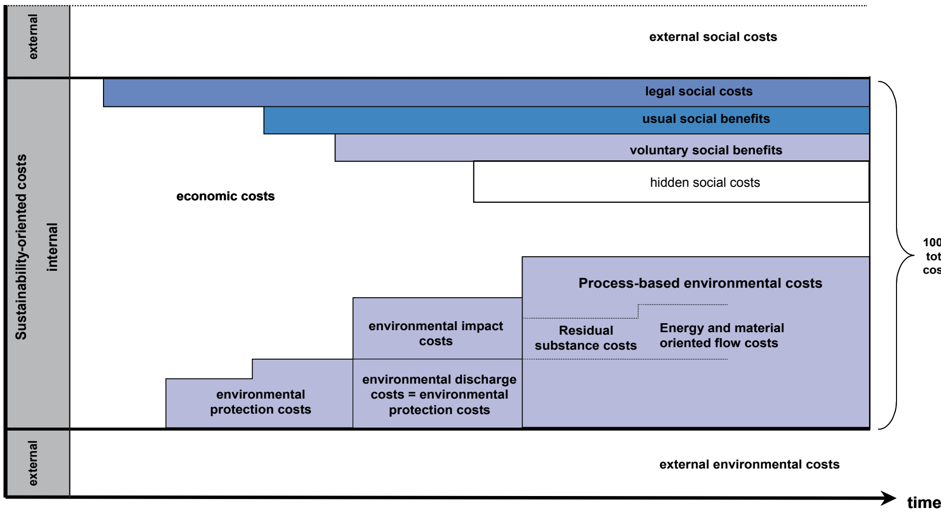


Fig. 16.4 The sustainability-orientated cost term

16.4 A New Framework for Sustainability Orientated Cost Accounting

Within this section a new framework for environmental and social costs is now proposed.

16.4.1 Environmental Costs Framework

Within the first hierarchy level of environmental costs, cost for resources, production costs, and cost for waste disposal could be differentiated. When taking a closer look, the costs for resources are divided into renewable and non-renewable costs for energy and material. The costs for transformation/production/usage are differentiated into costs for environmental management, costs for additive, preventive, and integrated environmental protection costs. Furthermore, they include location-referred costs, manufacturing costs, and life-cycle costs.

Costs for waste disposal are divided into the group of recycling and disposal costs, as well as into the group of compensation costs. Environmental protection costs resulting from "measures to reduce, prevent and/or supervise emissions" including product-orientated measures (and at a later stage permanent expenses for ecological measures). Costs of preventive environmental protection are inventory/preventive costs of environmental protection measures, e.g., the planning of measures to reduce, prevent, and/or supervise emissions. Costs of integrated environmental protection measures are costs of production, product, and product-line integrated environmental protection measures as well as costs of the integration of operational environmental protection (into all operational functions of

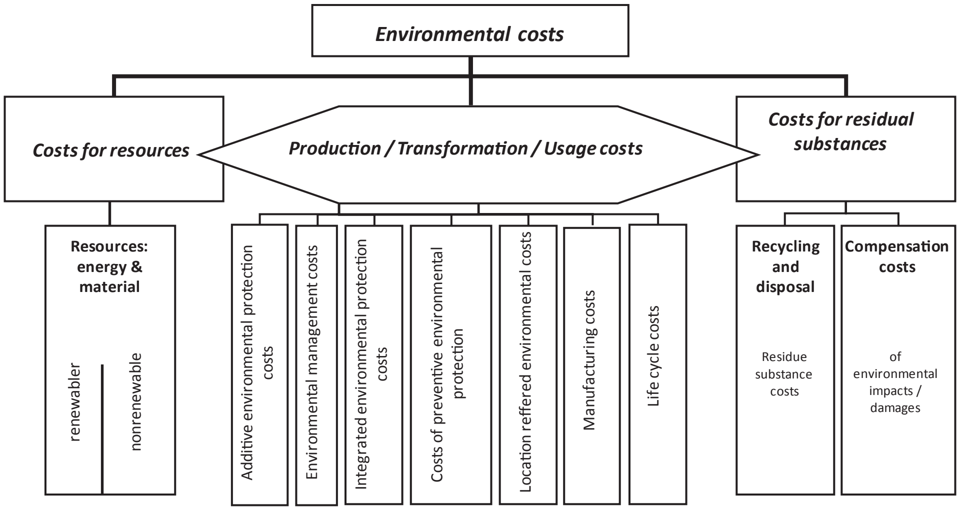


Fig. 16.5 New framework for environmental costs

the enterprise). Costs of additive environmental protection measures are costs of additive measures, such as chemical, biological, and mechanical cleaning of exhaust air and sewage water, as well as costs associated with waste treatment and removal.

Life-cycle costs of environmental impacts are all costs that are caused by the use of a specific product after its fabrication and which are borne by the company, e.g., costs resulting from recycling obligations.

Consequential costs of the environmental damage: include a summary of all downstream costs of environmental damages, e.g., compensation-costs of environmental impacts, life-cycle costs of environmental impacts, and disposal costs.

Compensation costs of environmental impacts: include costs for compensatory operations or compensatory measures to reduce environmental damages (reparation costs).

Costs for removal of waste materials (disposal costs) are costs resulting from treatment and/or storage of waste in incinerating plants and landfills including logistics and management costs.

In sum, these first cost terms are illustrated in the next Fig. 16.5.

16.4.2 Social Cost Framework

Accordingly, the social costs could further be divided into three main cost sectors: Costs for personnel allocation, costs for labour in process and retirement costs. Below this first level of hierarchy a second differentiation could be made. Recruitment costs, costs for HR infrastructure, and operational training belong to the cost group of personnel allocation. The costs related to labour in process could be divided into costs for minimum wages, costs for HR development, costs for operational training, and costs for health and safety in

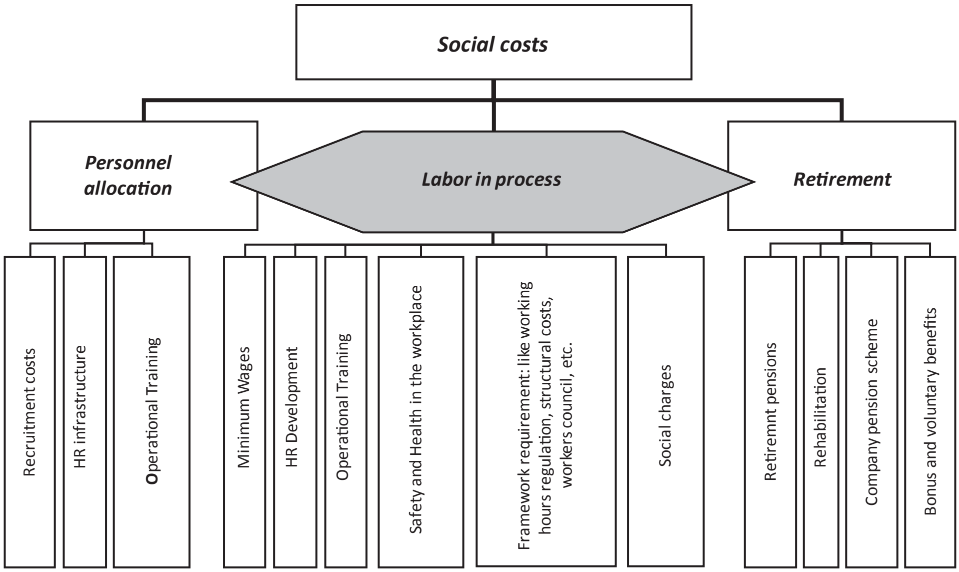


Fig. 16.6 New framework for social cost

the workplace. Additionally, framework requirements such as working-hours regulations, structural costs for HR management, and workers councils similarly lead to costs. Finally, social charges could be mentioned as a separate cost category.

Regarding the costs of retirement, the cost categories of retirement pensions, costs for rehabilitation, costs for the company's pension scheme, and further bonus and voluntary benefits exist. The following proposal for a more detailed cost categorisation with respect to these items is presented in Fig. 16.6.

16.5 Conclusion

The aim of this contribution was the documentation of the conceptual development and the chronological differentiation of environmental and social cost terms. By defining a new framework of social and environmental cost categories it becomes possible to measure performance developments and to fulfil stakeholder requirements. On the one hand, environmental protection can be characterised as a mandatory cost-driver so that without further external pressure (e.g., due to laws), a stronger emphasis of environmental targets is not intended. On the other hand, environmental targets can be viewed as a strategic factor enable enterprises to record energy and material flows so that efficiency potentials can be determined. In this latter case, environmental targets attain higher levels of corporate policy. As a result, these goals are pursued with strong emphasis. Even large-scale enterprises and small-sized companies are able to gain improvements.

When CSR refers to companies taking responsibility for their impact on society, these impacts have to be measured. Without the appropriate framework, their progress and development cannot be controlled. As evidence suggests, CSR is increasingly important to the competitiveness of enterprises. It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity. Therefore win-win solutions must be identified in this area. The differentiation of cost terms presented above allows valid cost management and valid management decisions as a first step to measure such developments in the field of environmental and social costing.

While small and medium-sized companies frequently employ different internal configurations, workflows, employee education, and large scale enterprises often own ERP-systems generating extensive data. Business Intelligence Systems even generate the missing data for SMEs. Accordingly, it is no longer necessary that full-time operators with a higher education-level are required for reporting and control of missing material.

Acknowledgements The author would like to express his sincere gratitude to Berry Massey for his assistance in native language and content discussion.

References

Abowd, J. M., Kramarz, F., & Margolis, D. N. (1999). High wage workers and high wage firms. *Econometrica, 67*(2), 251–333.

Acemogl, D. (1996). A micro-foundation for social increasing returns in human capital quarterly. *Journal of Economics, 111*(3), 779–804.

Arnold, F. S. (1995). *Economic analysis of environmental policy and regulation*. New York: Wiley.

Bartelsman, E. J., Caballero, R., & Lyons, R. K. (1994). Customer- and supplier-driven externalities. *American Economic Review, 84,* 1075–1085.

Bebbington, J., & Gray, R. (2001). An account of sustainability: Failure, success and a reconceptualization. *Critical Perspectives on Accounting, 12*(5), 557–588.

Becker, G., & Murphy, K. M. (1992). The division of labour coordination costs and knowledge. *Journal of Economics, 107*(4), 1137–1160.

Benhabib, J., & Spiegel, M. M. (1994). The role of human capital in economic development: Evidence from aggregate cross-country data. *Journal of Monetary Economics, 34*(2), 143–174.

Bennett, M., & James, P. (1998). *Sustainable measures*. Sheffield: Greenleaf Publishing.

Bennett, M., Bouma, J. J., & Wolters, T. (2002). The development of environmental management accounting—General introduction and critical review. In M. Bennett, J. J. Bouma, & T. Wolters (Eds.), *International and institutional developments* (pp. 1–18). Alphen aan den Rijn: Kluwer.

Bennett, M., Rikhardsson, P., & Schaltegger, S. (2003). *Environmental management accounting—Purpose and progress*. Dordrecht: Kluwer.

Bennett, M., Schaltegger, S., & Zvezdov, D. (2011). Environmental management accounting. In M. Abdel-Kader (Ed.), *Review of management accounting research* (pp. 53–84). New York: Palgrave Macmillan.

Bouma, J., & Correljé, A. (2003). Institutional changes and environmental management accounting: Decentralisation and liberalisation. In M. Bennett, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress*. Dordrecht: Kluwer.

Branco, M. C., & Delgado, C. (2009). Research on social and environmental accounting in Southern European countries. *Revista española de financiación y contabilidad, 38*(144), 663–675.

Bromwich, M. (1992). The economic foundations of activity based costing (ABC). In K. Dellmann & K. P. Franz (Eds.), *Neuere Entwicklungen im Kostenmanagement* (*Recent developments in cost management*) (pp. 31–77). Bern: Haupt.

Burritt, R., & Schaltegger, S. (2010). Sustainability accounting and reporting: Fad or trend? *Accounting, Auditing and Accountability Journal, 23*(7), 829–846.

Burritt, R., Hahn, T., & Schaltegger, S. (2002). Towards a comprehensive framework for environmental management accounting. *Australian Accounting Review, 12*(2), 39–50.

Caballero, R. J., & Lyons, R. K. (1990). Internal versus external economies in European industry. *European Economic Review, 34,* 805–830.

Coase, R. H. (1960). The problems of social cost. *Journal of Law and Economics, 3,* 1–44.

Cooper, R. (2000). Cost management: From Frederick Taylor to the present. *Journal of Cost Management,* 4–9.

Cooper, R., & Kaplan, R. S. (1988). Measure costs right: Make the right decisions. *Harvard Business Review, 66,* 96–103.

Cooper, R., & Kaplan, R. S. (1991). *The design of cost management systems*. Englewood Cliffs: Prentice Hall.

Dasgupta, P. (2002). *Social capital: A multifaceted approach*. Oxford: Oxford University Press.

EPA (Environmental Protection Agency). (1997). The benefits and costs of the Clean Air Act (Prepared for U.S. Congress by the Office of Air and Radiation and Office of Policy, Planning and Evaluation). Washington, DC.

Fichter, K., Loew, T., & Seidel, E. (1997). *Betriebliche Umweltkostenrechnung* (*Operational cost accounting*). Berlin: Springer.

Figge, F., Hahn, T., Schaltegger, S., & Wagner, M. (2003). The sustainability balanced scorecard as a framework to link EMA with strategic management. In M. Bennett, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management and accounting—Purpose and progress* (pp. 17–40). Dordrecht: Kluwer.

Fischer, H., & Blasius, R. (1995). Umweltkostenrechnung (Environmental management accounting). In Bundesumweltministerium & Umweltbundesamt (Eds.), *Handbuch Umweltcontrolling* (*Handbook of environmental controlling*) (pp. 439–457). Munich: Vahlen.

Freese, E., & Kloock, J. (1989). Internes Rechnungswesen und Organisation aus Sicht des Umweltschutzes (Cost accounting and organisation—An environmental protection perspective). *Betriebswirtschaftliche Forschung und Praxis (BFuP), 2,* 1–29.

Grabnitzki, D. (1971). Die Kosten von Betriebsunfällen (Costs of accidents at work) (Working Paper). Koblenz: Institut für Arbeitsschutz.

Gray, R. (2002). The social accounting project and accounting organizations and society: Privileging engagement, imaginings, new accountings and pragmatism over critique? *Accounting, Organizations and Society, 27*(7), 687–708.

Haasis, H. D. (1992). Umweltschutzkosten in der betrieblichen Vollkostenrechnung (Environmental cost accounting and full cost accounting). *Das Wirtschaftsstudium (WiSt), 21*(3), 118–122.

Hallay, H., & Pfriem, R. (1992). *Öko-Controlling—Umweltschutz in mittelständischen Unternehmen* (*Ecological management accounting—Environmental protection in SME*). Frankfurt a. M.: Campus.

Hazilla, M., & Kopp, R. J. (1990). Social cost of environmental quality regulations: A general equilibrium analysis. *Journal of Political Economy, 98*(4), 853–873.

Heupel, T. (2006). Implementing standard costing with an aim to guiding behaviour in sustainability oriented organizations. In S. Schaltegger, M. Bennett, J. J. Bouma, & R. Burritt (Eds.), *Sustainability accounting and reporting* (pp. 153–180). Berlin: Springer.

Heupel, T., & Wendisch, N. (2003). Green success: Process-based environmental cost accounting—Implementation in SME's in Germany. In M. Bennett, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 333–363). Dordrecht: Kluwer.

Heupel, T., & Wendisch, N. (2005). Implementing standard costing in small and medium-sized companies. In P. Rikhardsson, M. Bennett, J. J. Bouma, & S. Schaltegger (Eds.), *Implementing environmental management accounting: Status and challenges* (pp. 193–205). Dordrecht: Kluwer.

Heupel, T., Wendisch, N., & Seidel, E. (2003). Prozessbezogene Umweltkostenrechnung in kleinen und mittleren Unternehmen (KMU) (Process-based environmental cost accounting in SME). *UmweltWirtschaftsForum, 11*(2), 50–57.

Hufschmidt, M. M., James, D. E., Meister, A. D., Bower, B. T., & Dixon, J. A. (1983). *Environment, natural systems, and development*. Baltimore: The Johns Hopkins University Press.

IFAC. (1998). *Environmental management in organizations. The role of management accounting*. New York: IFAC.

IFAC. (2005). *Environmental management accounting*. New York: IFAC.

Kapp, K. W. (1963). *Social costs of business enterprise*. London: Spokesman Books.

Kloock, J. (1993). Neuere Entwicklungen betrieblicher Umweltkostenrechnungen (New developments in operational cost accounting). In G. R. Wagner (Ed.), *Betriebswirtschaft und Umweltschutz* (*Business economics and environmental protection*) (pp. 179–206). Stuttgart: Schäffer-Poeschel.

Kokubu, K., et al. (2002). Two governmental initiatives on EMA and corporate practices in Japan. In M. Bennet, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 89–113). Dordrecht: Kluwer.

Krasowski, H. (2002). Life cycle engineering. In M. Bennett, J. J. Bouma, & T. Wolters (Eds.), *Environmental management accounting: Informational and institutional developments* (pp. 153–157). Dordrecht: Kluwer.

Krumwiede, K. R. (2000). Results of 1999 cost management survey: The use of standard costing and other costing practices. Cost Management Update, December/January, internal document.

Küpper, H. U. (1994). Vergleichende Analyse moderner Ansätze des Gemeinkostenmanagements (Comparison of modern cost management approaches). In K. Dellmann & K. P. Franz (Eds.), *Neuere Entwicklungen im Kostenmanagement* (*Developments in cost management*) (pp. 31–77). Bern: Haupt.

Lange, C., & Fischer, R. (1998). Umweltschutzbezogene Kostenrechnung auf Basis der Einzelkosten- und Deckungsbeitragsrechnung als Instrument des Controlling (Environmental cost accounting and direct costing). *Zeitschrift für Betriebswirtschaft (ZfB), Ergänzungsheft, 1,* 108–123.

Letmathe, P. (1998). *Umweltbezogene Kostenrechnung* (*Environmental cost accounting*). Munich: Vahlen.

Letmathe, P., Stürznickel, B., & Tschesche, J. (2002). Ressourcenkostenrechnung (Resource based cost accounting). *UmweltWirtschaftsForum, 10*(4), 52–57.

Loew, T. (2003). Environmental cost accounting: Classifying and comparing selected approaches. In M. Bennet, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 41–56). Dordrecht: Kluwer.

Mathews, M. R. (1997). 25 years of social and environmental accounting research: Is there a silver jubilee to celebrate? *Accountability, Auditing and Accountability Journal, 10*(4), 481–531.

Mathews, M. R. (2004). Developing a matrix approach to categorize the social and environmental accounting research literature. *Qualitative Research in Accounting and Management, 1*(1), 30–45.

Miller, J., & Vollmann, T. (1985). The hidden factory. *Harvard Business Review, 63,* 142–150.

Ministry of Economics, Transportation, Urban and Regional Development (Hessisches Ministerium für Wirtschaft, Verkehr und Landesentwicklung). (1999). *Kostensenkung und Öko-Effizienz durch eine Materialflussorientierung in der Kostenrechnung* (*Cost-reduction and eco-efficiency*). Wiesbaden: Hessisches Ministerium für Wirtschaft, Verkehr und Landesentwicklung.

Müller-Wenk, R. (1978). *Die ökologische Buchhaltung* (*Ecological book-keeping*). Frankfurt a. M.: Campus.

Neumann-Szyszka, J. (1994). *Kostenrechnung und umweltorientiertes Controlling. Möglichkeiten und Grenzen des Einsatzes eines traditionellen Controllinginstruments im umweltorientierten Controlling* (*Cost accounting and eco-oriented management accounting*). Wiesbaden: Springer-Gabler.

Parker, L. D. (2005). Social and environmental accountability research: A view from the commentary box. *Accounting, Auditing and Accountability Journal, 18*(6), 842–860.

Parker, L. D. (2011). Twenty-one years of social and environmental accountability research: A coming of age. *Accounting Forum, 35,* 1–10.

Pigou, A. C. (1920). *Economics of welfare*. London: Macmillan.

Pilisi, A., & Venturelli, A. (2003a). Introducing environmental management accounting into small and medium-sized enterprises. In M. Bennet, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 206–234). Dordrecht: Kluwer.

Pilisi, A., & Venturelli, A. (2003b). EMA in SMEs: Ten Italian case studies. In M. Bennet, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 309–332). Dordrecht: Kluwer.

Pyatt, G., & Round, J. I. (1985). *Social accounting matrices: A basis for planning*. Washington, DC: World Bank.

Rentz, O. (1979). *Techno-ökonomie betrieblicher Emissionsminderungsmaßnahmen* (*Technical-based emission-reduction on an operational level*). Berlin: Erich-Schmidt Verlag.

Roth, U. (1992). *Umweltkostenrechnung* (*Environmental cost accounting*). Wiesbaden: Springer-Gabler.

Schaltegger, S. (2003). A framework for ecopreneurship. Leading bioneers and environmental managers to ecopreneurship. *Greener Management International, 38,* 45–58.

Schaltegger, S., & Burritt, R. L. (2000). *Contemporary environmental accounting—Issues, concepts and practice*. Sheffield: Greenleaf Publishing.

Schaltegger, S., & Burritt, R. (2006). Corporate sustainability accounting: A nightmare or a dream coming true? *Business Strategy and the Environment, 15*(5), 1–4.

Schaltegger, S., & Petersen, H. (2002). *Ecopreneurship. Nachhaltiges Wirtschaften aus der Unternehmerperspektive (Studienband für den Bereich "Betriebliches Umweltmanagement" des Interdisziplinären Fßernstudiums Umweltwissenschaften—infernum)* (*Ecopreneurship—Sustainability on an operational level*). Hagen: Infernum.

Schaltegger, S., & Sturm, A. (1992a). *Ökologieorientierte Entscheidungen in Unternehmen—Ökologisches Rechnungswesen statt Ökobilanzierung: Notwendigkeit, Kriterien, Konzepte* (*Ecological-oriented decision-making on an operational level*). Bern: Haupt Verlag.

Schaltegger, S., & Sturm, A. (1992b). Die eco-rational path-method (EPM). In K. Thomé-Kozmiensky (Ed.), *Strategic waste management* (pp. 345–361). Berlin: EF Verlag für Energie- und Umwelttechnik.

Schaltegger, S., Bennett, M., Bouma, J. J., & Burritt, R. (2006). *Sustainability accounting and reporting*. Berlin: Springer.

Schaltegger, S., Gibassier, D., & Zvezdov, D. (2013). Is environmental management accounting a discipline? A bibliometric literature review. *Meditari Accountancy Research, 21*. http://dx.doi.org/10.1108/MEDAR-12-2012-0039.

Scheer, A. W. (1992). *Rechnungswesen und EDV (13. Saarbrücker Arbeitstagung)* (*Cost management and IT*). Heidelberg: Physica Verlag.

Scholz, H. (1973). Erfassung und Verrechnung der Aufwendungen für den Umweltschutz in der chemischen Industrie (Measurement of environmental protection costs within the chemical industry). *Der Betrieb, 42,* 2053–2057.

Schreiner, M. (1990). Ökologische Herausforderung an die Kosten- und Leistungsrechnung (Ecological challanges of cost accounting). In J. Freimann (Ed.), *Ökologische Herausforderung der Betriebswirtschaftslehre* (*Ecological challenges of business administration*) (pp. 197–214). Wiesbaden: Gabler.

Schreiner, M. (1996). *Umweltmanagement in 22 Lektionen* (*Environmental management in 22 lessons*) (4th ed.). Wiesbaden: Gabler.

Schweitzer, M., & Küpper, H.-U. (2003). *Systeme der Kosten- und Erlösrechnung* (*Cost accounting systems*). Munich: Vahlen.

Scitovsky, T. (1954). Two concepts of external economies. *Journal of Political Economy, 62,* 143–151.

Seidel, E. (2002). Die betriebliche Umweltkostenrechnung auf dem Weg zu Controlling-Rang (Environmental cost accounting and management accounting). In G. Seicht (Ed.), *Jahrbuch für Controlling und Rechnungswesen 2002* (*Yearbook for management accounting and accounting*). Wien: Lexis-Nexis.

Seidel, E. (2003). Umweltkostenrechnung (Environmental cost accounting). In M. Kramer & P. Eifler (Eds.), *Umwelt- und kostenorientierte Unternehmensführung—Zur Identifikation von Win-win-Potenzialen* (*Environmental and cost-oriented management*) (pp. 373–434). Wiesbaden: Springer-Gabler.

Seuring, S. (2003). Cost management in the textile chain: Reducing environmental impacts and costs for green products. In M. Bennet, P. Rikhardsson, & S. Schaltegger (Eds.), *Environmental management accounting—Purpose and progress* (pp. 233–256). Dordrecht: Kluwer.

Stölzle, W. (1990). Ansätze zur Erfassung von Umweltschutzkosten in der betriebswirtschaftlichen Kostenrechnung (Measurement of environmental protection costs). *Zeitschrift für Umweltpolitik & Umweltrecht (ZfU), 13*(4), 379–412.

Strobel, M. (2001a). *Systematisches Flussmanagement* (*Systematical flow-management*). Augsburg: Ziel-Verlag.

Strobel, M. (2001b). *Systemisches Flussmanagement, Flussorientierte Kommunikation als Perspektive für eine ökologische und ökonomische Unternehmensentwicklung* (*Systematical flow-management*). Augsburg: Ziel Verlag.

Stürznickel, B., & Letmathe, P. (2003). Ressourcenkostenrechnung (Resource-based costing). In B. Tschandl & A. Posch (Eds.), *Integriertes Umweltcontrolling* (*Integrated management accounting*) (pp. 137–154). Wiesbaden: Gabler.

UStatG. (1974). Gesetz über Umweltstatistiken vom 15.8.1974. BGBl. I, S. 1938–1941.

Verband Deutscher Ingenieure—VDI. (1979). VDI-Richtlinie 3800—Kostenermittlung für Anlagen und Maßnahmen zur Emissionsminderung (Guideline VDI 3800), Germany.

Womack, J. P., Jones, D. T., & Roos, D. (1990). *The machine that changed the world*. New York: Perennial.

Zerbe, R. O., & Dively, D. D. (1994). *Benefit-cost analysis: In theory and practice*. New York: Harper Collins.

Socially Responsible Supply Chain Management for a Competitive Advantage

17

Matthew J. Drake and Donald Rhodes

Contents

17.1 Introduction 322
17.2 Supply Chain Management Defined 323
17.3 Social and Environmental Implications of Supply Chain Best Practices 324
17.3.1 Operational Efficiency 325
17.3.2 Collaborative Distribution 328
17.3.3 Closed-Loop Supply Chain Management 329
17.3.4 Supplier Development 332
17.3.5 Local Sourcing 335
17.4 Concluding Remarks 337
References 337

Abstract

Supply chain operations create a multitude of social and environmental challenges for organisations. Many of these challenges have a significant impact on the organisation's stakeholders. Any corporate CSR strategy must address these issues to ensure that all stakeholders' needs are addressed. Organisations often view these CSR efforts through the prism of cost minimisation or risk avoidance. Many of these activities, however, can add value and enhance a firm's competitive position in the marketplace. Value-added

M. J. Drake (✉) · D. Rhodes
Palumbo-Donahue School of Business, Duquesne University,
Forbes Avenue, Pittsburgh, PA 15282, USA
e-mail: drake987@duq.edu

D. Rhodes
e-mail: drhodes@gmail.com

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_17

initiatives can be justified in any organisation, even those that have no stated altruistic or social goals. This chapter's missing link focuses on these value-added CSR strategies that can provide a competitive advantage for an organisation. Specific strategies to address the missing link include supplier development, local sourcing, collaborative distribution, closed-loop supply chain design, and increasing operational efficiency.

17.1 Introduction

At its core, Corporate Social Responsibility (CSR) holds that firms have a duty to consider the social and environmental implications of their actions and strategies beyond the traditional financial considerations (Godfrey and Hatch 2007). In this way, firms adopt a stakeholder approach to decision making by evaluating the impact of a particular activity on all of the firm's stakeholders. Beyond that foundation, however, there is some disagreement among academics and practitioners regarding the precise definition of CSR. For example, see Carroll (1999) for a comparison of more than 25 different definitions of CSR that had been published to that point in time. Not surprisingly, critics of CSR as a whole have cited this ambiguity as one of the limitations of the concept (Karnani 2011a).

Additional criticism of CSR is based on the notion that considering societal implication of business strategy conflicts with the shareholders' interests, an idea famously proposed by economist Milton Friedman (1970). Karnani (2011b) argues that efficient markets will align a firm's financial interests with social interests, making discussion of CSR moot. Inefficient markets, he says, create a trade-off between corporate and social interests, one that requires government intervention to protect the public's interests. Some researchers have deemed voluntary CSR activities designed to address this trade-off as insincere because the firm's underlying motivation is to increase its shareholders' return by engaging in the social activity (Bakan 2004). Kolstad (2007) refers to this as, "profitability in the guise of CSR." Instead, he offers that firms should look at CSR in terms of their responsibilities to their stakeholders and act to uphold them, regardless of the impact on profitability. Carroll (1991), on the other hand, included "economic responsibilities" as the foundation of his well-known Pyramid of Corporate Social Responsibility, suggesting that firms should always consider the economic implications of their CSR activities.

This trade-off between corporate and social interests clearly exists with CSR activities that are related to philanthropy, but CSR can also include operating activities that have a social or environmental impact. Rivoli and Waddock (2011) note that this expanded view of CSR beyond philanthropic interests centres on the relationships that firms have with their stakeholders. As a result, firms engage in CSR whenever they interact with their stakeholders. In the twenty-first-century economic environment, many stakeholders' expectations have changed. Now they expect firms to consider in addition to their economic interests, the social and environmental implications of their activities, which make CSR an essential component of a firm's competitive strategy.

One key way that a firm interacts with its stakeholders is through its supply chain operations. Many supply chain initiatives improve the firm's long-term profitability while simultaneously meeting a social or environmental objective. These initiatives can increase the firm's competitive position in the market by improving its efficiency and by meeting its stakeholders' expectations (including those of its customers). Huw Waters, business columnist for *The Guardian*, perhaps illustrated this point best when he wrote "sustainability drives efficiency—and this is particularly true in supply chain logistics. You don't have to sacrifice profitability to achieve sustainable logistics; the two go hand-in-hand" (Waters 2013).

In this chapter the missing link we discuss is the alignment of the operational goals of various supply chain management initiatives with their CSR implications. The firm's incentives and society's interests coincide in each of these activities so that the firm can benefit without adversely affecting any of its stakeholders. The next section defines supply chain management as a managerial field that has risen to strategic importance over the past two decades. The following section presents several supply chain best practices that have clear social and environmental implications and provides examples of companies that have employed these strategies successfully. The final section offers some concluding remarks with respect to the missing link gap which this chapter addresses.

17.2 Supply Chain Management Defined

The field of supply chain management has technically existed since the 1980s, but firms have always performed the functions that comprise the supply chain. These traditional functions include forecasting, production planning, procurement, inventory control, and physical distribution management. The innovation that has occurred over the past 30 years is that firms have begun to manage these functions in an integrated way, not only by linking the functions within their organisations but coordinating with their major external suppliers and customers. This integration recognises that success is ultimately and inherently dependent on each member of the supply chain to perform its defined function. True supply chain management focuses on integrating the entire system of organisations and operations that take raw materials and ultimately turn them into a finished product or service that satisfies a need defined by the end user. This emphasis on integration is evident in the Council of Supply Chain Management Professionals' (CSCMP) definition of supply chain management:

> Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. (CSCMP n.d.)

The true innovation in supply chain management is the closer collaboration between channel partners. Firms are working more closely with their suppliers and customers than ever before, and this coordination has generated a competitive advantage for firms in many industries. This competitive advantage results from the powerful combination of higher revenue (realised through increased product availability and improved customer service) and lower transaction and inventory costs (Fawcett et al. 2008). It is no coincidence that this enhanced collaboration began around the same time that computerised information systems started to proliferate throughout organisations. Collaboration between supply chain partners requires at least a minimal amount of proximity (Fine 1998). Without computerised information systems, firms were restricted to working closely only with companies that were located physically near their own operations. The information systems developed in the late twentieth century enabled these firms to collaborate with global partners by sharing large quantities of information and communicating quickly over long distances.

As the field of supply chain management developed, several supply chain best practices emerged. Many of these best practices involve collaboration and coordination with a firm's immediate, or *tier-one*, suppliers and customers. This is not surprising because these are the partners than most directly affect the firm itself. These best practices also have a significant impact on the firm's other stakeholders including the employees and general members of society. Supply chain management now has an intrinsic stakeholder focus. While the ultimate goal is to satisfy the end customer, leading firms, and their supply chain partners consider the needs and interests of all stakeholders when developing their supply chain strategy.

In the discussion of specific supply chain management best practices, we will see that some of these strategies may result in higher nominal cost in the short term. They can, however, create value in the long term by reducing supply risk or increasing inventory turnover. The same can often be said for the value of many CSR activities. Firms focused only on short-term performance may underestimate the value and importance of CSR, but firms that consider the long-term horizon will be able to justify the activities more easily.

17.3 Social and Environmental Implications of Supply Chain Best Practices

In this section we discuss some of the current best practices in supply chain management that have corresponding positive social or environmental impacts. As such, these strategies and processes can be an effective part of a firm's effort to uphold its corporate responsibility to society and the environment while simultaneously contributing to its competitive advantage in the market. Accordingly, they present opportunities within the supply chain to bridge the missing link gaps.

17.3.1 Operational Efficiency

One of the most direct ways in which firms can reduce their costs while simultaneously preserving natural and environmental resources is by improving supply chain operational efficiency. There are several common ways to achieve higher profitability through operational efficiency in supply chain activities. This section will focus on energy efficiency and overall waste reduction.

Reducing energy consumption is one of the highest impact initiatives that firms can undertake to boost their profitability and reduce their environmental impact. Through cutting the amount of energy used throughout the supply chain, corporations can reduce both operating cost and greenhouse gas (GHG) emissions. Numerous multi-national corporations have experienced great success by improving their supply chain in this manner. This is a huge trend in the global business environment. McKinsey and Company estimates that firms worldwide will invest $170 billion annually to improve the energy efficiency of their operations through 2020. These investments have an extremely lucrative potential, with estimated annual returns of 17 % (Smith and Hutson 2013). As large as this investment might seem, as many as one-third of the economically justified projects are abandoned and never funded (Anderson and Newell 2004). In the United States, for example, the current funding for energy efficiency projects is only 10 % of what some reports suggest that it could be (Smith and Hutson 2013). This means that while many firms are engaging in energy reduction practices, these efforts have not penetrated all industries and markets. Clearly, there is a vast well of untapped cost reduction potential within many supply chains that firms can leverage to achieve enhanced profitability and environmental objectives.

One of the most successful and high-profile examples of successful energy efficiency strategies is that of the global retail giant Walmart. The firm made headlines in 2005 by announcing a new CSR strategy designed to meet three widespread environmental targets: (1) utilising 100 % renewable energy; (2) creating zero waste; and (3) selling products that help to make people more healthy and to preserve the environment (Plambeck and Denend 2011). These lofty goals promulgated by Walmart's then-CEO Lee Scott marked a crucial watershed moment for the way that the firm does business. One of Walmart's more immediate and achievable goals was to reduce carbon emissions, energy, and water use by 20 % by 2012. To achieve the goal of 20 % carbon emissions reduction, Walmart worked with suppliers to reduce their packaging usage by 5 % by the target date of 2013. The firm estimated that this reduction of a mere 5 % in packaging would prevent 667,000 metric tons of carbon dioxide from being released and would save 66.7 million gallons of diesel fuel (Wasik 2010). Thus, this reduction in packaging would have environmental benefits as well as a positive impact on Walmart's bottom line.

As discussed above, Walmart was only able to enact this substantive change to its CSR efforts thorough heavy cooperation with its suppliers. One such supplier was Honest Tea, which worked with its own supplier, paper product titan Georgia-Pacific (GP), to design packaging for 24 beverage bottles that was over 40 % lighter than the current packaging that Honest Tea used. The lighter packaging reduced Honest Tea's transportation costs and enabled their transportation providers to use less fuel (Wasik 2010). This shows the effect that energy efficiency initiatives can have on such a large corporation's supply chain. Walmart was able to start a ripple effect whereby responsible practices spread from its core operations outward to its external suppliers as well as their suppliers.

While Walmart and its far reaching initiatives may have been one of the most highly publicised examples of energy efficiency, many other firms have enhanced their income statements while practicing environmental stewardship. International ocean carrier Maersk is another firm focused on energy efficiency. Maersk began looking into methods for increasing fuel efficiency once fuel prices began to increase in 2010 (Kindberg 2013). These fuel costs are extremely high for maritime companies like Maersk, and fuel approached half of the total operating cost of an ocean vessel when fuel prices were at their highest (Kloch 2013). One of the ways to reduce these costs and simultaneously to reduce GHG emissions is called *slow steaming*, although Maersk prefers to use the term *steady steaming* to describe it. Fuel consumption is lower when ships sail at a slower speed, and the corresponding GHG emissions are lower as well. Slowing the vessel's engine speed by 10 % reduces the overall energy usage on a voyage by 19 %. A study by Erasmus University in Rotterdam estimated that slow steaming could save ocean carriers $67 million in fuel costs (Kloch 2013). Reducing its vessels' speed by 20 % has yielded Maersk a 40 % savings in fuel costs. The firm also estimates that GHG emissions have fallen by 7 % per container since 2008 through the implementation of slow steaming (Copenhagen Post 2011).

In addition to the fuel savings and the reduction in GHG emissions, slow steaming vessels are more reliable in arriving at their destinations according to their sailing schedule. If the ship is always sailing as quickly as it can, there is no chance for it to go even faster to catch up to the schedule if it is delayed by weather or extra loading time at a port of call. Slow steaming vessels, on the other hand, are able to speed up if they face a delay so that they can remain on schedule. Customers often prefer better reliability to overall speed because it makes their logistics operations more predictable and easier to manage as a result (Kloch 2013).

Maersk is not stopping at slow steaming, however. Perhaps galvanised by its success with slow steaming, Maersk has begun to invest in the development of newer, more fuel efficient vessels to traverse the world's oceans. Its newest ship design is the Triple E, the first of which launched in 2013. These ships are up to 50 % more fuel efficient than their predecessors. In addition to the more fuel efficient vessels themselves, Maersk has considered enhancing the efficiency and environmental impact of other parts of its operations. The firm has implemented a new control system for its refrigerated containers which has reduced the energy that the containers use by over 50 %. Maersk has also replaced the flooring of its containers with recycled plastic, bamboo, or other responsibly harvested wood (Kindberg 2013).

Along with Maersk, other logistics and shipping companies are investigating and implementing fuel efficiency programmes. One such company is the Chilean shipping company Compañía Sud Americana de Vapores (CSAV). The largest Latin American logistics company and one of the largest in the world, CSAV realised that it was consistently shipping containers that were not fully loaded with goods, thereby wasting space, time, and fuel. Completely rectifying this problem in a network as large as CSAV's with more than 2000 locations in over 100 countries around the world would take a Herculean effort. To improve the capacity utilisation of its containers, CSAV improved its information management processes by enhancing its real-time communication capabilities and automating its data management to provide better decision-making information to its managers. As a result of these new processes, CSAV was able to increase its fuel efficiency by maximising container space in its shipping operations. The project has generated cost savings in excess of $100 million since 2010 (Epstein et al. 2012). While CSAV did not calculate the precise amount of GHG emissions it reduced through this new system of empty container optimisation, the reduction in fuel consumption certainly led to a corresponding reduction in GHG emissions. The CSAV example demonstrates that energy efficiency is not limited to technological advances such as Maersk's Triple E vessels or its new control systems for refrigerated containers. Improved information management processes and enhanced real-time communication capabilities can also help to increase fuel efficiency through improved logistics management.

Fuel efficiency and energy reduction is only one aspect of operational efficiency that helps to create value for firms by cutting costs and likewise protecting the environment in which the firms operate. Firms can also improve their overall efficiency by simply reducing the waste generated by its operations. This includes the waste of physical resources but also the waste of human effort as well as time. A focus on waste reduction helped Cooper Industries, for example, to increase its inventory turnover by an average annual rate of 2.5 % over a 29-year period starting in the late 1970s (Schonberger 2011). An increase in inventory turnover reduces a firm's working capital requirements, allowing the firm to invest in other projects that have a higher expected rate of return. It also reduces the likelihood that inventory will be lost, damaged, or become obsolete.

Once again, Walmart provides an excellent example of a firm committed to improving its operational efficiency. Walmart has made great strides not only in more effectively using energy, but also in reducing overall waste and water consumption. Instead of paying a waste management company to haul its plastic waste from its stores at an annual cost of $16 million, the firm now collects the plastic waste and sells it back to its packaging suppliers for reuse. Walmart has taken a huge cost and turned it into a $28 million annual revenue stream while ensuring that the waste was not deposited into a landfill.

This is another example of the ripple effect resulting from Walmart's utilisation of its vast supplier network and its ability to enforce exacting standards on its suppliers. One such supplier that dramatically reduced its waste was Southwire Company, a producer of wire located in Carollton, Georgia. As a result of Walmart's CSR initiative, Southwire was able to send 27 % less waste to landfills and to remove the majority of lead additives from its products. In addition to reducing waste, Southwire reduced its fuel consumption by converting one-third of its vehicles to hybrids (Wasik 2010).

A larger Walmart supplier that has taken great strides in waste reduction is Procter and Gamble (P&G). To reduce waste and create value, P&G established the Alternative Use Programme with the purpose of identifying new possibilities to reuse the by-products from its production processes into something that had value. P&G has confirmed through extensive research that these re-purposed by-products comply with safety regulations and can be used as materials in other products. Several successful examples of this process of turning waste into value include creating roofing tiles from shampoo waste and using by-products from shaving foam as compost. The Alternative Use Programme has been a great success for P&G by generating an additional revenue source while at the same time yielding a global corporate recycling rate of more than 85 %. Perhaps even more impressively, 45 P&G locations worldwide now send zero waste from their manufacturing processes to landfills (McDougall 2013).

While many companies have focused their operational efficiency improvement efforts on reducing physical waste including material inputs and energy, other firms have been able to improve the working conditions of their employees. Transfreight, a Canadian-based third-party logistics company, implemented an optimisation model to improve the assignment of inbound trailers to dock doors at its cross dock in Georgetown, Kentucky, a facility that serves Toyota's efficiency-focused assembly plant nearby. The model has reduced the operational costs at the facility which include the labour and the maintenance costs of its forklifts. In addition, the new model has created a more balanced workload assignment for the dock workers, ensuring a sense of fairness in the workforce and improving the workers' overall morale (Rosales et al. 2009).

17.3.2 Collaborative Distribution

An especially innovative collaborative partnership has emerged in several supply chains in recent years. Most collaborative activities in the supply chain involve working with major suppliers and customers; however, as firms continue to search for new opportunities to improve the efficiency of their operations, the quest has led some of them to an unlikely partner: their *competitors*. This specific form of collaboration between competitors has come to be known as *collaborative distribution*.

A collaborative distribution network is focused on a shared distribution facility established by two or more companies. The firms utilise the same transportation equipment to deliver supply shipments to retailers. On a less formal scale, firms can also engage in collaborative distribution simply by coordinating their delivery schedules without having established shared warehousing facilities. While the companies involved in a collaborative distribution relationship do not necessarily have to be competitors, it is beneficial if the firms have some common retail customers to maximise the potential benefits to be realised from transportation efficiency. If the firms have established a shared distribution facility, they can also generate savings in logistics costs by allocating the fixed costs of warehousing operations to the combined volume of products that flow through the facility.

Retailers often benefit when their suppliers utilise collaborative distribution strategies as well because it becomes economically viable for them to receive smaller, more frequent shipments from each manufacturer on a single trailer. The cost may be prohibitively large for them to receive and process small shipments from each manufacturer on a regular basis without consolidation.

Consumer packaged goods company Kimberly-Clark has implemented collaborative distribution in its European operations in an increasing scale over the past decade. Kimberly-Clark began with a pilot programme with Lever Fabergé (now a division of Unilever) in the Netherlands where each firm filled half of a trailer when making joint deliveries. Based on the success of that programme, Kimberly-Clark has expanded their collaboration with Unilever and recruited a third-party logistics provider to build and operate a shared distribution centre in the Netherlands. The firm also has a major partnership with Kellogg in the United Kingdom and France. The collaborative distribution strategy has reduced Kimberly-Clark's inventory investment and increased its product availability. The third-party logistics provider also shares some of the efficiency gains that it realises in the collaborative facility in the form of a rate reduction (Cooke 2011).

While the concept is more widespread in Europe, collaborative distribution is also gaining disciples in the United States. Ocean Spray sends its bottled juice from New Jersey to Florida in the same railroad boxcars that Tropicana uses to send fresh fruit from Florida to New Jersey. These coordinated backhauls of the boxcars result in lower transportation costs for both firms as well as a reduction in carbon emissions since the boxcars are not returned to Florida empty as they were in the past (Bradley 2013).

Collaborative distribution has the potential to benefit all parties involved in the partnership, but there are several challenges that must be handled in practice. Information technology must be able to function across many different firms to ensure a seamless flow of information. Retailers need to be willing to coordinate their orders from several manufacturers so that the goods can be delivered together. The biggest challenge, however, is often the internal culture of the organisations. Working with competitors is a new idea for most companies, and a significant amount of trust must exist between the manufacturers (Solomon 2010). The partnerships that can overcome these challenges can reap the full potential of collaborative distribution.

17.3.3 Closed-Loop Supply Chain Management

The focus in traditional supply chain management has been on the "forward" flow of materials and goods from the suppliers to the customers. In many supply chains, however, the "reverse" flow of items from customers back to their suppliers represents significant volume as well. As a result, many firms give significant attention to these reverse flows, which are managed through a process called *reverse logistics*.

The reverse flows can be broadly classified into two main groups: (1) returns that occur soon after the product is sold and (2) returns that occur at the end of a product's useful life.

Firms have always had to handle the former category of returns from customers who did not want to keep the item that they purchased or from customers who received the incorrect item due to a mistake in shipping. The latter category of returns represents a newer phenomenon where manufacturers and retailers are taking responsibility for receiving items that a consumer is finished using and disposing of these items in an environmentally friendly manner. Historically, the consumer would send the item to a landfill or to a community recycling centre.

Some firms are processing these end-of-life returns as part of their CSR strategy, while others have been forced to accept them via government regulation. Perhaps the most high-profile legislation related to end-of-life items is the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive that requires original equipment manufacturers of electronic equipment to accept these end-of-life items and process them to minimise the amount of waste that gets deposited in landfills. The EU focused on electronic goods because the volume of these items had grown exponentially in recent years and consumers lacked effective options to recycle these goods (Mollenkopf 2006).

While some European firms viewed compliance with the WEEE Directive as an added cost, visionary firms looked at the regulation as an opportunity to create value and to contribute to their profitability. The same could be said for firms in the United States and other countries that do not have similar legislation; otherwise, there would be no impetus for firms in these countries to accept end-of-life returns because there is no law requiring them to do so. The value potential from end-of-life items comes from re-selling the item in one form or another. The largest value potential is in remanufacturing where the end-of-life item is refurbished with new replacement components and sold on the secondary market. In some organisations this value potential can be extremely large. T-Mobile, for example, was able to reduce its costs by 40 % and increase its cash flow by $110 million by increasing the number of mobile phones that it refurbished (Arnseth 2012). In some cases the end-of-life item's condition is too poor to be remanufactured or there is no significant demand for the item in a secondary market; in these cases the next highest value potential comes from using components or even raw materials from the end-of-life item to produce new items. Beyond that, some items can be recycled or donated to charitable organisations. Some materials do still find their way to landfills, but the volume is significantly lower than it used to be (Rogers and Tibben-Lembke 1999).

Compared with products in the forward supply chain, the reverse flows pose a unique set of challenges for managers. One of these challenges is the difficulty of forecasting the quantities of reverse flows. The timing of the receipt of the end-of-life items is dependent upon the consumers' usage patterns and desire to replace the unit with a newer version. In addition to the timing of the returns, the quality or condition of the item is uncertain. Some items may be returned in like-new condition, while others may have no useful life remaining. The condition of the item largely dictates the potential value of the item for the manufacturer. Higher-quality units are candidates for the higher-value waste streams such as remanufacturing or refurbishing. Lower-quality units likely have value only through reclaiming their materials for use in manufacturing other items. See Ferguson et al. (2011) for an optimisation-based approach that firms can use to identify the profit-maximising disposal options for various end-of-life items. Some firms have developed trade-in rebates and other financial mechanisms to incentivise consumers to return high-quality items that have a greater value potential in the secondary market (Ray et al. 2005; Das 2012).

Instead of managing the reverse supply chain flow of products in isolation, some truly innovative firms have adopted a systems perspective of the entire supply chain known as *closed-loop supply chain management*. This requires firms to design their forward and reverse supply chain processes concurrently to attain the best overall system structure (Defee et al. 2009). Decisions made in the forward supply chain can have a significant impact on the firm's ability to capture value from the reverse flows. Bosch Tools, for example, installs data loggers in its major tools so that employees in its facilities can quickly assess the maximum speed at which an end-of-life tool had ever been operated, which plays a major role in determining whether or not the unit can be remanufactured profitably (Krikke 2001). Bosch made this decision in its forward supply chain with the foresight that these tools would eventually be returned at the end of its useful life. It is too late to think about the value potential once the item has already been designed and produced.

While this inter-connectedness between the forward and reverse supply chains may seem obvious, a study by Kocabasoglu et al. (2007) surprisingly found that many companies still do not consider investments in these activities in an integrated way. In the remainder of this section, we will discuss examples of two companies that have embraced the closed-loop supply chain concept by incorporating the reverse flows of their products when designing the traditional forward supply chain.

Hewlett-Packard (HP) has incorporated end-of-life issues into its product design process since the early 1990s through a concept known as *design for supply chain* (DfSC). This formal process that lasts for six weeks whenever a new product is being designed or an existing product is being enhanced helps the large organisation to share its knowledge and coordinate its overall strategy between 120,000 employees located in 70 countries. The DfSC process requires members from a variety of departments to assess forward and reverse supply chain opportunities in six major categories at the time of the initial product design. Even though six weeks may seem like a long time and a significant expenditure of resources, HP estimates that the DfSC process has resulted in over $100 million in cost savings since its inception (Cargille and Fry 2006).

The EU had established a regulation for used batteries prior to the development of the WEEE Directive. In Germany, manufacturers got together and developed a joint system for collecting and processing used batteries. This joint system is operated as a non-profit organisation. Schultmann et al. (2003) developed a network model to design a closed-loop recovery system that would be able to capture and recycle almost 100 % of the batteries used by firms in the steelmaking industry. The material from these used batteries is used as an input to the production of new steel, which certainly generates value for the firms.

17.3.4 Supplier Development

As mentioned earlier in this chapter, a firm's performance is dependent upon that of its suppliers. No firm can be successful in the market if its suppliers cannot deliver the necessary materials, products, and services effectively. Firms have begun to invest in building their suppliers' capabilities through a process known as *supplier development*. This investment can take many forms from sharing technological expertise to helping suppliers identify suppliers of their own for critical materials and providing the short-term financing necessary to purchase these materials.

Nestlé, a multi-national food product manufacturer with production facilities scattered in over 80 countries, has demonstrated its commitment to socially and environmentally-responsible practices in the food manufacturing industry by developing its suppliers. As a food manufacturer, the costs of its raw materials represent approximately two-thirds of its total operating expenses. Nearly 40 % of this expense comes from three main ingredients: milk, coffee, and cocoa. With such high raw material costs, one would think that Nestle would jump at any chance to reduce these costs. However, the very opposite happens to be true. Nestlé has instead decided to initiate a programme to develop all of its cocoa suppliers in order to achieve its CSR goals. This ground-breaking programme is aptly labelled the *Nestlé Cocoa Plan* and was initiated in 2009 in the Ivory Coast, the primary origin of Nestlé's cocoa. Through this supplier development programme Nestlé is investing £67 million in its cocoa farmers between 2010 and 2020. The goal of this investment is to help the cocoa farmers to enhance their profitability, to farm in a way that does not harm the environment, to increase their quality of life, and to give their children a better education. As part of this programme, Nestlé is working with its cocoa farmers to teach them more responsible crop management and pest control techniques. These represent information and capabilities to which the cocoa suppliers would not have access without working with Nestlé.

While these programmes have clear social benefits, Nestlé is not only practicing effective CSR. By working directly with its farmers, Nestlé has able to gain access to 50–200 % more cocoa. The improvements generated by the programme have enabled cocoa farmers to grow larger and generate a higher income while also allowing Nestlé to acquire more cocoa from a single source. This eases the challenge in coordinating vast amounts of supply with many different small and medium-sized producers. Additionally, the Nestlé brand receives a substantial public relations boost as a result of the Nestlé Cocoa Programme. Many modern consumers desire to purchase products that are ethically sourced and responsible, and this programme helps to communicate those values to Nestlé's customers (The Times 100 n.d.).

Also in the food and beverage industry, Starbucks Coffee has taken large steps of working with suppliers to achieve its CSR goals. Starbucks is a clear example of a company that is working with suppliers to achieve improvement in the areas of social and environmental responsibility. As one would expect from one of the largest coffee retailers in the United States, a main constituency of Starbucks' suppliers is the coffee growers themselves. The growing of coffee in an environmentally friendly manner has been a concern for consumers for some time, spurring initiatives such as *Rainforest Alliance Certified*, among others. Starbucks has created its own initiative to work with suppliers to ensure that they are meeting its responsibility requirements. This initiative is called the Coffee and Farmer Equity (C.A.F.E.) Practices, which is comprised of approximately 200 different criteria that evaluate suppliers' performance on various financial, social, and environmental criteria. The C.A.F.E. Practices are not quite fully integrated into the entire Starbucks supply chain, but over 85 % of all the coffee Starbucks sells is certified by their C.A.F.E. programme (Wade 2013). Starbucks' C.A.F.E. Practices initiative has had some significant social and environmental successes since its implementation. As a result of the C.A.F.E. Practices, 425,000 of the employees of Starbucks' suppliers earn above the minimum wage. An environmentally related result is that 99 % of all of the farms used for Starbucks' coffee growing have not cut down any forest land since 2004 (Wade 2013). Many fair trade coffee roasters also engage in similar supplier development practices with their farmers and in addition offer them short-term loans to enable them to invest in their own operations (McKone-Sweet 2004).

While Nestlé and Starbucks have emerged as leaders in supplier development, other firms have established their own programmes to enhance the capabilities of their suppliers for the benefit of the entire supply chain. Large automotive manufacturers such as Ford Motor Company have also developed their suppliers as a means of capitalising on their CSR opportunities. Managing suppliers in the automotive industry proves to be no easy task due to the complexity and extreme breadth and diversity of the supplier networks, which can have up to ten tiers between the raw material supplier and the manufacturer (Newton 2013). This problem only exacerbates as the firm increases in size. This is especially true of Ford, which procures hundreds of thousands of different parts and components from thousands of suppliers. The total annual spend accounts for more than $75 billion annually. To realise its responsible supply chain objectives, Ford determined that it needed to co-operate with and develop its major suppliers.

The complexity of Ford's supply chain network made collaboration impossible to manage and leverage without a structured process. Ford developed the Aligned Business Framework (ABF) in 2005 to measure and monitor the CSR performance of its suppliers and to establish a foundation for strategic collaborative relationships. The ABF is a practical solution that enables Ford to manage the social and environmental performance of its complex web of suppliers effectively while simultaneously providing a forum for co-operation and collaboration to develop joint solutions. As of early 2013, the ABF had been implemented with 102 major suppliers, which represent 65 % of Ford's annual spend on raw materials worldwide. Ford expects their partner suppliers who participate in the ABF to manage their own operations and their suppliers' operations according to three CSR facets: (1) establishing and following a supplier code of conduct with respect to workers' rights, (2) conducting internal training on and monitoring compliance with the supplier code of conduct, and (3) sharing social and environmental goals with their own suppliers and monitoring their performance. The final facet is the way that Ford hopes that its CSR goals will propagate to the second-tier suppliers and beyond. Ford provides reporting and communications tools that the suppliers can use to manage their compliance in addition to conducting a periodic review of each ABF supplier to evaluate the supplier's performance. For its part, Ford also commits to long-term sourcing contracts with its ABF suppliers, a reduction in required product variety over time, and increased sharing of forecasts and other planning information. The shared commitment through the ABF reduces the likelihood that Ford or one of its major suppliers will harm any of the other firms' reputations through controversial actions (Newton 2013).

In return for the suppliers' willingness to collaborate, firms often make long-term commitments to the supplier as Ford does with its ABF suppliers. Medrad, a part of the Bayer HealthCare headquartered in Warrendale, Pennsylvania, actively seeks out new opportunities to collaborate with its suppliers through an annual supplier conference and other ad hoc opportunities. As a result of its long-term commitment to its suppliers, Medrad has even had representatives from its suppliers working day per week (and even full-time in one case) within a Medrad facility. Its sophisticated supply chain collaboration activities with its suppliers have helped Medrad to achieve 99.9 % on-time deliveries and to become a world leader in quality in the health care industry (Atkinson 2004). Furniture maker IKEA also works with its long-term suppliers to provide them with technical assistance, advice for improving production quality, and leases for required equipment. IKEA will even help a supplier find its own supplier for a raw material (Normann and Ramirez 1993). IKEA spends the resources to assist its long-term suppliers because it knows that its own ability to satisfy its customers is dependent upon its suppliers' capabilities.

A significant component of supplier development is the periodic evaluation of suppliers' performance with respect to traditional, operational, and socially responsible metrics and the communication of those results to the suppliers so that performance can be improved in the future. This was a major part of Ford's ABF initiative that we just discussed. Through investment, information sharing, and other supplier development activities, firms can help their suppliers to correct their most serious deficiencies. Without measuring performance, though, it may be difficult to identify the aspects of the supplier's operations that are the most critical to improve. P&G developed the Supplier Environmental Sustainability Scorecard with the hope that it would improve collaboration across the supply chain, measure key environmental responsibility indicators, and facilitate the exchange of thoughts, capabilities, and CSR innovation between the firms (Allen 2010). The launch of the scorecard was accompanied by the creation of the Supplier Sustainability Board consisting of members from 20 of P&G's major suppliers and an additional 10 members from small and medium-sized suppliers. The purpose of the board was to provide additional opportunities to share information and to develop innovative solutions that could benefit all of the members of P&G's supply chain (Hughes and Loftus 2010).

By 2012, P&G had already seen a cost savings of over $1 billion in its reduction of waste, water, and energy by developing its suppliers through the Supplier Sustainability Board and the Supplier Environmental Sustainability Scorecard. Not only has P&G experienced this massive cost reduction, but its scorecard has also shown promising success in its ability to identify areas on which their suppliers should target improvement efforts. Overall, implementation of the scorecard and the resulting process improvements helped P&G realise an average increase in performance of 55 % on all of the metrics captured in the scorecard by 2012 (Scott 2012).

For all of the firms that have proactively established supplier development strategies to improve their supply chains, many other firms have come to understand the importance of managing their suppliers only after a major crisis event. Unilever faced criticism from Greenpeace about the environmentally harmful practices of its palm oil suppliers (United Nations Global Compact n.d..). Mattel endured immense consumer backlash in 2007 when lead paint was discovered on some of its toy products. Mattel had not been monitoring its suppliers let alone collaborating with them, and a Chinese supplier subcontracted work to another firm which applied the lead paint (Gordon and Levin 2009). The Telenor Group, a Norwegian telecommunications company that serves close to 300 million people, was the subject of a documentary film exposing the dangerous working conditions in a factory run by one of its suppliers in Bangladesh (Wilson 2011). In each of these cases the firms were not effectively monitoring their suppliers' behaviour. When these practices became publicised, consumers and media blamed the firms with the recognisable brands, not the suppliers themselves. Each of these firms lost brand image and incurred significant financial losses as a result of these events. Sophisticated supplier collaboration may still be an optional strategy for firms to undertake, but it is clear that all firms have a responsibility to monitor and evaluate their suppliers' actions to ensure that they are exercising social and environmental responsibility. Otherwise, these firms risk negative criticism of their supply chain operations in the future.

17.3.5 Local Sourcing

As the name would suggest, the term *local sourcing* simply means that a firm attempts to create value in its business by sourcing inputs from venues located physically close to its operations instead of using inputs from across the globe. The decision of whether or not to source locally usually depends on the combination of purchase price and logistics costs. If the costs saved by sourcing overseas (often due to the lower labour costs in other parts of the world) outweigh the costs to transport the goods and to carry the inventory that is in transit, a company will often choose to source the item from abroad. However, some firms are beginning to re-evaluate this notion and are considering local sources of supply. Local sourcing benefits the environment because a shorter travel distance results in lower energy usage and lower levels of GHG emissions. However, local sourcing has several constraints, the main one being that every raw material is not necessarily indigenous or even available in all parts of the world. Perhaps this resource disparity is one of the reasons why one of the largest segments of local sourcing is the food industry. In most places around the world, it is possible to grow some kind of crops or raise some type of animal; and this allows for local sourcing.

The popularity of local sourcing has been driven, at least to some degree, by consumer demand patterns. Consumers have two main reasons for preferring locally sourced food: (1) the perceived superiority in quality and freshness, and (2) the desire to support local farms. In addition to satisfying consumer demand preferences, there are several major supply chain benefits to local sourcing. One such advantage is the ability for suppliers to be more responsive to shifts in demand preferences because they are located closer to the source of the demand. Suppliers located long distances from their customers are limited in their ability to provide responsive supply chain solutions by the length of transportation time (Morrell 2010).

The lower fuel requirement which stems from the shorter transportation distance is also a major reason that firms have started to consider local sourcing. This was one of the main incentives that spurred Walmart to pledge in 2008 to source more fruit and vegetables locally. Walmart has greatly increased its local sourcing of produce, increasing the volume by 50 % from 2008 to 2010, and with lofty goals of sourcing $1 billion of local produce in the subsequent 5 years. The purpose behind Walmart's local sourcing strategy is to reduce costs and enhance its competitive position while at the same time giving customers access to fresher, higher-quality produce at more affordable prices. Walmart has definitely shown the value that a firm can generate by locally sourcing produce, but is by no means alone in this endeavour. Other retailers such as SUPERVALU have developed local sourcing strategies. This allows SUPERVALU to capitalise on seasonality trends with agriculture and thus provide fresh produce to their consumer (O'Reilly 2010).

Restaurant chains are also following the retailers' examples and are also sourcing locally. One of restaurant chains that is demonstrating its leadership in local sourcing is Chipotle Mexican Grill. This has come about largely as a result of their "Food with Integrity" slogan and corporate strategy. Chipotle has greatly increased the amount of its produce sourced locally, from 10–15 % of seasonally available crops to 75 % in some locations of the United States. Instead of focusing on the cost saving benefits highlighted earlier, Chipotle's main rationale for sourcing locally is product quality. Since customers are willing to pay more for the fresher, higher-quality produce obtained from local suppliers, Chipotle realised that it could increase profits by charging a higher price for its meals when they are prepared with locally sourced ingredients, and this has accounted for its large increase in local sourcing in recent years. However, one of the largest obstacles that companies encounter when trying to engage in local sourcing of food is in identifying local farms that can reliably and consistently meet the demand (Fletcher 2012). This has been a major challenge for Walmart as well, but those farms that have been able to ramp up supply to meet the higher levels of demand have reaped significant financial benefits as local sourcing has increased in popularity (O'Reilly 2010).

While food retailers and restaurants have led the local sourcing movement, the food industry is not the only industry gleaning value from the practice. One noted example hails from the automotive industry. Audi has begun production on a $ 1.3 billion SUV plant in the town of San Jose Chiapa, Mexico that will have the capability of producing 150,000 vehicles a year (Rauwald 2013). Audi's Vice President for Procurement, Bernd Martens, has stated that the plant's goal is to source 90% of all inputs for this facility locally from other parts of Mexico. To meet the goal of 90% local sourcing, Audi will make use of the existing local supplier network set up by Volkswagen since the 1960s when it opened a plant just 35 miles from where the Audi plant is under construction. Audi has, in fact, already begun the supplier selection and bidding process in anticipation for the plant's 2016 opening by inviting 120 prospective local suppliers to a conference to bid for contracts. The suppliers that meet Audi's needs and standards will be signing contracts to provide materials for the Audi plant (Automotive News 2013).

17.4 Concluding Remarks

Firms are under an immense pressure to maintain their profitability in a market consisting of increasingly demanding customers. These customers also expect the firms to act in a socially and environmentally responsible way. Social and environmental interests can run counter to a firm's profitability, especially in the short term. In this chapter we have discussed several best practices in supply chain management that have the desirable benefit of increasing a firm's competitive advantage including its economic bottom line while respecting and even enhancing the interests of society and the environment. Through innovative supply chain management practices, these business solutions present missing link strategies that have been adopted by many firms worldwide. Consequently, they demonstrate how firms can be successful corporate citizens both today and in the long run via strategic supply chain management practices.

References

Allen, A. (May 2010). Procter and Gamble to score suppliers on green issues. *Supply Management*. http://www.supplymanagement.com/news/2010/procter-and-gamble-to-score-suppliers-on-green-issues. Accessed 12 Jan 2014.

Anderson, S. T., & Newell, R. G. (2004). Information programs for technology adoption: The case of energy-efficiency audits. *Resource and Energy Economics, 26*(1), 27–50.

Arnseth, L. (2012). Making the old like new again. *Inside Supply Management, 23*(3), 28–33.

Atkinson, W. (2004). Medrad knows how to treat suppliers. *Purchasing, 133*(21), 44–46.

Automotive News. (May 2013). *Audi plans 90% local sourcing in Mexico*. http://www.autonews.com/article/20130520/OEM02/305209978/audi-plans-90-local-sourcing-in-mexico. Accessed 20 May 2013.

Bakan, J. (2004). *The corporations: The pathological pursuit of profit and power*. London: Constable.

Bradley, P. (2013). Collaboration bears fruit. *Supply Chain Quarterly, 7*(2), 34–36.

Cargille, B., & Fry, C. (2006). Design for supply chain: Spreading the word across HP. *Supply Chain Management Review, 10*(5), 34–41.

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons, 34*(4), 39–48.

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business and Society, 38*(3), 257–264.

Cooke, J. A. (2011). Sharing supply chains for mutual gains. *Supply Chain Quarterly, 5*(2), 38–41.

Copenhagen Post. (November 2011). *Maersk reaps profits and praise by taking it slow*. http://cphpost.dk/news/maersk-reaps-profits-and-praise-by-taking-it-slow.171.html. Accessed 20 Oct 2013.

CSCMP. (n.d.). *Supply chain management definitions*. http://cscmp.org/about-us/supply-chain-management-definitions. Accessed 20 Oct 2013.

Das, K. (2012). Integrating reverse logistics into the strategic planning of a supply chain. *International Journal of Production Research, 50*(5), 1438–1456.

Defee, C. C., Esper, T., & Mollenkopf, D. (2009). Leveraging closed-loop orientation and leadership for environmental sustainability. *Supply Chain Management: An International Journal, 14*(2), 87–98.

Epstein, R., Neely, A., Weintraub, A., Valenzuela, F., & Hurtado, S., et al. (2012). A strategic empty container logistics optimization in a major shipping company. *Interfaces, 42*(1), 5–16.

Fawcett, S. E., Mangan, G. M., & McGarter, M. W. (2008). Benefits, barriers, and bridges to effective supply chain management. *Supply Chain Management: An International Journal, 13*(1), 35–48.

Ferguson, M. E., Fleischmann, M., & Souza, G. C. (2011). A profit-maximizing approach to disposition decisions for product returns. *Decision Sciences, 42*(3), 773–798.

Fine, C. (1998). *Clockspeed: Winning industry control in the age of temporary advantage*. Cambridge: Basic Books.

Fletcher, J. (2012). A case for sourcing locally. *QSR Magazine*, *February*. http://www.qsrmagazine.com/ingredients-dayparts/case-sourcing-locally. Accessed 21 June 2013.

Friedman, M. (13 Sept 1970). The social responsibility of business is to increase profit. *New York Times Magazine*.

Godfrey, P. C., & Hatch, N. W. (2007). Researching corporate social responsibility: An agenda for the 21st century. *Journal of Business Ethics, 70*(1), 87–98.

Gordon, M., & Levin, M. (2009). Working with suppliers to achieve CSR goals. *Inside Supply Management, 20*(6), 30–34.

Hughes, R., & Loftus, L. (2010). Help suppliers score green wins. *Inside Supply Management, 21*(10), 40–44.

Karnani, A. (2011a). CSR stuck in a logical trap. *California Management Review, 53*(2), 105–111.

Karnani, A. (2011b). Doing well by doing good: The grand illusion. *California Management Review, 53*(2), 69–86.

Kindberg, L. (2013). *Improving vessel and supply chain fuel efficiency*. http://www.epa.gov/air/caaac/pdfs/caaac_2-27-2013_kindberg.pdf. Accessed 23 May 2013.

Kloch, L. (2013). Is slow steaming good for the supply chain? *Inbound Logistics,* April. http://www.inboundlogistics.com/cms/article/is-slow-steaming-good-for-the-supply-chain/. Accessed 23 May 2013.

Kocabasoglu, C., Prahinski, C., & Klassen, R. D. (2007). Linking forward and reverse supply chain investments: The role of business uncertainty. *Journal of Operations Management, 25,* 1141–1160.

Kolstad, I. (2007). Why firms should not always maximize profits. *Journal of Business Ethics, 76*(2), 138–145.

Krikke, H. (2001). Recovery strategies and reverse logistics network design. In J. Sarkis (Ed.), *Greener manufacturing and operations* (pp. 256–272). Sheffield: Greenleaf Publishing.

McDougall, F. (April 2013). Waste management: Finding value in all scrap material from P & G products. *The Guardian*. http://www.theguardian.com/sustainable-business/waste-management-value-scrap-material. Accessed 23 May 2013.

McKone-Sweet, K. (2004). Lessons from a coffee supply chain. *Supply Chain Management Review, 8*(7), 52–59.

Mollenkopf, D. (2006). Environmental sustainability: Examining the case for environmentally-sustainable supply chains. *CSCMP Explores…, 3*(3), 1–15.

Morrell, L. (February 2010). The benefits of local sourcing. *Retail Week*. *CSCMP Explores…*. http://www.retail-week.com/in-business/supply-chain/the-benefits-of-local-sourcing/5010688.article. Accessed 10 Sept 2013.

Newton, J. W. (2013). Driving supply chain sustainability. *Inside Supply Management, 24*(3), 32–36.

Normann, R., & Ramirez, R. (1993). From value chain to value constellation: Designing interactive strategy. *Harvard Business Review, 71*(4), 65–77.

O'Reilly, J. (December 2010). Food logistics: From farm to fork. *Inbound Logistics*. http://www.inboundlogistics.com/cms/article/food-logistics-from-farm-to-fork/. Accessed 10 Sept 2013.

Plambeck, E. L., & Denend, L. (2011). The greening of Walmart's supply chain—revisited. *Supply Chain Management Review, 15*(5), 16–23.

Rauwald, C. (May 2013). Audi $ 1.3 billion Mexico SUV plant aimed at unseating BMW. *Bloomberg News*. http://www.bloomberg.com/news/2013-05-02/audi-1-3-billion-mexico-suv-plant-aimed-at-unseating-bmw.html. Accessed 23 May 2013.

Ray, S., Boyaci, T., & Aras, N. (2005). Optimal prices and trade-in-rebates for durable, remanufacturable products. *Manufacturing & Service Operations Management, 7*(3), 208–228.

Rivoli, P., & Waddock, S. (2011). The grand misapprehension. *California Management Review, 53*(2), 112–116.

Rogers, D. S., & Tibben-Lembke, R. S. (1999). *Going backwards: Reverse logistics trends and practices*. Pittsburgh: Reverse Logistics Executive Council Press.

Rosales, C. R., Fry, M. J., & Radhakrishnan, R. (2009). Transfreight reduces costs and balances workload at Georgetown Crossdock. *Interfaces, 39*(4), 316–328.

Schonberger, R. J. (2011). ASP, the art of science of practice: Taking the measure of lean: Efficiency and effectiveness, part I. *Interfaces, 41*(2), 182–187.

Schultmann, F., Engels, B., & Rentz, O. (2003). Closed-loop supply chains for spent batteries. *Interfaces, 33*(6), 57–71.

Scott, A. (April 2012). P & G shares sustainability scorecard with rivals. *Supply Management*. http://www.supplymanagement.com/news/2012/pg-shares-sustainability-scorecard-with-rivals. Accessed 23 May 2013.

Smith, T., & Hutson, A. (2013). *Supply chain energy efficiency. NorthStar initiative for sustainable enterprise at the University of Minnesota's Institute on the Environment*. http://business.edf.org/sites/business.edf.org/files/EDF_Supply_Chain_Energy_Efficiency_Report.pdf. Accessed 17 May 2013.

Solomon, M. B. (2010). Has collaborative distribution's time come? *DC Velocity, 8*(3). http://www.dcvelocity.com/articles/20100201_collaborative_distribution_time_come/. Accessed 17 May 2013.

The Times 100. (n.d.). *Creating shared value in the supply chain: A Nestle case study*. http://businesscasestudies.co.uk/nestle/creating-shared-value-in-the-supply-chain/introduction.html. Accessed 17 May 2013.

United Nations Global Compact. (n.d.). Sustainable sourcing of palm oil. http://supply-chain.unglobalcompact.org/site/article/120. Accessed 17 May 2013.

Wade, J. (January 2013). Ethical sourcing. Presentation at the University of Washington Conference on Human trafficking in an era of globalization: Forced labor, involuntary servitude, and corporate and civic responsibility. http://www.law.washington.edu/AsianLaw/HumanTrafficking/Ethical%20Sourcing-UW%20Conference%20Panelist-JWade-12Jan2013_V03.pdf. Accessed 17 May 2013.

Wasik, J. F. (September 2010). The surprising success of the green supply chain. *CNN Money*. http://money.cnn.com/2010/08/13/news/companies/corporate_sustainability.fortune/. Accessed 27 Oct 2013.

Waters, H. (April 2013). Supply chains of the future: Sustainable logistics and profitability go together. *The Guardian*. http://www.theguardian.com/sustainable-business/supply-chain-future-sustainable-logistics-profit. Accessed 17 May 2013.

Wilson, B. (2011). Human rights in the supply chain: The Telenor Group's approach to supply chain sustainability. http://www.unglobalcompact.org/docs/issues_doc/human_rights/Business_Practices/Telenor_31Oct11.pdf. Accessed 17 May 2013.

How Does it Pay to be Green and Good? The Impact of Environmental and Social Supply Chain Practices on Operational and Competitive Outcomes

18

Lucy McCarthy and Donna Marshall

Contents

18.1 Introduction . . . 342
18.2 Literature Review . . . 343
  18.2.1 Does it Pay to be Green? . . . 344
  18.2.2 Does it Pay to be Good? . . . 348
  18.2.3 Summary . . . 352
18.3 Methodology . . . 352
  18.3.1 Sample and Data Collection . . . 352
  18.3.2 New Construct Development . . . 353
  18.3.3 New Construct Refinement . . . 354
18.4 Measures . . . 355
  18.4.1 Dependent Variable . . . 355
  18.4.2 Independent Variable . . . 356
  18.4.3 Nonresponse Bias . . . 358
  18.4.4 Descriptive Statistics . . . 358
18.5 Results . . . 358
18.6 Discussion . . . 363
18.7 Conclusion . . . 365
References . . . 366

L. McCarthy (✉) · D. Marshall
UCD Business School, Belfield Campus, Dublin 4, Ireland
e-mail: lucy.mccarthy@ucd.ie

D. Marshall
e-mail: donna.marshall@ucd.ie

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_18

Abstract

Although much has been written about whether it pays to be green, few researchers ask does it pay to be good and fewer still offer insights into which practices pay and which do not. This chapter addresses a key missing link in supply chain management by identifying which environmentally and socially sustainable supply chain management practices impact the operational and competitive outcomes of firms. The research literature has presented a diverse catalogue of measures of supply chain sustainability practices. In this chapter we have consolidated and synthesised existing measures in an effort to test the relationship between established sustainability practices and outcomes which allow firms to create a business case for both environmental and social sustainability practices. In doing so, we arrived at four environmental and four social supply chain sustainability practices with similar themes: monitoring; management systems; new product and process development; and strategy re-definition. A key outcome of this examination is that social sustainability practices pay more than environmental sustainability practices. This finding suggests that it might be advantageous for companies to invest their resources in social new product and process development as well as social supply chain re-definition focusing on social issues and in environmental monitoring and developing new environmental products and processes.

18.1 Introduction

Sustainability is the issue of our generation encompassing the triple bottom line of economic, environmental, and social sustainability (Elkington 1997). Researchers have focused and discussed the relative merits and costs of environmental sustainability and its effect on economic sustainability. This has led to one of the perennial debates in the sustainability literature, which is whether or not it pays to be green: Is there a business case for environmental sustainability? Environmental practices are at the forefront of research for three reasons: First, without conserving our resources, our ecosystem as well as our economy will decline and collapse; Second, many environmental practices are measurable and therefore have a tangibility that most social practices do not; Third, regulatory pressure focuses on environmental regulations. The economic merits of implementing environmentally sustainable practices have been discussed at length (Lankoski 2000, 2006; Reinhardt 2000; Lai and Wong 2012; Preuss 2001; Wu and Pagell 2011; Ambec and Lanoie 2008), and the costs have been assessed (Aupperle et al. 1985; Folger and Nutt 1975; Levy 1995). Economic advantages of sustainable supply chain management include cost savings due to reduced waste, reduced health and safety costs, and design for reuse (Brown 1996; Carter and Stevens 2007; Mollenkopf et al. 2005; Hart 1995); improved quality and shorter lead times (Hanson et al. 2004; Montabon et al. 2000); and reputation advantages (Ellen et al. 2006; Klassen and McLaughlin 1996).

It is likely, therefore, that environmental sustainability practices are more numerous and adopted earlier than social sustainability practices due to imminence, tangibility, and regulation. As many social practices are seen as voluntary and are not required by law this means they are more easily ignored or neglected. Although there has been some discussion on how some social practices pay or are linked with positive firm performance (Carter and Rogers 2008; Tate et al. 2010) others focus solely on the cost of these practices and ask whether they should even be considered as part of the remit of a business (Walley and Whitehead 1994; Friedman 1970).

Multiple environmental supply chain practices are identified in the supply chain literature, however, the missing link in supply chain management is understanding the outcome of these practices. For example, what is missing in the sustainable supply chain literature is identifying which practices will be a cost to the supply chain and which will lead to enhanced performance? Lankoski (2000, 2006) and Reinhardt (2000) found environmental practices increased revenue or reduced costs. While one study (Hamschmidt and Dyllick 2006) found that when implementing ISO 14000 systems the investment was recovered within just over 2 years.

Nevertheless, few papers have developed a classification for types of environmental supply chain sustainability practice and fewer for social supply chain sustainability. The divide in sustainability research between environmental and social research has been noted (Miemczyk et al. 2012; Seuring and Muller 2008; Srivastava 2007). Although it has been reported that there is a lack of evidence linking social performance of firms to economic performance, it has been noted that socially responsible investment is increasing allowing easier access to capital for socially responsible firms and providing an initial link between social practices of a firm and an economic indicator (Ambec and Lanoie 2008). Also although there are many papers focused at the organisational level fewer take the argument to a supply chain level. Most of the measures relating to green purchasing, in particular, are of a dyadic nature and many focus on internal purchasing functions (Miemczyk et al. 2012). In this chapter we introduce a classification for both environmental and social sustainability practices at the supply chain level and we test whether it pays to be green (environmentally sustainable) and good (socially sustainable) for the operations and the competitiveness of the firm.

18.2 Literature Review

Supply chain sustainability examines the role of sustainability beyond the boundaries of the firm. This includes sustainable practices with suppliers and customers, the actions and behaviours of purchasing departments and logistics systems (Srivastava 2007). Expanding the analysis beyond firm level means including a much wider conceptualisation of sustainability with a bigger impact on operational (through improved quality processes and reduced costs throughout the supply chain) and competitive (financial as well as market benefits) performance of firms and additional environmental and social effects for society. Academics and theorists are calling for managers to look beyond simple compliance to develop proactive sustainability solutions that go beyond the company and apply sustainability practices and principles throughout the supply chain (Koplin et al. 2007; Seuring and Muller 2008; Zhu et al. 2010; Walton et al. 1998). However, there is still uncertainty concerning the practices that will benefit the organisation and the practices that will not.

Supply chain sustainability has been explored in depth especially in the last decade. Most research has focused on environmental sustainability with one recent study finding, during an initial review of 30 core papers, that 69 % of the papers related to environmental issues, with the remaining 31 % referring to social aspects (Miemczyk et al. 2012). The next sections explore both environmental and social supply chain sustainability and their effect on operational and competitive performance.

18.2.1 Does it Pay to be Green?

In previous decades, companies were allowed to use natural resources such as air and water with no thought for the cost to society. Due to the damage done to the environment and to the health and safety of their citizens, governments intervened to address these environment-damaging practices. Initially companies regarded environmental regulation, which they found costly especially in the short term, as profit-reducing government interference. In response to this intervention, researchers and practitioners stated that implementing green initiatives for environmental sustainability was a cost and reduced firm competitiveness (Folger and Nutt 1975; Levy 1995). They based their findings on measures such as emissions data and data collected by the UN in a benchmark survey regarding environmental policies and procedures (Levy 1995).

One seminal article by Walley and Whitehead (1994) argued that implementing better environmental practices is difficult and expensive as the costs generally outweigh the benefits for the company. However, a more prevalent view holds that although picking the "low-hanging fruit," such as implementing waste reduction practices, may reduce costs initially, once more basic practices have been realised, implementing practices to tackle more difficult issues becomes increasingly expensive (Colby et al. 1995). However, both these arguments focus on costs disregarding the benefits (Carter and Rogers 2008), asking how much does it cost to be green, rather than does it pay to be green.

Like all organisational initiatives some practices will fail or be misguided and this overly negative perception of environmental practices was challenged in the 1990s (Porter and van der Linde 1995; Gore 1993; Porter 1991) when researchers began to report the benefits of environmental sustainability practices. Porter (1991), for example, argued that pollution was often the result of wasted resources and that company's response to waste issues and regulation, if innovative, could lead to cost savings as well as protecting the earth's resources.

As the majority of research and conceptual development has focused on environmental supply chain sustainability or green supply chain management (GSCM) there are many available definitions of environmental supply chain sustainability. Together they have one thing in common that environmental supply chain sustainability focuses on the impact of supply chain practices on the natural environment and biological ecosystems. The definition of GSCM has evolved but there remains little literature addressing which practices pay. To incorporate different levels of practice across the supply chain we take inspiration from three definitions of sustainability at a supply chain level: "Integrating environmental thinking into supply chain management, including product design, material sourcing and selection, manufacturing processes, delivery of the final product to the consumer as well as end-of life management of the product after its useful life" (Srivastava 2007, p. 54); "Internal environmental management, external green SCM, investment recovery, and eco-design or design for environment practices" (Zhu and Sarkis 2004, p. 267); and "A semi-closed loop that includes product and packaging recycling, re-use, and/or remanufacturing operations takes this to a re-definitional level building upon the idea of the traditional supply chain" (Beamon 1999, p. 337).

In the last decade, this idea that GSCM is operationally and competitively beneficial for the firm has gained momentum and the number of research studies exploring if environmental sustainability practices are good for business has increased dramatically. Seminal articles, such as Ambec and Lanoie (2008) highlighted the benefits of improved environmental practices, including cost reduction, profit increase, improved market access, and the ability to differentiate a company's product offerings. This is further supported by event analysis showing that stock markets do react to good or bad environmental news (Ambec and Lanoie 2007). While, Carter and Rogers (2008) noted other benefits that included lower energy costs, increased transparency, and future certainty for your supply chain based on the utilisation of renewable energy.

What is becoming clear is that not all environmental sustainability practices lead to immediate operational or competitive benefits. Low-hanging fruit, such as waste and pollution reduction, can lead to cost-savings in the short term but in the long term there are other practices that increase short-term costs and investments that may not be recouped for many years such as 'green technology implementation' (Preuss 2001; Wu and Pagell 2011). However, it is becoming clear that basic environmental capabilities may lead to improvements in short-term operational and longer-term competitiveness. For example, researchers found that purchasing can become an important change agent for environmental initiatives in the supply chain (Preuss 2001). Here sustainability practices include monitoring suppliers to ensure compliance or carrying out environmental audits. It covers the most basic level of supply chain inter-action and involvement but appears to lead to improved company performance. Therefore we hypothesise:

► **H1a** Instigating environmental supply chain monitoring practices will lead to better operational outcomes.

► **H1b** Instigating environmental supply chain monitoring practices will lead to better competitive outcomes.

Additionally, green certifications can improve the image of an organisation by communicating environmental commitment (Wiengarten et al. 2013) again leading to long-term performance benefits. For example, it was shown that environmental collaboration between customers and suppliers, through activities such as helping suppliers to implement green management systems, leads to the development of knowledge-sharing capabilities (Vachon and Klassen 2006) that are a resource for competitive advantage (Hart 1995). These management systems focus on best practice and the use of industry certification as a method of ensuring implementation within and across the supply chain. They involve more inter-action between the companies in a supply chain. These include environmental practices such as co-designing environmental measurement systems or aiding a supplier to obtain relevant certification such as ISO 14001. Focal firms are not necessarily implementing sustainability systems in their own operations but are making sure that their suppliers are implementing sustainability systems (Vachon and Klassen 2006). Given the conceptual and empirical evidence regarding green management systems and performance we hypothesise:

- ► **H2a** Implementing environmental supply chain management systems will lead to better operational outcomes.

- ► **H2b** Implementing of environmental supply chain management systems will lead to better competitive outcomes.

Certain practices, such as environmental product and process development are proposed to be positively related to performance in the short and long-term (Wu and Pagell 2011). Ambec and Lanoie (2008), for example, identified practices that allow firms to exploit win-win situations (both better financial and environmental performance). They identified three channels of new product and process development that will lead to an increase revenue: access to markets, differentiating products, pollution control technologies; and they further found four categories that will enhance operational performance and reduce costs: risk reduction, waste reduction, costs of capital, and attracting better and more loyal employees; many of which are mutually reinforcing.

For example, differentiating products as environmental can lead to competitive advantage through product or service differentiation (green products or services) and better servicing of niche markets (customers demanding ecologically friendly products and services; Nidumolu et al. 2009). This means companies can attract more conscientious customers in spite their increased cost. For example, Patagonia used recycled polyethylene terephthalate and organic cotton to make clothing, albeit at a higher price, for a market willing to pay for environment-friendly clothing (Ambec and Lanoie 2008). Furthermore, firms can create pollution control technologies that they can sell to others gaining first mover advantages as well as product differentiation. Although there is a struggle to find empirical evidence to support some of these propositions, Ambec and Lanoie (2008) propose that by having environmental systems and checks in place firms can show due diligence which can lead to a lack of scrutiny by external stakeholders, therefore reducing costs. Evidence also shows that the cost of capital to firms can be reduced if they are seen as environmentally responsible as they will have easier access to green investors and banks with environmental screening. Additionally, firms with better CSR practices are seen to attract a better calibre of employees (Ambec and Lanoie 2008), this can improve the image of the company and enhance the loyalty of key stakeholders (Goodman 2000; Rondinelli and Vastag 1996).

New product and process development has emerged as central to environmental supply chain sustainability. The capabilities that are developed both within the firm and between a firm and its supply chain members can lead to many benefits. These include the ability to share knowledge and information that is timely, relevant, and valuable (Mollenkopf et al. 2010; Vachon and Klassen 2006) and that can become a unique or inimitable resource for competitive advantage through environmental actions (Hart 1995). New product and process development practices for sustainability see the focal company develop new products and process across the supply chain. This is a more strategic and proactive approach moving beyond more basic practices. Therefore we hypothesise:

- ► **H3a** Environmental new product and process development will lead to better operational outcomes.

- ► **H3b** Environmental new product and process development will lead to better competitive outcomes.

In other supply chain areas such as logistics, even though environmental practices were regarded as key issues, they were not taken into account when buying logistics services (Wolf and Seuring 2010). Lai and Wong (2012) investigated the impact of green logistics management (GLM) on performance in the context of Chinese manufacturer's response to international supply chain pressure. They found that GLM, which includes, sourcing, manufacturing, distribution, and disposal, positively impacts both environmental and operational performance. They also found that economic motivation is not an effective antecedent to GLM adoption but regulatory pressure, as a moderator, enhances supply chain relationship performance.

In some instances the desired outcome or goal is not economical, or operational but environmental where companies' goals and measures of success are tied to environmental sustainability and that success us actually viewed as achieving environmental goals (Wu and Pagell 2011). This redefinition of the supply chain toward environmental performance and outcomes is a higher order level of practice adoption (Sharma and Henriques 2005). It involves fundamental redefinition of the supply chain, involving the collaboration of internal and external stakeholders to the benefit of stakeholders within and without the supply chain. Environmentally this encompasses re-conceptualisations such as the creation of a closed-loop supply chain where waste is eliminated or minimised as much as possible throughout the supply chain and transparent supply chains, which have full visibility of their supplier's environmental practices and outcomes (Sharma and Henriques 2005; Pagell and Wu 2009). As this is proposed to have significant impact on the operations of the firm and on its competitive advantage we hypothesise:

► **H4a** Redefining supply chains to include environmental outcomes will lead to better operational outcomes.

► **H4b** Redefining supply chains to include environmental outcomes will lead to better competitive outcomes.

The focus of the current literature is mainly on environmental sustainability with research beginning to uncover which environmental supply chain practices pay: monitoring suppliers, with a focus on waste management pollution and green purchasing (Holt and Ghobadian 2009; Zhu and Sarkis 2007; Zhu et al. 2005), the implementation of green management systems (Wiengarten et al. 2013); the potential innovative capability of new product and process development (Ambec and Lanoie 2008; Vachon and Klassen 2006) and redefining the supply chain (Pagell and Wu 2009; Sharma and Henriques 2005). However, researchers are beginning to turn their attention to social supply chain sustainability, and whether it also pays to be good as well as green.

18.2.2 Does it Pay to be Good?

The lack of research on whether it pays to be good, which explores the impact of social sustainability practices, is clear in the supply chain literature (Miemczyk et al. 2012; Besser et al. 2006; Handfield and Baumer 2006; Worthington et al. 2008). Initially in the 1970s, the predominant thinking was that it does not pay and actually costs organisations to be socially responsible. Friedman (1970) for example argued that companies should not be beholden to social responsibilities. He puts forward the view that CSR initiatives like hiring the long-term employed to alleviate poverty are detrimental to profits and should not be considered by managers of companies: The corporate executive is appointed only to serve the interests of the direct stakeholders. Although he does not quantify his argument, he does raise the issue of the cost of socially responsible practices.

There were conflicting results from later studies in the 1970s. A series of studies completed by Moskowitz (1972), Parket and Eilbirt (1975) and Heinz (1976) provided a link between CSR activities and profitability. However, others (Alexander and Buchholz 1978; Abbott and Monsen 1979; Vance 1975) disputed these findings and found no connection between CSR practices and stock market values or return on investment. For example, socially responsible firms identified by Moskowitz (1972) initially registered a higher stock price increase than the general increase in stock prices at the time however further studies showed that over a longer time period they performed below industry averages.

Additionally, a study by Aupperle et al. (1985) found no statistically significant relationships between a strong orientation for CSR and financial performance.

However many of the measures used in this period exemplified by Aupperle et al. (1985) and Carroll (1979), were often vague and difficult to quantify. For example both studies use the measure: Discretionary responsibilities of business, which is defined "as volitional or philanthropic in nature, and, as such, also difficult to ascertain and evaluate" (Aupperle et al. 1985, p. 455).

More recent scholarship has shown that social sustainability practices are linked with positive performance for organisations (Carter and Rogers 2008; Tate et al. 2010). For instance, studies have shown insurance-life benefits to companies (preserving financial performance) if they have implemented social sustainability practices towards secondary stakeholders. For example, if a company has given a donation or financial award to a community or group outside the direct influence of the organisation (Godfrey et al. 2009) this is regarded as moral capital and can mitigate a loss of reputation if undesirable practices are reported. Further research has argued that social sustainability factors are twice as important as environmental factors in determining the relative reputation of a company as social sustainability connects with stakeholders on a personal level. People can imagine health and safety or human rights violations happening to themselves or someone close to them (Brandlogic and CRD Analytics 2012). For these reasons, the importance of social sustainability practices should not be under-estimated especially as advances in technology and globalisation have increased the risk of exposure by non-governmental organisations (NGOs), consumer or activist groups.

In the supply chain literature, social supply chain sustainability is defined with practices ranging from ethical trade, involving codes of conduct for minimum labour standards in supply chains to more radical, developmental projects such as fair trade, which has the goals of producer empowerment and equitable trading (Smith and Barrientos 2005; Hughes et al. 2007). Many supply chain studies take a holistic approach to CSR, combining environmental and social supply chain sustainability practices. For instance, Carter and Rogers (2008) focused on the advantages and perceived disadvantages of adopting environmental and social practices together. While, Pullman et al. (2009) examined both environmental and social supply chain sustainability practices and found that sustainability practices and performance can generate competitive advantage and contribute to a firm's capabilities and variability in performance across firms (Wernerfelt 1984; Barney 1991; Peteraf 1993). Building on these ideas, Pagell and Wu (2009) presented an early adopter argument, stating that if you are the first to implement social or environmental sustainability practices in the supply chain it can lead to competitive advantage and companies can then lobby governments to make practices mandatory for other companies. However, what is unclear from these papers is which social supply chain sustainability practices in particular will lead to enhanced performance when implemented separately from environmental practices?

The first practice is monitoring. This is similar to environmental monitoring where companies monitor their supply chain members to ensure basic environmental compliance. From a social perspective this would focus on basic social practices such as health and safety and human rights requirements enforced across the supply chain. Conceptual studies have suggested a link between monitoring basic technical capabilities but have not tested this link (Parmigiani et al. 2011) and theory-building studies have shown that if suppliers are reducing accidents and have happier, more productive workers this will be good for performance (Pagell and Wu 2009). Empirical studies have also explored how purchasing social responsibility, which involves selecting and monitoring suppliers based on their social sustainability practices, affects a firm's cost structure and leads to organisational learning and improved supplier performance (Carter 2005). While other studies have found that selecting and monitoring suppliers based on social sustainability has a direct impact on performance. This leads to an increase in strategic capabilities, organisational learning, and firm reputation (Ehrgott et al. 2011) and reduces operational risk and increases return on investment (Klassen and Vereeke 2012). Given this evidence we hypothesise that:

► **H5a** Applying social supply chain monitoring practices will lead to better operational outcomes.

► **H5b** Applying social supply chain monitoring practices will lead to better competitive outcomes.

Additionally, helping supply chain members to implement more complex management systems that ensure social sustainability such as OHSAS18000 (for health and safety management) and SA8000 (for workplace practices) have been found to enhance relationship performance with suppliers and also affect the operational outcomes of the firm (Parmigiani et al. 2011). These social management systems focus on best practice and the use of industry certification as a method of ensuring implementation within and across the supply chain. Das et al. (2008) showed that management systems led to positive outcomes for quality performance and Tate et al. (2010) established that social sustainability strategies such as safety training have a positive influence on financial performance. Studies have also found that well-being programmes that go beyond health and safety to work-life balance and exercise and nutrition programmes can lead to a decrease in costs due to sickness and an increase in the healthy lifestyles of supply chain employees (Pfeffer 2010). Unfortunately, researchers stopped short of testing the same practice across both operational and completive performance. From this we hypothesise that:

► **H6a** Implementing social supply chain management systems will lead to better operational outcomes.

► **H6a** Implementing social supply chain management systems will lead to better competitive outcomes.

New product and process development practices are a more strategic and proactive approach moving beyond the more basic practices. Socially, these practices are focused on finding new and innovative ways to reduce any harm on supply chain members such as consumers and employees and finding practices that benefit all workers in the supply chain. Nidulomu et al. (2009) have shown environmental innovation and business redefinition to have positive impacts on performance.

When practices enhance collaborative relationships, such as where buyers and suppliers work together to ensure the creation of products and processes that enhance the well-being of people in the supply chain, this leads to better coordination with supplier's customers and stakeholders can mitigate operational risk and offer good returns although returns were difficult to quantify (Klassen and Vereeke 2012). We hypothesise therefore that:

► **H7a** New product and process development across the supply chain with a social focus will lead to better operational outcomes.

► **H7b** New product and process development across the supply chain with a social focus will lead to better competitive outcomes.

Supply chain redefinition to focus on social outcomes involves non-governmental organisations or community groups in the decision-making and strategy-developing activities of the supply chain (Klassen and Vereeke 2012). This means developing strategies that cause as little harm as possible to communities, society, and groups involved in and affected by the supply chain. An excellent example of this is redefining the supply chain around the strategy of fair trade, where the supply chain is identified with the central ideas of producer empowerment, training and education and fair and equitable trading including fair margins throughout the supply chain (Awaysheh and Klassen 2010; Smith and Barrientos 2005). Again this can affect the performance of the firm by providing new markets to enter and also catering to niche customers willing to pay premium prices for socially focused products (Schaltegger and Wagner 2011). Safe conditions throughout the supply chain, motivated producers and the ability to invest in quality and process improvement programmes would follow from a socially focused supply chain. Therefore we hypothesise:

► **H8a** Implementation of social redefinition practices will lead to better operational outcomes.

► **H8b** Implementation of social redefinition practices will lead to better competitive outcomes.

18.2.3 Summary

The research literature has presented a diverse catalogue of measures of supply chain sustainability practices. To help us categorise these practices we utilised classifications from previous studies that have identified lower order practices to higher order practices as part of a continuum, each with relative impact (Sharma and Henriques 2005). Practices have been categorised in other forms, such as external and internal practices. Externally the focal firm is removed from the implementation but monitors compliance or encourages suppliers to adopt sustainability practices (Vachon and Klassen 2006; Awaysheh and Klassen 2010). Internally the focal firm is part of the process and spearheads change through encouragement, collaboration and/or reward (Nidumolu et al 2009; Vachon and Klassen 2006; Tate et al. 2010). We have consolidated and synthesised existing measures in an effort to test the relationship between established sustainability practices and outcomes for firms to allow firms to create a business case for both environmental and social sustainability practices. We arrived at four environmental and four social supply chain sustainability practices with similar themes: monitoring, management systems, new product and process development, and redefinition. These practices represent varying levels of strategic pro-activeness and also take into account differing adoption drivers (Seuring and Müller 2008; Pagell and Wu 2009; Carter and Easton 2011). They also have different impacts on performance. The next sections will outline how we tested our hypotheses and our findings.

18.3 Methodology

18.3.1 Sample and Data Collection

To test our hypotheses we distributed a survey to supply chain directors in Ireland. Choosing to locate the survey in a single country eliminates any bias of differing regulations (Pagell and Gobeli 2009). Using an established Irish database we drew an initial list of 1000 companies. As a unit of analysis we chose the supply chain relationship, thus allowing us to gain insight into practices adopted across the supply chain (Cao and Zhang 2011). Companies had to satisfy three main criteria to be considered eligible for inclusion: name and relevant job title, companies with over 50 employees and companies from different industrial sectors. Plants had to be larger in size as larger companies have resources and capabilities needed to install innovative technology and policies that small companies may lack (Lee and Klassen 2008; Zhu and Sarkis 2007; Preuss 2009). It was necessary that the results should be broadly applicable and therefore a cross section of industries was chosen. This generalisability is limited if a specific industry is chosen (Walton et al. 1998) and "noise" can be reduced if both manufacturing and services are included (Liu et al. 2010) while also allowing for future studies to be internationally comparable (Carter and Easton 2011). To test our hypotheses our target sample covered ten industries in Ireland based on the North American Industry Classification System (2007).

Table 18.1 Sample descriptives

	% of sample respondents	Mean	Standard deviation	Maximum	Minimum
Employee numbers	99.4	32,908	84,597	500,000	50
Company age	100	9.92	14	41	0.75

Our sample size was reduced twice during the initial stages of examination, once due to companies falling outside our classification specification and then again due to duplications, leaving us with a sample of 883 companies. In an attempt to improve response rates a telephone survey was used, which allowed us to identify the most suitable respondent and ensure clarity. The key informant approach was used where the supply chain expert or equivalent was approached to complete the questionnaire (Cao and Zhang 2011; Singh et al. 2011). It has been noted that surveys sent to pre-screened respondents often have higher response rates (Cycyota and Harrison 2006). We assured the participant that neither they nor the company would be identified, that all data would be treated according to data management best practice and in an effort to avoid a common-rater effect or social desirability, a confidentiality statement was read out at the beginning of each interview (Zhu et al. 2013). As a method of reducing social desirability bias participants were asked to answer questions from a company perspective (Carter 2000).

Our sample size was reduced again by a further 20 companies during the interview process, as companies had ceased trading, phone lines no longer worked and further duplicates deleted. This left a final sample population of 863. The number of complete responses received was 156, giving us an acceptable response rate of 18.08 %. In our study, seven companies or 4.5 % categorised themselves as "Utilities"; 3.9 % (six companies) of the sample were construction companies. The largest proportion, 53.2 % or 83 companies, came from the manufacturing sector. Wholesale Trade accounted for 13 companies or 8.3 %. Transportation and Warehousing amounted to ten companies or 6.4 %; Postal Services, Couriers and Messengers, and Warehousing and Storage accounted for two companies each, which is six in total and 3.9 % of the overall sample. Total Telecommunications and Total Waste Management and Remediation Service accounted for one company each or 1.2 % in total. Retail Trade companies were the second largest category with 29 companies amounting to 18.6 % of our total sample. Our manufacturing respondents were dispersed between 16 sub-types, which accounts for the high concentration of manufacturing companies. Table 18.1 provides an overview of the respondent companies' size and age.

18.3.2 New Construct Development

For environmental monitoring we adapted items from a Global Manufacturing Research Group (GMRG) survey (Sheu 2013). GMRG was established in 1985 and their questionnaire is well known and utilised in management research. They incorporated questions on monitoring compliance, commitment, and audits of environmental practices. (e.g., "We monitored major suppliers' commitment to environmental improvement goals"). Environmental management systems items are similar to green practices described by Vachon and Klassen (2006) and were created by adapting GMRG's basic environmental management systems items, focusing on the certification of suppliers e.g. ISO 9001, ISO 14001. Items were also adapted from Zhu et al. (2008) on practices describing and eco-design internal environmental management. We used Ehrgott et al. (2011) system design questions provided a basis for new product and process development along with Zhu et al. (2008) who provided items for addressing environmental new product or process design. These included items on increasing the use of recycled materials, the reduction of consuming resources and materials as well as eco-design. We adapted our items for environmental redefinition from Sharma and Henriques (2005). These comprised of practices that sought to look at waste as a potential energy source, the minimisation of waste as well recirculation items, business redefinition items, and eco-efficiency items. Although Sharma and Henriques (2005) items were created to focus on the wood industry, we altered them to be suitable for an industry-wide survey.

We utilised GMRG (Sheu 2013) items again for the final version of the social monitoring construct, these questions concentrated on monitoring commitment, compliance, and audits of health and safety practices, e.g. "We sent occupational health and safety questionnaires to major suppliers in order to monitor their compliance." We also used GMRG items for the social management system construct, asking respondents about the certification of their key suppliers in relation to health and safety practices such as OHSAS 18000. Berman et al. (1999) supplied a source for items dealing with work-family issues. Items on social management systems relating to employee welfare and well-being were adapted from Pullman et al. (2009). We also incorporated items from Awaysheh and Klassen (2010) to cover the area of supplier codes of conduct and labour practices. Ehrgott et al. (2011) provided the basis for the items on designing socially sustainable systems. Items to address fair and safe labour practices were adapted from Awaysheh and Klassen (2010), whereas product design and safety items had their foundation in Zhu et al. (2008) constructs. These together with Berman et al. (1999) items on benefiting employees and stakeholder relations were combined to develop our social new product and process development construct. To create the social redefinition construct we adapted items from Pullman et al. (2009) regarding workers, community, and diversity and also took items from the Impact on Society GRI UNEP/SustainAbility Report as they were focused on increasing transparency, collaboration with external stakeholders and efforts centring on reducing negative impacts on society.

18.3.3 New Construct Refinement

The process of creating and testing our new constructs involved four main steps. Initially we created the items drawing for the literature in the field. We followed this with two separate rounds of Q-sorting, a pre-test, and a pilot study (Moore and Benbasat 1991). The two rounds of Q-sorts were carried out to ensure domain and content validity.

The first round of Q-sorting involved five pretesters, who, in this case were professors and senior sustainable supply chain management lecturers and would be regarded as reliable sources of information (Miller and Roth 1994; Rosenzweig and Roth 2007). We began with 43 items, divided among our eight potential constructs. The experts had to match an associated indicator variable to each practices. They also advised us on re-wording, refinement and general length and layout issues. 80 % was chosen as the acceptable rate for verified constructs, as authors suggested 70 % as an acceptable ratio for content validity (Kotcharin et al. 2012; Moore and Benbasat 1991).

Almost all constructs were altered based on the feedback of the experts. Environmental monitoring and social monitoring were completely changed during the first round of Q-sorting, when items were deleted: “Committed to recycling across all categories of waste” (Sharma and Henriques 2005) which only had a 50 % agreement rate, and “Did not use child, forced or sweatshop labour” (adapted from Awaysheh and Klassen 2010) with a 25 % agreement rate. We replaced them with adapted GMRG items (Sheu 2013).

A second round of Q-sort analysis took place on the refined and shortened scales with new pre-testers comprising of professors and senior sustainable supply chain lecturers. By the end of the second round of Q-sorting all items had reached the 80 % agreement rate and we were left with 32 items across eight constructs. Finally a pre-test of the refined scales as part of the whole survey, conducted with three new experts, led to further explanations of some terms and minor clarification recommendations to practice items.

To test the reliability of the new scales we pilot-tested our entire survey ($n=33$). We identified and contacted a sample of respondents in similar industries and positions as would be in our population. Utilising this data we tested the new instruments and the constructs were accepted if the Cronbach’s alpha value was greater than 0.7 (Cronbach 1951). All the new scales reached well above a value of 0.7. We also asked for feedback on the questionnaire and specifically on the new sustainable scales. Based on this we revised our definition of social sustainability and incorporating all the feedback ensured item clarity, thus avoiding common method bias (Podsakoff et al. 2003; Zhu et al. 2013). All the measures were based on a seven-point Likert scale with end points of either no implementation or no development and fully implemented or fully developed.

18.4 Measures

18.4.1 Dependent Variable

We had two dependent variables: operational outcomes and competitive outcomes. We assessed both types of outcomes on an environmental and social scale using previously established items and constructs. For both scales respondents were asked to indicate the level of improvement of their outcomes due to their sustainability practices over the last year on a Likert scale ranging from 1 ("strongly disagree") to 7 ("strongly agree").

For operational outcomes we adapted the scales from Lawson et al. (2008). We measured the extent to which the focal firm operational outcomes improved as a result of sustainability practices over the past year. The questionnaire included two operational outcome constructs, one environmental and one social. Competitive outcomes scales were adapted from Nahm et al. (2004). We measured the extent to which the focal firm's competitive outcomes improved as a result of sustainability practices over the past year. Items such as "your environmental sustainability practices have resulted in sales growth" and "your social sustainability practices have resulted in better overall competitive position" were included.

The Cronbach's alphas and factor loadings for these established scales all reach required levels. Environmental operational outcomes factor loadings exceeded 0.5 with a Cronbach's alpha of 0.914. Environmental competitive outcomes factor loadings all exceeded 0.5 with an alpha over 0.8. Social operational outcome factor loadings were above 0.7, with an alpha of.934, and social competitive outcome factors loadings were also above 0.7 with an alpha over 0.8. All items exhibited satisfactory levels of inter-item reliability (Nunnally 1978).

18.4.2 Independent Variable

Our dependent variables now consisted of four environmental and four social supply chain sustainability factors. Monitoring covered basic elements such as compliance with environmental requirements or health and safety requirements on the social side. Management systems were a development beyond monitoring and covered practices such as the obtaining of ISO 14001 or OHSAS 18001 certification. New product and process development measured the extent the focal company had worked with suppliers toward initiatives such as the reduced consumption of resources for the environmental construct and benefits for workers on the social construct. While supply chain redefinition constructs focused on closed loop supply chains and the inclusion of stakeholders such as community groups in the supply chain.

We performed a reliability analysis for each of the environmental supply chain sustainability scales. As shown in the two all of the scales exhibited acceptable levels of reliability. We also performed an exploratory factor analysis. A principal axis factor analysis with oblique rotation (Oblimin, delta = 0) was performed on each measure. Evaluation of each of the correlation matrices among items for each measure indicated that it was factorable. All of the environmental items loaded onto their respective four factors ($p < 0.001$), providing evidence of convergent validity. Internal consistency is measured by the coefficient alpha as well as another measure, average variance explained. With the exception of the correlation between monitoring and management systems, the AVE of each scale exceeds the square of its correlation with the other practices, providing evidence of discriminant

Table 18.2 Environmental sustainable supply chain practices

Construct	# Items	Alpha	95 % confidence interval		Mean inter-item correlations	Average variance explained
			Lower	Upper		
Environmental monitoring	4	0.93	0.91	0.95	0.77	0.78
Environmental management systems	4	0.93	0.91	0.95	0.77	0.77
Environmental new product and process development	4	0.91	0.88	0.93	0.72	0.63
Environmental strategy redefinition	4	0.87	0.83	0.90	0.63	0.71

Table 18.3 Social sustainable supply chain practices

Construct	# Items	Alpha	95 % confidence interval		Mean inter-item correlations	Average variance explained
			Lower	Upper		
Social monitoring	4	0.92	0.90	0.94	0.74	0.74
Social management systems	4	0.90	0.88	0.93	0.69	0.70
Social new product and process development	4	0.90	0.87	0.92	0.69	0.65
Social strategy redefinition	4	0.89	0.85	0.91	0.67	0.70

validity. In all cases, Bartlett's test of sphericity was significant, indicating that correlation matrices were suitable for factor analysis. The Kaiser-Meyer-Olkin measure of sampling adequacy exceeded 0.80, which is "meritorious" according to Kaiser's criteria (Pett et al. 2003). (Table 18.2)

We performed a similar analysis with respect to the social measures of supply chain sustainability as shown in Table 18.3. The reliability of the social supply chain sustainability items was assessed and all of the scales exhibited acceptable levels of reliability (Cronbach 1951). The alpha of every factor was greater than 0.8 (Nunally 1978). Again, all items loaded on their respective constructs; and as with the environmental measure, the average variance extracted for each factor exceeded 0.50, the Kaiser-Meyer-Olkin measure of sampling adequacy exceeded 0.80 and, Bartlett's test of sphericity was again significant.

18.4.3 Nonresponse Bias

Although telephone surveys have the advantage that the offer an immediate opportunity to assess non-response bias, as you can immediately assess why the respondent would not wish to partake in the survey, out for the 132 refusals, 88 refused outright, mainly citing that they did not have sufficient time to participate, whereas 44 cited company policy as their reason for not participating. We made hundreds of appointments to call back at more convenient times however in the vast majority of these callbacks the key informant was again too busy. We could find no reason to suggest that these respondents would have answered the questions differently from those that did respond (Singh et al. 2011).

18.4.4 Descriptive Statistics

Table 18.4 presents the means, standard deviations, and zero order correlations among all the variables in the study. With the exception of the correlation among some of the adoption practices, the correlations among variables are all below the recommended level of 0.70, which suggests the absence of problems of multi-collinearity. We attributed the higher correlation to the fact that there may be a higher-order construct at play, in short that the four practices we have identified for each category may be re-conceptualised into a second-order two-factor model, however as we wish to identify as many levels of practices that pay as possible, the four factor model is best suited to our needs. Nonetheless, we examined the variance inflation factors of each of the predictors in our models, which ranged from 1.698 to 5.115, with most factors falling between two and three suggesting the absence of multi-collinearity (Neter et al. 1996). Additionally, the condition index, another index of the extent of collinearity, was less than 30, suggesting no significant incidence of collinearity (Cohen et al. 2003).

18.5 Results

We had eight dependent variables: environmental monitoring, environmental management systems, environmental new product and process development environmental supply chain redefinition, social monitoring, social management systems, social new product and process development, and social supply chain redefinition. The models we developed highlighted the differences between the effect of environmental monitoring, management systems, new product and process development, and redefinition practices on operational and competitive outcomes as well as the effect of social monitoring, management systems, new product and process development, and redefinition practices on operational and competitive outcomes. Two four-factor models showed how each level of practice is related to the outcomes.

Table 18.4 Means, standard deviations and zero order (Pearson's) correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Environmental monitoring	4.03	2.02	1													
Environmental management systems	3.32	2.01	0.84**	1												
Environmental new product and process development	4.58	1.74	0.50**	0.50**	1											
Environmental redefinition	4.44	1.49	0.49**	0.46**	0.63**	1										
Social monitoring	3.69	1.95	0.67**	0.64**	0.53**	0.45**	1									
Social management systems	2.91	1.79	0.60**	0.76**	0.60**	0.43**	0.70**	1								
Social new product and process development	4.50	1.71	0.53**	0.53**	0.73**	0.56**	0.60**	0.60**	1							
Social redefinition	3.91	1.67	0.59**	0.58**	0.64**	0.60**	0.61**	0.59**	0.73**	1						
Environmental operational outcomes	4.34	1.55	0.60**	0.58**	0.65**	0.54**	0.56**	0.52**	0.62**	0.63**	1					
Environmental competitive outcomes	3.92	1.52	0.60**	0.55**	0.61**	0.50**	0.50**	0.50**	0.55**	0.55**	0.86**	1				
Social operational outcomes	4.16	1.56	0.52**	0.52**	0.58**	0.50**	0.55**	0.50**	0.62**	0.62**	0.90**	0.78**	1			
Social competitive outcomes	3.81	1.56	0.50**	0.49**	0.57**	0.46**	0.52**	0.48**	0.56**	0.56**	0.79**	0.88**	0.85**	1		
Number of employees	32908.01	84574.99	0.24**	0.19*	0.15	0.18*	0.13	0.19*	0.12	0.08	0.15	0.15	0.11	0.01	1	
Age of company	55.21	50.09	0.06	0.05	0.07	0.07	0.09	0.05	0.17*	0.11	0.06	−0.02	0.04	−0.04	0.14	1

$N=156$; $^{**}p<0.01$; $^{*}p<0.05$

Table 18.5 Four-factor environmental model

Environmental outcomes	Operational		Competitive	
	Beta	Sig.	Beta	Sig.
Controls				
Employee numbers (LN)	0.354	0	0.315	0
Age of company (LN)	–	N.S.	–	N.S.
Independent variables				
Monitoring	0.267	0.012	0.351	0.002
Management	–	N.S.	–	N.S.
New product and process development	0.395	0	0.378	0
Redefinition	–	N.S.	–	N.S.

We employed models with two control variables: size and age of the company. Large companies typically face higher sustainability pressures (Godfrey et al. 2009) and are typically required to implement better practices. The control variables are firm size measured by the number of full time-employees (Zhu and Sarkis 2007) and company age. Firm size was significant but age had no significant effect on the model. This holds true for all models.

The models were tested using hierarchical linear regression analysis. Initially the control variables were entered into the regression. Then the first dependent variable, environmental operational outcomes, was run in the model, with each of the four environmental supply chain sustainability practices entered in the second step. Our second model followed the same procedure however this time we tested environmental competitive outcomes. This method was repeated with social operational outcomes as the dependent variable and social supply chain sustainability practices as the independent variables to give us our third model and this was followed by a fourth model with social competitive outcomes as the dependent variable.

The results of the environmental and social hierarchical regression models are presented in Tables 18.5 and 18.6. Evidence of moderation exists when inter-action terms account for significant incremental (step) variances in a dependent variable, either individually, as signified by the value of the β coefficients, which is displayed in the results below. For example for every one standard deviation increased in environmental monitoring, environmental operational outcomes increased by 0.267 standard deviations. For environmental competitive outcomes: for every one standard deviation increase in environmental new product and process development, competitive outcomes increased by 0.378 standard deviations. Regarding the social practices, for every one standard deviation increase in social new product and process development, social operational outcomes increased by 0.314 standard deviations and for every one standard deviation increase in social redefini-

Table 18.6 Four-factor social model

Social outcomes	Operational		Competitive	
	Beta	Sig.	Beta	Sig.
Controls				
Employee numbers (LN)	0.286	0.001	0.251	0.004
Age of company (LN)	–	N.S.	–	N.S.
Independent variables				
Monitoring	–	N.S.	–	N.S.
Management	–	N.S.	–	N.S.
New product and process development	0.314	0.002	0.283	0.007
Redefinition	0.267	0.005	0.227	0.024

Table 18.7 R^2 of models

Model		R^2	Adjusted R^2	R^2 change
Environmental operational outcomes	Step 1	0.117	0.105	0.117
	Step 2	0.541	0.529	0.424
Environmental competitive outcomes	Step 1	0.088	0.076	0.088
	Step 2	0.488	0.474	0.4
Social operational outcomes	Step 1	0.082	0.069	0.082
	Step 2	0.482	0.468	0.4
Social competitive outcomes	Step 1	0.061	0.049	0.061
	Step 2	0.411	0.395	0.35

tion, social competitive outcomes increased by 0.227 standard deviations. The R^2 of the models, which captures the variance explained in the dependent variable, are shown in Table 18.7.

Our results show that environmental sustainability practices and social sustainability practices do not act in the same ways and that differing levels of practices have different effects on each outcome, supporting our categorisation of four factors and showing that it pays to be green and good but for different practices. A summary of results of the hypotheses is given below:

- **H1 (a-b)** Instigating environmental supply chain monitoring practices will lead to better operational and competitive outcomes. The adoption of environmental monitoring practices led to a significant increase in operational outcomes ($\beta = 27$, $p < 0.05$) and an even larger increase in competitive outcomes was linked to environmental practices ($\beta = 35$, $p < 0.01$). This supported our hypotheses.

- **H2 (a-b)** Implementing environmental supply chain management systems will lead to better operational and competitive outcomes. The implementation of environmental management systems did not lead to better operational or competitive outcomes as the results were non-significant, therefore these hypotheses were not upheld.

- **H3 (a-b)** Environmental new product and process development practices led to better operational ($\beta = 40$, $p < 0.0001$) and competitive outcomes ($\beta = 38$, $p < 0.0001$). This practice led to the most significant increases. Thus our hypotheses, H3a and H3b, were supported.

- **H4 (a-b)** Redefining supply chains to include environmental outcomes will lead to better operational and competitive outcomes. There was no significant effect of environmental redefinition practices on operational or competitive outcomes. Therefore our hypotheses were not supported.

- **H5 (a-b)** Applying social supply chain monitoring practices will lead to better operational and competitive outcomes. Social monitoring practices had no significant effect on operational or competitive outcomes. Thus our hypotheses were not supported.

- **H6 (a-b)** Implementing social supply chain management systems will lead to better operational and competitive outcomes. The implementation of social management systems in the supply chain were not shown to lead to better operational and competitive outcomes as all results were non-significant, therefore these hypotheses were not upheld.

- **H7 (a-b)** New product and process development across the supply chain with a social focus will lead to better operational and competitive outcomes. The implementation of social new product and process development practices led to better operational ($\beta = 31$, $p < 0.01$) and competitive outcomes ($\beta = 28$, $p < 0.01$). Thus our hypotheses, H7a and H7b, were supported.

- **H8 (a-b)** Implementation of social redefinition practices will lead to better operational and competitive outcomes. Social redefinition had positive significant effects on both operational ($\beta = 27$, $p < 0.01$) and competitive outcomes ($\beta = 23$, $p < 0.05$), upholding our hypotheses.

All the results are shown figuratively in Figs. 18.1 and 18.2.

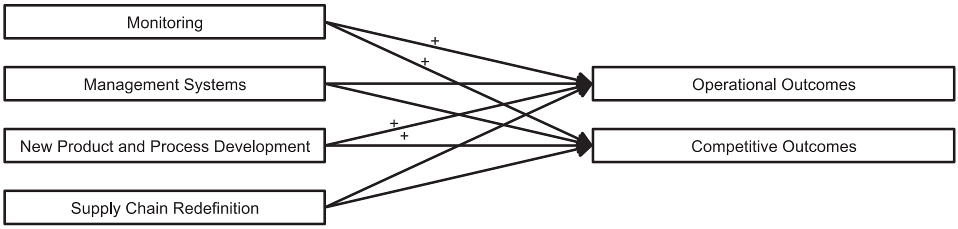


Fig. 18.1 Environmental supply chain sustainability practices and outcomes

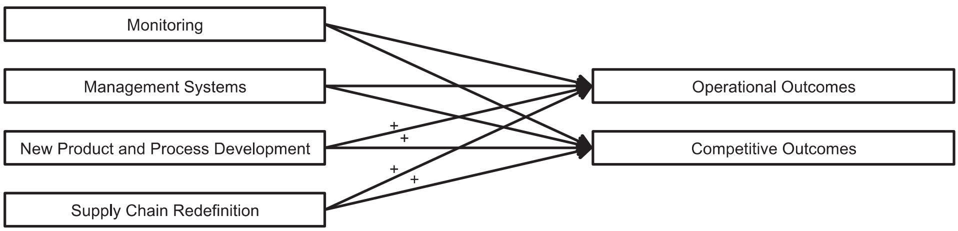


Fig. 18.2 Social supply chain sustainability practices and outcomes

18.6 Discussion

From our study, it is evident that environmental and social practices lead to different outcomes and different levels of performance. In line with the supply chain literature, we found that environmental supply chain sustainability practices are adopted more than social supply chain sustainability practices. But some practices clearly pay more than others. In terms of environmental supply chain sustainability practices, monitoring, and new product and process development led to increased operational and competitive outcomes. With social supply chain sustainability practices new product and process development and supply chain redefinition led to improved operational and competitive outcomes.

It is clear that environmental monitoring is capturing the long-hanging fruit involved in waste, resource and pollution reduction. However, this does not hold true for social monitoring practices. We can assume that this may be due to basic monitoring practices being a pre-requisite or norm especially for first-tier suppliers within the sample supply chains with little cost reduction or market access improvement.

Neither environmental nor social management systems had a significant effect on the outcomes. There could be several reasons for this unexpected result. It may be that there was a fairly low adoption rate of management systems in comparison to other practices, or many of these systems are already in place due to institutional pressures (Wu and Pagell 2011; Zhu and Sarkis 2007) or external stakeholder pressure (Sharma and Henriques 2005). Another reason for this finding could be the existence of the two-factor model, which we discussed earlier, and which should be assessed in further research. Although the two-factor model can show the difference between lower and higher-order sustainability practices on operational and competitive outcomes, in the study of specific practices and the outcomes of these practices there is no substitute for the four-factor model.

Interestingly, supply chain new product and process development were adopted more than any other set of practices and contributed most to competitive and operational outcomes. Additionally, new product and process development practices led to the best results both environmentally, and socially. This supports Ambec and Lanoie's (2008) focus on innovative environmental strategies as the main way to reduce costs and increase revenues and maintains the argument that new product and process innovation is key to future of sustainable supply chain management (Pagell and Wu 2009).

It also seems that fair trade pays for companies both operationally and competitively. Reorienting the supply chain to focus on bringing in non-traditional partners such as NGOs and community groups into the strategic planning of the supply chain (Pagell and Wu 2009) and ensuring that there is fair and equitable trade and empowerment of producers (Hughes 2007) results in quality improvement throughout the supply chain and access to markets for supply chains.

Further analysis also showed that for firms implementing both environmental and social supply chain sustainability there were rewards: With high implementers reporting both higher operational and competitive benefits. Medium and high adopters of sustainability practices reported relatively higher benefits to their operations and their competitive situation with operational benefits slightly higher than competitive. Those supply chains with low levels of implementation, on the other hand, do not appear to have operational or competitive benefits. Of further interest is the point that social supply chain sustainability practices appear to have a consistently greater impact than environmental equivalents on operational and competitive outcomes. This is despite social supply chain sustainability practices being adopted a lot less. Part of the reason that environmental practices receive more attention might be the fact that companies are better at communicating environmental sustainability than social (Brandlogic and CRD Analytic 2012). A lesson for companies may be that the message that social sustainability pays more than environmental sustainability practices rings true and companies should begin to seriously look at investing in social new product and process development as well as social supply chain redefinition.

For the companies in our sample, the benefits and opportunities are clear: Adopting sustainable practices creates positive operational and competitive outcomes. The adoption of these practices can not only minimise harm and maximise benefit for both the environment and people but can also help companies develop competencies in supply chain sustainability and ultimately long-term operational and competitive sustainability.

18.7 Conclusion

As the shift in focus has broadened from an organisational to supply chain perspective, so too is the current focus on supply chains fast becoming synonymous with the concept of sustainable supply chains. But how do companies implement practices that are economically, environmentally and socially sustainable and which practices should be implemented to support the triple bottom line? Enacting supply chain sustainability is proving to be a challenge, especially as incentives are not aligned with outcomes (Touboulic and Walker 2013). In this study, we have taken a step forward in identifying, developing, categorising and, testing a variety of environmental and social practices that have been shown to lead to better operational and competitive outcomes. The missing link in the sustainable supply chain literature is making a clear and concise business case for sustainability practices. This chapter has contributed to this conversation by outlining both social and environmental sustainability practices and how they benefit operational and competitive outcomes for companies. It is clear that although social sustainability has not been as widely adopted the benefits of adopting social supply chain sustainability practices are clear. This may give stimulus to more adoption of these practices.

There is also scope to reconceptualise these practices as process-based practices and market-based practices creating a higher and lower order of practices to test, however in this instance creating and testing these comparable yet separate four factor constructs allows us to show the different effects of practices on operational and competitive outcomes and also move the discussion on social sustainability forward, concluding that it is as a worthwhile area for attention and investment. Further testing of the items, constructs, and models would allow this phenomenon to be investigated in different contexts and over time. In an effort to mitigate the impact of common method bias and increase validity the survey could be distributed more broadly to suppliers and buyers, incorporating those beyond the first tier.

By their design and through empirical testing these instruments could be used to further research in supply chain sustainability. Creating constructs that were at once comparable and specific to their environmental or social identity was challenging, and choosing which items to include in the scales to provide the most realistic measurement instrument was an arduous process. Due to the abundance of scales available to test environmental sustainability, in particular, choosing the most suitable was a difficult process that required constant testing in different settings and with different populations (Hensley 1999). Although the mix of manufacturing and service companies in our sample increases the generalisability of our study (Walton et al. 1998), the validity and reliability of the measurement constructs could be improved through international testing and these constructs could be refined with further testing. This study has taken steps to improve the theoretical base of supply chain sustainability and has developed measures in order to do this. More importantly, by showing companies that there is a business case to be made for environmental and social sustainability we hope to provide a persuasive argument for companies to implement and invest in supply chain sustainability practices.

Acknowledgements We gratefully acknowledge the support of the Irish Research Council for the Humanities and Social Sciences for funding this research.

References

Abbott, W. F., & Monsen, J. R. (1979). On the measurement of corporate social responsibility. *Academy of Management Journal, 22,* 501–515.
Alexander, G. J., & Buchholz, R. A. (1978). Corporate social responsibility and stock market performance. *Academy of Management Journal, 21,* 479–486.
Ambec, S., & Lanoie, P. (2007). When and why does it pay to be green? (Discussion Paper No. IEA –07–04). Montreal: HEC. http://www.hec.ca/iea/cahiers/2007/iea0704_planoie.pdf. Accessed 22 Feb 2013.
Ambec. S, & Lanoie, P. (2008). Does it pay to be green? A systematic overview. *Academy of Management Perspectives, 22*(4), 45–62.
Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. (1985). An empirical examination of the relationship between corporate social responsibility and profitability. *Academy of Management Journal, 28*(2), 446–463.
Awaysheh, A., & Klassen, R. D. (2010). The impact of supply chain structure on the use of supplier socially responsible practices. *International Journal of Operations & Production Management, 30*(12), 1246–1268.
Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.
Beamon, B. M. (1999). Designing the green supply chain. *Logistics Information Management, 12*(4), 332–342.
Berman, S., Wicks, A., Kotha, S., & Jones, T. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal, 42*(5), 488–506.
Besser, T. L., Miller, N., & Perkins, R. K. (2006). For the greater good: Business networks and business social responsibility to communities. *Entrepreneurship & Regional Development, 18*(4), 321–339.
Brandlogic and CRD Analytics. (2012). Sustainability leadership report: Measuring perception vs. reality for 100 prominent global brands. http://www.sustainabilityleadershipreport.com. Accessed 22 Feb 2013.
Brown, K. A. (1996). Workplace safety: A call for research. *Journal of Operations Management, 14*(2), 157–161.
Cao, M., & Zhang, Q. (2011). Supply chain collaboration: Impact on collaborative advantage and firm performance. *Journal of Operations Management, 29*(3), 163–180.
Carroll, A. B. (1979). A three-dimensional conceptual model of corporate social performance. *Academy of Management Review, 4*(4), 497–505.
Carter, C. (2000). Ethical issues in international buyer-supplier relationships: A dyadic examination. *Journal of Operations Management, 18,* 191–208.
Carter, C. R. (2005). Purchasing social responsibility and firm performance: The key mediating roles of organizational learning and supplier performance. *International Journal of Physical Distribution and Logistics Management, 35*(3), 177–194.
Carter, C., & Easton, P. (2011). Sustainable supply chain management: Evolution and future directions. *International Journal of Physical Distribution & Logistics Management, 41*(1), 46–62.

Carter, C. R., & Rogers, D. S. (2008). A framework of sustainable supply chain management: Moving toward new theory. *International Journal of Physical Distribution & Logistics Management, 38*(5), 360–387.

Carter, C. R., & Stevens, C. K. (2007). Electronic reverse auction configuration and its impact on buyer price and supplier perceptions of opportunism: A laboratory experiment. *Journal of Operations Management, 25*(5), 1035–1057.

Cohen, J., Cohen, P., West, S., & Aiken, L. (2003). *Applied multiple regression/correlation analysis for the behavioral sciences*. Mahwah: Sage.

Colby, S., Kingsley, T., & Whitehead, B. W. (1995). The real green issue. *McKinsey Quarterly, 2,* 132–143.

Cronbach, L. J. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika, 16*(3), 297–334.

Cycyota, C. S., & Harrison, D. A. (2006). What (not) to expect when surveying executives: A meta-analysis of top manager response rates and techniques over time. *Organizational Research Methods, 9*(2), 133–160.

Das, A., Pagell, M., Behm, M., & Veltri, A. (2008). Toward a theory of the linkages between safety and quality. *Journal of Operations Management, 26*(4), 521–535.

Ehrgott, M., Reimann, F., Kaufmann, L., & Carter, C. R. (2011). Social sustainability in selecting emerging economy suppliers. *Journal of Business Ethics, 98*(1), 99–119.

Elkington, J. (1997). *Cannibals with Forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Ellen, P. S., Webb, D. J., & Mohr, L. A. (2006). Building corporate associations: Consumer attributions for corporate social responsibility programs. *Journal of the Academy of Marketing Science, 34*(2), 147–157.

Fogler, H. R., & Nutt. F. (1975). A note on social responsibility and stock valuation. *Academy of Management Journal*, *18*(1), 155–160.

Friedman, M. (13 Sept 1970). The social responsibility of business is to increase its profits. The New York Times Magazine.

Godfrey, P. C., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal, 30*(4), 425–445.

Goodman, A. (2000). Implementing sustainability in service operations in Scandic hotels. *Interfaces, 30*(3), 202–214.

Gore, A. (1993). *Earth in the balance: Ecology and the human spirit*. New York: Penguin.

Hamschmidt, J., & Dyllick, T. (2006). ISO 14001: Profitable? Yes! But is it eco-effective? In Schaltegger, S. & Wagner, M. (Eds.), *Managing the business case for sustainability* (pp. 554–568). Sheffield: Greenleaf Publishing.

Handfield, R. B., & Baumer, D. L. (2006). Managing conflict of interest issues in purchasing. *Journal of Supply Chain Management: A Global Review of Purchasing & Supply, 42*(3), 41–50.

Hanson, J. D., Melnyk, S. A., & Calantone, R. J. (2004). Core values and environmental management. *Greener Management International, 46,* 29–40.

Hart, S. L. (1995). A natural-resource-based view of the firm. *Academy of Management Review, 20*(4), 986–1014.

Heinz, D. C. (1976). Financial correlates of a social measure. *Akron Business and Economic Review, 7*(1), 48–51.

Hensley, R. L. (1999). A review of operations management studies using scale development techniques. *Journal of Operations Management, 17*(3), 343–358.

Holt, D., & Ghobadian, A. (2009). An empirical study of green supply chain management practices amongst UK manufacturers. *Journal of Manufacturing Technology Management, 20*(7), 933–956.

Hughes, A., Buttle, M., & Wrigley, N. (2007). Organisational geographies of corporate responsibility: A UK-US comparison of retailers' ethical trading initiatives. *Journal of Economic Geography, 7*(4), 491–513.

Klassen, R. D., & McLaughlin, C. P. (1996). The impact of environmental management on firm performance. *Management Science, 42*(8), 1199–1214.

Klassen, R. D., & Vereecke, A. (2012). Social issues in supply chains: Capabilities link responsibility, risk (opportunity), and performance. *International Journal of Production Economics, 140*(1), 103–115.

Koplin, J., Seuring, S., & Mesterharm, M. (2007). Incorporating sustainability into supply management in the automotive industry: The case of the Volkswagen AG. *Journal of Cleaner Production, 15*(11/12), 1053–1062.

Kotcharin, S., Eldridge S., & Freeman, J. (2012). The relationship between internal and supplier integration: Effects on product quality, cost efficiency and market performance. Proceedings of the 21st IPSERA conference, 1–4 April 2012, Naples, Italy.

Lai, K. H., & Wong, C. W. (2012). Green logistics management and performance: Some empirical evidence from Chinese manufacturing exporters. *Omega, 40*(3), 267–282.

Lankoski, L. (2000). *Determinants of environmental profit: An analysis of the firm-level relationship between environmental performance and economic performance*. Espoo: Helsinki University of Technology, Institute of Strategy and International Business.

Lankoski, L. (2006). Environmental and economic performance: The basic links. In S. Schaltegger & M. Wagner (Eds.), *Managing the business case for sustainability* (pp. 32–46). Sheffield: Greenleaf Publishing.

Lawson, B., Tyler, B. B., & Cousins, P. D. (2008). Antecedents and consequences of social capital on buyer performance improvement. *Journal of Operations Management, 26*(3), 446–460.

Lee, S. Y., & Klassen, R. D. (2008). Drivers and enablers that foster environmental management capabilities in small-and medium-sized suppliers in supply chains. *Production and Operations Management, 17*(6), 573–586.

Levy, D. L. (1995). The environmental practices and performance of transnational corporations. *Transnational Corporations, 4*(1), 44–67.

Liu, H., Ke, W., Wei, K. K., Gu, J., & Chen, H. (2010). The role of institutional pressures and organizational culture in the firm's intention to adopt internet-enabled supply chain management systems. *Journal of Operations Management, 28*(5), 372–384.

Miemczyk, J., Johnsen, T. E., & Macquet, M. (2012). Sustainable purchasing and supply management: A structured literature review of definitions and measures at the dyad, chain and network levels. *Supply Chain Management: An International Journal, 17*(5), 478–496.

Miller, J. G., & Roth, A. V. (1994). A taxonomy of manufacturing strategies. *Management Science, 40*(3), 285–304.

Mollenkopf, D., Closs, D., Twede, D., Lee, S., & Burgess, G. (2005). Assessing the viability of reusable packaging: A relative cost approach. *Journal of Business Logistics, 26*(1), 169–197.

Mollenkopf, D., Stolze, H., Tate, W. L., & Ueltschy, M. (2010). Green, lean, and global supply chains. *International Journal of Physical Distribution & Logistics Management, 40*(1/2), 14–41.

Montabon, F., Melnyk, S. A., Sroufe, R., & Calantone, R. J. (2000). ISO 14000: Assessing its perceived impact on corporate performance. *Journal of Supply Chain Management, 36*(2), 4–16.

Moore, G. C., & Benbasat, I. (1991). Development of an instrument to measure the perceptions of adopting an information technology innovation. *Information Systems Research, 2*(3), 192–222.

Moskowitz, M. (1972). Choosing socially responsible stocks. *Business and Society Review, 1,* 71–75.

Nahm, A. Y., Vonderembse, M. A., & Koufteros, X. A. (2004). The impact of organizational culture on time-based manufacturing and performance. *Decision Sciences, 35*(4), 579–607.

Neter, J., Kutner, M. H., Nachtsheim, C. J., & Wasserman, W. (1996). *Applied linear statistical models* (4th ed.). Chicago: Irwin.

Nidumolu, R., Prahalad, C. K., & Rangaswami, M. R. (2009). Why sustainability is now the key driver of innovation. *Harvard Business Review*, *87*(9), 56–64.

Nunnally, J. C. (1978). *Psychometric theory*. New York: McGraw-Hill.

Pagell, M., & Gobeli, D. (2009). Plant managers' experiences and attitudes. Toward sustainability production and operations management. *Production and Operations Management Society, 18*(3), 278–299.

Pagell, M., & Wu, Z. (2009). Building a more complete theory of sustainable supply chain management using case studies of ten exemplars. *Journal of Supply Chain Management, 45*(2), 37–56.

Parket, R., & Eilbirt, H. (1975). Social responsibility: The underlying factors. *Business Horizons, 18*(4), 5–10.

Parmigiani, A., Klassen, R. D., & Russo, M. V. (2011). Efficiency meets accountability: Performance implications of supply chain configuration, control and capabilities. *Journal of Operations Management, 29*(3), 212–223.

Peteraf, M. A. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal, 14*(3), 179–191.

Pett, M. A., Lackey, N. R., & Sullivan, J. J. (2003). *Making sense of factor analysis: The use of factor analysis for instrument development in health care research*. Thousand Oaks: Sage.

Pfeffer, J. (2010). Building sustainable organizations: The human factor. *Academy of Management Perspectives, 24*(1), 34–45.

Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology, 88*(5), 879–903.

Porter, M. (1991). America's green strategy. *Scientific American, 264*(4), 168.

Porter, M., & Van der Linde, C. (1995). Toward a new conception of the environment-competitiveness relationship. *Journal of Economic Perspective, 9*(4), 97–118.

Preuss, L. (2001). In dirty chains? Purchasing and greener manufacturing. *Journal of Business Ethics, 34*, 345–359.

Preuss, L. (2009). Addressing sustainable development through public procurement: The case of local government. *Supply Chain Management: An International Journal, 14*(3), 213–223.

Pullman, M., Maloni, M., & Carter, C. (2009). Food for thought: Motivations to adopt sustainability practices and perceived outcomes. *Journal of Supply Chain Management, 45*(4), 38–54.

Reinhardt, F. L. (2000). *Down to earth: Applying business principles to environmental management*. Boston: Harvard Business Review Press.

Rondinelli, D. A., & Vastag, G. (1996). International environmental standards and corporate policies: An integrative framework. *California Management Review, 39*(1), 106–122.

Rosenzweig, E. D., & Roth, A. V. (2007). B2B seller competence: Construct development and measurement using a supply chain strategy lens. *Journal of Operations Management, 25*(6), 1311–1331.

Schaltegger, S., & Wagner, M. (2011). Sustainable entrepreneurship and sustainability innovation: Categories and interactions. *Business Strategy and the Environment, 20*(4), 222–237.

Seuring, S., & Muller, M. (2008). From a literature review to a conceptual framework for sustainable supply chain management. *Journal of Cleaner Production, 16*(15), 1699–1710.

Sharma, S., & Henriques, I. (2005). Stakeholder influences on sustainability practices in the Canadian forest products. *Strategic Management Journal, 26*(2), 159–180.

Sheu, C. (2013). Global manufacturing research group update on research collection. http://www.gmrg.org/Questionnaire.html. Accessed 6 Feb 2012.

Singh, P. J., Power, D., & Chuong, S. C. (2011). A resource dependence theory perspective of ISO 9000 in managing organizational environment. *Journal of Operations Management, 29*(1), 49–64.

Smith, S., & Barrientos, S. (2005). Fair trade and ethical trade: Are there moves towards convergence? *Sustainable Development, 13,* 190–198.

Srivastava, S. K. (2007). Green supply-chain management: A state-of-the-art literature review. *International Journal of Management Reviews, 9*(1), 53–80.

Tate, W. L., Ellram, L. M., & Kirchoff, J. F. (2010). Corporate social responsibility reports: A thematic analysis related to supply chain management. *Journal of Supply Chain Management, 46*(1), 19–44.

Touboulic, A., & Walker, H. (2013). A sense-making approach to sustainability in supply chains: An analysis of stakeholders' perceptions and meanings. IPSERA Conference Proceedings, Nantes, France.

Vachon, S., & Klassen, R. D. (2006). Extending green practices across the supply chain: The impact of upstream and downstream integration. *International Journal of Operations & Production Management, 26*(7), 795–821.

Vance, S. C. (1975). Are socially responsible corporations good investment risks? *Management Review, 64*(8), 19–24.

Walley, N., & Whitehead, B. (1994). It's not easy being green. *Harvard Business Review, 72*(3), 46–52.

Walton, S. V., Handfield, R. B., & Melnyk, S. A. (1998). The green supply chain: Integrating suppliers into environmental management processes. *Journal of Supply Chain Management, 34*(2), 2–11.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal, 5*(2), 171–180.

Wiengarten, F., Pagell, M., & Fynes, B. (2013). ISO 14000 certification and investments in environmental supply chain management practices: Identifying differences in motivation and adoption levels between Western European and North American companies. *Journal of Cleaner Production, 56,* 18–28.

Wolf, C., & Seuring, S. (2010). Environmental impacts as buying criteria for third party logistical services. *International Journal of Physical Distribution & Logistics Management, 40*(1/2), 84–102.

Worthington, I., Ram, M., Boyal, H., & Shah, M. (2008). Researching the drivers of socially responsible purchasing: A cross-national study of supplier diversity initiatives. *Journal of Business Ethics, 79*(3), 319–331.

Wu, Z., & Pagell, M. (2011). Balancing priorities: Decision-making in sustainable supply chain management. *Journal of Operations Management, 29*(6), 577–590.

Zhu, Q., & Sarkis, J. (2004). Relationships between operational practices and performance among early adopters of green supply chain management practices in Chinese manufacturing enterprises. *Journal of Operations Management, 22*(3), 265–289.

Zhu, Q., & Sarkis, J. (2007). The moderating effects of institutional pressures on emergent green supply chain practices and performance. *International Journal of Production Research, 45*(18–19), 4333–4355.

Zhu, Q., Sarkis, J., & Geng, Y. (2005). Green supply chain management in China: Pressures, practices and performance. *International Journal of Operations & Production Management, 25*(5), 449–468.

Zhu, Q., Sarkis, J., & Lai. K. (2008). Confirmation of a measurement model for green supply chain management practices and implementation. *International Journal of Production Economics, 111*(2), 261–273.

Zhu, Q., Dou, Y., & Sarkis, J. (2010). A portfolio-based analysis for green supplier management using the analytical network process. *Supply Chain Management: An International Journal, 15*(4), 306–319.

Zhu, Q., Sarkis, J., & Lai. K. (2013). Institutional-based antecedents and performance outcomes of internal and external green supply chain management practices. *Journal of Purchasing Supply Management, 19*(2), 106–117.

Employee Competence Development from the CSR Perspective

19

Łukasz Jabłoński and Marek Jabłoński

Contents

19.1 Introduction 372
19.2 Development of Employee Competence as Ethically Worthy Actions 373
19.2.1 Benchmarking—Imitation 375
19.2.2 Knowledge Management—Reinforcement 377
19.2.3 Re-engineering—Modelling 379
19.3 Conclusions 380
References 381

Abstract

The aim of the chapter is to identify the theoretical and methodological basis for employee competence development in light of corporate social responsibility (CSR), with a particular focus on CSR-orientated companies. The chapter consists of three major parts. In the first part, the authors review the literature dedicated to employees' com-

The chapter was prepared within a framework of research project financed by the National Science Centre of Poland, contract no. DEC-2011/03/D/HS4/01659.

Ł. Jabłoński (✉)
Department of Applied Economics, Cracow University of Economics
Rakowicka 27, 31-510, Krakow, Poland
e-mail: lukaszj@uek.krakow.pl

M. Jabłoński
Department of Organizational Behaviours, Cracow University of Economics
Rakowicka 27, 31-510, Krakow, Poland
e-mail: marekj@uek.krakow.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_19

petencies and CSR, and as a result, identify the main features of both these categories. Moreover, this part discusses the theoretical arguments for the direction of interdependence between CSR and the development of employees' competencies. The second part addresses the methodological dilemmas related with the dominant research trends, which formed contemporary interpretations of the notion of competences, and their adequateness for CSR. In this part of the chapter the following issues were considered: the social theory of learning, modern concepts of management, and so called "on-the-job" methods of employee competence development. This examination suggests that in the development of employee competences in CSR, modern management methods such as benchmarking, knowledge management, and re-engineering should be taken into account. These methods closely correspond with the three dimensions of the social theory of learning, i.e., imitation, to which benchmarking most closely corresponds, reinforcement based on knowledge management, and modelling based on re-engineering. The final part of the chapter concludes that CSR could be implemented within organisations based upon the framework methodology of employee competence development.

19.1 Introduction

The concept of Corporate Social Responsibility (CSR) has grown on two disciplines of social sciences, i.e., economics and ethics, so that it is successfully explored and developed in management studies today. Since the 1930s, the idea of responsible business, and in particular the matter of restoring social trust by businesses gained in importance as a consequence of the economic impact of the great crisis. In a broad sense, CSR might be interpreted as the integration by a company of social, environmental, ethical, and human issues through the development of adequate values, culture, decision-making, and strategies. Therefore, such companies operate transparently and responsibly in terms of stakeholders, develop best practices, and support social welfare (CEC 2001; Hohnen and Potts 2007, p. 4; O'Riordan and Fairbrass 2008).

CSR is an ambiguous concept. The literature provides many CSR definitions, which according to Lozano (2011, pp. 49–50) are sometimes confusing and contrary. Thus, there is no compatibility among economists, ethical experts and representatives of management science in their definitions of the CSR concept. Moreover, CSR is often interpreted differently in the US from in European companies. Particularly US companies often perceive CSR as corporate philanthropy.

Omitting the controversy concerning the CSR definition and its interpretation, it is worth mentioning that conceptualisation of CSR rejects the argument formulated by Friedman (1962), according to which a socially responsible business is one that gains profits and pays dividends to its shareholders. Thus the CSR concept negates economic individualism and reductionism, which are typical for the mainstream of economic research. Therefore, CSR is perceived as a concept which aims to integrate profit maximisation, social and environmental aspects within decision-making, as well as taking responsibility for the social and environmental outcomes of these decisions. It is based upon ethics, morality, stakeholder trust as well as the social and environmental context of business activity.

The CSR concept in reference to human resource management might be considered in terms of managing corporate ethics. As can be seen from previous discussions, ethical theories and concepts are about the style of reasoning people use, and how far they consider the long-term outcomes of their acts.

> With deontological approaches it is about the structure of people's thinking about reasons and actions, while with virtue ethics it is not about actions as such at all, but about the kind of person someone is. What this indicates is that the idea of managing corporate ethics is a more problematic area than the simple identification of some acts that are to be embraced and others that are to be avoided. Whichever of the main approaches to ethics is adopted, the question of how a corporation manages its ethics is about how it manages its employees' attitudes, their perceptions, their reasoning and their underpinning values. And in turn this requires approaches to issues such as understanding long-term consequences, about how a choice may hold implications beyond the specific case, and about what kind of person the organisation employs who does, or does not act in a certain way. (Giseri and Seppala 2010, p. 294)

The main goal of the chapter is to present the key methodical aspects of employee competence development in accordance with CSR, so called ethically worthy employee competence development. In that respect, this chapter presents methodical outlines perceived as key factors for creating socially responsible attitudes with an emphasis on normative recommendations. Consequently, the missing link which this chapter proposes is a framework methodology for developing employee competence with respect to CSR based on three key phases including the concepts of benchmarking, knowledge management and re-engineering.

19.2 Development of Employee Competence as Ethically Worthy Actions

Implementing ethically worthy actions in human resources development is based on the assumption that human resources are the key factor of success of an organisation and that human resource development should be based on endogenous factors and closely associated with the results achieved by employees. The characteristics of human resources in the organisation are employee competences which comprise all personality features of an employee related to work, such as: Knowledge, skills, values, attitudes, and the behaviours to which an employee resorts in order to perform his work well (Armstrong 2009, pp. 202–204). In accordance with the broad definition of resources, employee competences may be treated as resources of the organisation which are partly at the disposal of the organisation, having properties necessary to achieve the objectives of the organisation. They may be subject at least to fragmentary control and are in the sphere of interest of decision-makers of the organisation.

When we adopt such a definition, we may agree that the key factor which determines work results is employee competences. Thus, ethics management has an inter-disciplinary nature and uses a whole set of tools connected with the appraisal and development of competences, observation and transfer of feedback information, training and development of the employee, appraisal of results, and awarding the employee.

This approach, labelled here: Ethically worthy employee competence development, is interpreted as a factor for enabling the improvement of the results achieved by employees with the reservation that this development must be strictly combined with the functions of the work position, therefore with tasks performed by employees. Consequently, development of employee competences should be based on:

1. The social theory of learning;
2. Modern concepts of management;
3. So-called on-the-job methods of development of employee competences.

The proposed approach can on the one hand, be based on the social theory of learning, because the development of employee competences takes place in a social system of the organisation. Consequently, one must consider imitation, reinforcement, and modelling (Bandura 1986). On the other hand, it can also be based on modern management concepts which exemplify contemporary interpretations of human resources in organisations, including the leading role of the endogenous development employees in organisations enabling the achievement of competitive advantage. Thus, in the development of employee competences, modern management methods can be taken into account such as: benchmarking, knowledge management, and re-engineering. However, this does not mean that one may not apply other methods, such as: lean management, hoshin, shigeo shingo, and project management. Basically, all of these concepts consider the learning of members of the organisation, draw attention to changes in their mentality and breaking the barriers which arise from deeply rooted ways of thinking and acting. They favour team-work and collective decision-making and require that employees are treated as the most important factor contributing to the success of the organisation. The reason why benchmarking, knowledge management and re-engineering play a special role is that the assumptions underlying these methods closely correspond with the three dimensions of the social theory of learning, i.e., imitation to which benchmarking most closely corresponds, reinforcement based on knowledge management and modelling which consists in re-engineering.

Additionally, considering the standard which consists in relating the development of employee competences to employee results, it becomes necessary to integrate methods and techniques of shaping employee competences with organisational processes. In such events, the knowledge that employees obtain as a result of their participation in organisational processes is integrated with the reality in which the organisation functions. This is particularly determined by the current specifics of organisational undertakings which are typified by uniqueness. Team members learn during the realisation of projects and use the thus obtained knowledge and developed competences on an ongoing basis. Although they may use this knowledge in other projects, still they have to adjust it (by broadening or narrowing) to the context and specifics of the particular undertaking. Consequently, all the forms of employee competence development should be related to the work performed in the organisation (methods and techniques of on-the-job employee competences).

19.2.1 Benchmarking—Imitation

Benchmarking is a method of comparing one's own solutions with the best solutions and their improvement through learning from others and utilising their experience. In this method, the focus is not on finding and transposing model solutions, but rather on discovering ways to find the best solutions. It is essential that improvements directly ensue from answers to the following questions: Why is the given action carried out at all? Why is it carried out in a particular way? What are the examples of model actions? How, in the light of comparisons, may the action be improved? (Camp 1989, 1995).

Referring the assumptions of benchmarking to the problems of shaping employee competences, requires attention to imitation (mimicking, discovering) of the methods of shaping employee competences both in the internal and external system. Basing the methodology of shaping employee competences on benchmarking takes into account learning-by-observing which takes place as a result of observing colleagues both consciously (intentionally) and unconsciously. In the former case, it may take the form of direct observation of both employees in the organisation and other subjects in the environment (apprenticeship, visual studies, etc.). On the other hand, unconscious observation concerns diffusion of hidden information between particular employees. It takes place in parallel to the realisation of the function of the work position because while performing their work, employees may observe and imitate one another's behaviours.

This imitating of the approaches of developing employee competences arises from the assumptions of benchmarking on the one hand, and on the other hand, it is caused by the fact that employee competences additionally depend on their related surrounding. Employee competences (meaning effective actions) are not subject to absolute diffusion in the structure of the organisation and between organisations because they are connected with the value-generating context. This is because the employee manifesting appropriate behaviours based on acquired knowledge (learned) how to effectively develop the value of the organisation as a result of jobs performed with other members of the team. Transferring the employee to another team means he decodes the experiences of the new team (analysis) and then codes them again (synthesis). The decoding and coding takes place following a model learned during the participation in the work of the previous team.[1] The probability of the transfer of competences between teams depends on whether experience

[1] The thesis is a simplification aiming at the representation of the manner of diffusing knowledge in the structure of the organisation because the employee learns the model of decoding and coding during his participation in each team, i.e., family, a peer group, business, etc.

gained by the employee in the previous team can be used in the works of a new team.[2] Therefore, the transfer of employee competences between teams depends on whether situations, events and teams are similar because only comparable objects, things, and phenomena can be compared. In particular, this concerns the similarity between the logic of thinking and analysing phenomena used in work processes. The imitation of ways of development of employee competences may take place only within the framework of particular functions of employee competences connected with the specific category of work. For example, if the employee does manual work, gaining proficiency may merely proceed through the use of the methods of employee competence development which are typical of that category of work. Consequently, heuristic techniques, for instance, which enable improvement of the function of employee competences related to independent intellectual work, will not be useful.

The above thesis, on the one hand, is a reflection of the adopted assumption concerning the link between the methods of employee competence development and organisational process as well as, on the other hand, resulting from the fact that learning-by-observing is connected with the ability of an individual to interpret signals from their surroundings. According to K. Arrow, signals are random events which are able to change probability distribution for the individual. They may inform the individual about the effects of his decision or some of them may serve as bases for decisions, maybe alleged decision outcomes about failure to act. It is worth noting that a signal which has not yet been heard has no value as it does not modify any probability distribution (Arrow 1974).

In the case of benchmarking, it is of particular importance to select an appropriate model which constitutes a reference for organisational processes. The selection of an appropriate model ensures the identification of the position of the individual compared to the benchmark which thereby enables the definition of a potential gap in employee competences. The selection of adequate models is very important because according to the theory of human capital, a single employee is more productive if his colleagues represent a higher level of human capital (Lucas 1988). This means that a person co-operating with his "betters" may develop competences faster than in a surrounding where employee competences are comparable or coincident. The selected model gives direction to the development of employee competences. Consequently, it is necessary to choose such benchmarking in order to promote learning of relevant phenomena in the appropriate way and simultaneously to eliminate a probability of wasting employee potential on gaining knowledge which is of low usefulness.

The search for models in the organisation basically consists of the identification of an employee who achieves outstanding results. In the case of benchmarking, defining what led an employee to achieve better results than his colleagues is more important than identifying a model. Consequently, identification of sources and factors of high effectiveness of the employee becomes particularly important. In the process of their identification, one

[2] The thesis results from the situational approach in accordance with which a particular situation is created by man through the act of his will and partly the man is involved in a situation.

Table 19.1 Gathering information in the benchmarking analysis of competences

Source	Method	Result
Documentation	Analysis and studies of the documentation	Identification of: formal knowledge (obtained through education and during training), experiences gathered during professional work
Process	Direct observation	Finding out to what extent the nature of tasks being performed enables the shaping of competences of an employee whose work is very effective
Performer	Interview	Identification of motives and practices (also outside work) which are the sources of effective actions

Own study

can use different methods to gather information. Assuming that there are three basic methods of gathering information, and that these can be obtained from existing documentation, actual work processes, and from performers, it is possible to suggest the following groups of actions (see Table 19.1).

The search for patterns of employee competence development in other organisations is difficult. It becomes more challenging since the ability and efficiency of collecting this kind of information depends on the intensity and nature of co-operation within the business environment. One may suppose that the longer and more intensive, as well as THE MORE fruitful the co-operation between the institutions in the environment, the bigger the chances to gather relevant information. Consequently, long-lasting networks of economic co-operation may give rise to such close relationships between organisations that their exchange of knowledge with respect to products and the methods of their production which may be supported by sharing information related to the methods of employee competence development.

19.2.2 Knowledge Management—Reinforcement

The concept of knowledge management is not new but its dynamic growth only took place in the mid-1980s. Abundant literature on the subject, emanating from a range of geographical locations, eliminates the need to present the essence of the idea in detail. However, it is worth noting that knowledge management is connected with the processes of organisational learning which comprises three basic functions: (1) Gathering knowledge—development and creation of competences, deep understanding, building relationships; (2) Disseminating knowledge—knowledge sharing; (3) Utilising knowledge—integration of learning in the broadest possible way allowing its generalisation which enables the utilisation of knowledge in new situations (Nonaka and Takeuchi 1995).

Application of knowledge management concepts in the shaping of employee competences makes it possible to reinforce the effects of learning-by-observing through learning-by-doing. Such reinforcement as a consequence of social inter-actions, especially of communication processes, takes place at work. Thus, knowledge management, as an element of the architecture of employee competence management systems, assumes that all forms of employee competence development must be combined with organisational processes.

Learning-by-doing may be equated with rotation in a work position thanks to which employees learn from other members of the organisation and then communicate their new knowledge to other teams. Learning-by-doing takes place in every work position because learning is an inherent feature of human work. Learning-by-doing in the organisation should be equated only to collectivity as knowledge acquired from the environment through learning-by-observing is useful for the organisation only when it is adjusted to the context in which value is created. Adjustment of knowledge, and consequently of the knowledge of ways of developing employee competences is effected through communication processes, in particular, through the functions of signal interpreting. In view of the high cost of information, organisations tend to limit their transmission only to information which is deemed worth communicating. Other information is gathered by particular employees from the moment of receiving a complementary signal which makes the information transmitted earlier useful. The ability to utilise such information and thus the possibility to gain knowledge in the future depends on many factors, inter alia, such as: costs of transmission and search for information. This may lead to a situation in which members of the organisation who have different experiences which are not transferred to others, will, instead of utilising the acquired information, in its place interpret new signals in the conviction that they are essential for future rather than present actions (Arrow 1974). In the context of the above considerations it must be stated that employee competence development requires abundant resources (information resources, resources concerning relationships, real and financial resources). Thus, employees should have at their disposal technology, financial means and time in order to be able to engage in learning, i.e., sharing experiences enabling an appropriate interpretation of signals and accumulating knowledge through learning-by-doing. Every action in the organisation must support and stimulate knowledge transfer and sharing. Consequently, manufacturing processes and management processes must consider a priori the redundancy of economic resources. This is the only way that the shaping of employee competences may be based on the concept of knowledge management.

However, before decision-makers complete the necessary improvements to organisational processes, taking into account the need for abundant resources as noted above, it is necessary to identify the behaviours of employees with respect to the process of organisational learning. In particular, this consists of the identification of behaviours which hinder diffusion of knowledge in the organisation and their elimination irrespective of whether the employee achieves outstanding, average, or unsatisfactory results in his work position.

19.2.3 Re-engineering—Modelling

Re-engineering is a method which involves a thorough re-construction of overall processes in the organisation. The starting point is to update the needs of clients and the goal is to optimise quality, cost, and date of execution. In its application, a key role is played by the inventive methods necessary to radically re-construct the processes and the observance of four rules of re-engineering, i.e.: to start from the needs of the client, to analyse the processes in the organisation, to consider the existing limitations and to think in a different way (Hammer and Champy 1993).

Basing the development of employee competences on re-engineering enables the explanation of the essence of the process of modelling from which knowledge is created. The rules on which re-engineering are based play a vital role here. The aim of employee behaviour which reflects the rules of re-engineering is the creation of such conditions in which self-organisation could replace the imposed external organisation. As a result, members of the organisation will be capable of submitting any actions to analysis that are carried out with a view to indicating those which contribute to, and those which are neutral or negative in terms of added value. Thus the rules of re-engineering stimulate the adjustment of organisational structures so that they can react quickly to changes on the market and enable the adequate shifting of inter-dependent functions of the organisation. In terms of human resource management, it is even more important because decentralisation favours more effective utilisation of the motivated team (Cochran et al. 2000). However, this requires creating employee behaviour based on a "give and take" partnership style in all key links of the value creation chain (Likert and Wu 2000).

The application of the rules of re-engineering in the development of employee competences shifts "improvement" from processes to the actions taken by the employee and connected with the realisation of the function of the work position. This is a consequence of changing the methodology of improving processes in the self-reproducing system. Change in processes is the outcome of employees' actions empowered by organisational learning which in turn determines the internal dynamics of the company. These dynamics determine the effectiveness of work processes, whereas work processes, in turn, by defining the configuration of actions, cause the transformation of organisational processes. This approach emphasises that employee competences may develop only in the system of the organisation, i.e., when surrounded by competences of other members of the organisation holding different positions linked by work processes. A specific change of action is a symptom of changes in employee competences in different work positions which are themselves linked by work processes. Inter-dependent changes result from the meeting of needs of internal clients, i.e., employees involved in work processes. An indispensable condition of these changes is the understanding of work processes and their functions, and, in particular, the identification of the significance of actions performed by particular employees in the context of actions undertaken by their colleagues. The second rule of re-engineering is the analysis of processes. In turn, the third rule, which takes into account existing limitations, focuses on the function of the work position which determines the

Table 19.2 Framework methodology of employee competence development

Phase	Stages
1. Benchmarking	1.1. Identification of the subject of research
	1.2. Definition of the functions of employee competences
	1.3. Selection of employees for comparisons
	1.4. Gathering information
	1.5. Finding out deviations with respect to parameters of effectiveness (what does he do wrongly?)
	1.6. Identification of deviation factors in the range of parameters of effectiveness (why does he do it wrongly?)
	1.7. Working out scenarios of employee competence development
2. Knowledge management	2.1. Integration of employees (the model and the employee undergoing training) in work processes
	2.2. Definition of deviations with respect to behaviours stimulating diffusion of knowledge
	2.3. Designing the means for enabling acquiring and sharing knowledge
	2.4. Ensuring redundancy of resources (information resources, resources connected to relationships, real and financial resources)
	2.5. Exchanging information
3. Re-engineering	3.1. Definition of the functions of work processes—building common understanding
	3.2. Identification of the significance of actions taken in work positions with respect to actions performed by colleagues
	3.3. Definition of the functions of the work position
	3.4. Identification of the area of freedom in the work position
	3.5. Designing improvements of work processes
	3.6. Experimenting

Own study

range of freedom of action of members in the organisation. As far as the forth rule is concerned, a new way of thinking is required. This new mind-set relates to experimentations i.e. embarking on attempts which may lead to either success or failure.

19.3 Conclusions

To conclude, these findings suggest that CSR could be implemented within organisations through employee competence development. This orientation based upon the framework methodology of employee competence development presented in Table 19.2, which is interpreted as ethically worthy employee competences development, that depicts three key phases including the concepts of benchmarking, knowledge management, and re-engineering, is the missing link proposed in this chapter. However, this proposal requires the consideration of further recommendations. Particularly, it should embrace principles of management by consensus or contract rather than management by command, the integration of individual and corporate objectives, as well as the initiation of self-managed learning development plans. In that respect, such orientation is defined as a strategic and integrated approach to delivering sustained success in organisations by achieving the right ends for right reasons, by improving the performance of the people who work in them, and by developing the capabilities of teams and individual contributors. Moreover, implementing CSR within human resource management through employee competence development further requires consideration of other issues such as: communication, motivation, and leadership as well as cultural and structural aspects.

References

Armstrong, M. (2009). *Armstrong's handbook of human resources management practice* (11th ed.). London: Kogan Page.

Arrow, K. J. (1974). *The limits of organization*. New York: Norton.

Bandura, A. (1986). *Social foundations of thought and action: A social cognitive theory*. Upper Saddle River: Prentice-Hall.

Camp, R. C. (1989). *Benchmarking: The search for industry best practices that lead to superior performance*. Milwaukee: ASQ Quality Press.

Camp, R. C. (1995). *Business process benchmarking: Finding and implementing best practices*. Milwaukee: ASQ Quality Press.

CEC. (2001). *Promoting a European framework for corporate social responsibility*. Luxembourg: Office for Official Publications of the European Communities.

Cochran, D. S., Eversheim, W., Kubin, G., & Sesterhenn, M. L. (2000). The application of axiomatic design and lean management principles in the scope of production system segmentation. *International Journal of Production Research, 38*(6), 1377–1396.

Friedman, M. (1962). *Capitalism and freedom*. Chicago: University of Chicago Press.

Griseri, P., & Seppala, N. (2010). *Business ethics and corporate social responsibility*. Australia: South-Western Cengage Learning.

Hammer, M., & Champy, J. A. (1993). *Reengineering the corporation: A manifesto for business revolution*. New York: Harper Business Books.

Hohnen, P., & Potts, J. (2007). *Corporate social responsibility: An implementation guide for business*. Winnipeg: International Institute for Sustainable Development.

Likert, J. K., & Wu, Y. C. (2000). Japanese automakers, U.S. suppliers and supply-chain superiority. *Sloan Management Review, 42*(1), 81–93.

Lozano, R. (2011). Addressing stakeholder and better contributing to sustainability through game theory. *The Journal of Corporate Citizenship, 43,* 45–62.

Lucas, R. E. (1988). On the mechanics of economic development. *Journal of Monetary Economics, 22*(1), 3–42.

Nonaka, I., & Takeuchi, H. (1995). *The knowledge-creating company: How Japanese companies create the dynamics of innovation*. New York: Oxford University Press.

O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.

The Role of Employees in Implementing CSR Strategies

20

Lara Johannsdottir and Snjolfur Olafsson

I'll have my people call your people. If you don't have people, people will be provided for you
Harvard Business Review, March–April 2000, p. 119.

Contents

20.1 Introduction 384
20.2 Leaders Decision Versus Employees' Role in Implementing CSR 385
20.3 Employee Contribution to CSR Integration 388
20.3.1 Individual Level Contribution 389
20.3.2 Organisational Level Contribution 389
20.3.3 Institutional Level Contribution 392
20.4 How does Employees' Participation Fit into CSR Implementation? 393
20.4.1 Primary Activities 394
20.4.2 Support Activities 396
20.5 The Motivation of Employees 397
20.5.1 Sustainability Emphasis and Pride 398
20.5.2 Sustainability Emphasis and Caring for Employees 399
20.5.3 Sustainability Emphasis and Values 399
20.5.4 Sustainability Emphasis and Communication 400
20.5.5 Sustainability Emphasis and Benefits 400
20.6 The Links Between Companies and the External World 401
20.6.1 Firms and Employees Guidelines and Standards Regulating Working Conditions 401

L. Johannsdottir (✉) · S. Olafsson
School of Business, University of Iceland, Gimli v/Saemundargotu,
101 Reykjavik, Iceland
e-mail: laraj@hi.is

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_20

20.6.2 Employees and Stakeholders . . . 403
20.6.3 Employees Families and Homes . . . 404
20.6.4 Employees Leisure Activities . . . 405
20.7 Conclusion . . . 406
References . . . 406

Abstract

The missing link theme of this chapter is that CSR can be most effectively integrated into a company's core business when employees are actively involved. To substantiate this claim the chapter addresses both the function of decision-makers and decision-making approaches in CSR management by examining selected aspects of employee roles in implementing CSR strategies at individual, organisational, and institutional levels. The focus covers a choice of key related themes such as: Collaboration between leaders and employees, a framework illustrating employee's contribution to CSR integration, as well as an examination of employee participation and motivation when implementing CSR strategy using key frameworks such as Porter's value chain. In doing so, the link between the organisation and the external operating environment is examined and solutions for mainstreaming CSR principles via employee participation in everyday business practice are proposed. We conclude that companies benefit from active employee participation in CSR implementation in various ways including employee commitment, loyalty, increased productivity as well as a stronger image and brand.

20.1 Introduction

The joke cited above (HBR 2000) nicely illustrates the critical role that employees play in running the daily business, but in this chapter we discuss the employees' role when implementing corporate social responsibility (CSR) strategies. CSR comes in many forms, and has many facets, depending on industries, companies' core activities, size, location, and driving forces. Since the 1970s, debates on social and environmental responsibility of companies have escalated, a trend which has impacted on policy, industries, and individual companies (Loorbach and Wijsman 2013).

The European Commission defines CSR as "the responsibility of enterprises for their impacts on society." Companies "should [therefore] 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" to meet their CSR responsibility fully (European Commission 2013). We use the term CSR as a synonym for corporate responsibility (CR) and business sustainability (BS), as it depends on companies' culture which terms they prefer to use.

The role of employees is claimed to have been diluted due to an increased focus on other stakeholders in the implementation of CSR (Ditlev-Simonsen and Brøgger 2013). However, if CSR is to be in-built into companies' culture and consequent actions, it is of great importance to look at the role of employees specifically. Although scholars realise that CSR issues concern companies and that employees are crucial stakeholders and that the impacts may be positive, negative, or have no effect, still little is known about how companies' CSR activities impact employees (Ditlev-Simonsen 2012), or employees' roles in CSR implementation processes. In some cases, decisions of top managers is sufficient, for instance when investment decisions are made. In most other cases, active involvement of employees is needed if CSR is to become a part of the companies' culture. This chapter acknowledges the role of management in implementing CSR strategies, but focuses in particular on the role of employees in the CSR implementation process. The missing link theme of this chapter is that CSR can be most effectively integrated into a company's core business when employees are actively involved. To substantiate this claim the chapter addresses both the function of decision-makers and decision-making approaches in CSR management by examining selected aspects of employee roles in implementing CSR strategies at individual, organisational, and institutional levels. The focus covers a choice of key related themes such as: Collaboration between leaders and employees, a framework illustrating employee's contribution to CSR integration, as well as an examination of employee participation and motivation when implementing CSR strategy using key frameworks such as Porter's value chain. In doing so, the link between the organisation and the external operating environment is examined and solutions for mainstreaming CSR principles via employee participation in everyday business practice are proposed.

20.2 Leaders Decision Versus Employees' Role in Implementing CSR

Top-down and bottom-up approaches to strategy implementation are often emphasised. In the case of CSR, companies ever so often approach the development, implementation, and management of CSR as top-down initiatives in the sense that companies' leaders decide what to do and how (Bhattacharya et al. 2008). However, to be successful, CSR requires both top-down and bottom-up practice, although the role of leaders and employees differ when it comes to decisions and actions. Some actions are solely based on leaders' decisions. In other cases, employees' inputs are needed for leaders to make decisions, or collaborative efforts are required. However, to gain a cultural transformation, the widespread participation and support of employees is needed.

The decisions made and the actions carried out will differ by companies depending on their size, ownership, type of industries, and which CSR issues relate to the core business. Accordingly, companies within the garment industry or the electrical industry, relying on production in developing countries, might emphasise human rights, minimum wages, and working conditions, while heavily polluting firms might place great emphasis on reducing their environmental impacts by using less resources and generating less waste and emissions. Companies operating in countries were talent-shortage is becoming an issue because of low fertility rates and increasing aging populations might focus on flexible working conditions, work-life balance, hiring more women, the unemployed, minority groups, the disabled etc. or on allowing older candidates to work part-time.

In cases where employees disagree with management decisions, the process is overly top-down driven (Ditlev-Simonsen and Brøgger 2013), but it can also be too bottom-up driven where leaders do not fully support employees' ideas. For a successful CSR implementation there has to be a balance between management-led implementation and active involvement of employees in the strategy execution. When implementing CSR it is up to the board and/leadership to decide if changes are to be incremental, radical, or systemic

Table 20.1 Leaders' decisions and actions (Ditlev-Simonsen 2012; Ditlev-Simonsen and Brøgger 2013)

Category	Examples of leaders decisions and actions
Strategy	Identify CSR-related risk and opportunities sources, select and prioritise sustainability issues and emphasis
	Investigate the business case and define the CSR purpose
	Guide through vision, mission, values, goals, and CSR policies
	Select guiding principles, e.g. UN Global Compact or the OECD guidelines for multi-national enterprises
Commitment and accountability	Present vision, raise consciousness, influence behaviour and walk-the-talk. Allocate human and financial resources
	Support development and marketing of products/services fitting the overall CSR strategy
	Comply with local, regional and global regulations, and voluntary standards
Structure	Align structure with strategy
	Create evaluation and compensation structure supporting firms CSR goals
	Create CSR recruitment criteria's and career development paths
Systems and processes	Select managerial, measurement and technical systems and equipment, programs and voluntary standards e.g. ISO 26000, ISO 14001, EMAS SA8000, scorecards, accountability tools, or IT-systems fitting company's culture, strategy, and resources
Measurements and incentives	Monitor, measure, and reward success
	Tie monetary and non-monetary rewards to CSR goals, e.g. emission-reduction targets into (management) bonuses
	Verify cost-saving elements
Investments	Make investment decisions with regard to CSR
Transparency	Select tools for reporting and disclosure e.g. GRI, CDP, or PRI
Stakeholders	Identify relevant stakeholders
	Empower, influence, and involve employees
	Decide what type of training to offer, e.g. training in anticorruption policies and procedures
	Enrol in dialogue with relevant stakeholders
	Select business partners contributing positively to CSR emphasis
	Decide on corporate philanthropy

(Bisgaard et al. 2012; Boons and Lüdeke-Freund 2013; Yip 2004). Examples of leaders' decisions and actions are shown in Table 20.1.

There is not always an obvious distinction between leaders' decisions and actions on the one hand, and when employees' inputs and collaborating efforts are needed on the other hand. It is however more likely that employees would more willingly take part if they believe that the emphasised vision is genuine and that leaders' commitment is authentic. Leaders can listen to, involve, consult, and support employees (Ditlev-Simonsen 2012; Ditlev-Simonsen and Brøgger 2013). The involvement takes place at different stages in the strategy development and implementation process, for instance in the articulation of CSR objectives, when defining the CSR purpose of the firm, or in suggestions for concrete actions (Bhattacharya et al. 2008). Examples of leadership decisions based on employees' input, and leaders' and employees' collaboration are shown in Table 20.2.

It is leaders' role to enable enduring engagement and progress of employees striving to carry out strategy implementation by providing a "sense of purpose in the work" (Amabile and Kramer 2012, p. 2). This is particularly true for CSR-engagement. Employees who are

Table 20.2 Collaboration between leaders and employees (Ditlev-Simonsen 2012; Ditlev-Simonsen and Brøgger 2013)

Category	Examples of collaboration efforts between leaders and employees
Commitment and accountability	Engage in defining, refreshing, and redefining CSR engagement, mission, and policies (e.g. ethical, procurement, or transportation policies), guidelines, development of action plan, and in prioritising actions
	Share responsibility for successful outcome, e.g. by understanding social and environmental consequences of the business model and business actions and by taking proactive approach to employee involvement
	Participate in roundtable discussion, brainstorm sessions, meetings, surveys, screening of risks and opportunities, product development, reporting environmental and social incidents, sharing ideas, etc
	Engage in internal and external communication
	Build CSR into job descriptions
	Provide/utilise subsidies, e.g. for using public transportation, bike to work, paid time for voluntary work
	Support charity, e.g. donate equipment, furniture's, and personal items
Transparency	Monitor results
	Generate internal and external reports, e.g. GRI reports
	Require suppliers and partners to disclose data on sustainability performance
Stakeholders	Identify knowledge gaps, develop new sets of skills, include CSR in training programs, and take part in initial and on-going training
	Identify needs of different employees groups and their interests
	Listen to and consult employees
	Take notice of external views, e.g. through dialogue with stakeholders
	Develop new social networks

Table 20.3 Examples of employees' actions (Ditlev-Simonsen 2012; Ditlev-Simonsen and Brøgger 2013)

Category	Examples of employees actions
Commitment and accountability	Engage in mainstreaming CSR principles into business actions through daily activities and personal engagement
	Engage in actions of various types, e.g. grassroots level initiatives, good cause activities, volunteer-based activities, and brainstorming new ideas
	Take part in initial and ongoing training, e.g. CSR orientation programmes, learn new techniques and skills as a part of personal development
	Provide feedback
	Reduce resource consumption, and minimise generation of wastes
Stakeholders	Interact with various stakeholders, e.g. customers, suppliers, governments, competitors, NGOs, etc.
	Support replication potential by sharing best practice and innovation within the firm and across company operating borders

fully aware of their company's CSR strategy and activities and have been empowered to act accordingly, can carry out various activities in their daily work without specific orders, if the link between their jobs and the expected outcome is known. Examples of employees' actions are shown in Table 20.3.

Both the development and implementation of CSR strategies are change processes (Maon et al. 2008). In fact, these are ever-changing processes that take into account societal and environmental issues, risks and opportunities, expectations and requirements of various stakeholders and companies' willingness, ability, and interest in addressing CSR issues to satisfy needs of different stakeholders. If this journey is to be successful, close collaboration between leaders and employees is needed. The outcome can be a positive reputation that increases the long-term value of shareholders, while also making societies and the environment more sustainable in the long-run.

20.3 Employee Contribution to CSR Integration

Employees play an important role when integrating a CSR emphasis to the core business. They are the ones who carry out the daily business, meaning that companies' emphasis on environmental and social issues cannot be fully integrated without their participation and support. Employees are thus in a position to support a company's strategic outcome.

The success of CSR programs depends, among other things, on knowledge-sharing within the firms as well as to and from relevant stakeholders. Employees make the connections within and outside the companies so that through these connections, a CSR emphasis is carried out. In doing so, they establish the 'missing link' in many ways through these activities. Additionally, employees contribute to companies' philanthropy and voluntary work, as well as providing valuable knowledge and ideas from their private lives as dis-

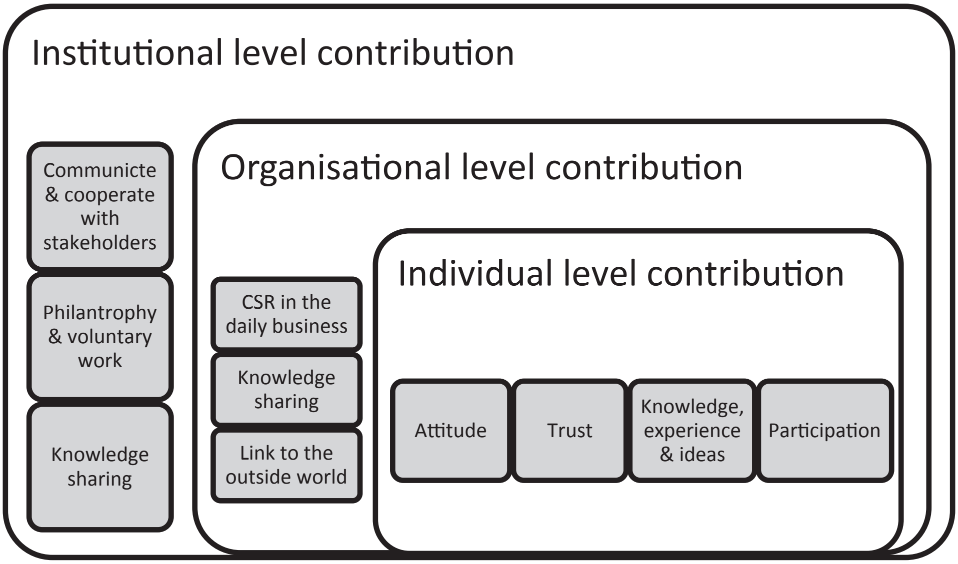


Fig. 20.1 Employees' contribution to CSR integration

cussed in Sect. 6. Accordingly, the employees' contribution can be viewed at different levels such as institutional, organisational, and individual see Fig. 20.1.

20.3.1 Individual Level Contribution

Employees' contribution at individual level will vary depending on their role within the firms, and to what extent they are able to take part in companies' CSR actions in their daily work. However, if employees have a positive attitude towards a company's CSR actions, have faith and confidence in company's leaders and trust that their efforts are genuine, they are likely to share their knowledge, experience, and ideas among their co-workers for the benefit of their company, society, and the environment. They will furthermore demonstrate through personal responsibility, actions, and participation in various projects their support in implementing companies CSR strategies successfully.

20.3.2 Organisational Level Contribution

The CSR implementation is an on-going process of performance improvements of the daily business based on the stated CSR objectives. Therefore, ideology of continuous improvement known from quality management, e.g., the Deming Plan-Do-Check-Act (PDCA) cycle, see Fig. 20.2, and change management models can be used to guide the implementation of CSR strategies.

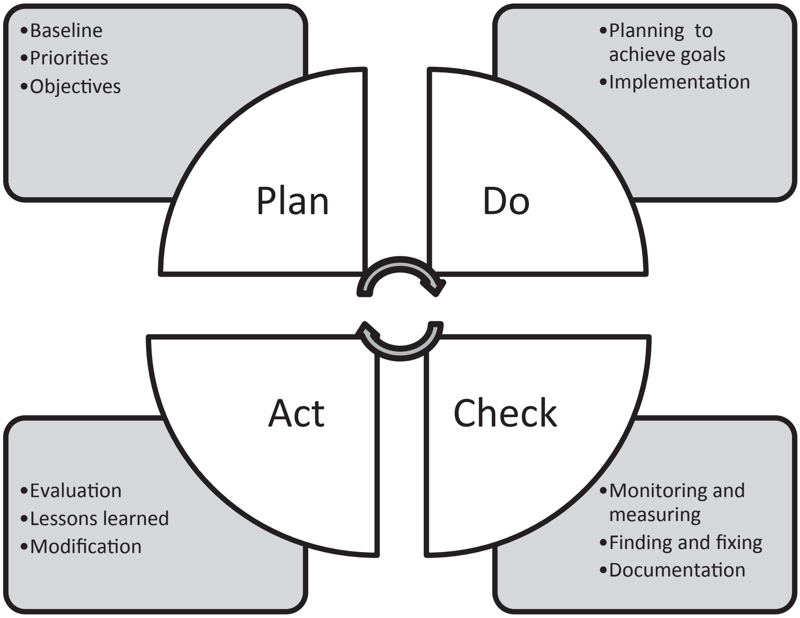


Fig. 20.2 Deming's plan-do-check-act cycle

Although the PDCA cycle can be relevant in a CSR implementation, it does not emphasise the role of stakeholders such as employees. Furthermore, the PDCA cycle is frequently used in internal improvement projects, whereas in CSR improvement projects it is necessary to take into account issues that lie outside the companies' boarders. Therefore, ideas from change management can be employed alongside the PDCA cycle.

In a successful change management process one needs to follow eight steps: (1) Establish a sense of urgency; (2) Create powerful guiding collision; (3) Construct a vision; (4) Communicate the vision; (5) Empower employees to act on the vision; (6) Plan for and generate short term wins; (7) Consolidate improvements and produce more changes; (8) Institutionalise new approaches (Kotter 2007). A roadmap of organisational change for environmental decision-making based on change management ideology, suggests four main phases which include to: Diagnose, unfreeze, move, and re-freeze the situation in the companies. Each phase has sub-steps. Altogether eight steps explaining the actions needed. This method does however not explain the role of employees, as it is designed from the top-down view of companies' leaders (Hoffman 1998, 2000), see Fig. 20.3.

Viewing employees' actions at institutional level through the environmental lens is important. Employees are the ones using resources in their daily work which create waste, so their contribution is of vital influence to sustainable business performance. They are in a position to reduce energy and water consumption, limit carbon emissions, avoid waste creation, increase recycling, and so forth. Individuals, on behalf of their companies, are furthermore in a key position to identify where improvement opportunities lie. Actions

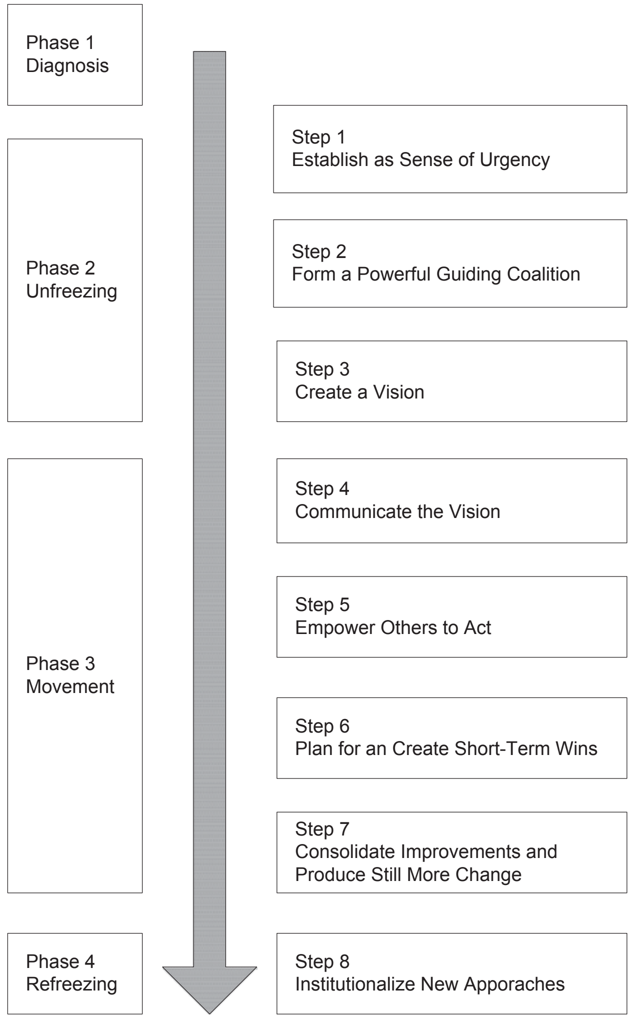


Fig. 20.3 A road map for organisational change (Hoffman 1998, 2000)

may include: Reducing air-conditioning temperatures, shutting down electronic equipment, switching off lights, reducing paper consumption, and travel-related impacts, e.g., by making responsible choices such as changing transportation modes or by taking part in virtual meetings instead of travelling to meetings.

Based on employees' knowledge and experience, their role in sharing knowledge cannot be overstated in a successful integration of CSR into the daily business. Employees can make a contribution by sharing all sorts of ideas for improvements among their peers. This can for example include innovation which can also be adopted in other parts of the operation, for instance, if ideas are first implemented on a small scale, before they are scaled up for larger units within the company, or the company as a whole. In this approach, the contribution of many is needed if companies are truly to become responsible citizens.

20.3.3 Institutional Level Contribution

A key role of employees is their function as a link between the company and the outside world. According to a recent Ipsos MORI[1] report, highly motivated, engaged, and committed employees that sense the importance of the company's actions will deliver an outstanding job. This is based on the Corporate Leadership Council findings which was an engagement survey conducted among 50,000 employees around the world which suggested that employees' performance will be significantly better, and they are also less likely to change their employer if they are enthused (Corporate Leadership Council 2004). Furthermore, the study suggests that they are strong advocates of companies, thus contributing to the companies' positive image and brand by raising awareness and trust among companies' stakeholders (Ipsos MORI 2008).

Ipsos MORI suggest that the public would rather believe employees' word of mouth, rather than companies' promotional material when it comes to information about companies' contribution to the environment or society. As a result, this implies that employees, acting as ambassadors for the company, could help in attracting potential customers. The advocating role where employees proactively support companies' CSR strategies is also important in customer relations in general. According to Ipsos MORI, employee advocating depends on their trust in their employers' sustainability actions.

At an institutional level employees can help find, develop, and perform all sorts of co-operation and partnerships on behalf of their companies. These partnerships needs to be carefully planned and guided by clear objectives in accordance with companies' CSR emphasis, and carried out with the active participation of employees. These types of collaboration can be used to influence CSR improvements within companies' supply chain activities, in vendor operations, in collaboration with community stakeholders, such as for instance non-governmental organisations (NGOs) which are now seen as crucial actors in company's CSR-related product development. Suppliers and partners can also be required to report on their CSR performance. In such cases, employees may be in a position to build capacity among relevant stakeholders by sharing their knowledge or by monitoring their CSR-related performance. Improvement projects aimed at re-using car parts in claims processes are well known among insurers (Johannsdottir 2012; Meyricke and ClimateWise Sustainable Claims Steering Group 2010). Employees also play an important role in strengthening the potential for replication of best practices and innovation by sharing ideas trough company partnerships, collaborations, business networks, dissemination at seminars, meetings, conferences, and so forth. Willingness to learn through interaction with relevant stakeholders is also of importance. Knowledge which employees gain through dialogue with stakeholders therefore needs to be effectively transmitted back into companies' feedback systems for the purpose of making continuous improvements.

[1] Ipsos MORI is a part of the Ipsos Group, a leading market research company in the United Kingdom and Ireland.

Employees can take part in actions of various types, e.g., grassroots level initiatives, good cause activities, volunteer-based activities, and brainstorming of new ideas. Various examples exist of employee philanthropy and voluntary work carried out on behalf of companies, for instance in supporting charity by donating equipment, furniture, or personal items. DHL has for example established a global network in co-operation with the UN Office for the Co-ordination of Humanitarian Affairs (OCHA), consisting of more than 400 specially trained employees who volunteer their time to be a part of our Disaster Response Teams (DRT). The role of DRTs is to provide logistics support at no charge when disasters occur. This includes warehousing and inventory of the incoming relief supplies and unloading of cargo planes, ensuring that disaster relief organisations can effectively and quickly deliver blankets, food, and medication to those in need (DHL 2013). In this example, the company is able to align their CSR strategy with their core business competencies and identity (i.e. logistics). This makes their effort credible as it benefits those in need, and is thus more likely to result in strong commitment and support among their employees (Chong 2009).

It is therefore important for companies to relate CSR to their core business to find out how they can contribute positively to society and the environment. Companies will benefit through employees' volunteering work, e.g., through reputational benefits, impacts on culture and communication, employees' commitment, loyalty and lower absenteeism, motivation, productivity, new ideas and skills such as team-work skills, and goodwill from community stakeholders. In turn, employees obtain the opportunity to give back to the environment or the society, e.g., by helping others, as well as gaining new skills. Ultimately, this leads to value creation for both (de Jong 2011).

20.4 How does Employees' Participation Fit into CSR Implementation?

Employee participation in successful CSR implementation is considered to be more important than for many other strategic initiatives due to the nature of the CSR concept, which involves for instance improving the impact of the business on society and the environment (Ditlev-Simonsen and Brøgger 2013).

The employee engagement pyramid, see Fig. 20.4, can be used to understand the preconditions for employee participation. At the lowest level employees' awareness of CSR issues, CSR strategies, and how the strategies can help companies meet their objectives are the starting point. Understanding the message is the next level, but at this level employees understand the rationale behind the companies' goals and objectives, as well as their own role in making companies triumph by implementing the strategies. The third level is where employees start to believe, and become convinced of the importance of bringing companies CSR values and objectives to life. The top level is commitment to act. Significantly, at this level, employees are motivated and inspired to act so the companies can reach their goals (Sumner and Manchester 2006; Strandberg 2009).

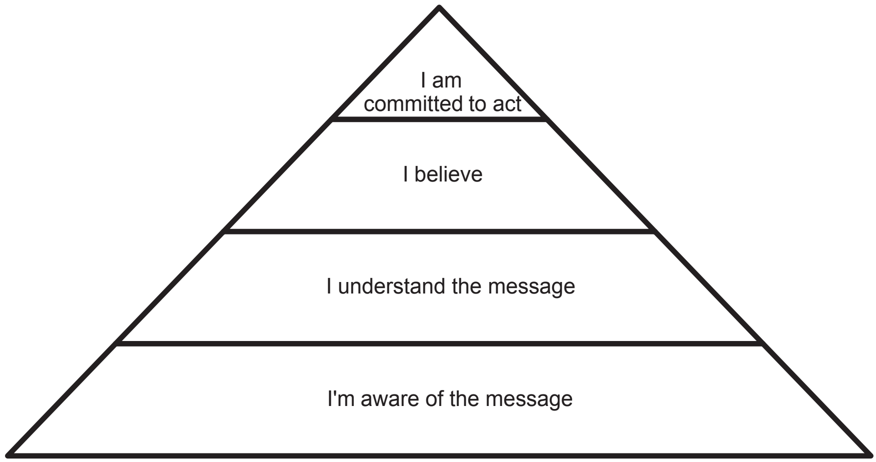
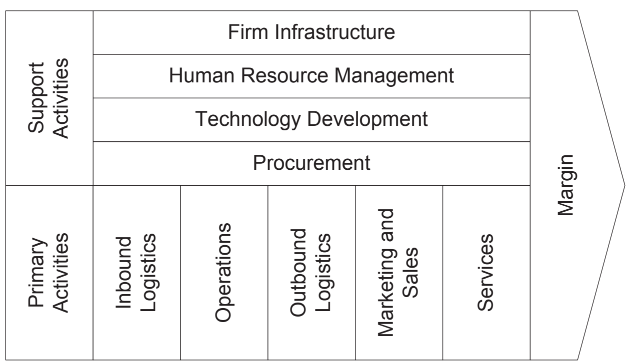


Fig. 20.4 Employee engagement pyramid (Adapted by Strandberg 2009)

Another way to view employees' participation in the CSR implementation process is to use Porter's and Kramer's value chain to study CSR implementation potentials (Porter 1985; Porter and Kramer 2006), see Fig. 20.5.

Fig. 20.5. Value chain (Adapted from Porter 1985 and Porter and Kramer 2006)



20.4.1 Primary Activities

Each of the primary activities suggested by Porter (1985) and Porter and Kramer (2006) can be used to study employees' participation with respect to on-going CSR implementation.

- Inbound logistics: This includes incoming material used for the operation, data, and stakeholders' access to companies. Employees can support inbound logistics initiatives by using teleconference equipment instead of driving or flying to meetings, and change their transportation modes to reduce impacts such as emission and congestions. They can furthermore additionally encourage suppliers to optimise their transportation modes.
- Operations: This is perhaps the most important activity within the value chain with respect to employee participation, as it relates to the core operation of the business, including resource consumption, efficiency, recycling, inter-action with stakeholders, etc. Employees play a critical role in carrying out CSR-related behaviour in the day-to-day business of companies (Ipsos MORI 2008). By supporting companies' choices and actions, employees can make a significant impact to improve environmental and social conditions. Examples of choices and actions include implementing environmental management systems, selection of materials, reduction of energy and water consumption, and participation in safety and labour practices (such as to improve working conditions within companies and among suppliers). This activity also includes the operation of facilities and equipment. Accordingly, it is also useful if those in charge of facility management or technological solutions also take part in operations' improvement projects (Johannsdottir 2012).
- Outbound logistics: This activity includes the packaging used, impacts from storage of goods, transportation, and disposal at the end of the product life-cycle. Employees can make suggestions on how these activities can be improved with respect to environment and society, as well as by adopting new working methods related to outbound logistics, e.g., if service is to be delivered electronically, packaging size reduced, or packaging re-used.
- Marketing and sales: Employee roles, particularly those working in marketing and sales, can be designed to ensure that companies cannot be accused of green-washing. Instead, communicating the company's environmental and social emphasis, as well as its other CSR accomplishments truthfully through various forms of media, is a key value chain task. Depending on the company's business emphasis, this could relate to preventing child abuse in manufacturing processes and/or activities undertaken to protect the natural environment.
- Services: The service activity includes producer responsibility as well as aspects such as how obsolete products end their life cycles. In this activity it is important to obtain input from employees in how the service can be improved with regard to minimising harm to society and/or the environment. Pollution control, cleaner production, life-cycle thinking, closed-loop production (OECD 2009), or improvements based on the EU Waste Framework Directive (2008/98/EC)[2] which classifies the waste hierarchy from the most to the least preferred option in the following order; reduce, re-use, recycle, energy recovery, and disposal are examples of methods that can be used to improve ser-

[2] See Directive 2008/98/EC of the European Parliament, November 19, 2008.

vices with regard to CSR issues. Furthermore, increased emphasis on services instead of production can reduce resource consumption.

20.4.2 Support Activities

The support activities suggested by Porter (1985) and Porter and Kramer (2006) can be employed to illustrate employee participation with respect to ongoing CSR implementation within companies.

- Firm infrastructure: Employee roles in a firm's CSR infrastructure include supporting company governance, practices, and transparency (e.g., via CSR-related reporting). Employees make a valuable contribution by taking part in certification processes, implementing environmental management systems, undertaking internal audits, CSR reporting, and so forth.
- Human Resource Management: This support activity includes recruiting, training, working conditions, compensation systems, and retirement. Employee contribution includes taking part in the initial and ongoing training as well as by learning new techniques and skills in order to ensure quick progression up the above-mentioned employee engagement pyramid (Sumner and Manchester 2006; Strandberg 2009). As a result, employees become proactively involved in their company's CSR activities and actions through greater empowerment (Johannsdottir 2012). It is of importance that employees comprehend the big picture, as well as to understand what effect CSR has on their own role within the company. Through such actions, employees can, for example, contribute to the safe working conditions; they can welcome diversity among co-workers; support compensation policies which encourage a CSR emphasis; utilise subsidies for public transportation; bike to work, or receive paid time for doing voluntary work.
- Technology development: Technology development may include both developing hard technologies related to material products, and soft technologies taking into account human capacity and skills, organisational and managerial procedures, systems, networks, guidelines, and so forth (United Nations Environment Programme 2003). This may include research practices related to CSR or ethics such as the use of genetically modified organisms (GMOs), animal testing, product or process design and safety of products, market or material research in which employees carry out the main activities. Innovation, for instance in green teams, is therefore a part of technology development wherein employees' involvement is important. Furthermore, such technological innovation can be solely carried out by company employees or in collaboration with stakeholders, including NGOs, suppliers, or customers (Johannsdottir 2012).
- Procurement: Procurement focuses on supply chain activities. Decisions made on behalf of companies by managers and employees are of great importance when implementing CSR strategies. Such decisions may include doing business with local suppliers, fair-trade business decisions, use of inputs such as free-range chickens or animal

furs, as well as putting pressure on suppliers to make improvements in their business with respect to the use of child labour and other undesirable practices, etc.

The above study of the value chain activities (Porter 1985; Porter and Kramer 2006) suggests that employees can participate in (at least to some extent), and support actions taking place both in all the steps suggested in the Plan-Do-Check-Act cycle as well as the change management models discussed above. This implies that CSR principles can be mainstreamed through companies' daily activities by sharing responsibility among the employees acting via their own personal engagement. This connection of individuals, organisations, and institutions via employee participation clearly fills a missing link gap in CSR practice.

20.5 The Motivation of Employees

A quotation from an Ipsos MORI report on employee engagement in corporate responsibility emphasises the critical role of employees in implementing CSR: "Companies must understand the impact corporate responsibility has on a most valuable asset—their employees (both existing and potential)" (Ipsos MORI 2008, p. 4). Survey data has furthermore clearly demonstrated the importance of CSR policies to employees as a motivating factor as opposed to a pure focus on salaries and working conditions, which are rarely highlighted by employees in surveys as key motivating factors (Ipsos MORI 2008). Furthermore, the impact of CSR correlates positively with employee intrinsic motivation factors, including satisfaction, enjoyment of tasks, accomplishment, positive recognition, and involvement in decision-making (Skudiene and Auruskeviciene 2012).

Understanding what motivates candidates seeking jobs is important for companies, as it will help them to attract high-level candidates. The Network for Business Sustainability (NBS) summarises a growing body of evidence, brought forth in peer-reviewed studies, suggesting that employees wish to work for companies that focus on sustainability practices (NBS 2013). For clarification, this evidence is mainly derived from experimental studies were university students took part, but also includes field studies carried out among people actively seeking jobs. Although the factors brought forth by the NBS clearly focus on a job-seekers point of view, we assume that they may also apply to current employees. Significantly, environmental responsibility of corporations was listed among the influential factors recognised by the job seekers, but NBS also identifies three main reasons why sustainability attracts job-seekers. These include (1) employee pride, (2) caring for employees, and (3) ties between personal and companies' values. These elements and employees' involvement are presented in Fig. 20.6, and in the following sub-sections.

The NBS suggests several ways of using the above-mentioned factors or mechanisms to maximise how sustainability factors can be employed to attract new talent for companies.

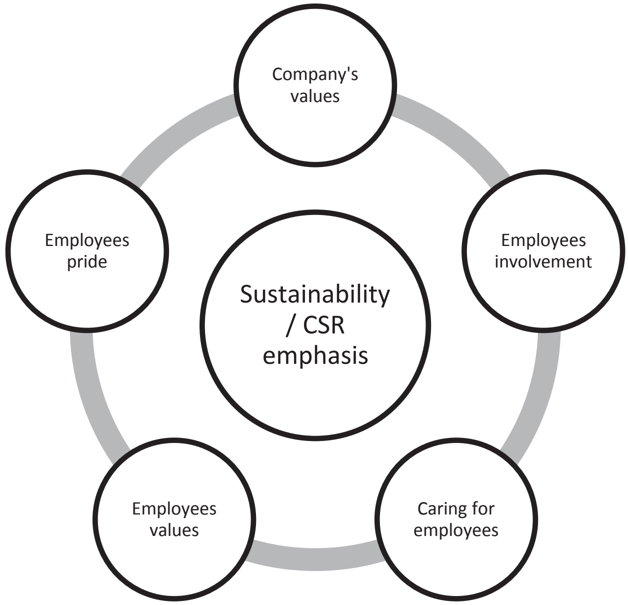


Fig. 20.6 Critical CSR factors employees and for job seekers (The Figure is inspired by the NBS (2013) findings)

20.5.1 Sustainability Emphasis and Pride

Companies focusing on sustainability can enhance their reputation and image. This can improve the regard and impression of pride of potential employees when applying for positions at the company (NBS 2013). Companies in which sustainability practices exceed their industry peers can set themselves apart from their competitors in the minds of those seeking job opportunities, as well as in the minds of current employees who may feel recognised and valued for their sustainability efforts (Ipsos MORI 2008). This can furthermore be strengthened if the companies have additionally gained awards or recognition from third-parties for their sustainability efforts. This could include the implementation of environmental management systems (such as for example ISO 14001 or EMAS, the European Eco-Management and Audit Scheme, acceptance of the prestigious EMAS Awards for the best performance of EMAS registered organisations, recognition for their leading role in disclosing information on carbon reduction performance according to the Carbon Disclosure Project (CDP), listing in the Carbon Disclosure Leadership Index (CDLI), the Carbon Performance Leadership Index (CPLI), Dow Jones Sustainability Index or the FTSE4Good Index, to name a few). Testimonials of current employees, or other relevant stakeholders may also influence the attitude of job seekers, as well as how potential employers celebrate their sustainability achievements (NBS 2013).

According to Ipsos MORI (2008) the sense of motivation is much higher if employees believe that their company is environmentally aware, as opposed to cases where employees feel that their company is not paying adequate attention to these types of issues. Additionally, cynicism levels start to rise if sustainability-related motivation starts to decline.

20.5.2 Sustainability Emphasis and Caring for Employees

In the NBS (2013) analysis of sustainability-related factors influencing job seekers, the findings indicate that some of those seeking jobs assume that companies taking care of society and the environment in general will also treat employees well. Companies can therefore demonstrate through their actions that this is the case. Communicating about important and gratifying sustainability actions in which employees take part is a crucial factor in disseminating information to job seekers. Employees' engagement in various volunteering committees and efforts, corporate responsibility weeks, fundraising, or mentoring projects for charities and non-governmental organisations (NGOs), helping homeless or unemployed, and other types of philanthropic projects are examples of such actions (ACE group 2013; Allianz 2014; AXA Group 2013). However, according to the NBS findings, scepticism has been recognised among job seekers, who believe that the main purpose of these types of actions serve companies' own interests as marketing tactics to create financial value for their owners. For this reason, companies need to be particularly transparent about their actions and link them to environmental and social values, as well as the profit motives of cost savings and/or financial gains.

20.5.3 Sustainability Emphasis and Values

The alignment between individual personal values and company values can be a motivating factor influencing employees and job-seekers. Furthermore, this type of fit between individual employee and organisational values can influence decisions on job choices and employee loyalty towards companies as well as their willingness to excel in their work. It is therefore important for companies to transparently describe the values that drive employees' actions. This could include for instance what drives them to be a responsible corporate citizen, to protect the natural environment, to focus on supply chain improvements, treat employees well, to name a few. Management commitment to the companies' sustainability efforts is critical as they are the role models guiding the way. Demonstrating to job-seekers that sustainability is integrated into the daily business is vital if it is to be leveraged to influence their decisions (NBS 2013). If there is a mismatch between the words and deeds of leaders, trust in sustainability efforts will ultimately be eroded leading to the risk that sustainability actions may be labelled as green-washing.

20.5.4 Sustainability Emphasis and Communication

Various communication methods can be used to communicate the sustainability effort message to job-seekers. It is equally important to consult with, listen to, and inform current employees about the sustainability objectives that the company intends to achieve, as well as the contribution of individuals, departments, and divisions in achieving the stated objectives. In cases were resistance is met, employees can be motivated through encouragement and/or incentives to become personally engaged. Company leaders can for instance ask employees to start small and then scale up actions as they become more comfortable with changing the ways of doing their jobs. They can further demonstrate the business case of working in more sustainable manner, or by informing about the benefits which past projects have yielded (Johannsdottir 2012). This may then have a snowball effect, meaning that employees are motivated to explore other aspects of the operation with respect to environmental and/or social concerns. Another effect is that when employees start seeking their own ways of working to reform the business based on their own ideas, diffusion of sustainability within the companies increases.

Communication works in both directions, top-down and bottom-up, and is a way to build a partnership between leaders and employees so everyone works in harmony to achieve the company's sustainability objectives (Ipsos MORI 2008). Idea competitions have given employees opportunities to deliver well-defined sustainable business ideas that are then implemented, and companies have in some cases received a large number of usable ideas from such competitions (Johannsdottir 2012).

20.5.5 Sustainability Emphasis and Benefits

Sustainability emphasis influencing employees' motivation can result in increased loyalty, reduced turnover rate, increased productivity, and reduced absenteeism. A shift in company focus towards sustainability and actions such as voluntary work can influence employee skills and personal development, advance their working experience, and build team skills. Other benefits include improved personal employability, sense of own well-being, and increased job satisfaction (Ditlev-Simonsen and Brøgger 2013). Employees are often willing to go the extra mile for companies showing interest in them (de Jong 2011) particularly if they believe that their efforts deliver wider benefits than merely pursuing financial gains. An exclusive focus on pure financial gains is seen as out-dated and old-fashioned in a world dealing with a great deal of environmental and social issues, many of which have been created by business operations in the first place (Johannsdottir.et al. 2014a; Johannsdottir 2012). It can therefore be assumed that it is easier for companies to use a sustainability emphasis to motivate employees to act, than in other types of strategy implementation efforts were the outcome mainly results in financial gains for companies' owners.

20.6 The Links Between Companies and the External World

Companies affect and are affected by the external world in which they operate. They are a part of the economy and do not operate in isolation. The economy is a part of the wider community, or a group of people, nations, or states that share common characteristics, ownership, and/or interests. The community can be small or large, depending on how it is defined. The natural environment then sets the boundaries by which individuals, firms, the economy and communities can use renewable and non-renewable resources, and the capacity to deal with wastes, and polluting and hazardous substances created by human activities (OECD 2001). Companies act under ever-growing pressure from various stakeholders to take responsibility for the sustainability issues caused by their operations (Hoffman 2010; Jones 2012). Regulatory, market, and social pressure are examples of forces brining companies under control through legislation, business relations, media discussion, competition, trade, etc. Figure 20.7 demonstrates the links between employees, companies and, the external world in a hierarchy order from the smallest to the largest unit.

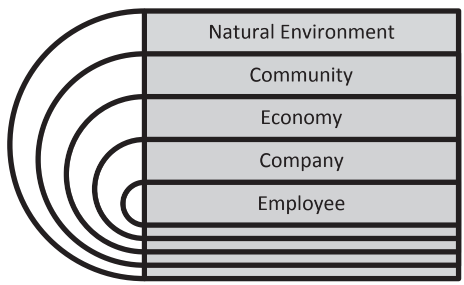


Fig. 20.7 The links between companies and the external world

When viewing the links between companies and the external world with respect to implementing CSR, employees are of vital importance as they are the bridge between firms, various stakeholders, and the community. Employees as active participants in the community possess valuable knowledge that can be utilised when companies implement CSR policies. Figure 20.8 demonstrates that employees gain knowledge, and deal with sustainability issues in various ways, for instance in their work though inter-actions with customers and stakeholders, but also in their private lives, and leisure activities. In the same manner employees can use the knowledge about CSR-related issues and activities to improve their private conditions, at home, and in leisure actives of their own choice.

20.6.1 Firms and Employees Guidelines and Standards Regulating Working Conditions

Employees are entitled to safe and healthy working conditions; otherwise their health and well-being may be negatively affected. Firms have various guidelines and standards to rely on when ensuring these working conditions, including the OECD guidelines for

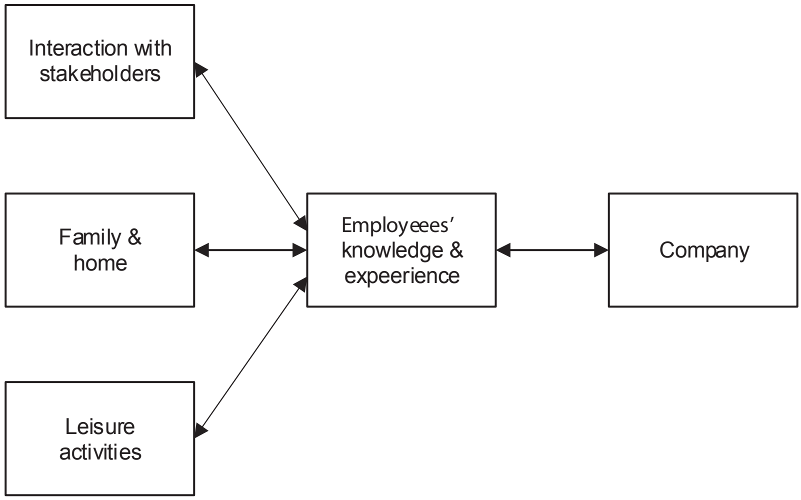


Fig. 20.8 Employees' knowledge and experience benefitting companies, and CSR emphasis benefitting employees

multi-national enterprises, which take into account human rights, employment, and industrial relations (OECD 2013). The United Nations Global Compact (Global Compact for short) officially launched in 2000, offers ten principles to adopt in business strategies, focusing among other things on human rights and labour practice (UN Global Compact n.d). The ISO 26000 standard, launched in 2010, furthermore provides guidance for firms on how firms to carry out their operations in a socially responsible manner (International Organisation for Standardisation, n.d). When reporting on their sustainability-related activities companies can communicate and report to the external world in accordance with the Global Reporting Initiative (GRI). In this regard, GRI offers guidance and support on reporting methods. The social category of the standard includes labour practices and decent work, human rights, society, and product responsibility (Global Reporting Initiative 2013). Employee priorities consist of workplace practice, work-life balance, wages, health and wellness, safety, training, and diversity (Government of Canada 2012).

It is however not enough for companies to provide safe and healthy working conditions according to legal requirements, guidelines, and standards. Companies also need to respect the boundaries between work and employees private lives (particularly given the trend that recent developments in technology keep employees alert around the clock). Companies are also required to consider their impacts throughout their supply-chains. As a result, they cannot disclaim responsibility with respect to working conditions and environmental problems caused by their suppliers because of outsourcing of production to emerging economies or developing countries. Such practices can easily backfire in cases of social or environmental incidents which may reflect negatively upon the company's image. This type of social and market pressure is perhaps a stronger influential factor than changes in legislation, but still falls short in protecting worker's rights in the case of tragic incidents causing deaths of workers (Human Rights Watch 2013). Many tragic incidents of poor working conditions in garment factories in Bangladesh, producing cheap clothes for Western fashion brands, serve as an example of unsustainable business practices. One of the most disastrous incidents cost the lives of more than 1100 workers after a factory collapse in 2013 (BBC News Asia 2013). The working conditions of employees at sub-suppliers cannot therefore be ignored by companies. This particular incident resulted in a legally binding building safety agreement signed by more than 50 brands, including H and M, Marks and Spencer, and Primark which each intend to contribute up to US$ 500,000 annually for the installation of fire safety solutions and independent factory inspections (The Guardian 2013).

Ominously, other types of industrial crisis caused by for example technological failure, have in the past triggered events which caused immense harm to humans and the natural environment (Shrivastava 1995). Frequently, the underlying cause is the use of complex technology, the employment of unsustainable and hazardous materials, lack of safety infrastructure such as safety regulations, social factors such as training and communication, and physical factors including water, electricity, sewage, and housing conditions (Shrivastava 1995). According to Shrivastava (1995) firms often ignore warning signals consisting of small and frequent failures due to costs or lack of technological solutions. One of the well known incidents is the accident occurring at pesticide factory of the Union Carbide in Bhopal, India in 1984. More than 2200 were killed immediately and more than 300,000 people were injured, in addition to immense damage to the natural environment (Shrivastava 1995). In the wake of such events, companies have to deal with long-term recovery comprising of restoration of the environment, resolution of conflicts, recovery of victims and business, and normalisation of social and political factors (Shrivastava 1995). Those immediately affected in the case of industrial crisis are often innocent employees, although the local community may also be strongly exposed simultaneously as was the case in the Bhopal gas leak disaster in India in 1984.

Companies taking CSR seriously take responsibility for all actions throughout their supply chains by focusing on proactive measures to prevent social and environmental incidents. This can be achieved by utilising employees' knowledge and experience as a source of information to improve the operation, as well as to influence various stakeholders such as suppliers and sub-contractors. These can lead to positive outcomes for business including improved image, increased revenues, and cost reduction (GEMI 1998, 2001, 2004).

20.6.2 Employees and Stakeholders

In their daily work, employees engage in direct contact with various groups of stakeholders. Some are more closely linked to the companies than others, such as customers and suppliers for instance, meaning that inter-actions between these groups are frequent. In other cases, communication may be less frequent, for instance with the governments, creditors, trade unions, investors, non-governmental agencies, media, academia, and so forth. Clearly, the extent to which they interact with stakeholder, and to which groups depends on employees' role. Through these inter-actions, companies can gain a valuable understanding of environmental and social issues which can result in risks or opportunities depending on how they are addressed by the companies. In some cases, companies are able to encourage sustainable actions of customers and other stakeholders. Insurers are for instance able to influence their customers and suppliers through insurance terms and conditions, product offering, contracts, procurements and tenders, claims handling methods, and so forth (Johannsdottir et al.2013, 2014b). As a starting point, each company needs to recognise its own groups of stakeholders relevant to their core business in order to exploit the proactive encouragement of sustainable actions.

Dialogue between employees and various groups of stakeholders, shared within companies through internal communication can influence management decisions and, as a result, sustainable business actions. Furthermore, in some cases, companies choose to involve a cross-selection of employees and representatives from external actors because of their expert knowledge e.g., from non-governmental organisations (NGOs) in product development for example (Johannsdottir 2012). This exposes employees to new contacts, expertise, and access to new ideas on how to improve the company impact on society, and enables them to build teamwork skills in a range of circumstances that may result in new and creative business which may ultimately benefit the company. In a partnership between environmental (NGOs), humanitarian organisations, and businesses carried out through employees, these external stakeholders bring to the table expertise, skills, knowledge, credibility, and reputational gains (Global Policy Forum 2004). It is also important for companies to recognise the means of internal and external communications which are essential in enabling the flow of ideas between employees and various stakeholders with a view to strengthening the companies' CSR actions. Companies also need to empower employees to act on these ideas. For instance, an Icelandic insurance company has defined all their employees as loss prevention agents. These agents have recognised risk factors, both at work and in their leisure times, and suggested improvements by contacting clients directly or through their employer.

20.6.3 Employees Families and Homes

As individuals, employees have their own understanding of social and environmental impacts which they deal with in their private lives, e.g., taking care of young children, elderly parents, sick relatives, dealing with mould in their homes, etc. Collectively, employees may therefore hold a broad understanding of environmental and/or social issues. This type of understanding is often kept separate from employees' professional lives, so that the social and environmental activities which employees and their families undertake are not necessarily transmitted to their working lives as an experience that may strengthen companies' CSR focus.

Employees' families and homes can be a source of good ideas that companies can use in their CSR activities if they encourage employees to communicate solutions that may benefit the companies or the broader community. Employees may for instance have ideas on how to reduce consumption, re-use material, sorting waste, etc. that can be developed on a broader scale within companies. They might for instance have donated packaging, cartons, and jars to their childrens pre-schools for crafting activities, or used ways of minimising the use of chemicals for cleaning. These ideas can be utilised when developing procurement policies, or screening the right suppliers and vendors. Biking within local communities, pooling when driving children to leisure activities, or other transportation solutions may become valuable inputs when developing transportation policies.

20.6.4 Employees Leisure Activities

The diversity of employees' leisure activities may vary greatly depending on employees' lifestyle and interests. Significantly, the knowledge and relationships which employees establish via leisure activities can serve as a valuable source of information for companies. As a result, companies can take advantage of the knowledge and relationships established in this way to strengthen their CSR focus. This could include for instance identifying critical stakeholders, relevant partners, vendors, suppliers, NGOs, and so forth, or in product or service innovation.

Voluntary work carried out on behalf of environmental NGOs may deepen employees' understanding of environmental issues, locally, regionally, or globally. Employees doing voluntary work as extra activities may thereby become more aware of the distress or poverty of their fellow citizens. Companies can help to relieve these issues through donations or other types of solutions. They can for example donate support and also encourage employees to collect money, clothing, furniture, or equipment etc.

For example, in an extensive refurbishment and renovation project at Tryg (insurance company) in Norway, a lot of excess furniture, equipment, building materials accrued. A goal of re-using 75 % of well-functioning inventory was established and a team was given responsibility for the process. A significant amount of the goods were donated to voluntary organisations and schools. Glass walls were given to youth organisations, or used in greenhouses. Around 100 different organisations received donations, such as electronic devices, office chairs, meeting room furniture and even trees which went to the Copenhagen Zoo (Tryg 2011). Furthermore, the company managed to achieve its recycling goals in this process.

In addition to seeking good ideas from employees, companies can also offer them opportunities to do voluntary work in NGOs of their own choice during working hours. This can be 1 day a month or 1 day a year depending on companies' size and financial resources. By raising employees' consciousness about social and/or environmental issues, this knowledge can be utilised when defining CSR-related risks and opportunities for relevant stakeholders groups. As a part of on-going employee training, PricewaterhouseCoopers

(PwC) for example confronts high-potential managers with very challenging situations in this regard. They are sent in teams for several months at a time to developing countries to work in partnership with local actors on solving sustainability issues including how to battle against HIV/AIDS infections in Uganda (Pless et al. 2011). The pharmaceutical company Johnson and Johnson has a similar programme for its employees (O'Riordan and Zmuda 2015). This is undertaken to deepen their understanding of global sustainability challenges as well as to improve their comprehension of the role the company can play in solving the specific issues involved.

20.7 Conclusion

When CSR principles are implemented in the everyday practice of businesses neither a top-down, nor a bottom-up driven approach on their own will achieve the required dissemination and cultural changes for companies to achieve the intended results. As a consequence, if CSR activities deliver limited success the benefits to society and the environment will also be inadequate.

Significantly, the over-arching message of this chapter is that CSR cannot be integrated successfully into a company's core business without the active participation of employees as a key part of bottom-up management. Consequently, employee involvement in implementing CSR strategies at individual, organisational, and institutional levels is the missing link which is addressed in this chapter.

Employees' contribution to CSR integration at individual level includes their attitude, trust, knowledge, experience, ideas, and active participation. Employees' organisational level contribution includes participation in CSR in their daily jobs both through primary and support activities, by sharing knowledge, and in their role as the link between the company and the outside world. At institutional level they are critical players in communicating and co-operating with various stakeholders, by taking part in philanthropy and voluntary work, and in knowledge sharing. Ultimately, companies benefit from active employee participation in CSR implementation in various ways, including employee commitment, loyalty, increased productivity and a stronger image and brand.

References

ACE group. (2013). About ACE: Philanthropy. http://www.acegroup.com/About-ACE/Philanthropy/Philanthropy.html. Accessed 27 Dec 2013.

Allianz. (2014). Sustainability in practice. https://www.allianz.com/en/sustainability/sustainability_in_practice/index.html. Accessed 30 Jan 2014.

Amabile, T., & Kramer, S. (2012). How leaders kill meaning at work. *McKinsey Quarterly*, January 2012, 1–8.

AXA Group. (2013). Corporate responsibility in action. http://www.axa.com/en/responsibility/initiatives/. Accessed 2 Jan 2014.

BBC News Asia. (2013). Arson blamed for huge Bangladesh garment factory fire. http://www.bbc.co.uk/news/world-asia-25150184. Accessed 10 Dec 2013.

Bhattacharya, C. B., Sen, S., & Korschun, D. (2008). Using corporate social responsibility to win the war for talent. *MIT Sloan Management Review, 49*(2), 37–44.

Bisgaard, T., Henriksen, K., & Bjerre, M. (2012). *Green business model innovation: Conceptualisation, next practice and policy*. Oslo: Nordic Innovation Publication.

Boons, F., & Lüdeke-Freund, F. (2013). Business models for sustainable innovation: State-of-the-art and steps towards a research agenda. *Journal of Cleaner Production, 45,* 9–19.

Chong, M. (2009). Employee participation in CSR and corporate identity: Insights from a disaster-response program in the Asia-Pacific. *Corporate Reputation Review, 12*(2), 106–119.

Corporate Leadership Council. (2004). Driving performance and retention through employee engagement: Executive summary. http://www.mckpeople.com.au/SiteMedia/w3svc161/Uploads/Documents/760af459-93b3-43c7-b52a-2a74e984c1a0.pdf. Accessed 8 April 2014.

de Jong, D. J. (2011). International transfer of employee-oriented CSR practices by multinational SMEs. *International Journal of Workplace Health Management, 4*(2), 123–139.

DHL. (2013). Disaster response teams providing help. http://www.dpdhl.com/en/responsibility/disaster-management/disaster_response_drt.html. Accessed 31 Jan 2014.

Ditlev-Simonsen, C. D. (2012). The relationship between Norwegian and Swedish employees' perception of corporate social responsibility and affective commitment. Business & Society, Published online April 3, 2012, 1–25.

Ditlev-Simonsen, C. D., & Brøgger, B. (2013). CSR and employee motivation. In A. Midttun (Ed.), *CSR and beyond: A Nordic perspective* (pp. 117–134). Oslo: Cappelen Damm AS.

European Commission. (2013). Enterprise and industry: Corporate social responsibility (CSR). http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm. Accessed 2 Feb 2014.

GEMI. (1998). *Environment: Value to business*. Washington, DC: GEMI.

GEMI. (2001). *Environment: Value to the top line*. Washington, DC: GEMI.

GEMI. (2004). *Forging new links—Enhancing supply chain value through environmental excellence*. Washington, DC: GEMI.

Global Policy Forum. (2004). Business/NGO partnerships—What's the payback? http://www.globalpolicy.org/component/content/article/176/31409.html. Accessed 10 Dec 2013.

Global Reporting Initiative. (2013). *G4 sustainability reporting guidelines*. Amsterdam: Global Reporting Initiative.

Government of Canada. (2012). Industry Canada–Corporate social responsibility: Employee relations. http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/rs00591.html. Accessed 10 Dec 2012.

HBR. (2000). Strategic humour. *Harvard Business Review,* March-April, 119.

Hoffman, A. J. (1998). The importance of organizational change management for environmental decision making. In K. Sexton, A. A. Marcus, K. W. Easter, & T. D. Burkhardt (Eds.), *Better environmental decisions: Strategies for governments, businesses, and communities* (pp. 245–266). Washington, DC: Island Press.

Hoffman, A. J. (2000). *Competitive environmental strategy: A guide to the changing business landscape*. Washington, DC: Island Press.

Hoffman, A. J. (2010). Climate change as a cultural and behavioral issue: Addressing barriers and implementing solutions. *Organizational Dynamics, 39,* 295–305.

Human Rights Watch. (2013). Bangladesh: Amended labor law falls short. http://www.hrw.org/news/2013/07/15/bangladesh-amended-labor-law-falls-short. Accessed 10 Dec 2013.

International Organization for Standardization. (n.d.). ISO 26000—Social responsibility. http://www.iso.org/iso/social_responsibility. Accessed 29 Dec 2011.

Ipsos MORI. (2008). *Engaging employees through corporate responsibility: Employee relationship management*. London: Ipsos MORI.

Johannsdottir, L. (2012). Nordic non-life insurer's interest in, and response to, environmental issues (Ph.D. Thesis). Faculty of Business, Reykjavík.

Johannsdottir, L., Davidsdottir, B., Goodsite, M. E., & Olafsson, S. (2013). What is the potential and demonstrated role of non-life insurers in fulfilling climate commitments? A case study of Nordic insurers. *Environmental Science & Policy, Available online 26 November 2013*.

Johannsdottir, L., Olafsson, S., & Davidsdottir, B. (2014a). Insurance perspective on talent management and corporate social responsibility: A case study of Nordic insurers. *Journal of Management and Sustainability, 4*(1), 163–178.

Johannsdottir, L., Davidsdottir, B., Goodsite, M. E., & Olafsson, S. (2014b). Insurers' role in enhancing development and utilization of environmentally sound technologies: A case study of Nordic insurers. *Journal of Cleaner Production,* 65*,* 526–538.

Jones, D. (2012). *Who cares wins: Why good business is better business*. Harlow: Pearson.

Kotter, J. P. (2007). Leading change. Why transformation efforts fail. *Harvard Business Review,* January, 2007, 92–107.

Loorbach, D., & Wijsman, K. (2013). Business transition management: Exploring a new role for business in sustainability transitions. *Journal of Cleaner Production, 45,* 20–28.

Maon, F., Lindgreen, A., & Swaen, V. (2008). Designing and implementing corporate social responsibility: An integrative framework grounded in theory and practice. *Journal of Business Ethics, 87,* 71–89.

Meyricke, R., & ClimateWise Sustainable Claims Steering Group. (2010). *Sustainable claims management*. London: ClimateWise.

NBS. (2013). Three reasons job seekers prefer sustainable companies. http://nbs.net/knowledge/three-reasons-job-seekers-prefer-sustainable-companies. Accessed 29 Jan 2014.

O'Riordan, L., & Zmuda, P. (2015). Conceptual framework for CR management: A critical review of sustainable business practice based on a case study of a leading transnational corporation. In L. O´Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility: Locating the missing link*. Wiesbaden: Springer-Gabler.

OECD. (2001). *OECD environmental strategy for the first decade of the 21st century*. Paris: OECD.

OECD. (2009). *Sustainable manufacturing and eco-innovation: Framework, practices and measurement (Synthesis Report)*. Paris: OECD.

OECD. (2013). OECD guidelines for multinational enterprises: CSR starting point for international entrepreneurship. http://www.oecdguidelines.nl/guidelines/general-principles. Accessed 9 Dec 2013.

Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: Free Press.

Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review, 84*(12), 78–92.

Pless, N. M., Maak, T., & Stahl, G. K. (2011). Developing responsible global leaders through international service-learning programs: The ulysses experience. *Learning & Education, 10*(2), 237–260.

Shrivastava, P. (1995). Industrial/environmental crises and corporate social responsibility. *The Journal of Socio-Economics, 24*(1), 211–227.

Skudiene, V., & Auruskeviciene, V. (2012). The contribution of corporate social responsibility to internal employee motivation. *Baltic Journal of Management, 7*(1), 49–67.

Strandberg, C. (2009). *The role of human resource management in corporate social responsibility: Issue brief and roadmap*. Burnaby: Strandberg Consulting.

Sumner, J., & Manchester, A. (2006). *Engaging employees in corporate responsibility: How the world's leading companies embed CR in employee decision making*. Chicago: Melcrum.

The Guardian. (2013). Bangladeshi factory deaths spark action among high-street clothing chains. http://www.theguardian.com/world/2013/jun/23/rana-plaza-factory-disaster-bangladesh-primark. Accessed 10 Dec 2013.

Tryg. (2011). ClimateWise report 2011. http://www.climatewise.org.uk/storage/fourth-year-review-member-reports/Tryg.pdf. Accessed 19 March 2012.

UN Global Compact. (n.d.). The ten principles. http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html. Accessed 26 Jan 2012.

United Nations Environment Programme. (2003). *Technology transfer: The seven "C"s for the successful transfer and uptake of environmentally sound technologies*. Osaka: IETC.

Yip, G. S. (2004). Using strategy to change your business model. *Business Strategy Review, 15*(2), 17–24.

The Sustainable Gamer: Developing Corporate Social Responsibility Through Games

21

Grzegorz Żmuda, Piotr Prokopowicz and Marianna Król

Contents

21.1 Introduction . . . 412
21.2 Organisational Development Through Experience . . . 413
21.3 What Are Simulation Games and how Do They Work? . . . 416
21.4 Learning by Experience . . . 417
21.5 Simulation Games and CSR . . . 418
21.6 Simulation Games in CSR . . . 420
21.7 Conclusion . . . 423
References . . . 423

Abstract

According to Wilson and Holton (Changing manager mindsets—Report of the working group on the development of professional skills for the practice of Corporate Social Responsibility (Department of Trade & Industry, The Corporate Responsibility Group),

G. Żmuda (✉) · M. Król
Institute of Psychology, Jagiellonian University, Krakow, Poland,
Ingardena 6, 30-060 Krakow, Poland
e-mail: grzegorz.zmuda@uj.edu.pl

M. Król
e-mail: marianna.krol@313consulting.org

P. Prokopowicz
Institute of Psychology, Jagiellonian University, Krakow, Poland,
Grodzka 52, 31-044 Krakow, Poland
e-mail: piotr.prokopowicz@uj.edu.pl

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_21

2003), Corporate Social Responsibility (CSR) entails behaviour that can be learned, but is not easily taught. As a consequence, a question arises: Can attitudes, knowledge, and skills important for teaching sustainable development and CSR be acquired with the use of simulation games? Based on the dynamically evolving educational market, current developments in educational psychology and practical experience as game developers, we provide evidence that games offer a unique toolbox for teaching CSR both in academia and in the organisational context. This learning approach comprises the missing link proposed in this chapter.

Even though all learning can be considered as learning from experience, there are significant qualities that make simulation games uniquely effective in teaching CSR. No other technique offers so many distinct features that can be employed in order to explore and understand CSR in practice—from gamified learning, to single-issue games, to complex system simulations. One of the qualities which characterises games is the potential to change participants' mind-set with high fidelity simulations that allow them to discover complex relations and unexpected consequences of regular day-to-day business decisions, as well as to experience their long-term impact on the multiple bottom-line.

In this chapter, we provide both theoretical and practical insights into how simulations can be used for skills and knowledge development crucial for implementing CSR in a given organisational context. Apart from explaining the mechanisms behind the effectiveness of simulation games, we provide examples of different CSR simulation games developed across the world.

21.1 Introduction

Corporate Social Responsibility (CSR) is increasingly perceived by companies, NGOs, and public institutions as a fundamental aspect of organisational performance; this is an aspect that organisations need to address on every institutional level in order to successfully fulfil their mission. The awareness of the role that "socially responsible" behaviour plays in the way institutions are perceived on the one hand, and how they internally operate on the other, puts an enormous pressure on organisations, making CSR one of the most important challenges in the organisational development (OD) process. Increasingly, superficial policies and practices do not satisfy contemporary global challenges and an ever-demanding public. CSR must—and often becomes—a part of the organisational DNA.

According to Wenzler (2005), becoming a socially responsible institution requires many complex and comprehensive actions (policies, programs, and practices) that need to be integrated with the way a given institution works. However, as with any other fundamental change process, modifying how an organisation approaches responsible action unavoidably produces uncertainty, risks, and threats. How to reduce the dangers of ignorance and poor information flow within the organisation during the process? How to ensure that members of an organisation have a common understanding of what, how and when actions are to be undertaken? There appears to be a common consensus, both among the practitioners and the theorists, that one of the best tools that can be used for these ends are simulation games (Wenzler 2005; Ruohomäki 2003).

21.2 Organisational Development Through Experience

Traditionally, organisational development has been construed in a mechanical manner, as a top-down, systematic intervention in the organisational processes aimed at increasing organisational performance (Beckhard 1969; Cummings and Worley 1997). As the popularity of participatory management (both at the social and organisational level) increased, it has become clear that any organisational change demands a broad range of stakeholder involvement (Smith 2006; Stocki et al. 2008; Prokopowicz et al. 2008; Żmuda et al. 2008). Organisational development is now understood as an organic process of adaptive development and improvement of strategies, structures, processes, people, and cultures; a process that is value-based and achieved through collaboration and collective learning (Bradford et al. 2001). Organisational development in general, and CSR development in particular, require that members of the organisation not only have the necessary knowledge about the different facets of CSR skills for making the desired action possible, but also an adequate understanding and attitude towards CSR and its ultimate goal.

According to the "Report of the Working Group on the Development of Professional Skills for the Practice of Corporate Social Responsibility" (Wilson and Holton 2003), in order to integrate CSR into an organisation, several levels of expertise have to be mastered by the employees:

1. Awareness, which can be defined as a general appreciation of the CSR principles and its influence on the business;
2. Basic knowledge, interpreted as fundamental, fact-based knowledge of the tenets of CSR and its role in the social and business domains;
3. Competence, understood as the behavioural manifestation of both awareness and knowledge of CSR;
4. In-depth understanding, which the report defines as a profound understanding of both theoretical and practical aspects of CSR, along with the proper expertise in applying them in day-to-day business operations;
5. Becoming a change agent, defined as acquiring the ability to assist the managers in the full integration of CSR practices into the business.

While the five levels described in the report might be construed as a simple Likert-like scale of CSR implementation in the organisation (from 0–no awareness to 5–full integration of CSR into business), the greatest challenge in CSR education seems to be occurring at the transition between the above levels. Building awareness as a consequence of developing declarative knowledge (know-what), including CSR definition and awareness that this is what companies should be doing to be considered socially responsible, is easily achieved in a traditional, class-room setting. However, as illustrated by the data from the *Response Project* (Casanova et al. 2007), CSR education still lacks methods allowing efficient development of social consciousness (Schneider et al. 2009) that refers to cognition (decision-making rationale and criterion), values (self–transcendence), and emotions (positive and negative effect). This is the missing link which we address in this chapter.

The importance of addressing all of these areas in general and the tacit, procedural knowledge in particular, results from the five basic premises about organisational learning that we accept as the tenets of the game design process, and which we describe below.

► **Premise #1** Organisations are People

According to one of the most classical definitions, an organisation is a system of social structures created by individuals in order to achieve collective goals (Scott 1992). The organisation defined in this manner is construed as a dynamic relationship between intentional agents and abstract, impersonal systems that organise human activities. Just as the human body can replace its cells and still retain identity, and an orchestra conductor can replace the entire string section without losing the quality of the final performance, so the organisation—business, governmental or public—can go through a complete change of personnel and still stay intact as a goal-orientated entity. On the other hand, even the best orchestra will not be able to play a concerto, if its members do not have the basic musical skills, and even the most efficient body may cease to function if parts of its cells are affected by disease. The relationship between people—as basic carriers of knowledge, abilities, and skills—and management systems is the most singular aspect of an organisation, and understanding this relationship is the key to the success of companies, NGOs, and public institutions alike.

► **Premise #2** People are Competencies

Although the organisational roles are always played by real people—with the plethora of their ambitions, goals, values, knowledge, and skills—only a small fraction of these qualities is important for the organisation's performance. Organisational roles can be played smoothly or not, just as a musical score can be played beautifully or terribly by a given cellist in a given orchestra. From this point of view, it seems a truism to say that the better the quality of the employees performing important organisational actions, the better the organisation will work—yet still, as the popular adage in recruitment and selection goes, many organisations spend more time and resources on choosing a new printer than on the selection and development of new employees.

Let us emphasise again—not all the characteristics of workers are equally important for the organisation. Just as in the case of an orchestra the skills and talent of the performers are far more important than their knowledge of the Norse literature, the ultimate measure of a corporate citizen must be his or her knowledge, skills, and abilities that enable/allow/help the organisation to achieve its objectives. Extraversion may be important in the case of a salesperson at a telecommunications company, but it ceases to be that important in the case of a postal worker, while cognitive abilities are of great importance in managerial positions, yet slightly less relevant in manual labour.

► **Premise #3** Competencies are Behaviours

What are competencies, then? Simply put, competencies are observable behaviours aimed at achieving the objectives of the organisation. From the organisational standpoint—although this may sound dispassionate—the employee is not more than a carrier of behaviours that help to maximise organisational performance. Importantly, this does not mean that from the perspective of Human Resources (HR), each person is reduced only to their lowest aspects, e.g., the specific physical or mental abilities, knowledge of accounting or project management skills. All behaviours relevant for organisational performance stem directly from tacit psychological variables such as personality, intelligence, knowledge, or skills, but while the behaviours can relate to more mundane activities falling within the scope of the job description, it is quite as likely that they entail more complex skill manifestations that fit the organisational culture of a given company (so-called person-organisation fit).

Behaviours are an essential part of any organisation, but they are a manifestation of the variables that are not directly accessible to our observation. Therefore, to measure these variables we need valid measurement tools, such as personality tests, cognitive ability test, or knowledge tests. However, the quality considered to be the most important, and, incidentally, the most difficult to measure, is so-called tacit knowledge.

► **Premise #4** *Behaviours are Tacit Knowledge*

Tacit knowledge has been defined by Polanyi (1958) as knowledge which is difficult to convert into words. Wagner (1987) described it as the practical "know how", acquired without direct instruction from a teacher. Tacit knowledge, by definition, is very difficult to put into words, but despite that, it enables experts around the world to make good calls in crisis situations. Every time, when a physician makes the right decision, "because this is what their guts tell them," or when the manager decides to take a leap of faith, "even though it is not based in any rational argument," we are dealing with a manifestation of tacit knowledge; the type of knowledge that distinguishes experts from amateurs.

► **Premise #5** Tacit Knowledge is Experience in Situations

This is how the four previous premises bring us to the most important conclusion leading to the use of simulation games in developing CSR in organisations. According to Davenport and Prusak (2000), knowledge develops over time, through experience, defined as what we have done and what has happened to us in the past. Such constructed tacit knowledge allows us to understand new situations through a historical perspective of previous experiences, make connections between past and present circumstances and identify needed actions immediately.

Thus, on the one hand, the decisions made by the participants in the simulation game are the reflection of their experience in similar situations and, on the other hand, can also be used as a starting point for their development in a particular area. In other words, simulation games provide participants with the possibility to test their tacit knowledge about a given subject. What is more, however, is that through the gained experience and immediate feedback, they facilitate the shift from awareness and basic knowledge through competence to in-depth understanding and change agent level. In the following sections we explain the mechanisms of this shift.

21.3 What Are Simulation Games and how Do They Work?

According to Suits (1967, p. 148) "to play a game is to engage in activity directed toward bringing about a specific state of affairs, using only the means permitted by specific rules, where the means permitted by the rules are more limited in scope than they would be in the absence of the rules, and where the sole reason for accepting such limitation is to make possible such activity." A different perspective posits that "a game is a system in which players engage in an artificial conflict, defined by rules that results in a quantifiable outcome" (Salen and Zimmerman 2003, p. 80). In game theory, games are purely mathematical constructs, specifying the players, information, the actions, and the pay-offs for each outcome (Rasmusen 2006).

In our research and business communication, we define a game by using *3Rs*: *Rules, Roles, and Resources*. But simulation games are not about games only—they are also about reflecting the reality to which they relate. Hence, when defining simulation games, we add a fourth R—*Reality*. Simulation games, therefore, are the activities, in which the participants, assigned with the *Roles*, act according to a certain set of *Rules* that govern the distribution of *Resources*, reflecting external *Reality* with a lower or higher level of fidelity (*4Rs*). Immersed in artificial *Reality*, the participants can experiment with the *Rules, Roles,* and *Resource* distribution, and by that, understand the underlying mechanics that are at play in the real world, whatever the domain of the simulation game.

21.4 Learning by Experience

Simulation games seem to offer an ideal formula for introducing experiential learning into the educational process, as illustrated by a classical concept of Kolb's *cycle* (1984). Kolb and Kolb (2009) explain that the optimal way of learning can be illustrated in the form of a spiral, in which a person "touches" each of the four elements of the process in the correct order—from the particular experience (concrete experience), through reflection (reflective observation), analysis (abstract conceptualisation) to use (active experimentation). As a result of the newly acquired knowledge, more experience is gained and a new cycle based on more current knowledge and experience begins.

Simulations, in particular, simulations of business processes, create the optimal environment for this type of learning. In addition, if properly designed, training helps the participant to move directly from the subsequent cycles of the simulated reality into the reality of the business processes. This direct connection to reality is an important element which distinguishes simulation games from other types of games (Ukens 2007). Simulated reality allows participants to experience the events, actions, and their consequences before they become reality, in fact—the cost of wrong decisions and actions, aside from the occasional psychological discomfort, is eliminated. Moreover, the knowledge and skills gained through the simulation game can prevent making high-cost mistakes in a high-stake world (Quinn 2007).

Kolb and Kolb (2009) cite additional reasons why experiential learning is an effective method of acquiring knowledge. Learning requires conscious attention, effort, and dedication of time. When people do not believe that they can learn something, or that they are unable to grasp abstract concepts, the effects of the learning process are much worse than when they are convinced of the validity of the process and believe in their own competencies to tackle the problem. If learning starts from experience and direct feedback, participants immediately see the effects of their actions, which, importantly, are often positive. As a result, there is a significant shift in their attitude to the learning process—they open up to accept experiences and reflect on them, which in turn leads to a desire for continuous development (Freire 1993; Rogers 1964). According to Rieber and Noah (2008), the efficiency of learning on the basis of a game is the consequence of an unusual involvement of learners in the task perceived as pleasant and rewarding, which in turn is the result of an optimal relationship between challenge, imagination, curiosity, and control.

Kolb and Kolb (2009) also cite evidence from research on expertise development (Ericsson and Charness 1994), which confirms that practice is a major factor in achieving mastery. They suggest that practice is not only the repetition of certain behaviours, but that it primarily facilitates active reflection on them, their comparison with mental models and, consequently, their modification. In this regard, one more factor which increases the effectiveness of training using simulations of business processes is that it enables participants to share their own experiences and observations concerning the reality of their company while taking certain actions. Company employees and experts in various domains, while supposedly working together for their company's success, in fact often move in realities described by completely different narratives. This may lead, and often leads to misunderstandings between individuals, departments and divisions of the organisation. The possibility to unify the understanding of the company's reality via collective reflection on it is the key to the development of CSR and problem-solving at the organisational level in which they appear. Thus, by allowing confrontation of individual views with the opinions of others and by testing a new understanding in a safe, controlled environment, simulation games have a huge potential to become a trigger for change (Kayes et al. 2005).

21.5 Simulation Games and CSR

Building a strategy of Corporate Social Responsibility can be regarded as an organisational challenge similar to that of introducing a new Enterprise Resource Planning (ERP) system, a Total Quality Management (TQM) or even a complete company turnaround. As such, it has to be considered as an example of on organisational change effort, with all the upsides and downsides that come with it—the initial enthusiasm, the following pessimism and resistance and the ultimate completion and integration as expected outcomes (Conner and Kelley 1979). According to Wenzler (2005, pp. 140–142), this complexity gives rise to numerous challenges that each organisation has to face in order to introduce socially responsible practices:

- How can the organisation secure proper understanding of the influence that CSR might have on their business among their employees?
- How can the CSR principles be built into the organisational vision, culture, and business decisions?
- How can the organisation convince their stakeholders that Corporate Social Practices are not only socially or environmentally responsible, but have also positive impact on the bottom line?
- How can the organisation engage its stakeholders into an effective and meaningful debate about CSR?
- How can the organisation establish, develop, and implement cost-effective and socially responsible policies?
- How can the organisation bridge the gap between the knowledge, skills, abilities, and attitudes needed for successful implementation of CSR?

According to Wenzler, the lack of competencies necessary for understanding and introducing CSR-related business strategy is the largest obstacle standing in the way of a successful implementation of the CSR practices, and gaming simulations are one possible way to address the challenges on all levels: operational and policy, outward- and inward orientated.

But what are gaming simulations? In Wenzler's words, they are "representations of a set of key relationships and structure elements of a particular issue or a problem environment, where the behaviour of actors and the effects of their decisions are a direct result of the rules guiding the inter-action between these actors" (2005, p. 147). This understanding is very similar to how we define simulation games, but lacks the recognition of the full range of possible tools used for teaching CSR.

Since Wenzler's article, a new trend has been recognised in organisational development and personnel consulting—gamification. Gamification may be defined simply as use of game mechanics in non-game contexts (Zichermann and Cunningham 2011), and it has been used widely, among other domains, in education. Wenzler (2005) typology (operational and policy, outward- and inward orientated games) is very useful when systematising the games market with reference to what goals they achieve, but it ignores the means by which the goals of the games are realised. This is why we propose our own classification of educational methods, which could be used in CSR and beyond, that take advantage of game mechanics for teaching knowledge, skills, and attitudes:

- Gamified learning—traditional learning methods (tests, quizzes, and presentations) that employ basic game mechanics (badges, achievements, and leaderboards) in order to realise educational goals. For example, we conduct our university course in Business Simulation Games as a game in its own right. We assign the students three types of points: Charisma, knowledge, and experience; furthermore, each participant is provided with a customisable character developed throughout the semester; ultimately, the progress of each student can be observed on the publicly available leaderboard. Still, the course is not a game—it is an academic course, but enriched with the mechanics that were popularised by games (hence, gamified learning). In CSR, this approach might be used for designing gamified versions of knowledge tests on sustainability, situational judgment tests on making socially responsible management decisions or creating an attractive form of e-learning courses on environmentally responsible policies.
- Single-issue games—games that do not reflect complex realities but focus on a single issue (dilemma, competency) which they are trying to solve or represent. For example, when we conduct trainings on change management, we use a board game that focuses on the issue of strategic organisational development. 40 different decisions that need to be taken in a proper sequence are distributed to the participants; in each turn, the participants can make up to four different decisions receiving feedback and rewards. This game does not reflect the complexity of an organisational system, but focuses on a theoretical model of decision-making instead. In CSR, this approach might be used for designing games representing single sustainability issues (e.g., the tragedy of the commons) or simulations that reflect situations characteristic for CSR (e.g., stakeholder involvement).
- Complex systems simulations—games that tackle complex, multi-faceted systems and teach their intricacies by way of experiencing the relationships existing in a given model. For example, when conducting training on project management, we employ a complex construction game that reflects the real-life situation of creating a software system based on a client's demands. During the course of the day, the participants experience

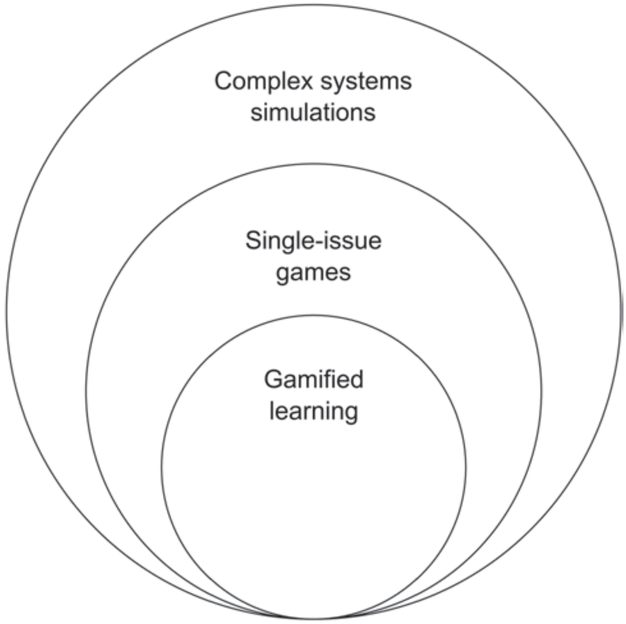


Fig. 21.1 Three levels of complexity in employing simulation games for education

various aspects of being involved in a project—changing needs of the customer, group conflict, working under stress and shifting priorities of group leaders. By simulating a complex system, the game provides participants with the opportunities to learn in a safe environment, but with all the emotions that make on-site learning so effective. In CSR, complex systems simulations might be used for learning about relationships between revenue, cost, and social responsibility in a business or with respect to the equilibrium of diverse environmental milieus (Fig. 21.1).

21.6 Simulation Games in CSR

As both gamification and CSR are often put on the list of top workplace trends (Munson 2013; Sodexo 2013), it is not surprising that one can find an entire spectrum of CSR-related educational games and simulations on the market. The products range from simple games and activities to complex simulations and software systems designed exclusively for the gamification of CSR processes. It would be almost impossible to catalogue the CSR games that are worth describing, hence, we will focus on a number of them that present the full range of the forms that the games related to CSR can take.

CEO2 (WWF and Allianz 2010), an application developed by LGM Interactive and My Sustainability Plan (Walmart 2010), a program developed by BBMG, are good examples of how to use gamified learning in different contexts. CEO2 is an online game that allows players to play the CEO's role in one of the four different industries—insurance, automotive, chemical, and utility. The goal of the game is to show how adopting different strategies can result in both maximising profits and cutting CO_2 emissions. In order to achieve the ultimate goal, players may choose decisions on business operations, marketing and lobbying, new product development, conventional products and R&D. Each decision is characterised by cost (percentage of the budget) and expected CO_2 influence (percentage)—if the player is not sure about the expected outcome, he or she can consult the experts and learn more about a given technology or a product's prospects. Players' success is measured by the stock price and carbon emission during the 20 year simulation, in addition to the additional comments of the investor, researcher, customer, and environmentalist. The game, although simplistic, may be considered as a source of rationale for employees working across different departments on the importance of certain CSR practices. The simulation of future scenarios developed in cooperation with experts on the subject matter and presented during the game demonstrate that investing in low carbon technologies and products may quite literally be the only good strategy for growing the bottom line in the long term. This is achieved by collating the cost of both conventional and unconventional actions as well as by reacting to "random" events such as the growth in oil prices, emerging new technologies, or natural disasters.

Although it cannot be considered a fully-fledged game, My Sustainability Plan (MSP), launched by Walmart in 2010, is a great example of utilising selected game mechanics for CSR development. MSP is an online tool that allows Walmart's associates to engage in personal sustainability actions in 12 different areas from three different categories: health, planet, and life. Using the tool, Walmart associates can create and choose their personal goals (e.g., saving water or quitting tobacco) as well as track their progress through the mechanism of instant and ongoing feedback. What is exceptional in the idea of MSP, it is that it serves as a great educational tool by collecting and combining the effects of all individual actions. When people see how their individual simple and personal actions combined with similar behaviours of thousands of others can serve to make global impact, they can understand how important it is to follow good practices on a daily basis. Collecting and publishing the data makes it possible to overcome one of the major barriers in understanding the real meaning of CSR practices—the lack of the awareness of both the global and the long-term consequences of seemingly trivial behaviours. Tracking the progress and the awareness of the amount of water saved during 1 week, month, or year helps to make the needed shift in thinking, especially when facilitated by the visualisation of the effects of the actions of tens of thousands people from a given community.

As we mentioned earlier in the chapter, single-issue games do not reflect complex realities but instead focus on providing experience, knowledge, or skills in a particular domain. The Lake Game (Liukkonen 1998), created within the Minnesota Sea Grant Program, is a good illustration of such a case. The game was designed to show who in the local community and how those people depend on the lake and the quality of its water, as well as to help participants to realise how different stakeholders' actions influence the entire lake system. During the game, players adopt different roles (from more than 30 stakeholders including tourists, business, administration, citizens, and many more) deciding to either pollute or protect the lake represented by a bucket of water. Each decision, e.g., using chemicals on a private property lawn, has its physical representation—adding red paint to the container. It is up to the participants to choose the way they decide to act, but every time the decision is made, the moderator facilitates a small discussion on whether a given behaviour is likely to happen in real life (each role has a short discussion card prepared).

An entire set of single issue games was published by the Red Cross Climate Center. One of them is Dwelling Near the Ditch, a game designed by Coll and Milrud (2013), focused on the trade-offs between individual and collective interests in urban waste management. The game makes use of social dilemmas typically employed in game theory—tragedy of the commons (Hardin 1968), prisoner's dilemma (Rapoport and Chammah 1965), and social loafing (Latané et al. 1979). Players take actions by deciding whether to pollute the community and save money or not, whether to collaborate with others cleaning the ditch or simply to benefit from others' efforts. The game provides participants with the experience that allows them to better understand the mechanisms driving individual and collective actions, as well as their long-term consequences.

Among complex systems simulations it is possible to distinguish universal games such as Green and Great (Magnuszewski and Slodka-Turner 2011) and tailor-made games like ASTOR Flotilla (313 Consulting 2013). Green and Great, a game developed by the Centre for Systems Solutions, is an extremely engaging simulation game allowing players to become managers in a consulting company. Their goal is to achieve business success while simultaneously balancing social and environmental goals. As part of the gameplay, the participants are required to make strategic decisions aimed at acquiring clients (projects), building the company's reputation, and taking care of employees' happiness and well-being. While bidding on projects and managing the employees, the participants acquire a deeper understanding of the role that CSR practices play in making the entire business viable. The game may be useful for business, non-governmental and public institutions alike.

The ASTOR Flotilla is a tailor-made game designed to celebrate the 25th anniversary of an industrial automation and robotics company (313 Consulting 2013). Its main objective is to provide the employees and managers with the big picture of the company, reflecting the intricacies of the relationships and inter-dependencies between different departments, as well as to show the inter-action between the company and its external environment. In this computer-assisted board game, the participants take on the roles of departments' managers (e.g., financial, sales, customer service), who are required to co-operate with each other in order to achieve a set of financial and non-financial goals. The participants, using their resources, are allowed to make a number of operational and strategic decisions supplemented by the possibility to engage in additional projects and events. The decisions are made by assigning the "expert tokens" resulting from the number, competencies, and well-being of employees to different action fields. On the surface, the game itself is no different from regular business simulations that provide a platform for education through experiencing various scenarios and decisions (e.g., product development, marketing and sales, hiring, training etc.), along with their short- and long-term consequences. However, what makes ASTOR Flotilla a truly unique game, is the nature of ASTOR's corporate strategy simulated during the play; a strategy that employs CSR in almost every aspect of organisational life. Therefore, the game implements a number of mechanisms that show how CSR can be manifested in organisations, and how this can be translated into the multiple bottom line. During the gameplay, the participants resolve CSR-related situational dilemmas and may pursue additional projects in sustainability and social responsibility (cooperation with the local community, building energy-efficient offices, taking care of work-life balance etc.). The game demonstrates the way CSR can and should be integrated into the core business practices and what benefits it can bring to each of the departments and their employees. Creating a game from scratch, although relatively expensive and time consuming, brings exceptional results. Tailor-made simulation games allow for building and reflecting a high-fidelity environment, which not only enhances the skills and attitudes necessary for practicing CSR, but additionally facilitates the transfer of tacit, experience-based knowledge into everyday organisational life.

21.7 Conclusion

The aim of this chapter was to provide both theoretical and practical perspectives on how simulations can be used for skills and knowledge development crucial for CSR implementation. We conclude that simulation games, especially single-issue games and complex system simulations, use decision-making in simulated contexts as a vehicle for experiential learning. This constitutes an exceptional tool for introducing CSR on all possible levels of organisational operations and individual expertise. Ultimately, we propose that simulation games can provide a missing link for bringing about a more socially responsible and sustainable future.

References

313 Consulting. (2013). *ASTOR Flotilla*. Krakow: 313 Consulting.

Beckhard, R. (1969). *Organization development: Strategies and models*. Reading: Addison-Wesley.

Bradford, D., Burke, W., Seashore, E., Worley, C., & Tannenbaum, B. (2001). Statement of the board. In L. S. Ackerman-Anderson & D. Anderson (Eds.), *The change leader's roadmap* (pp. xxi–xxv). San Francisco: Pfeiffer.

Casanova, L., et al. (2007). Understanding and responding to societal demands on corporate responsibility (RESPONSE): Sixth framework programme priority 7, "Citizens and governance in a knowledge based society"; France: INSEAD. http://www.insead.edu/v1/ibis/response_project/documents/Response_FinalReport.pdf. Accessed 14 April 2014.

Coll, P., & Milrud, P. (2013). Dwelling near the ditch: A game on urban waste management. Red Cross Climate Center. http://www.climatecentre.org/downloads/File/Games/dwelling%20near%20the%20ditch/DND_RULES%20-%20ENGLISHupdated.pdf. Accessed 17 Jan 2014.

Conner, D., & Kelley, D. (1979). The emotional cycle of change. In J. E. Jones & J. W. Pfeiffer (Eds.), *The 1979 annual handbook of group facilitators* (pp. 82–102). San Diego: University Associates.

Cummings, T. G., & Worley, C. G. (1997). *Development and change organization*. Cincinnati: South-Western.

Davenport, T. H., & Prusak, L. (2000). *Working knowledge: How organizations manage what they know*. Boston: Harvard Business School Press.

Ericsson, K. A., & Charness, L. (1994). Expert performance: Its structure and acquisition. *American Psychologist, 49*(8), 725–747.

Freire, P. (1993). *The pedagogy of the oppressed*. New York: Continuum.

Hardin, G. (1968). The tragedy of the commons. *Science, 162*(3859), 1243–1248.

Kayes, A. B., Kayes, D. C., & Kolb, D. A. (2005). Experiential learning in teams. *Simulation Gaming, 36*(3), 330–354.

Kolb, D. A. (1984). *Experiential learning: Experience as the source of learning and development*. Englewood Cliffs: Prentice Hall.

Kolb, A. Y., & Kolb, D. A. (2009). The learning way: Meta-cognitive aspects of experiential learning. *Simulation Gaming, 40*(3), 297–327.

Latané, B., Williams, K., & Harkins, S. (1979). Many hands make light the work: The causes and consequences of social loafing. *Journal of Personality and Social Psychology, 37*(6), 822–832.

Liukkonen, B. (1998). The lake game. For people who care about lakes. Minnesota Sea Grant Program. University of Minnesota Duluth.

Magnuszewski, P., & Slodka-Turner, A. (2011). Green & great. https://www.greenandgreat.games-4sustainability.com. Accessed 17 Jan 2014.

Munson, L. (2013). New year, new workplace! http://www.siop.org/article_view.aspx?article=1203#.UvPBXbRZ64T. Accessed 17 Jan 2014.

Polanyi, M. (1958). *Personal knowledge: Towards a post-critical philosophy*. Chicago: University of Chicago Press.

Prokopowicz, P., Żmuda, G., & Stocki, R. (3–6 Sept 2008). Cognitive theory of total participation management. *Selected proceedings of the IAREP/SABE 2008 Conference at LUISS in Rome*.

Quinn, C. (2007). Computer-based simulations. In M. Silberman (Ed.), *The handbook of experiential learning* (pp. 138–154). Hoboken: Wiley.

Rapoport, A., & Chammah, A. M. (1965). *Prisoner's dilemma*. Michigan: University of Michigan Press.

Rasmusen, E. (2006). *Games and information: An introduction to game theory* (4th edn.). Hoboken: Wiley-Blackwell.

Rieber, L. P., & Noah, D. (2008). Games, simulations, and visual metaphors in education: Antagonism between enjoyment and learning. *Educational Media International, 45*(2), 77–92.

Rogers, C. R. (1964). Toward a modern approach that values: The valuing process in the mature person. *Journal of Abnormal and Social Psychology, 63*(2), 160–167.

Ruohomäki, V. (2003). Simulation gaming for teaching CSR. *Simulation & Gaming*, *34*(4), 531–549.

Salen, K., & Zimmerman, E. (2003). *Rules of play: Game design fundamentals*. Cambridge: MIT Press.

Schneider, S. C., Zollo, M., & Manocha, R. (2–5 June 2009). Innovative approaches to developing socially responsible behavior in managers: Empirical evidence from Project RESPONSE. Paper presented at BAWB Conference, Cleveland, OH.

Scott, W. R. (1992). *Organizations: Rational, natural, and open systems*. Englewood Cliffs: Prentice Hall.

Smith, V. (2006). Worker participation: Current research and future trends. In V. Smith (Ed.), *Research in the sociology of work*. (Vol. 6, pp. xi–xxiii). Boston: Elsevier.

Sodexo. (2013). Workplace trends report. http://viewer.zmags.com/publication/f045b66f#/f045b66f/1. Accessed 17 Jan 2014.

Stocki, R., Prokopowicz, P., & Żmuda, G. (2008). *Pełna partycypacja w zarządzaniu* (*Full participation in management*). Krakow: Wolters Kluwer.

Suits, B. (1967). *What is a game?* Chicago: University of Chicago Press.

Ukens, L. (2007). Training games. In M. Silberman (Ed.), *The handbook of experiential learning* (pp. 124–137). Hoboken: Wiley.

Wagner R. K. (1987). Tacit knowledge in everyday intelligent behavior. *Journal of Personality and Social Psychology, 52*(6), 1236–1247.

Walmart. (2010). My sustainability plan. It's a personal thing. http://www.walmartstores.com/sites/ResponsibilityReport/2011/social_associates_MSP.aspx. Accessed 17 Jan 2014

Wenzler, I. (2005). Simulations and social responsibility: Why should we bother? Research scope and perspective. In R. Shiratori, K. Arai, & F. Kato (Eds.), *Gaming, simulations, and society* (pp. 124–137). Tokyo: Springer.

Wilson, A., & Holton, V. (2003). Changing manager mindsets—Report of the working group on the development of professional skills for the practice of Corporate Social Responsibility (Department of Trade & Industry, The Corporate Responsibility Group, April 2003). http://www.ashridge.org.uk/website/IC.nsf/wFARATT/Changing%20Manager%20Mindsets%20-%20Report%20of%20the%20Working%20Group%20on%20the%20Development%20of%20Professional%20Skills%20for%20the%20Practice%20of%20Corporate%20Social%20Responsibility/$file/ChangingManagerMindsets.pdf. Acceseed 16 June 2014.

WWF, & Allianz. (2010). CEO2. The climate business game. http://knowledge.allianz.com/ceo2/en_ext.html. Accessed 17 Jan 2014

Zichermann, G., & Cunningham, C. (2011). *Gamification by design: Implementing game mechanics in Web and mobile Apps*. Sebastopol: O'Reilly Media.

Żmuda, G., Prokopowicz, P., & Stocki, R. (2008). *Towards the model of total participation management: In search of wellbeing in a participative workplace*. New York: Mimeo.

From Charity to Mutual Benefit: A New and Sustainable Look at CSR in Africa

22

David Abdulai

Contents

22.1 Introduction . . . 428
22.2 The New Narrative About Africa's Current Economic Growth . . . 429
22.3 The Need for a New CSR Narrative in Africa . . . 431
22.4 The Form of the New CSR Narrative in Africa . . . 432
22.5 The Business Case for a New CSR Narrative in Africa . . . 435
22.6 How Can the New CSR Narrative Contribute to Africa's Current and Future Economic Growth? . . . 436
22.7 From Charity to Mutual Benefit: A New Sustainable Model of CSR in Africa . . . 438
22.8 The Way Forward . . . 439
22.9 Conclusion . . . 441
References . . . 441

Abstract

The Africa of today is very different from the Africa of yesterday. The Africa of today is seeing Africans taking charge of their own destinies, ushering in democratic governments and undertaking macro-economic reforms that are facilitating the socio-economic and political transformation of the continent. It is a far cry from the Africa labelled by The Economist (The Economist 2000, pp. 15, 20–22) as a "hopeless continent." A new narrative about Africa is been written, it is about "a rising Africa." This rising Africa according to The Economist (*The Economist*. http://www.economist.com/node/21541015, 2011) over the past decade has six of the world's ten fastest-growing

D. Abdulai (✉)
PMB CT428 Cantonments ACCRA-Ghana, 5th Estate Road,
Kanda E10419 ACCRA, Ghana
e-mail: dabdulai@africasml.edu.gh

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_22

countries. In eight of the past 10 years, Africa has grown faster than East Asia, including Japan. Even allowing for the knock-on effect of the northern hemisphere's slowdown, the International Monetary Fund (IMF) expected Africa to grow by 6% in 2011 and 2012 and by 5.7% in 2013.Corporate Social Responsibility (CSR) can enhance the sustainability of this growth. This it can do by addressing the social and environmental impacts of various companies' actions and by engaging in socially responsible behaviour, transfers of technology and technical expertise, as well as contributing to human development—a sustainable model. For CSR to be able to achieve this, it must move away from the archaic and paternalistic practice where CSR is mostly regarded as "philanthropy" by most companies operating in Africa whiles their main focus is on Return on Investment (ROI). CSR must move to a more sustainable model which offers mutual benefit to the respective companies operating in the region and to Africans. This is so because the numerous companies that operate in Africa cannot continuously extract huge profits from Africa's resources without giving back in the form of investing in the long-term sustainable development of these countries. Not only is the old way of doing business archaic, it is also not sustainable. A mutually beneficial sustainable model can be achieved when companies operating in Africa begin to work with the various African governments on a win-win, CSR model which puts Africa's long-term sustainable development needs at the core without compromising the needs of the companies as well. This is the missing link in the practice of CSR as far as Africa is concerned. This paradigm shift as reasoned in this chapter is indeed a new perspective and a sustainable solution of practising CSR in Africa.

22.1 Introduction

A recent United Nations report titled: Unleashing Africa's Potential as a Pole of Global Growth, posits that Africa has achieved remarkable progress in economic growth and at the same time has expanded the scope of its democratic governance. Growth in Africa according to the report has averaged more than 5% a year with a handful of African countries having registered annual growth rates of 7–11% (UNECA 2012). The Economist (2011) writing about Africa's current growth observes that; "over the past decade, six of the world's ten fastest-growing countries were African. In eight of the past 10 years, Africa has grown faster than East Asia, including Japan. Even allowing for the knock-on effect of the northern hemisphere's slow-down, the [International Monetary Fund] (IMF) expects Africa to grow by 6% this year (2011) and nearly 6% in 2012, (it has now revised that growth to about 5.4%) which is about the same as Asia." The IMF further predicts that despite the global economic challenges, Africa will grow by 5.7% in 2013. To this narrative, The Economist adds, "Africa's economies are consistently growing faster than those of almost any other region of the world. At least a dozen have expanded by more than 6% a year for 6 or more years. Ethiopia will grow by 7.5%, without a drop of oil." This thus points to a new narrative about Africa—a rising Africa. This is a far cry from the Africa labelled by The Economist (2000) as a hopeless continent. With this new narrative being written about Africa, one might think that the CSR narrative as it pertains to companies operating on the continent will also change in tandem. Unfortunately, that has not been the case. Many businesses, multi-lateral and indeed bilateral that operate in Africa and indeed in most developing countries still cling to an archaic version of CSR which boarders around "charity" or philanthropy (Rashid 2013). These companies make lots of profit from their African operations but when it came to CSR, have for far too long felt that they were doing Africans a favour. Mostly, their CSR activities in Africa consisted of drilling a bore-hole here, building a pit-latrine there, or a small school block someplace else. In most cases, they do not consult the communities in which they operate about whether they really want a bore-hole or a pit-latrine. What kind of CSR is that? One may ask.

The answer is not far-fetched. This kind of CSR is one that borders on a mind-set that subscribes to arrogance, indeed a paternalistic and patronising attitude amongst some of the companies which operate in Africa. For some of these companies, they still see Africa from the lens of Joseph Conrad's depiction of Africa as—"the Dark Continent," a backwater that they are on a "mission" to "save"; not a partnership that they should nurture to yield mutual benefits for their respective companies and their host countries. This author suggests that this archaic type of CSR adopted by some businesses operating in Africa is not sustainable. Such an approach is myopic in its outlook and indeed this type of operation is not only limiting in strategy, but it also creates ill-will between the companies and the communities, as well as the countries in which they operate. To fill this missing link, there needs to be a paradigm shift where CSR can be seen as a mutual beneficial relationship that enables companies to be able to make profit by doing good and contributing to the long-term sustainable development of the countries in which they operate, devoid of seeing CSR as philanthropy but instead as an investment in their own future. The two are not mutually exclusive. As aptly put by O'Riordan and Fairbrass (2013), businesses today have an important role to play in society. They must play a synergistic role in fostering the economic and financial growth of their respective companies while at the same time contributing to social development as well as environmental protection. This is indeed the missing link in the practice of CSR as far as Africa is concerned. This paradigm shift as reasoned in this chapter is a new perspective and a sustainable solution for practising CSR in Africa.

22.2 The New Narrative About Africa's Current Economic Growth

The old narrative about Africa has been one in which Cassandras' have for so long regarded Africa as a poor continent with precarious states and beggarly people who arouse pity; a pity that requires their philanthropy. I was once told by a colleague of mine in one of the international organisations that I worked a while back that "if Africa fell off the face of the earth, no one would recognise it." Such arrogance borders around a myopia that regards Africa as a useless continent, indeed a continent that can do nothing for itself. If such is not the perception, what can one make of a Nobel Laureate like V. S. Naipaul (1979, p. 36) who, commenting in the New York Times Book Review, claimed that "Africa has no future"? Similarly, The Economist Magazine in its May 13th–19th 2000 edition boldly labelled Africa as the Hopeless Continent. In that issue, The Economist wrote: "Does Africa have some inherent character flaw that keeps it backwards and incapable of development? Some think so. They believe Africa's wars, corruption and tribalism, are 'just the way Africa is,' and that African societies are unable to sustain viable states" (Economist 2000, pp. 15, 20–22). Most recently, the former French President, Nicolas Sarkozy, speaking at Cheikh Anta Diop University in Senegal on the 26th of July 2007, also remarked in a similar vein to The Economist, that, "The tragedy of Africa is that the African has not fully entered into history. The African peasants, who for thousands of years have lived according to the seasons, whose life ideal was to be in harmony with nature, only knew the eternal renewal of time, rhythmed by the endless repetition of the same gestures and the same words" (Ba 2007). His core message is that Africa has not really evolved as it never really launched itself into the future.

But which Africa are these Cassandras' and Afro-pessimists talking about? Certainly not the Africa of today as times have changed. The Africa of today is seen as "a land of opportunity," and referred to in certain quarters as "the last frontier." The Mckinsey Global Institute in its June 2010 publication titled, "Lions on the move: The progress and potential of African economies," stated that "by the year 2020, Africa's collective GDP will be $2.6 trillion; its consumer spending will be $1.4 trillion; and the number of African households with discretionary income will be 128 million. It states that by the year 2040, 1.1 billion Africans will be of working age and 50 % of Africans will be living in cities by the year 2030." It further states, "Africa's economies are on the move. The continent's GDP rose by 4.9 % a year from 2000 to 2008, more than twice its pace in the 1980s and 1990s. Today, Africa ranks among the fastest-growing economic regions in the world. It is home to 20 domestic companies with revenues of at least $3 billion each and 52 cities with over 1 million people—more than double the number in 1990 and the same number as in Western Europe." (McKinsey Global Institute 2010). The Africa of today is also seeing African countries and their leadership taking a firm grip of their economies, and the "winds of democratisation and change" sweeping across the continent. Africa and its people are challenging and confounding the naysayers, the Afro-pessimist and all the Cassandras' that this is a new Africa, an Africa different from the one they depicted as nightmarish, chaotic and one in which nothing works. Thus, one can comfortably say that, the African dawn is here and as we say in Africa, "not even frowning frogs, can stop the cows from drinking from the pond."

There is thus a new narrative that should be written and is being written about Africa. The new narrative is about a rising Africa, (TIME 2012; The Economist 2011) a far cry from the Africa that has been written off as the hopeless continent. Interestingly, one of these narratives was written by The Economist (2011), which once labelled Africa as a Hopeless Continent. The times, they have indeed changed! The Economist (2011) also observes that Africa's labour productivity has been rising and growing by an average of 2.7 % a year. Trade between Africa and the rest of the world has increased by 200 % since the year 2000. Inflation has also been observed to have dropped from 22 % in the 1990s to 8 % in the past decade. Foreign debt declined by a quarter, budget deficits by two-thirds. And according to the World Bank, in the past 10 years, sub-Saharan Africa's growth has been faster than East Asia. Even after revising downward its 2012 forecast because of the slowdown in the northern hemisphere, the IMF still expects sub-Saharan Africa's economies to expand by 5.75 % this year. Africa, the magazine noted, "could be on the brink of an economic take-off, much like China was 30 years ago and India was 20 years ago." Many ascribe this growth in Africa to the increase in demand for its commodities. Others hold the view that part of this growth can be attributed to gains from good macro-economic management, good governance and control of corruption. Africa's current resurgence has also benefited from increased capital inflows and aid, as well as debt relief (UNECA 2012). Africa's current growth can also be attributed to its move towards multi-party elections and democracy. For example in 1984, there were only four countries on the continent that held multi-party elections. Since the 1990s, many African countries have held multi-party elections, legalised multi-party systems and fixed-term limits for elected leaders. The political change ushered in by the democratisation process on the continent has resulted in the emergence of a free press, opposition parties, independent unions and numerous civil organisations. It is also reported that this electoral process has encouraged income growth and positively affected African institutions (van de Walle 2001). Be that as it may, what is clear here is that this is a continent on the move and a new narrative, different from the old one about Africa has to be written as it pertains to all aspects of the continent's growth and development.

22.3 The Need for a New CSR Narrative in Africa

It is not only the political and economic narrative about Africa that must change and is changing; the CSR narrative in Africa also needs to change. For far too long, based on the old narrative about Africa, companies and businesses operating in Africa have regarded and treated their CSR initiatives on the continent as charity or philanthropy. Based on this narrative, they have thereby felt they were doing Africans a favour. Their CSR activities mostly consisted of drilling a bore-hole here and there, or building a pit-latrine or a small school block somewhere in a remote community and forgetting that once the school block is built, it needs to be staffed and managed which thus requires operational funds. When some of these companies felt really good about themselves, they sponsored an African student here and there to study in their home countries. Sometimes, most of these students did not return after their studies. A glance at some of the CSR/sustainability sections in the glossy Corporate or Annual Reports of some of these companies will show pictures of African kids with bloated stomachs, grinning sheepishly with stretched-out hands using calabashes (collecting container) to fetch water from some of the bore-holes these "philanthropists" dug. You may also find in these pages smiling African village women returning from the bore-hole that these philanthropists have dug with pots on their heads containing clean water; juxtaposed next to such a picture may be the stream they used to fetch water from in the past. The overall message is: "Mission Accomplished," and with these basic needs projects, the premise is that their CSR initiatives in the respective countries have now been met. They then focus on the business of making money, the bottom-line and enhancing shareholder value. But businesses with their focus on markets and Return on Investment (ROI) and indeed with their emphasis of making money frequently forget that there is much more in life than what gets measured in monetary terms and for that matter, in accounts (Harford 2007).

The irony is that most of these companies profit immensely from their investments in these African countries. If you compare the percentage of their profits to their CSR activities, it is a pittance. Yet, these countries and communities will have to pick-up the pieces and live with the consequences of environmental degradation, the social malaise and other negative externalities that come with the businesses' operations in such areas when they eventually move away. This old narrative of CSR in Africa can no longer endure, because it is colonial, paternalistic and backward. It therefore needs a new narrative, one based on partnership, sustainability and a win-win formula. So what form should this new narrative of CSR in Africa take? To be able to offer a suggestion about the form that this new narrative should take, given that the definition of CSR is generally nebulous (i.e., it means different things to different people and may not capture what this new narrative of CSR should entail), a definition of CSR by this author is in order. This new definition that this author wishes to put forward in this chapter will encapsulate what the new CSR practices in Africa must include.

For this purpose, I will define CSR as, "the case where companies regard as their home, the countries in which they operate." Thus, the companies operating in various African countries should see each country they operate in as their respective homes. Consequently, they must act responsibly in the manner in which they address the social, environmental and the economic impact of their operations; as well as how they deal with their employees and stakeholders in these African countries in which they operate. Thus, it can be said that these companies are responsible for their actions and inactions. At the end of the day, their sustainability is inextricably linked to the sustainable development of the countries in which they operate. It is thus a sine qua non that they must contribute to the sustainability and development efforts of those countries. I will add that their efforts should go beyond the minimum legal requirements and compliance of CSR. After all, it is in their competitive and sustainable interest and that of society at large. I suggest the new narrative of CSR in Africa and the form it should take going forward should be fashioned according to this definition. But before I elaborate further on that, it will be appropriate to state the business case for companies operating in Africa; specifically, why it would be to their advantage to subscribe to this new narrative of CSR.

22.4 The Form of the New CSR Narrative in Africa

The new narrative of CSR policies for companies and businesses operating in Africa could emanate from the premise of a win-win, and not a win-lose proposition for the business, the community, or the country in which the business is operating in Africa. Any business that aims to develop sustainable operations in any African country might do well to understand this new narrative which pertains to CSR in Africa as a mutually beneficial scheme that enables companies to be able to make profit by doing good, and most important of all, by contributing to the long-term sustainable development of the various countries in which they operate. But this new narrative also requires African governments and policymakers to play their part. In this approach, CSR is seen through new lens of a "partnership" between them and the companies that operate in their respective countries. Consequently, they must see to it that a conducive business environment prevails to afford businesses the opportunity to invest for the long-term and be assured that their investments are secured. This environment must also be predictable and stable and most importantly, devoid of the "nationalisation" noise that is being made by certain interests in countries like South Africa and Zimbabwe. The vilification of companies operating in some African countries as "Darth Vader's" (a central character of George Lucas' *Star Wars* films, whose behaviour is synonymous with evil) is counter-productive to the developmental efforts of these countries.

Secondly, this new narrative of CSR in Africa would benefit from taking the form of the use of CSR by companies operating in that environment to bring about genuine and lasting change and improvement in the lives of the people in the African countries in which they operate. These companies might contribute more genuine impact by moving away from using CSR as a marketing tool and a method of enhancing their brands or in order to counter claims from pressure groups. Such change would constitute a move from a rather reactive approach to a proactive one. Indeed, the new narrative requires that the CSR of companies operating in Africa would become a strategic tool of integrating sustainable development measures in their strategic vision and mission statements as well as their respective business plans. For example, I believe that CSR could be used as a strategic tool to invest in knowledge in industries and educational institutions which have long-term benefits and positive externalities for most African countries. CSR should also be used to protect human rights, minimise corruption and improve employment, as well as environmental standards in the African countries in which these companies operate. This dovetails well with the obligations of businesses under the UN Global Compact which suggests that companies should support and protect human rights, and that they should additionally not be complicit in human rights abuses. Other areas that businesses need to be aware of with respect to emerging issues in CSR include equality and diversity in the workplace, use of child labour, water rights, community consultation, and corruption (Killian 2012).

Thirdly, I suggest that this new narrative of CSR in Africa should embrace and practice UBUNTU, an Nguni word from Southern Africa which literally means, "I am what I am because of who we are." The Zulus of South Africa refer to Ubuntu thus "Umuntu ngumuntu ngabantu," meaning, "a person is a person through other persons." Ubuntu is all about African humanism that says that nothing lives in isolation, we are inter-dependent. Archbishop Emeritus, Desmond Tutu (2000) wrote about Ubuntu as the essence of being human. He observed that Ubuntu is all about our inter-connectedness. Companies operating in Africa might therefore tread more wisely if they could first understand that they do not exist in those environments in isolation; they employ African workers, they work in communities where African people live, use the resources of those communities and countries, and make their profits from those communities. This means that their continuous survival as businesses depends on the very existence and well-being of those communities and their people (and vice versa) in which they operate. It is therefore imperative that the new CSR that companies practice in Africa becomes "Ubuntu CSR," so to speak; to put it another way, a CSR with Ubuntu at its core. This notion is grounded along the lines of a triple bottom line approach (Elkington 1997) but with an African touch. This does not negate the importance of profit. Instead, it emphasises that by putting people first, profits will follow (far more reliably and sustainably). After all, profits do not make themselves, people make profits. Jonker et al. (2013) put this best when they said: It is about sustaining and expanding development by connecting economic interests with social and ecological welfare.

Fourthly, the new narrative requires that companies move away from seeing their CSR activities as a Responsibility to viewing them as an "Investment." It is an investment in the future of the community or communities in which they are located or in which they operate, as well as in their own sustainability. When companies regard their CSR activities as investments in this way, their commitment is then usually long-term in orientation and their engagement in such an investment is more focused. For example, Kosmos Oil Company in Ghana has re-focused its CSR activities in the Western Region of Ghana where they operate to what they now call their Corporate Social Investments. In doing so, because they foresee their investments in oil production in that part of Ghana to be lengthy, hence their "investments" in the communities in which they operate must also be for the long-term. The other dimension of the Kosmos strategy is the quality of these CSR activities. They are moving away from the traditional "building of toilets," to real investments in education and developmental activities in the communities in Ghana. This long-term CSR strategy points to a genuine concern for the community in which they operate. In a nut-shell, this is a good example of the new narrative of CSR in Africa that was elaborated by the author in this chapter.

Finally, another example of the new narrative for the CSR practice of companies operating in Africa advised by the author is that of skills development and transfer of technology. The importance of these two factors in African countries cannot be emphasised enough. The transfer of technology by companies operating in Africa to the respective African countries will foster productivity growth as well as create a sound and viable technological base for their sustainable take-off. According to the United Nations Conference on Trade and Development (UNCTAD), technology transfers to African countries will enable African countries to meet their respective productivity growth goals; in this process, it will also help companies operating in Africa to meet their international obligations, such as the phasing-out of ozone depleting substances (UNCTAD 2004). But technology transfers also have additional social benefits beyond economic aspects that can positively impact the growth and development efforts of African countries. This new narrative in the approach to CSR initiatives in Africa is an investment in the long-term viability and development of the respective countries in which these companies are operating. But the companies cannot achieve this alone. Such development requires a concerted and collaborative effort between the companies and the respective African governments. The relevant African governments need to provide a conducive environment and the requisite infrastructure for these transfers to take hold. African governments must also offer some incentives to make it beneficial for these companies to undertake these transfers.

22.5 The Business Case for a New CSR Narrative in Africa

First, the important reason why companies operating in Africa must adopt this new narrative with respect to CSR is because of the otherwise inherent risk to their brand and/or reputation. In our increasingly connected digital world of today, bad or negative news about a company and its operations around the world travels “twice as fast as the speed of light.” As a result, the brand and reputation that a company has taken years to build can be tarnished or destroyed in seconds. With the advent of social media outlets such as Facebook, Twitter, Whatsapp, Linkedin to mention a few, reputational risk is just a click away. This is because more and more consumers these days choose or buy a product either consciously or unconsciously because of the brand, reputation and indeed the image of the company. For example, a survey of CEOs and leaders by the World Economic Forum in 2004 highlighted that corporate brand reputation outranks financial performance as the most important measure of success (Burke et al. 2011). A case in point is Ben and Jerry’s Ice Cream Company. It is an American company founded in Burlington, Vermont in 1978. It has since been sold to Unilever. In its early years, its founders Ben and Jerry committed to buying their milk from Vermont family farmers. This put billions of dollars into the economy of Vermont. The company also decided to source its brownies from Greystone Bakery, a company operated by homeless people. This helped hundreds of these people to move from homelessness to prosperity. Ben and Jerry’s global Fairtrade commitments also ensured that small farmers around the world get a fair deal. The company also partnered with NGOs on furthering a specific campaign to address socio-economic and environmental issues (Lager 1995; Cohen and Warwick, 2006). Ben and Jerry’s thereby enhanced its brand image and reputation as a socially and environmentally conscious company which contributed to its financial success and sustainability.

The second business case for the adoption of this new narrative by companies operating in Africa is due to environmental reasons. This specifically points to those companies in the extractive industries in Africa. For these companies, it is imperative that the extraction and replenishing of natural resources is proportionate to the reduction in operational cost. Replenishing of natural resources by companies operating in Africa’s extractive industry sector makes a lot of business sense; their being environmentally responsible is equally about their long-term survival. The operation of Royal Dutch Shell in Nigeria is very instructive in this case as it went against this business case. Consequently, it resulted in mass boycotts and demonstrations against Royal Dutch Shell in Nigeria and abroad. The impact on Royal Dutch Shell’s reputational capital as a result cannot be emphasised enough.

Royal Dutch Shell, which started producing oil in the Niger Delta of Nigeria in 1958, has been accused of causing environmental devastation to the Ogoni lands in the Niger Delta. About 75 % of the 27 million people living in the Niger Delta rely on the environment for their livelihood, either through fishing, or farming. The environmental damage caused by Shell significantly impoverished most of the Ogoni people. Shell and other oil companies in the region burn natural gas in a process called flaring. It is reported that over 20 billion m^3 of gas are burned per year in the Niger Delta, which send huge toxic matter into the air. Many of these toxic plumes emit soot and subsequent precipitation which lead to carcinogens ending up in the waterways and fields. Finally, it is reported that an estimated 1.5 million t of oil has been spilled in the Niger Delta ecosystem over the past 50 years. Many of these spills are reported to have taken place in sensitive habitats for birds, fish and other wildlife. This has led to a loss of bio-diversity and an impoverishment of the communities (Omoweh 2005).

The third reason and business case for the adoption of this new narrative of CSR by companies in Africa is that CSR is about being a good corporate citizen period. But what does a good corporate citizen mean? It means that a company functions beyond compliance and abides by the legislation in the countries in which they operate. In cases where they are a step ahead of the legislation, such companies are usually prepared when legislation is passed and enforced and they do not have to wait for civil society and pressure groups to force them to comply. Thus by being ahead of the curve, it reduces the company's risk exposure. This increases the long-term stability of the company and its survival in cases of unforeseen contingencies of a socio-political or economic nature. Thus, risk apart, no company can realistically realise its maximum economic value in doing business in Africa today and tomorrow if the environment in which they are operating is not socio-politically, economically, culturally and legally conducive.

Finally, the business case for the adoption of this new narrative is because generally, most employees around the world like to work for companies based on their strong and genuine CSR practices. The case of Enron is instructive in this aspect. Genuine CSR practices are different from being duplicitous or with a dubious CSR image. Enron was well-known for the numerous glossy reports that recounted its CSR activities. The trouble with Enron was that at the same time it published such reports, it was lying about its profits. When the truth emerged, it led to the company's collapse in 2001. Its top executives were jailed for conspiracy and fraud. As a result, Enron became the by-word for corporate irresponsibility and dishonesty.

22.6 How Can the New CSR Narrative Contribute to Africa's Current and Future Economic Growth?

The discourse on the new narrative of CSR contributing to Africa's current and future sustainable growth and development has been met with mistrust and criticism from some who see such ideas as misplaced. They posit firstly, that the interests of most companies are short-term as opposed to the long-term horizon required for development efforts to sustain and have an impact, and second, that the focus of business is to enhance shareholder value rather than a concern for stakeholders. Some of the renowned critics of the idea of business contributing to social development are by the late neoliberal economist Milton Friedman (1970). Friedman argues that businesses have no business getting involved in the provision of public goods. This is because according to Friedman, businesses already contribute to the development of society through the payment of corporate taxes, the creation of employment, as well as the delivery of much-needed goods and services to economies (Newell and Frynas 2007; The Economist 2008).

Accordingly, these critics hold the view that because development and social change takes a long time and often involves a long-term horizon, it stands in conflict with the goals and realities of businesses which are mostly short-term in nature and focused on the bottom-line. Because of this, most of the CSR initiatives embarked on by companies can be abandoned at the drop of a hat as soon as a slump hits. One such example is Hewlett Packard (HP) and the Mogalakwena i-Community project in South Africa. Even though the project was successful, it was the first to be discontinued in a down-turn (McFalls 2007). These critics therefore hold the view that most of the CSR initiatives by companies are for public relations purposes rather than based on a true concern for the development of the communities in which these companies operate.

Finally, others decry the double standards posed by most businesses and wonder whether these can contribute to economic growth and development particularly in Africa, when it is the same businesses that initiate CSR programmes or projects that fail to carry them through or “walk the talk.” For example, these organisations fail to maintain (or in most cases ignore), human rights (abuses), environmental principles (pollution and degradation), as well as established labour standards, and other initiatives, which they have pledged to uphold (Prieto-Carron et al. 2006). The example of Shell’s operations in the Niger Delta of Nigeria noted above is a case in point.

Despite such observations and criticisms, this author believes that the new narrative of CSR can indeed contribute to Africa’s current and future efforts at sustainable growth and development. This can be achieved if companies realise that they are by law “living persons,” and as such, they have both rights and responsibilities. Thus they cannot cherry-pick where they enjoy just the benefits of their investments in African countries while leaving the disasters that occur in their wake (such as the pollution of the environment, increased inequality and poverty, as well as human rights abuses) for others to fix. The negative impact of the operations of Shell in the Niger Delta of Nigeria as it pertains to environmental pollution, instability and poverty again is a case in point.

When companies operating in Africa truly understand that their sustainable growth and development is inextricably linked to that of the respective communities in which they operate, they will find a middle ground in the balance between shareholder and stakeholder interests. This further facilitates their ability to find a balance between short-term bottom-line concerns and long-term investments in the CSR activities in the communities in which they operate which can in turn significantly contribute to their sustainability, growth and development. Companies can achieve this by creating effective partnerships with the local communities in which they operate. For example, Chevron has re-considered its operations in the Niger Delta of Nigeria and the way in which its CSR activities can contribute to long-term sustainable growth and development in the area within the constructs suggested by this new narrative. The company sought first to thoroughly understand its local environment. It also made an effort to understand the country-specific (Nigeria) constraints. With that, Chevron's CSR initiatives focused on increasing local incomes and employment, as well as on improving the local business environment. By doing so, Chevron is also indirectly reducing its operational risk in the Niger Delta (Grant and Kaplan 2013). Furthermore, the company promotes inclusive local growth and employment. As a result, Chevron is indirectly reducing its social risks, such as youth unemployment, poverty and other drivers of instability. Chevron, as part of its CSR programmes in the Niger Delta of Nigeria thereby fosters competitive business practices. At the same time, the company is further lowering its costs as well as improving the quality of locally sourced goods and services. In addition, it has established long-term mutually beneficial partnerships with indigenous market stakeholders. With this effort, Chevron has improved its responsiveness to the local content laws in Nigeria (Grant and Kaplan 2013).

22.7 From Charity to Mutual Benefit: A New Sustainable Model of CSR in Africa

These examples demonstrate that the CSR practices of companies in Africa can no longer be regarded as charity. These observations further indicate that African countries must no longer accept CSR practices from companies which operate in their respective countries using charity. Hence, a new sustainable model of CSR evolves as standard practice that contributes to the sustainable development of the respective countries, while simultaneously enabling companies to make a profit. This new sustainable model cannot be mutually exclusive. It must be mutually beneficial. For that to happen, a complete mind-set change is required amongst the companies operating in Africa and amongst African governments and policy makers. African governments must understand the business reasons why companies invest in their respective economies. They are not "Father Christmases," they are in business to make a profit. Any business that is not making profit in its operations will soon find out that it is out of business. However, making profit alone should not also be the sole driver of the business.

Furthermore, the new sustainable model of CSR must be seen as a group and not an individual effort. It must not be something that companies "do to countries," but something that companies, their host countries, and the communities in the African countries in which they operate work on together for the ultimate collective establishment of mutual growth and benefit. For CSR efforts in Africa to effectively contribute to the sustainable development of the continent, they must begin with the long-term strategic growth and development policies of the country in mind. Thus, effective consultations and the incorporation of the views and aspirations of the communities in which these companies operate in their CSR activities or programmes so that they become aligned with their own growth plans cannot be emphasised enough. When the CSR activities and programmes of companies who operate in Africa do not support the development efforts of governments of their host countries, the economy could stagnate, leading to unemployment and unrest. The associated hostility and instability that arises as a result, could adversely affect the operations of the company. The disruption of the operations of the Shell Oil Company in the Niger Delta of Nigeria by numerous local groups in the area who took issue with the operations, CSR activities and poor environmental record of the company in that region, are a case in point. The related violence and sabotage of Shell Oil's pipe-lines by vigilante groups in the area also attest to this point.

22.8 The Way Forward

It is an open secret that Africa is potentially the wealthiest continent on earth, but paradoxically, the poorest. Its huge deposits of precious mineral resources ranging from gold, diamonds, manganese, bauxite, cobalt and oil just to name a few, are the major source of this potential wealth. Its 1 billion people are additionally a source of labour as well as a potential huge consumer market. According to the African Development Bank, it is estimated that Africa has 120 billion barrels of oil reserves; this is no less than half of Saudi Arabia's. Furthermore, the continent has over 600 million ha of uncultivated land, which amounts to half of the world's total (AfDB 2013).

Unfortunately, most African countries do not have the technological know-how and the requisite capital to efficiently exploit these resources. Fortunately, most Western and multi-national companies have this know-how, technologies and the necessary capital enable the extraction of these resources. This thus calls for a mutual-beneficial partnership where African countries can partner with these Western and multi-national companies to extract and process these resources for the global marketplace. African countries will realise resources to fund the development efforts of their respective countries. The Western and multi-national companies will realise a profitable return on their investments—a win-win proposition. But this win-win proposition should go beyond profit and balance sheet outcomes for these Western companies. It should be regarded as a partnership. This partnership with African countries involves supporting them in their sustainable growth and development efforts. In addition, it equally addresses their mutual sustainable growth and development. This new perspective of CSR goes beyond charity; it focuses on the mutual benefit and survival of both the Western companies and the African countries as well.

Here is how this can be attained. First, African governments must create a conducive environment to enable these Western and multi-national companies to invest their capital and operate without any encumbrances. Secondly, they must make sure that the capital that these companies invest in their respective economies is not appropriated through the rubric of nationalisation or "indigenisation" as has been the case in a few African countries.

But Western companies and multi-national corporations must also play by the rules to avoid African governments calling for nationalisation and indigenisation of their companies. They must act with integrity and stop tax avoidance through the practice of transfer pricing[1]. Through transfer pricing Western companies or multi-national companies often located in Africa sometimes load costs onto those African countries which offer them generous subsidies to attract Foreign Direct Investment (FDI). This is particularly the case in the extractive industries. This siphoning off of the bulk of the taxable profits from local operations to tax heavens is a common phenomenon adopted by Western and multinational companies operating in most African countries. Such acts do not subscribe to the new CSR model which is advocated in this chapter.

Secondly, Western and multi-national companies can tap into the huge potential in Africa which will be mutually beneficial if these companies regard themselves as "Global" companies. By this I mean, they might be global in their origin or maybe a part of global companies, but their outlook should be local. The local components of these companies who invest in specific African countries should regard their operations as those of an indigenous or local company with the sensibilities and sensitivities of a local company. They should be concerned about contributing to the long-term sustainable development of those countries locally. Finally, Western and multi-national companies can tap into Africa's huge potential if their operations or investments on the continent are guided by the policy and practice of sound environmental and social actions. Thus, their environmental actions must be guided by the Brundtland report, which states that companies and their actions should, "meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland 1987).

Furthermore, the social actions of these companies must move beyond public relations acts. The social programmes they undertake in the communities in which they operate must comprise a genuine effort on their part to uplift the local people from poverty and to better their lot. Any publicity gained in the process should be a bonus, but it should not be done for the sake of publicity. It is often said that "you can fool some of the people some of the time, but not all the people all the time." Companies which have CSR activities in Africa that are genuine and those which contribute to the sustainable growth and development of the respective countries in which they operate will reap sustainable rewards in their ROI as well as the enhancement of their reputations. Those who think they are fooling the African people by undertaking truncated, public relations-led CSR efforts with an "I don't give-a-damn" attitude will soon find out that their reputations and investments will go down the drain.

[1] Transfer pricing is the practice where the prices of companies are adjusted to move profits to lower-tax jurisdictions whilst expenses are moved to higher-tax ones.

22.9 Conclusion

The important role that CSR can play as a missing link in the economic growth and development of Africa cannot be emphasised enough. This important role is particularly significant because of the long-term sustainable development needs of Africa at its current growth and development trajectory. But in order for CSR in Africa to play such a role, companies in Africa must move away from their archaic view of their CSR activities as charity or philanthropy. Companies doing business in Africa must begin to position their CSR activities to contribute to the long-term growth and sustainable development of the respective communities and countries in which they operate. This chapter suggests that in doing so, they are also contributing to their own growth and sustainability—a new mutually beneficial and sustainable CSR model. This means that businesses operating in Africa can contribute to the socio-economic and environmental sustainability- and growth-efforts on the continent and still make a decent profit. The two are not mutually exclusive. This is the new sustainable CSR model to which companies who strive for sustainable operations in Africa, today and into the future, must pay heed.

References

AfDB. (2013). *Africa's mineral wealth: A blessing or a curse*? http://www.afdb.org/en/blogs/afdb-president-this-is-africas-hour/post/africas-mineral-wealth-a-blessing-or-a-curse-12336/. Accessed 10 Oct 2013.

Ba, D. (2007). *Africans still seething over sarkozy speech*. http://www.uk.reuters.com/article/2007/09/05/uk-africa-sarkozy-iduk0513034620070905. Accessed 19 Nov 2013.

Brundtland, G. H. (1987). *Our common future*. Oxford: Oxford University Press.

Burke, R. J., Martin, G., & Cary L. C. (Eds.). (2011). *Corporate reputation: Managing opportunities and threats*. Farnham: Gower.

Cohen, B., & Warwick, M. (2006). *Values-driven business: How to change the world, make money, and have fun*. San Francisco: Berrett Koehler.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of the 21st century business*. Gabriola Island: New Society Publishers.

Friedman, M. (13 September 1970). The social responsibility of business is to increase its profits. *The New York Time Magazine*. http://www.colorado.edu/studentgroups/libertarians/issues/friedman-s0c-resp-business.html. Accessed 17 Nov 2013.

Grant, B., & Kaplan, Z. (20 March 2013). In the Niger delta, Chevron launches new paradigm for corporate social investment. *DAIdeas*. http://www.dai-global-developments.com/daideas-innovation-in-action-chevro. Accessed 16 Oct 2013.

Harford, T. (2007). *The undercover economist*. London: Little Brown Book Company.

Jonker, J., O'Riordan, L., & Marsh, N. (11–13 September 2013). Organising as the art of balancing values: Enabling the realisation of multiple and shared values through a generation of new business models. Paper presented at the Corporate Responsibility Research Conference, University of Graz (Austria).

Killian, S. (2012). *Corporate social responsibility: A guide with Irish experiences*. Dublin: Chartered Accountants.

Lager, F. (1995). *Ben and Jerry's: The inside scoop: How two real guys built a business with a social conscience and a sense of humour*. New York: Three Rivers Press.

McFalls, R. (2007). Testing the limits of inclusive capitalism—A case study of the South Africa HP i-Community. *The Journal of Corporate Citizenship, 28,* 85–98.

McKinsey Global Institute. (2010). *Lions on the move: The progress and potential of African economies*. Washington, DC: McKinsey Global Institute.

Naipaul, V. S. (13 May 1979). Africa has no future. '*Meeting V.S. Naipaul' Naipaul interviewed by Elizabeth Hardwick. New York Times Book Review, 36*.

Newell, P., & Frynas, J. G. (2007). Beyond CSR? Business, poverty and social justice: an introduction. *Third World Quarterly, 28*(4), 669–681.

Omoweh, D. A. (2005). *Shell petroleum development company, the state and underdevelopment of Nigeria's Niger delta: A study in environmental degradation*. Trenton: Africa World Press.

O'Riordan, L., & Fairbrass, J. (2013). Managing stakeholder engagement: A new conceptual framework. *Journal of Business Ethics*. doi:10.1007/s10551-013-1913-x. http://link.springer.com/article/10.1007%2Fs10551-013-1913-x#page-1. Accessed 17 Mai 2014.

Prieto-Carron, M., Lund-Thomsen, P., Chan, A., Muro, A., & Bhushan, C. (2006). Critical perspectives on CSR and development: What we know, what we don't know, and what we need to know. *International Affairs, 82*(5), 977–987.

Rashid, M. (26 September 2013). CSR does not mean charity. *Dhaka Tribune*. http://www.dkatribune.com/long-form/2013/sep/26/csr-does-not-mean-charity. Accessed 18 Jan 2014.

The Economist. (13 May 2000). The hopeless continent. *The Economist,* 15, 20–22.

The Economist. (17 January 2008). Just good business. *The Economist*. http://www.economist.com/node/10491077. Accessed 14 May 2014.

The Economist. (3 December 2011). The hopeful continent: Africa rising. *The Economist*. http://www.economist.com/node/21541015. Accessed 14 May 2014

TIME. (3 December 2012). Africa Rising. *TIME Magazine*. http://content.time.com/time/covers/europe/0,16641,20121203,00.html. Accessed 17 Mai 2013.

Tutu, D. (2000). *No future without forgiveness: A personal overview of South Africa's truth and reconciliation commission*. New York: Doubleday Religious Publishing Group.

UNCTAD. (2004). *Facilitating transfers of technology to developing countries: A survey of home-country measures*. New York: United Nations.

UNECA. (2012). *Economic report on Africa 2012: Unleashing Africa's potential as a pole of global growth*. Addis Ababa: UNECA.

Van de Walle, N. (2001). *African economies and the politics of permanent crisis, 1979–1999*. London: Cambridge University Press.

CSR Project: Cotton Made in Africa

23

Ortrud Kamps

Contents

23.1 Introduction . . . 445
23.2 Relevant CSR Theories . . . 448
23.2.1 The Organisation ***TransFair*** . . . 450
23.2.2 The ***Fairtrade*** Label . . . 450
23.2.3 Successes of ***Fairtrade*** Regarding Food . . . 452
23.2.4 Limits to ***Fairtrade*** Regarding Cotton and Textiles . . . 452
23.3 ***CmiA*** as a Modern CSR Organisation . . . 453
23.3.1 Organisation . . . 454
23.3.2 Aid by Trade . . . 454
23.3.3 Compliance and Transparency . . . 457
23.4 Evaluation . . . 458
23.4.1 Limitations . . . 458
23.4.2 Overall Successes . . . 460
23.4.3 Social Projects in 2012/2013 . . . 463
23.4.4 Technical Developments . . . 463
23.4.5 Farmers' Business Schools . . . 464
23.4.6 Individual Success Stories . . . 464
23.5 Conclusion . . . 465
23.6 Outlook . . . 466
References . . . 468

O. Kamps (✉)
FOM University of Applied Sciences, Essen, Germany, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: mail@drkamps.com

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_23

Abstract

In search for the "missing link" in the ongoing debate on implementing Corporate Social Responsibility (CSR) and Sustainable Development (SD), the following research examines the German development initiative.[1] Cotton made in Africa (CmiA), an initiative with a novel and widespread impact on business solutions which, among other goals, aims at reducing poverty in developing countries. CmiA successfully improves the living conditions of poor small-scale African cotton farmers and provides fair-traded cotton clothing to the ordinary consumer on the world market. This chapter investigates whether the fresh approach to and the implementation of CSR as part and parcel of SD by CmiA can be an example for the highly competitive world of global business by looking at its successes as well as its limitations.

Focusing on the three key components of the missing link, this chapter investigates (1) How ownership and responsibility relate to each other, (2) How the monetary transaction value influences CSR, and (3) How transparent CSR can be managed to keep the stakeholders connected and involved inside and outside CmiA.

The main research question is concerned with CmiA's potential of dissolving the vacuum created by the disconnection between our economic and social systems. To be more precise: Does CmiA have the potential to combine international cotton companies' economic interest with their major social responsibility to improve the lives of millions of their cotton producers—millions of destitute small-scale farmers in Africa—in order to connect our economic and social systems in a new, far more transparent manner?

The chapter is necessarily limited by two factors: (a) The initiative CmiA is fairly recent, and (b) available facts and figures are not yet extensive enough to give complete answers to all the questions raised above and especially below. Therefore, the data collection had to rely on CmiA's annual report 2012 and fact sheets for the period 2010/2013. Official statements and figures from relevant websites and additional interviews with Tina Stridde (Managing Director Aid by Trade Foundation), Maren Sartory (Online Communication and Public Relations TransFair), and Nathalie Bordère (Product Manager Gerhard Rösch GmbH) are included in the data collection.

The chapter concludes that CmiA presents a successful example of responsibly connecting all stakeholders for sustainable growth such as governments, the private sector, non-profit organisations and people at the grass-roots level, collectively working together with the long-term goal of successfully facilitating economic, ecological, and social sustainability.

[1] According to Stridde (Managing director aid by Trade Foundation. Interview on 21.10.13, 2013) who works as Managing Director of the *Aid by Trade Foundation, CmiA* is termed an *initiative* rather than *project* to underline its long-term approach.

23.1 Introduction

As *CmiA* practices CSR, it provides a good example of how CSR can cover the missing link in current global business affairs.

CmiA is a new initiative of the *Aid by Trade Foundation*. This *Foundation* is a non-profit organisation using market forces in international consumer markets (so far in Europe and USA), to improve the living conditions of impoverished small-scale cotton farmers in Africa by linking them to international textile companies, who sell the respective textile products on a global market. At the same time, it aims at protecting the environment in developing countries. In order to generate added values, the intention of the *Foundation* is to promote sustainable agriculture and forestry as well as local and regional production chains. To this purpose, the *Foundation* has built a *Demand Alliance*, the brand *CmiA*, and strategic partnerships. In this context, the *Aid by Trade Foundation* gives organisational and financial support to *CmiA* projects such as Farmers' Business Schools. The initiative has developed a verification system in order to ensure that the complete process from production to marketing is checked on a regular basis. This transparency enables *CmiA* to successfully align its goals and business principles. In contrast to the existing *Fairtrade* system, *CmiA*'s intention is to sell its labelled cotton products at world market prices, thereby making its products additionally attractive to the ordinary consumer (CmiA 2011b, p. 5; 2013d; Stridde 2013).

According to a survey by *Accenture*, one of the world's leading organisations providing management consulting, technology and outsourcing services, 85% of the consumers are environmentally conscious buyers who might be willing to pay considerably higher prices. 77% of German consumers might buy less or no products from their preferred supplier unless its production is based on sustainable conditions (Accenture 2014; Steinrücken 2003, pp. 9, 11). It seems that sustainable conditions play a key role in their decision to choose a supplier. This suggests that ethical consumption has now become part of the mainstream markets whereby sustainability is demanded not only for production but across the complete supply chain (Accenture 2014; Hälg 2009, p. 365).

The long-term goal of CSR has always been to become ingrained into global society (Breuer 2011, p. 69). Companies employing CSR in their business plans seem to pass through a slowly emerging three-step approach in the sale of sustainable goods. Step one is selling goods in specialist shops such as organic markets. In step two, such goods are offered as specialties in supermarkets, department stores, retail outlets, as well as in a variety of sectors like even the textile industry itself. In step three, sustainable goods finally have become part of the regular mass-market in supermarkets, and, in the long run, sell even without labelling.

The popular *Fairtrade* system[2] aiming at easing poverty and creating more economic justice in the poorest regions of our planet such as sub-Saharan Africa is well-established.

[2] The *Fairtrade* system refers to the *Fairtrade* brand and related international *Fairtrade* label (certification system). The term has to be distinguished from the broader term *Fair Trade movement*.

The idea of fair prices paid to producers of coffee, cocoa, or even flowers from Africa, South America, and Asia is appreciated by a growing number of consumers who value fair prices to producers, especially those from poorer regions.

CmiA shares its fundamental long-terms goals with the *Fairtrade* system, including the ambitious idea of helping people to help themselves. However, *Fairtrade* differs from *CmiA* in how they try to reach the mass market for cotton: *Fairtrade* started with step one mentioned above and has now moved on to step two, while *CmiA* directly started at step two and is now aiming at step three. In other terms, *CmiA* with its emphasis on CSR sees itself as an example of how, in the long-term, its business approach can become the norm for cotton textile sales. In this way it sets completely new sustainability standards (on a higher level) for mass production.

CmiA and the *Fairtrade* system have in common that both do not trade with goods but set up structures and labels facilitating the production of sustainable cotton as well as the processing and distribution of its related goods. The fundamental difference between them is that *CmiA* does not support poor people by paying premiums. Instead, *CmiA* helps all farmers involved in the initiative by improving the quality of their yields and by linking them to a global market. In that way, *CmiA*'s hopes to improve the small-scale farmers' economic situation based on sheer economies of scale. Instead of individual premiums, an extra fee is paid by international companies when buying cotton from *CmiA*-registered farmers. This fee is used to support the farming organisations and their villages with a variety of ecological and social projects, so the benefits of the initiatives are shared by the communities as such. There are additional differences between *CmiA* and *Fairtrade* which will be further investigated in Parts 2 and 3 of this chapter.

The *Fairtrade* system as an example of CSR has so far not yet succeeded in selling its cotton products to a mass market, not only due to its pricing system based on premiums as discussed above which might lead to prices above world market, but also because the related complex and multi-layered production processes cannot be monitored as easily as food or flowers.

In contrast to the *Fairtrade* system, the concept of *CmiA* is to produce and sell sustainable cotton in a self-financing way. This aim is supposed to be reached in two phases: First, the *Demand Alliance* supports cotton farmers by selling increasing amounts of their sustainable cotton on the world market, that way also strengthening their guaranteed sales potential. This is done by extensively promoting *CmiA's* added social and environmental value world-wide within the *Demand Alliance* and their network of stakeholders. Second, based on the assumption that due to this strategy the global demand rises even faster than the local production of sustainable cotton, this should eventually lead to a shortage of sustainable cotton on the world market and consequently a rise in prices so that even small-scale farmers profit directly. *CmiA* is designed to cater for the mass market and does not target niche and specialty markets. The effect of rising prices through increased demand strengthens the positioning of *CmiA* in the mass market and is a product thereof (supported by Hälg 2009, p. 359; Stridde 2013).

Therefore, this chapter concentrates on *CmiA*'s different approach in order to investigate how far this still very young initiative is actually realising its aim of increasing the sale of sustainable cotton. This is an outstanding example of CSR in a growth-orientated, capitalist environment where, despite higher costs, *CmiA*-based businesses aim to remain globally competitive due to their economies of scale and are, at the same time, successfully easing poverty in sub-Saharan Africa. With these goals *CmiA* strives to contribute to connecting our global economic systems with social systems that are sensitive to where products come from and how they are being produced.

Despite *CmiA's* lofty goals and their practice of CSR, the question remains as to whether it can rapidly fulfill its claims. Global statistics and their generalisations are of little help here. Therefore, it is useful to take a closer look at *CmiA's* first and now available results in order to learn more about the impact of this initiative which introduces, implements and verifies its CSR principles with cotton farmers as well as companies selling the finished product.

This leads to the main research question which is the focus of this chapter: Does *CmiA* have the potential to become a shining example for CSR as part of SD? To be more precise: Can *CmiA's* principles of actions ultimately succeed in dissolving the vacuum between our economic and our social systems? This question concerns the separation of ownership and responsibility by examining how the monetary transaction value is taken into account, and whether the ubiquitous lack of transparency has been surmounted by *CmiA*.

Three related aspects based on the three components of the missing link come into focus here and are addressed in this chapter:

1. Separation of ownership and responsibility: Do the international cotton companies concerned mainly pursue their own economic interests and those of their shareholders or do they practice responsibility to their producers, too?
2. Emphasis on the monetary transaction value: Does the *CmiA* initiative follow the usual cost-turnover equation or does value creation reach beyond sheer economic financial results?
3. Lack of transparency: Are nature and people systematically linked within the initiative? Are the interests of all stakeholders reasonably connected and does this lead to a wider concept of transparency?

This investigation is based on vital CSR standards as explained below, followed by a short presentation of how *CmiA* makes a real difference to people and their communities, compared to current commercial cotton production. Is *CmiA* capable of offering new large-scale CSR solutions to the problems of poverty and environmental pollution while being financially sound and at the same time returning some form of investor profit, as required by John Elkinton's three aspects of sustainability, also referred to as the "triple bottom line"[3]?

[3] John Elkinton's (1997, pp. 69–96) original triple bottom line refers to the economic, social, and environmental aspects of sustainability.

CmiA aims to create a win-win situation via a more balanced distribution of the value created for and by stakeholders, i.e., international textile industries, small-scale subsistence cotton farmers in Africa, and global customers. In order to be competitive against traditional textile companies, the initiative has built global strategic partnerships through the so-called *Demand Alliance* which consists of international textile companies such as *Puma, C&A, Tom Tailor, the Rewe Group, Tchibo* and the *Otto Group*. These companies buy sustainably cultivated cotton on the world market at market prices, i.e., not directly from small-scale farmers in Africa and organise the processing to cloth and ultimately finished goods (CmiA 2013a, 2014).

In order to address the main research question as well as its related aspects and measure the degree to which *CmiA* fulfils CSR demands, this chapter is structured as follows:

First the relevant definitions and theories are presented including internal and external dimensions, global challenges, the strategic approach, and verification (i.e., transparency). Second, the organisation *TransFair* and its label are introduced in order to explain the existing trade approach to poverty eradication in Africa before *CmiA* moved in. In this context, successes and limits of *TransFair* are also investigated, in order to facilitate an understanding of *CmiA's* approach. Third, *CmiA* as a modern CSR organisation is explained, including the *Aid by Trade* concept, compliance, limitations, and successes. Fourth, the conclusion will answer the research question. Fifth, an outlook will evaluate what *CmiA* can offer to similar initiatives in the future.

CmiA is a very young initiative. Therefore only limited reliable data for research are available. Real success can only be measured over a long period. A first annual report for 2012 offers an overview of finances. The successes for *Cotton made in Africa* (CmiA 2012b, 2013c) will be evaluated by comparing key indicators between 2010 and 2013. Official statements and figures from relevant websites and additional interviews with Tina Stridde (Managing Director *Aid by Trade Foundation*), Maren Sartory (Online Communication and Public Relations *TransFair*), and Nathalie Bordère (Product Manager *Gerhard Rösch GmbH*) complete the data collection.

23.2 Relevant CSR Theories

According to Hälg (2009, p. 353), CSR is currently the most commonly used term in the modern business world with respect to the human globalisation process. CSR refers to the voluntary integration of social and environmental concerns within economic company policies. It extends beyond government regulations by covering the complete supply chain. In the context of CSR, the original triple bottom line has been broadened to now include four elements: market/capital, workplace/employees, society/region, and the environment. This is practiced in Germany in a current CSR project by the minister president's office of the Saarland (Staatskanzlei 2013), which supports small and medium-sized companies based on these four elements to improve their CSR competence and consequently incorporates the concept of sustainable development. Specifically, companies from the Saarland wishing to improve their sustainability within any of the four elements mentioned above can receive professional advice free of charge from a pool of CSR consultants recommended by the *Staatskanzlei* (state chancellery/office of the minister president).

Jonker et al. (2011, p. 5) divided CSR into an internal and an external dimension: The internal dimension refers to sustainable actions at all company levels, including sustainable management of human resources, provision of health care to employees, and responsible restructuring processes. The external dimension, which refers to responsibility towards the local community as well as further stakeholders on the local, regional, national, and international level, and which—according to the *European Commission* (Europäische Komission 2001, p. 3)—also include shareholders, investors, customers, authorities, and NGOs. O'Riordan and Fairbrass (2006, pp. 3–9, 13) underlines the importance of the inclusion of stakeholders: "Part of the burden of addressing the demands of CSR is the need to engage effectively with a range of stakeholders" (O'Riordan and Fairbrass 2006, p. 3).

The key global challenge that needs to be taken into account when implementing CSR projects on an international scale is the increasing gap between the rich and the poor worldwide. For this reason, CSR is a concept that focuses on the discrepancy between rich industrialised nations and poor developing countries as the latter face the brunt of the negative consequences of globalisation: On the one hand, they have to deal with the problems of very low wages and unacceptable working conditions. On the other hand and additionally, they also have to deal with the main effects of climate change which is predominantly caused by industrialised countries.

As for the strategic approach, the challenge for companies lies in balancing the three aspects of sustainability in a way that creates a win-win situation for all sides. In this context, the best approach according to Breuer (2011, p. 69) is to make corporate sustainability a key issue that is deeply embedded in company structures and its strategies ranging from planning to performance measurement, from raw material extraction to waste disposal.

Finally, in line with these notions, verification standards (performance measurement) are a necessary part of the adoption of a CSR-based business plan in order to evaluate the success or failure of all CSR components. This is highly important, as according to Habisch et al. (2008, p. 13), many companies still understand CSR as a marketing concept rather than a serious responsibility. This widespread attitude led to the criticism of CSR being nothing else but a kind of *greenwashing*. According to Gabler (2013), the term *greenwashing* refers to CSR initiatives which are insufficiently implemented and mainly exist for marketing purposes.

As the framework of relevant CSR theories has now been set, this chapter will look into the realisation of these theoretical approaches within *Cotton made in Africa (CmiA)*. As a starting point, the present successes and limitations of the *Fairtrade* system will be considered in order to create a basis for comparison with *CmiA*. The core elements of the *Fairtrade* system will be outlined, in particular the German organisation *TransFair*, the international umbrella organisation *Fairtrade International* and the *Fairtrade* label. Then, the achievements of the public-private partnership initiative *CmiA* and its elements of Corporate Social Responsibility (CSR) will be investigated in detail.

23.2.1 The Organisation *TransFair*

To adequately gauge *CmiA* and its innovative CSR approach, it is necessary to understand the initiative as a further approach of the well-known *Fairtrade* movement. It is therefore helpful to have a look at the pioneer *TransFair* organisation, in order to understand in what way *CmiA* opens a new approach.

Dolan comments that “*Fairtrade* was founded to alleviate poverty and economic injustice through a market-based form of solidarity exchange” (Dolan 2010, p. 33). Ideally, the *Fairtrade* system helps to close the increasing gap between rich and poor countries and people (Steinrücken 2003, p. 6), in particular when looking at falling market prices for raw materials in the agricultural sector.

According to Maren Sartory, who is responsible for online communication and public relations at *TransFair* (Fairtrade 2014b; Sartory 2013), a core element of the *Fairtrade* system is the German non-profit organisation *TransFair* which is supported by development agencies, churches, consumer protection organisations, women’s organisations, educational and social institutions. *TransFair* does not trade with goods itself, but is responsible for the distribution of the international *Fairtrade* label. It also supports public relations work, marketing and the building of trade contacts.

There are currently more than 250 partner companies in Germany which sell more than 2000 products with the *Fairtrade* label in more than 42,000 shops and 20,000 restaurants. These mainly include coffee, tea, chocolate, cookies, cacao, ice-cream, bananas, fruit juice, wine, rice, flowers, and also textiles made from cotton grown according to *Fairtrade* standards.

TransFair belongs to the internationally known and respected umbrella organisation *Fairtrade International (FLO)* which includes 19 national *Fairtrade* organisations, organised into three continental production networks: *Fairtrade Africa (FTA), Coordinator of Fairtrade Latin America and the Caribbean (CLAC), and Network of Asian and Pacific Producers (NAPP)*. *FLO* coordinates *Fairtrade* labelling at an international level. From its offices in Bonn, Germany, *FLO* sets international *Fairtrade* standards, organises support for producers around the world, develops the global *Fairtrade* strategy, and promotes trade justice internationally.

23.2.2 The *Fairtrade* Label

According to Sartory (2013; Fairtrade 2013c), *TransFair* was founded in 1992, *FLO* in 1997, and the internationally recognised *Fairtrade* label in 2003. This marketing strategy was intended to create a visible and united presence for all national *Fairtrade* organisations where they are presented in niches within retailers, supermarket chains and transnational food corporations via mainstream distribution channels (supported by Dolan 2010, p. 35).

Fairtrade is an international label offered by *TransFair* within Germany and by *FLO* on an international level for products having been independently vetted with respect to responsible consumerism and poverty eradication in developing countries. The *Fairtrade* system includes central economic, social, and ecological aspects of sustainability. Its core aspects are a guaranteed minimum price paid to producers, covering the costs of sustainable production, plus a *Fairtrade* premium, as well as a bonus for biologically produced food. The system which secures a guaranteed minimum price, means that the farmers set standards and decide for themselves how to spend the premium money they receive. The *Fairtrade* premium money is paid to farmers in developing countries and used by farming co-operatives to finance community projects such as the construction of schools and hospitals or other beneficial infrastructure. It has also been noted that farmers' families frequently use any surplus money to pay for their children's education and family health care (Hauff and Claus 2012, pp. 93–101; Sartory 2013).

Inevitably, the *Fairtrade* system meant that production prices rose. At first the extra costs of higher but fairer production were carried by the processors and manufacturers and passed on to the consumers. It was therefore vital that *Fairtrade* increased its competitiveness to a certain degree in ways that are not related to price: To start with, it created a brand-like visibility presence. Second, since the 1980s it has introduced special labels across the supply chain (Raynolds and Long 2007, p. 17), direct export of products into industrialised countries, the foundation of farmers' co-operatives, general financial support of producers, reliable partnerships between importers and producers, the attaining of identified environmental standards (including environmentally responsible sewage disposal; ban on pesticides, fungicides, chemicals, monocultures, and genetically modified seeds), and improved working conditions on plantations and at production sites based on *ILO* (*International Labour Organisation*) standards including the freedom of assembly; the right to collective negotiations; a ban on child labour, forced labour, and discrimination; and health care (Hauff and Claus 2012, pp. 94, 100; ILO 2014; Sartory 2013).

Over time, the *Fairtrade* label has helped to raise its "brand" profile and, consequently, increase the sales of products. Increased sales indicate a greater consumer demand and higher consumption. Today, the international *Fairtrade* label has developed an independent and transparent worldwide system of certification and a regular monitoring of its standards. The independent (external) certifier *FLO CERT* is responsible for the certification within the supply chain. *FLO CERT* works with 100 independent inspectors checking their producers and middlemen. Currently, there are approximately 1100 middlemen in 79 countries and 1000 producer groups in more than 60 countries (Fairtrade 2013b; Hauff and Claus 2012, p. 90; Sartory 2013).

In summary, the *Fairtrade* label guarantees ethical behaviour, sustainability and transparency. It builds a bridge between producers and consumers, as consumers of *Fairtrade* products improve the lives of farmers and their families in developing countries in a sustainable manner.

23.2.3 Successes of *Fairtrade* Regarding Food

In 2012, the association *TransFair* found that German consumers bought *Fairtrade*-certified products for 533 million €, an increase of 33% compared to 2011. Worldwide, 1.3 million farmers and their families in 70 countries—altogether 6 million people—profit directly from the *Fairtrade* system as it improves their position on the global market. In 2011, consumers bought *Fairtrade* products for 5 billion € worldwide, the majority within the sustainable food market (Fairtrade 2012–2013, 2013a, pp. 3, 11–13, 2014a; Gabot 2013; TransFair 2013).

The success of *Fairtrade* food shows that this concept fits into the mass market system. Food with the *Fairtrade* label can be bought in almost every supermarket large and small across most European and North American countries. In Switzerland and England, for example, *Fairtrade* products have reached a market share even higher than in Germany (Sartory 2013).

One explanation being put forward for this success is that the food supply chain is usually short which makes it easier for *FLO CERT* to guarantee that supply chains of certified products are transparent. According to Sartory (2013), however, for products such as cotton the supply chain might be larger, even for the simple reason that a farmer may lack the means of transporting his or her raw cotton. In such cases, *Fairtrade* works with certified middlemen who have to pay the *Fairtrade* minimum price (or world market price if this is higher) to the farmers. This ensures that no financial losses occur to the *Fairtrade* farming organisation.

23.2.4 Limits to *Fairtrade* Regarding Cotton and Textiles

In contrast to food, cotton, and textiles have not yet, within the *Fairtrade* system, reached the mass consumer market. Nevertheless, sales of textiles with the *Fairtrade*-certified cotton label are on the increase: In 2012, Germans bought over 2.5 million *Fairtrade* cotton textiles, an increase of 10% compared to 2011 (Fairtrade 2014a).

According to Sartory (2013), there are several reasons why textiles using the *Fairtrade* label do not sell as well as *Fairtrade* food.

Higher prices are only one aspect here, albeit an important one, as prices of many *Fairtrade* products are clearly above world market price (Steinrücken 2003, p. 8) due to the relatively high payments to the producers. The premium for farmers at the start of the supply chain as well as the thorough evaluation and certification throughout the supply chain make it more difficult to sell cotton products at market prices on a global scale. However, *Fairtrade* cotton textiles are not necessarily more expensive than others (at some discounters). So why are they not selling as well as *Fairtrade* food? The reason is that production conditions and the *Fairtrade* label are not the decisive purchasing factors for textiles.

They are frequently bought because they are deemed fashionable and for personal preference. Textiles are brand-orientated, therefore an additional label for sustainable production might be too confusing for the consumer.

Furthermore, Sartory (2013; Fairtrade 2013a) refers to an additional problem: Cotton as well as textiles are very difficult to integrate within the *Fairtrade* label, which guarantees that each end product can be traced back to its producer. There is a very long and global supply chain from raw cotton to cloth, clothes, and finished goods. The end-to-end production process includes many participants worldwide. This leads to a lack of transparency as companies become less and less familiar with their own internal supply chain.

The problem is even more complex in the case of external suppliers or sub-contractors (outsourcing). The situation is further aggravated by short product cycles and unstable business relationships such as short-term contracts and extreme pricing pressures.

In consequence, textiles with the *Fairtrade* label are available but are not widely marketed and distributed to the mass consumer. A new form of organisation was needed. Although the standards are already developed and successfully practiced by *Fairtrade*, the *CmiA* standards are more flexible with respect to global and multi-lateral demands within the very complex textile industry and distribution systems. Relatively simple bilateral agreements based on an easy control of production and distribution and especially verification systems (transparency) had to be adapted correspondingly, as the following chapter will show.

23.3 *CmiA* as a Modern CSR Organisation

As mentioned previously, CSR is the main principle of communication and action of *CmiA*, an organisation with global dimensions. As this initiative aims at being competitive on world markets for cotton textiles, it soon focused on establishing partnerships in Germany and around the globe to involve as many big players as possible on the production as well as on the distribution sides. Only then can economies of scale be achieved to absorb the slightly higher costs and thus remain competitive. In order to cover the initial costs of establishing the foundation, *CmiA* had initially to be funded via alternative sources. Outlays included the spreading of and advertising for this new approach to other possible stakeholders and eventually to a mass consumer market as well.

Therefore *CmiA, TransFair*, and their partners co-operated by forming initiatives for sustainable cotton called *INBW* (*Initiativen für nachhaltige Baumwolle*/sustainable cotton initiatives), financed by the German ministry for economic co-operation and development *BMZ* (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*). The aim is to raise awareness on the key issues within the fashion and textile industry, political groups and most importantly among consumers. In addition, *CmiA* also aims at addressing some of the problems *TransFair* has been facing with textiles as mentioned above.

23.3.1 Organisation

The necessity to involve and integrate many important stakeholders in this venture, as well as being transparent at the same time and to provide sufficient financial, economic, political, and marketing weight within and outside the textile industry explains, at least in part, *CmiA's* complex structure. In order to understand the necessities for installing CSR as the new and not yet fully established guiding principles on a global scale, a closer look at the organisational structures of *CmiA* is required.

This section investigates how this initiative has installed and embedded its CSR principles. In 2005, Dr. Michael Otto set up the *Aid by Trade Foundation*. He realised its concept by initiating *CmiA*. The bodies of the *Foundation* are: the *Board of Trustees*, the *Executive Board* and the *Advisory Board*. The *Board of Trustees* is the highest ranking body and consists of leading personalities from environmental and social associations, scientific institutions, NGOs, German development organisations, and business companies. It is responsible for outlining the *Foundation*'s long-term goals. The *Executive Board* consists of the *Management Board* of the *Aid by Trade Foundation* and the *Management Board* of *ATAKORA Fördergesellschaft GmbH* which markets the rights to the *CmiA* label. According to Tina Stridde, Managing Director of the *Aid by Trade Foundation*. *CmiA*, the *Aid by Trade Foundation* and *ATAKORA* complement each other. The *Foundation* guarantees that socio-economic and ecological criteria are met. *ATAKORA* is in charge of communication, marketing, key account management and supply chain management, possesses exclusive marketing rights for *CmiA* and is required to forward all profits to the *Foundation*. The *Management Board* is in charge of overall management and administration of the *Foundation*, and is assisted by the *Advisory Board*. The *Advisory Board* includes leading representatives of international clothing retailers from the *Demand Alliance* mentioned earlier. Other members include African cotton companies, various German government organisations, private promotion groups such as the *Gates Foundation*, and NGOs such as *WWF Germany* (CmiA 2012c, p. 5, 2013d; Stridde 2013).

As for the support of sustainable development and those small-holder suppliers in dire need, *CmiA* has chosen to co-operate with some of the poorest countries in sub-Saharan Africa: Zambia, Côte d'Ivoire, Mozambique, and Malawi, Burkina Faso, and Benin (CmiA 2013a; Global Finance 2014; Said 2013).

23.3.2 Aid by Trade

The long-term initiative *Cotton made in Africa (CmiA)* by the *Aid by Trade Foundation* aims to integrate as many positive elements of the original *Fairtrade* system as possible. The initiative aims at selling its sustainable cotton products successfully at competitive prices on a global mass market.

As one of the largest German developmental public-private partnership initiatives (Hälg 2009, p. 354) *CmiA* includes government partners, private-sector funding organisations, cotton companies, consulting organisations, NGOs and the *Demand Alliance*. The fundamental idea is to follow CSR principles in a free enterprise system. This holistic approach creates a responsible win-win situation for companies and African small-holder farmers alike. The initial budget of US$ 48.9 million comprised a contribution of US$ 24.4 million by the *Gates Foundation*; 6 million financial support given by the German *BMZ*; and US$ 18.5 million provided by cotton companies (Schneider 2010, p. 2).

According to Stridde (2013), financial support in the sense of start-up financing is currently being considerably reduced—in the long run, the initiative is expected to be mainly financed by company fees, but will also need to be supported by private and public funds to a limited degree.

CmiA (CmiA 2013a, p. 2, e, g, h; Stridde 2013) demonstrates that textile companies benefit from this co-operation between industrialised and developing countries, because the international textile industry receives cotton with added social value at world market prices. In contrast to the original *Fairtrade* prices which might be higher, *CmiA* sells at world market prices in order to gain access to the mass market. The *Foundation* also supports companies with a variety of services and—of course—the label *CmiA*. According to Stridde, once their retail partners have ordered the products, the Western textile companies pay a licence fee. The cost of the licence depends on volumes and level of commitment as stated in the company contract. The higher the quantity requested, the lower the licensing fee per item or kilogramme weight. This can be financed by economies of scale. A large proportion of these licence fees is given back to Africa through the Foundation which decides how the money is to be used. Much of it goes into financing the verification processes, African community projects and the training of African farmers. Based on the motto: "Helping People Help themselves through Trade," the *Foundation* offers qualification programmes for small-holder farmers. These include training in efficient and environmentally sound cultivation methods to assist farmers in improving the quality and yields of their lint cotton. This in turn leads to a higher income for the farmers as will be shown with some practical examples later in this chapter. (Please refer to Fig. 23.1 below for further details).

As for community projects, a part of the licence fees are directly reinvested for social programmes like school infrastructures in the cotton-growing regions. These community projects are also supported by the *Demand Alliance*, NGOs, German development corporations such as *DEG* (*Deutsche Investitions- und Entwicklungsgesellschaft*) and *GIZ* (*Deutsche Gesellschaft für Internationale Zusammenarbeit*) and African cotton companies such as *Plexus, Cargill, Dunavant, Ivoire Coton*, and *Faso Coton*. According to *CmiA*, the initiative targets the poorest farmers, with a household income of around US$ 1/day. This income has to feed an average family of seven. In addition, about one third of these households report seasonal food shortages and hunger. That means *CmiA* indeed improves the living conditions of small-holder cotton farmers (CmiA 2013a, p. 2, 2014; COMPACI 2013; NORC 2012, p. 4; Stridde 2013).

Fig. 23.1 *Source: Presentation Cotton made in Africa, provided by Tina Stridde, Accessed 21 Oct. 2013*

As for sustainability and CSR, *CmiA* (Stridde 2013) focuses on the three areas of the triple bottom line as mentioned above: people (social sustainability), planet (ecological sustainability) and profits (economic sustainability). Within each area, certain sustainability criteria exist but are not fully met yet from the very outset. However, the farmers and cotton companies must show that they are moving towards complying to these social, environmental, and economic criteria which are graded according to a traffic light system, with green standing for best sustainable management. The central criteria can be summarised as follows:

Social sustainability—according to *CmiA*—implies that identified minimum standards have to be met, e.g., unacceptable forms of child labour have to be erased. However, the traditional work of children on their parents' farms is permitted within the *ILO* framework provided no unsuitable or dangerous work is given to them. *CmiA* also improves the educational infrastructure in the project areas so that more children complete schooling and even adult literacy improves due to adult education programmes. Finally, slavery and human trafficking are banned. In addition, there is a special focus on health and safety, e.g., the contract terms include adequate health and safety practices, such as wearing dust masks. The participation in farmer associations is encouraged and union membership is allowed.

Environmental sustainability indicators include the protection of bio-diversity, appropriate farming methods to conserve groundwater and soil, diversification of crop production, improvement of soil fertility, crop rotation, food security, animal husbandry, moderate use of pesticides with a ban on hazardous pesticides according to the Rotterdam and Stockholm Conventions, and no deforestation of primary forests. Among the numerous environmental actions *CmiA* aims at reducing leeching of agrochemicals into ground and surface waters, the construction of compost pits to improve soil fertility, the maintenance of surface water and the increase of the water storage capacity of soil, as well as keeping natural resources (bio-diversity) protected. The cultivation and sale of genetically modified food is forbidden. In addition, the *CmiA* initiative transports all goods to African ports from where they reach their destinations by ship ordered and paid for by textile companies. This is not only obligatory for the highly sensitive and inflammable material but also reduces the amount of CO_2 as transport by plane leads to a much higher output of greenhouse gases.

Economic sustainability is also taken into account: The training of the farmers aims at higher yields which in turn will lead to higher income for them. It is *CmiA*'s central goal to raise productivity and consequently increase income. Further sustainability indicators therefore include prompt payments to farmers by the cotton companies, to ensure a reliable income flow. Employment contracts ensure a transparent and fair relationship between cotton farmers and companies. Finally, the initiative encourages and facilitates access to micro-credits and establishes sustainable business connections to improve the cotton value chain.

23.3.3 Compliance and Transparency

In order to realise its CSR ethical goals and at the same time avoid criticism of *greenwashing*—a common complaint against CSR initiatives—*CmiA* (2013e) has developed comprehensive verification and impact assessments. Its verification system has been established in co-operation with the Dutch *University of Wageningen*, the management consultancy *PricewaterhouseCoopers* and cotton companies. Transparency is established in order to ensure that all partners comply with the regulations, and that the farmers' living conditions improve. Cotton companies and small-holder farmers producing for *CmiA* are checked every two years by independent verification companies. At present, these verifiers are *Ecocert* (2013b) and *Africert* (2014), two respectable, independent certifiers for ecological certification worldwide. As a certification and verification body, *Ecocert* (2013a) itself is supervised and audited by relevant authorities, such as the *French Accreditation Committee* (*Cofrac*) which accredits according to the EN45011 standard.

The verification system (CmiA 2009, 2011a, 2012d, 2013f, h; Stridde 2013) works in a cycle: The cotton company, the small-holder farmers and the ginning[4] operations

[4] Ginning is a process that separates seed from fibre.

are seen as a "management unit." The process starts with checking data at the registry of the management unit, such as the payment of farmers, delivery of pesticides, etc. by the cotton company. This verification process cuts costs of inspection as visits to individual farmers can be reduced to sampling. The next step is to interview the management of individual producer units. This is followed by factory audits. Finally, selected farmers are interviewed. As a result, the next improved management plan is established which is valid until the next cycle of verification. The verification process alone is not sufficient to ensure that the long-term effects benefit the farmers. It is also necessary to have impact monitoring. This process takes place separately to verification and looks at the long-term effects of *CmiA* on the lives of the farmers, their dependents and their local living conditions. Using qualitative and quantitative methods, the following indicators are evaluated to find this out: sufficient food of adequate quality and quantity as well as the percentage of children attending and completing school. To ensure the use of ecological farming methods the quality of soils is monitored. Also taken into account are economic aspects such as the rise in income of farmers and their families. The verification system of *CmiA* is unique because the necessary fees are only paid by the cotton companies, not by the farmers.

23.4 Evaluation

23.4.1 Limitations

Even with the best of intentions, it is difficult for a newcomer to fully install and operate complete CSR principles of communication and action. To be realistic about how far *CmiA*'s use of CSR can serve as an example its limitations to a partly or complete adoption should also be studied.

There are certain obstacles slowing down the success of *CmiA*, eight of which will be focused on:

First, *CmiA* is a young initiative and impact assessments have not yet been finalised for all the project regions, so there is only a limited amount of reliable data. Real success can only be measured over a long period. There is now a first annual report for 2012 with a consolidated overview of finances that combines the financial figures of the *Aid by Trade Foundation* and its profit company *ATAKORA* GmbH. Beyond this overview, some information is currently being collected though not yet available, for example, (a) the development of farmer's income or (b) school attendance of children in the *CmiA* cotton-growing areas. A more detailed breakdown of the sources of funds as well as expenses are not yet available to the public except as a consolidated overview in the annual report for 2012. Despite these limitations, the initiative of *CmiA* is so unique that its presentation is worth this article to encourage further use of this outstanding example by other industries. In fact, *CmiA's* practice of applying full CSR to modern, international businesses is so promising as to warrant continuous observation due to their policy of transparency. Therefore this chapter should be understood as a first evaluation of their efforts so far (Hälg 2009, p. 364; Stridde 2013).

In general, *CmiA* (Stridde 2013) argues that due to organisational and financial constraints, it is simply impossible for a non-profit organisation selling at market prices to monitor and assess every step to the degree that they would ideally like to do. This is particularly true when it comes to certifying the complete supply chain. *CmiA's* certification finishes after mass balancing at spinning level. The *Aid by Trade Foundation* has also established a *Global Sourcing Unit* with an Internet database in order to give the *Demand Alliance* easy access to the suppliers of raw material and other necessary links.

Second, according to *CmiA* (2013b; Stridde 2013), individual problems within certain countries remain. For example, the political regulatory framework in Benin has been changed in a way that *CmiA* standards can no longer be guaranteed. However, training and schooling are still in place.

Third, farmers remain vulnerable to changes in international demand as well as cotton price volatility. *CmiA* (Stridde 2013) reduces the impact of changing prices by channelling the licence fee into training and social community projects. Also, the initiative tries to minimise financial risks for farmers by building the *Demand Alliance* of textile companies. It spreads the message of more sustainable products being available at the same world market prices as conventional ones. As a consequence of more publicity, more global customers will buy products with the *CmiA* label. The more sales volume can be created, the more financial security is generated for the farmers. The fact that farmers are paid within 4 weeks after the delivery of the cotton is particularly beneficial, as it reduces the farmers' dependency on the short-term volatility of changes of the world market prices.

Fourth, there is still a restricted number of pesticides in use. In the long run, the initiative aims at further reducing the amount of pesticides. When fewer pesticides are used, there is a higher financial risk due to pests etc. Therefore, the initiative has to compromise in order to produce enough cotton for a mass market (Otto-Team 2013; Stridde 2013).

Fifth, it is inconclusive as to how independent evaluators are (Santen 2013, pp. 1, 6). In this context, the additional question remains whether the *CmiA* initiative will be allowed to establish manufacturing and management systems in African countries. An internal study on the topic was conducted in 2012, and strategies on improvements are currently being developed, although the problem is not easy to solve in difficult African surroundings.

Sixth, there is an asymmetric partnership which might lead to a certain lack of transparency within *CmiA*. This manifests itself in the fact that on a managerial level, African producers, external experts, and volunteers are not present yet. On the other hand, African experts are part of the evaluation process of sustainability indicators (supported by Hälg 2009, pp. 362–364). Nevertheless, this situation could be criticised: *CmiA* might be trying to maintain their image of sustainability without truly practicing it.

Seventh, a key issue is the long supply chain as products cannot always be directly traced back to their producers. This is a fundamental problem which *CmiA* is addressing right now. However, it involves additional organisational and financial efforts from the retailers. The question arises as to whether a true tracking system (termed "hard identity preserve") is suitable for a mass market.

Eighth, the question remains if the complex organisational structure surrounding this global initiative involving *CmiA*, the *Aid by Trade Foundation* with its three boards, the

Demand Alliance, *Better Cotton Initiative* (*BCI*), *Competitive African Cotton Initiative* (*COMPACI*), *ATAKORA*, *Ecocert*, *Africert*, should or can be considerably reduced to make *CmiA*'s international initiative more transparent and efficient. That way, for example the money used for social projects which only comprised 14% of *CmiA* expenses in 2012 might be considerably increased (CmiA 2012c, p. 10). *CmiA* argues (Stridde 2013) that for the time being, the reduction of its complex structure is not possible due to the fact that the different services needed are only found within this large variety of organisations.

Further questions remain (NORC 2012, p. 1; Santen 2013, pp. 1, 6) such as: Is a verification period of 2 years sufficient? How reliable is the voluntary information of farmers? How are suppliers to be monitored?

23.4.2 Overall Successes

CmiA has been a successful venture in a capitalist business environment allowing the initiative to especially generate quite an impact at the very core of CSR and SD. It did indeed improve the living and working conditions of indigenous farmers in sub-Saharan Africa together with increasing the production of sustainable cotton, for which the following sections furnish additional detail.

Successes are most obvious in the very poor regions of sub-Saharan Africa, where *CmiA* made a big difference to small-holder producers of cotton. This chapter will look at some *CmiA* figures more closely, particularly the data presented by the Fact Sheets for the period 2010–2013, the Fortschrittsbericht (progress report) 2012, the study by Nill and Wick (2012), and the information offered by Tina Stridde (2013).

The various items and forms of success of this CSR initiative have to be considered within the context of their holistic approach to doing business. In order to do so, statistics and individual cases are combined in this chapter to demonstrate the universal nature of this undertaking.

The success of *Cotton made in Africa* (CmiA 2012b, 2013c) can be evaluated by comparing key indicators between 2010 and 2013: The number of small-scale farmers involved in the initiative has risen from 163,551 to 475,000. The number of relatives who are also positively affected by the changes has increased from 1,144,857 to 3,100,000. The cultivated area has grown from 174,950 to 605,000 ha. The yield of lint cotton has gone up from 53,893 to 200,000 t. The amount of *CmiA* textiles sold worldwide has risen from 10 to 30 million. This is an increase of 200% within 3 years. In 2012, 20 million *CmiA*-certified textiles were sold.

Figures are also positive for training and community projects (Stridde 2013).

Due to increased training, farmers in Benin have already raised their income by 39% in comparison to those not participating in the initiative. In 2013/2014, it is expected (Agriwaterpedia 2013; EPO 2011) that farmers in Benin will increase their income by a further 10–15%. In 2010, 120,000 farmers received agricultural training to produce sustainable cotton in accordance with *CmiA* principles, and 8000 farmers participated in *COMPACI* micro-credit schemes.

In Malawi (Stridde 2013), almost 50% of the children from farming families take part in social initiatives and now finish school. Many farmers who make a surplus regularly use the money to pay for their children's education and family health care. Compared with Burkina Faso (EPO 2011) where less than 30% of the farmers' children finish school, for example, these figures show the importance of school projects facilitated by *CmiA*.

In summary, there can be no doubt that *CmiA* is a truly global initiative with 16 spinning mills in 12 production markets worldwide, including Africa and Asia (Stridde 2013). These figures also suggest that there is no doubt that *CmiA* has had positive effects on the lives of the African farmers involved. For many of them, the initiative is a life insurance for the entire family.

On the ecological front, the results are also positive: A study on *CmiA*'s carbon and water footprint by Dr. Moritz Nill and Kordula Wick (Nill and Wick 2012, pp. 2, 27) from *Systain Consulting* which was published in January 2013 compares *CmiA* cotton to conventionally produced cotton. The results indicate a positive start in the right direction. Traditional flood irrigation uses 40 bath-tubs of surface or ground water (blue water) per unit equivalent to 2000 L. In contrast, the much more water-efficient process used by *CmiA* focuses on reasonable water management in the form of rainwater-fed agriculture (green water). This means no bath-tubs and no litres of ground water are needed to produce cotton. As a consequence, there is no negative environmental impact on blue water resources at all, while conventional cotton uses about 5 m^3 of this water per kilogramme of lint cotton. However, it should be noted that the total water footprint of *CmiA* regarding green water is slightly higher overall (14.2 m^3, 99% green water) than the water footprint of conventional cotton (13.1 m^3, 40% green water).

The carbon footprint of *CmiA* is considerably better than the average conventional cotton production: Less greenhouse gases are released. In terms of figures, *CmiA* only has a footprint of 1.9 kg CO_2, whereas conventional cotton has a footprint of 4.6 kg CO_2. The main reason for the initiative's lower emissions is its special cultivation method: Smallholders mainly produce on a non-mechanised basis using draft animals so they are not dependent on mechanical energy which is largely responsible for higher CO_2 emissions. Given that 70% of greenhouse gases released by *CmiA* (2012a) result from the production and use of fertilisers, the results for the initiative are not perfect. However, they form a potential starting point for a carbon footprint reduction plan. Future ideas include the optimisation of fertiliser management to improve yields as well as a shift in land management focusing on no-tillage systems. (Please refer to Fig. 23.2 below for further details).

The international consumer market for sustainably produced cotton is increasing. This rise in demand leads to higher income and better living conditions for the cotton farmers in question (CmiA 2013h; Stridde 2013). The license fees ensure that farmers are properly trained, surpluses are fairly distributed, and school and infrastructure projects are financed. Accordingly, the initiative also offers a variety of services to its retail partners,

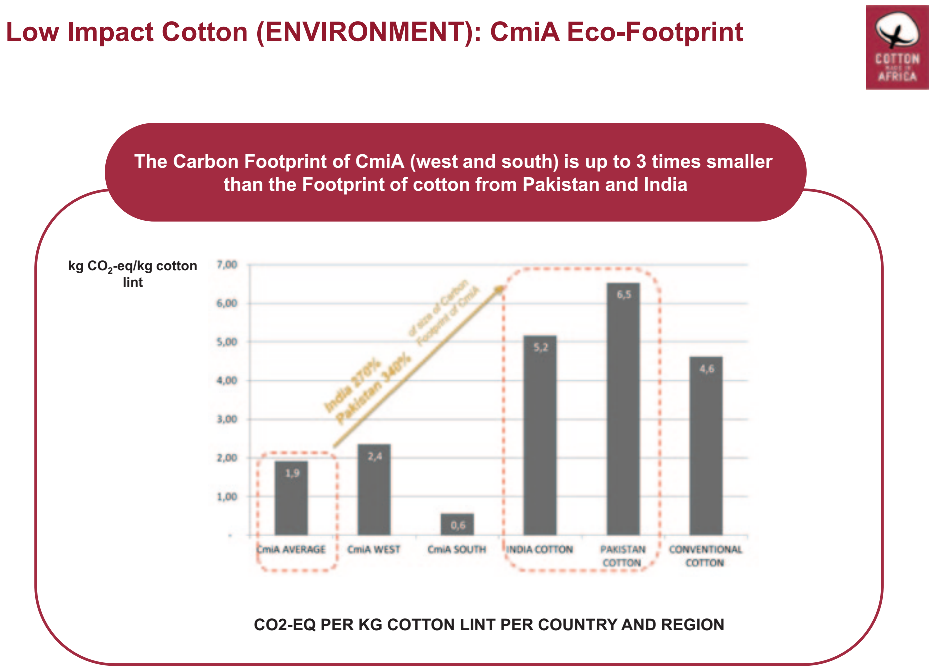


Fig. 23.2 *Source: Presentation Cotton made in Africa, provided by Tina Stridde, Accessed 21 Oct. 2013*

ranging from (1) local support for merchandisers and middlemen to help them build up the supply chain, through (2) workshops introducing the sourcing system to (3) market information for price transparency. This positive development is further accelerated by a recent co-operation with *Better Cotton Initiative* (*BCI*), *CmiA*'s main competitor in the textile industry (2012c, p. 4). It is a real breakthrough that the *Foundation* now sells all *CmiA* products through *BCI*, particularly as the fee system is also to be introduced for *BCI*'s clients.

To summarise, the data presented above suggest that, in the long run, a win-win situation for both producers and retailers can be expected. This is envisaged to materialise from lower costs and higher yields for the farmers due to the access of financial support and expertise given to them together with their license fees. These higher yields in terms of quantity and quality will generate higher income. The win situation for the supporting companies will be that their profits rise due to a more reliable quality of the product and increased turnover.

Current successes will be investigated in the next section. In doing so, social projects, technical development, farmers' business schools, and individual success stories are examined in greater detail.

23.4.3 Social Projects in 2012/2013

In 2012, five social projects to the amount of 766,000 € were further promoted in Burkina Faso, Benin, Côte d'Ivoire, and Zambia. These projects were funded with *CmiA's* licence fees (60%) and public sources (40%) to the overall project amount of 2.3 million € over the past years (CmiA 2012c, p. 16f).

In Burkina Faso, the literacy campaign of 5000 *CmiA* small-scale farmers was facilitated and completed in June 2013. In addition, *CmiA* trained and financed 2300 small-scale farmers in the construction of compost pits which have already improved yields by about 30%. These higher yields in turn lead to higher income which enabled the farmers to purchase necessities, pay school and health fees, and even save for unforeseen circumstances (CmiA 2012c, pp. 11, 16).

In Benin, the main focus was on elementary school education. The construction of seven elementary schools with school gardens as well as the distribution of 30,000 school uniforms made good progress. In Zambia, the educational infrastructure was improved. This funding included construction or renovation of school buildings including electrification, sanitation, wells, and school gardens. In addition, school equipment and teaching material were purchased. In Côte d'Ivoire, *CmiA* started a new project to support women's co-operatives. 25 co-operatives with at least 49 members each were financially supported to the amount of 100,000 €. The funding of these investment measures aimed at allowing women more economic independence (CmiA 2012c, p. 16).

23.4.4 Technical Developments

As cotton productivity increases, picking is still the most labour-intensive activity in the production process. This in turn may lead to rising costs for many small-holder farmers. In current times of falling world market prices for cotton (Chizarura 2014), this could mean that the farmers might even stop growing cotton altogether if no support is offered.

Joshy Varkey, Business Head for *Armajaro Cotton Ghana Limited* and partner of *CmiA* (Gent and Varkey 2013, p. 3), successfully experimented with a battery-run, hand-held cotton harvester which is solar chargeable. The charging system corresponds to that of the mobile phones already in use among the farmers. The main advantages of this new device is the sheer amount of 100–150 kg of cotton seed which can be harvested within one day and its ease of use when eliminating unwanted weeds. In addition, the introduction of this cotton harvester should lessen the need for child labour even in its modest form of family co-operation which can furthermore be operated even beyond the *CmiA* initiative. It also eases the burden on women who are usually responsible for harvesting the cotton. It may also help bring about increased co-operative attitudes within family and neighbouring groups because the harvester can be shared among them. Overall, the raising of productivity due to this measure can ultimately help to raise income.

A trial of 20 battery-run, hand-held cotton harvesters in Zambia, Malawi, and Zimbabwe is planned. The hope is that small-holder farmers will increase their production and at the same time demonstrate the effectiveness of the harvester to other cotton farmers, thereby further encouraging the adoption of this technology.

23.4.5 Farmers' Business Schools

Boureima Sanon, who works as Agricultural Advisor at *COMPACI* (Sanon 2013, p. 4), found that in 2012, specific *Farmers Business Schools* (FBS) were established in Ghana, Malawi, Benin, and Côte d'Ivoire, followed by Burkina Faso in 2013. The key aspect of the *FBS* concept is the training of farmers in management and decision-making. This also involves knowledge of good farming practice, such as field management, quality of nutrition, farming, and family expenses. It also teaches them about offers of micro-finance institutions, e.g., group membership for purchases and sales from production, as well as on strategies to raise their income through better product quality. Farmers are trained in agro-climatic and socio-economic affairs of their production region, not only with respect to cotton but also to associated crops such as soy, maize, and cowpeas. So far in Benin, Côte d'Ivoire, Burkina Faso, and Ghana, more than 14,000 farmers have been successfully trained.

23.4.6 Individual Success Stories

The above statistics indicate that the lives of numerous small-holder farmers in Africa have improved due to *CmiA*'s initiative. According to Sarah Götz, *COMPACI* Project Manager (Götz 2012, p. 10), Ms Naminata Koné may serve as a typical case. The 45-year-old cotton producer with 11 children lives in the north of Côte d'Ivoire, in the village of Karakpo near Boundiali, a town with 50,000 inhabitants located 15 km away.

Ms Koné belongs to a group of mainly male cotton producers in co-operation with *Ivoire Coton* and has been in the business of cotton production for ten years. She grows cotton, maize, and peanuts on an area of almost 5 ha. In 2011, Ms Koné was one of the best producers of *Ivoire Coton* though cotton production is regarded as a male business. She won an award with a yield of 2 t of cotton seed per hectare. On the one hand, she has to deal with male prejudice, on the other hand, there are very positive experiences such as people asking her for advice in matters of cotton production. She works on the fields every day and is regularly supported by several farm workers as well as some of her elder children. When Ms Koné works in the fields, her younger children are looked after by an elderly woman. Ms Koné takes care of the cooking. Ms Koné's second husband works as a carpenter in Boundiali.

According to Ms Koné, the agricultural training and advice she has received by *Ivoire Coton* agents has had an enormous influence on her excellent farming results. Her success story also encourages other women in her community to follow in her footsteps.

At first Ms Koné used the majority of her revenue to support less fortunate members of her group. Since individual performance-based payment was introduced two years ago, she has been using the extra money to raise her family's living standard. First of all, she purchased her own motorcycle. Her next plans are to buy more fields, build a house and finance her children's school fees. The implementation of these plans will considerably improve the living standard of her complete family as well as the members of her group whom she assists.

23.5 Conclusion

This chapter has investigated whether *CmiA* can be used as an outstanding example for CSR in the highly competitive world of global business by looking at its successes and limitations with respect to the three components of the missing link.

The first one, separation of ownership and responsibility, comes to the conclusion that *CmiA* is an initiative by a foundation and not by a company. This means *CmiA* is seen as an independent mediator supporting international cotton companies to balance their economic interests with their responsibilities for their producers, i.e., poor small-scale cotton farmers. This ambition is realised via offering realistic economic options on the international marketplace. When looking at the enormous numbers of 3.5 million people, small-holder farmers and families, profiting already by *CmiA*, one can conclude that the interest of grass-roots stakeholders are definitively taken into account. In this way, *CmiA* operates as a negotiator for some kind of a new social contract between companies and stakeholders, thus providing an important missing link between producers and a global textile industry.

The second component, with an emphasis on the monetary transaction value, argues that *CmiA* definitely creates value beyond sheer economic financial terms. This is mainly shown in social and ecological indicators and the fact that the fees collected by the initiative are to a large extent used to facilitate socio-ecological projects.

The third component, which addresses transparency inside and outside a business, concludes that nature and people are to a certain degree systematically linked within the initiative *CmiA*. However, not all stakeholders are connected in open and retraceable ways. Therefore, the necessary transparency is not always given, particularly with respect to the asymmetric partnership. African producers, external experts, and volunteers are not yet presented on a managerial level. However, African experts are part of the evaluation process of sustainability indicators.

In addition, the long supply chain cannot always directly be connected or traced back to producers. This leads to a lack of transparency and remains a fundamental problem *CmiA* is addressing right now.

These conclusions lead back to the main research question: Does *CmiA* succeed in dissolving the dichotomy between our economic and social system? To be more precise: Does *CmiA* have the potential to serve as an outstanding example of how to connect all the stakeholders in charge of supporting sustainable growth, i.e., do governments, the private sector, non-profit organisations and people at the grass-roots level meet on equal terms with the long-term goal of successfully facilitating economic, ecological, and social sustainability at the same time?

According to the author, at the present moment it is still too early to fully answer this question. One can argue that so far *CmiA* has survived on the global market and may continue to do so, but it is not yet clear whether a constant and reliable supply of sustainable cotton can be guaranteed going forward. This, together with the fact that *CmiA* is still profit-orientated in terms of a capitalist production system, could easily lead to some fundamental weaknesses. These include rather complex product and distribution channels the sustainability of which are only partly transparent.

On the other hand, the first figures show that there are some solid successes. In order not to be accused of *greenwashing*, the step-by-step approach towards sustainability has to be continued, particularly with respect to the verification of the complete supply chain and an increasingly symmetric partnership of all stakeholders. That this transformation continues towards some kind of revised social contract beyond the protection of private property rights on the one hand and government intervention on the other hand needs more efforts and vigilance in the future by *CmiA* and their stakeholders.

23.6 Outlook

This chapter has reasoned through the very convincing example of *CmiA* that only a holistic approach has a chance of being successful economically and especially when adopting comprehensive CSR as part and parcel of the SD approach to conducting business on an international or global level. The example also demonstrated how important it is to link as many stakeholders as possible and especially global partners, as this is a necessary ingredient to be able to compete with more traditional business approaches, locally and internationally. For the time being, this CSR example can still not run independently. It needs donations to cover some of its organisational costs which cannot yet be passed on to consumers. But the path the initiative is committed to will ultimately lead to the success of CSR as a norm of setting up global businesses if the majority of global players can gradually be attracted to participate. They will do so once they experience the values of this CSR approach: First of all they gain the much sought-after sustainability of their resources and finally an improving of quality in a world that is beginning to treat very poor producers more fairly.

The long-term vision is that ordinary shops offer sustainable clothes at a reasonable price world-wide. *Otto* is moving towards this vision as it intends to give the *CmiA* idea even more importance in the future. For example, in 2013, 30% of textiles of the retailer

Otto carried the *CmiA* label. *Otto* (CmiA 2012c, p. 8) plans to even sell 50% *CmiA* clothes in 2014 and 100% by 2020. This means that the *CmiA* label might be given up entirely at some point to be replaced by a new communicative strategy that points out the general, holistic sustainability approach of *Otto*. Similar developments are imaginable for the global service sector.

The main argument in favour of such large CSR initiatives like *CmiA* is that in a world of weakened nation states and growing international corporations the latter might be in a better position to deal with some of the global problems more effectively than states. Therefore, global companies have to shoulder their responsibilities actively (Breuer 2011, pp. 1f, 6f; Smith et al. 2010, pp. 1, 4f).

Many small and medium-sized enterprises (SMEs) are strongly affected by the topic of CSR (Breuer 2011, p. 7; supported by Heinemann and Krol 2011, p. 16) within the context of their increasing globalisation. It is a challenge for them to integrate and realise CSR in their companies within their limited financial scope, based on existing laws and regulations being formulated for large international corporations. As a result, a lot of research remains to be done here.

That, indeed, transparency across the full production chain can be achieved is shown by the SME *Gerhard Rösch GmbH* (2014; Bordère 2014). This family-owned medium-sized company has launched the first sleepwear collection based on 100% *CmiA* cotton. As *Rösch* provides pioneering transparency across their entire supply chain, the *Aid by Trade Foundation* has certified this company using the new quality standard Hard Identity Preserve (HIP). In addition, *Rösch's* subsidiary in Hungary processing the *CmiA* cotton adheres to the social and environmental standards as verified by the certifier *Fair Wear Foundation* (FWF).

According to Lin-Hi (2009, p. 11), modern information technology and communication systems allow more transparency giving the global consumer direct influence on the ethical behaviour of large corporations. The professionalisation of compliance based on institutionalisation in the 1970s/1980s, and systematisation of social reporting and balancing of accounts are other important factors making CSR more concrete and calculable (Hentze and Thies 2012, p. 86; Schultz 2011, pp. 30–35) and at the same time more attractive to companies. The fact that a large initiative like *CmiA* is operating successfully in the cotton industry might encourage similar initiatives in other sectors. An example from the health sector is Dr. Devi Shetty's hospital chain in India (Mingels 2013, pp. 54, 57) where 19 hospitals have been accredited with the *JCI* label (*Joint Commission International*). Dr. Shetty is aiming at making medical treatment affordable for every Indian. This health initiative plans to expand to Africa, South America, even to Europe and even to the Cayman Islands (for US Americans).

One can only encourage globalising SMEs and international companies of all types to join forces in similarly profitable ways in order to create a sustainable competitive advantage for the company as well as more sustainability for the global society as a whole.

References

Accenture. (2014). Nachhaltigkeit hat das Zeug zur Mode (Sustainability has got what it takes to become fashion). http://www.accenture.com/de-de/company/newsroom-germany/Pages/nachhaltigkeit-mode-studie.aspx. Accessed 15 Jan 2014.

Africert. (2014). The company. http://www.africert.co.ke/The%20company.php. Accessed 15 Jan 2014.

Agriwaterpedia. (2013). Innovative partnerships—COMPACI programme. http://agriwaterpedia.info/wiki/Innovative_partnerships. Accessed 21 Nov 2013.

Bordère, N. (2014). Product manager Gerhard Rösch GmbH. Interview on 10.03.14.

Breuer, M. S. (2011). *CSR corporate social responsibility—Theoretische Konzepte und strategische Relevanz* (*CSR corporate social responsibility—Theoretical concepts and strategic relevance*). Linz: Johannes Kepler-Universität. Reihe B: Wirtschafts- und Sozialwissenschaften 143.

Chizarura, L. (2014). Why the global cotton price is falling. http://www.docstoc.com/docs/22495599/Why-the-global-Cotton-Price-is-falling-Ludwig-Chizarura-Brazil-Vs. Accessed 22 May 2014.

CmiA. (2009). Verification governance. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/news/documents/Verification_Governance_EN.pdf. Accessed 10 March 2014.

CmiA. (2011a). Aggregated verification report. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/Aggregated_verification_report_WA_SA_2011.pdf. Accessed 9 Nov 2013.

CmiA. (2011b). Guidelines. http://cotton-made-in-africa.com/fileadmin/cmia_abtf/press/images/d-CmiA_CI_Guidelines_01.pdf. Accessed 31 Jan 2014.

CmiA. (2012a). Cotton made in Africa conserves water and reduces greenhouse gas emissions. http://www.cotton-made-in-africa.com/en/cmia-news/news/detail/article/cotton-made-in-africa-conserves-water-and-reduces-greenhouse-gas-emissions-1.html. Accessed 7 Dec 2012.

CmiA. (2012b). Fact sheet. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/press/documents/en/e-FactSheet_CmiA_2012.pdf. Accessed 9 Nov 2013.

CmiA. (2012c). Fortschrittsbericht (Progress report). http://www.cotton-made-in-Africa.com/fileadmin/cmia_abtf/press/Fortschrittsbericht_Cotton_made_in_Africa_2012.pdf. Accessed 31 Jan 2014.

CmiA. (2012d). Verification criteria matrix. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/news/documents/Verification_Criteria_Matrix_EN_v2.pdf. Accessed 10 March 2014.

CmiA. (2013a). Background information. http://cotton-made-in-africa.com/fileadmin/cmia_abtf/press/documents/en/e-CmiA_background_information_2013.pdf. Accessed 9 Nov 2013.

CmiA. (2013b). Cotton made in Africa cotton from Benin temporarily suspended. http://www.cotton-made-in-africa.com/en/cmia-news/news/detail/article/cotton-made-in-africa-cotton-from-benin-temporarily-suspended.html. Accessed 11 Nov 2013.

CmiA. (2013c). Fact sheet. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/press/documents/en/e-FactSheet_CmiA_2.Halbjahr_2013_.pdf. Accessed 31 July 2013.

CmiA. (2013d). The foundation. http://www.cotton-made-in-africa.com/en/the-foundation/aid-by-trade-foundation.html. Accessed 9 Nov 2013.

CmiA. (2013e). Get involved. http://www.cotton-made-in-africa.com/en/get-involved.html. Accessed 11 Nov 2013.

CmiA. (2013f). How we do it. http://www.cotton-made-in-africa.com/en/the-initiative/how-we-do-it.html. Accessed 11 Nov 2013.

CmiA. (2013g). What we do. http://www.cotton-made-in-africa.com/en/the-initiative/what-we-do.html. Accessed 11 Nov 2013.

CmiA. (2013h). What we stand for. http://www.cotton-made-in-africa.com/en/the-initiative/what-we-stand-for.html. Accessed 11 Nov 2013.

CmiA. (2014). Partners. http://cotton-made-in-africa.com/en/partners/partners/our-partners.html. Accessed 31 Jan 2014.

COMPACI/Competitive African Cotton Initiative. (2013). Background. http://www.compaci.org/index.php/en/. Accessed 13 Nov 2013.

Dolan, C. S. (2010). Virtual moralities: The mainstreaming of fairtrade in kenyan tea fields. *Geoforum, 41*(1), 33–43.

Ecocert. (2013a). Accreditation and approval. http://www.ecocert.com/en/accreditation-and-approval. Accessed 13 Nov 2013.

Ecocert. (2013b). Our approach. http://www.ecocert.com/en/our-approach. Accessed 13 Nov 2013.

Elkington, J. (1997). Cannibals with forks: The triple bottom line of 21st century business. Oxford: Capstone Publishing.

EPO/Entwicklungspolitik Online. (2011). Cotton made in Africa: Studie legt Grundstein für Erfolgsmessung (Cotton made in Africa: Study lays the foundation for performance measurement). http://www.epo.de/index.php?option=com_content&view=article&id=7600:cotton-made-in-africa-studie-legt-grundstein-fuer-erfolgsmessung&catid=14&Itemid=88. Accessed 10 March 2014.

Europäische Kommission. (2001). Grünbuch–Europäische Rahmenbedingungen für die soziale Verantwortung der Unternehmen (Greenbook–European regulatory framework for Corporate Social Responsibility). http://eur-lex.europa.eu/legal-content/DE/TXT/?uri=CELEX:52001DC0366. Accessed 13 Nov 2013.

Fairtrade. (2012–2013). Annual report. http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/2012–13_AnnualReport_FairtradeIntl_web.pdf. Accessed 14 Jan 2014.

Fairtrade. (2013a). Statement Rückverfolgbarkeit und Mengenausgleich. (Statement retraceability and quantity balance). http://www.fairtrade-deutschland.de/fileadmin/user_upload/ueber_fairtrade/fairtrade-themen/fairtrade_statement_fairtrade_und_rueckverfolgbarkeit.pdf. Accessed 13 Nov 2013.

Fairtrade. (2013b). Impact and research. http://www.fairtrade.net/impact-and-research.html. Accessed 15 Nov 2013.

Fairtrade. (2013c). TransFair–Chronik (Transfair Chronicle). http://www.fairtrade-deutschland.de/ueber-fairtrade/was-macht-transfair/transfair-chronik/. Accessed 15 Nov 2013.

Fairtrade. (2014a). Absatz Fairtrade-Produkte im Einzelnen. (Sales Fairtrade products in detail). http://www.fairtrade-deutschland.de/produkte/absatz-fairtrade-produkte. Accessed 20 Jan 2014.

Fairtrade. (2014b). TransFair–Mitgliedsorganisationen (TransFair–member organisations). http://www.fairtrade-deutschland.de/ueber-fairtrade/was-macht-transfair/mitgliedsorganisationen/. Accessed 30 Jan 2014.

Gabler. (2013). Definition greenwashing. http://wirtschaftslexikon.gabler.de/Definition/greenwashing.html#definition. Accessed 9 Nov 2013.

Gabot. (2013). Details. http://www.gabot.de/index.php/News-Details/52/0/?&tx_ttnews%5Btt_news%5D=232538&cHash=6b8883f890b442b99c5b47cdb24526db. Accessed 20 Sep 2013.

Gent, R. V., & Varkey, J. (2013). Introduction of a hand-held Cotton Harvester. http://www.compaci.org/index.php/en/newletters/38-compaci-newsletter-09-june-2013-en/file. Accessed 7 Nov 2013.

Gerhard, Rösch GmbH. (2014). Cotton made in Africa & Rösch–Höchste Transparenz. (Cotton made in Africa & Rösch–highest transparency). http://www.gerhard-roesch.de/gr-website/index.php?controller=unterseite&action=show&seite=presse&hb=neues&eintrag=0&language=de. Accessed 10 March 2013.

Global Finance. (2014). The poorest countries in the world. http://www.gfmag.com/component/content/article/119-economic-data/12537-the-poorest-countries-in-the-world.html#axzz2slv57nBT. Accessed 31 Jan 2014.

Götz, S. (2012). Introducing Mrs Naminata Koné, member of a group of cotton producers. http://www.compaci.org/index.php/en/newletters/35-compaci-newsletter-8-dec-2012-en/file. Accessed 13 Nov 2013.
Habisch, A., Wildner, M., & Wenzel, F. (2008). Corporate Citizenship (CC) als Bestandteil der Unternehmensstrategie. (Corporate Citizenship (CC) as part of company strategy). In A. Habisch, R. Schmidpeter, & M. Neureiter (Eds.), *Handbuch corporate citizenship–Corporate Social Responsibility für Manager* (*Handbook corporate citizenship–corporate social responsibility for managers*] (pp. 3–43). Heidelberg: Springer.
Hälg, N. (2009). Cotton made in Africa. In L. F. Krebs, S. Pfändler, C. Pieper, S. Gholipour, & N. Luchsinger (Eds.), *Globale Zivilgesellschaft* (*Global civil society*) (pp. 353–366). Norderstedt: Books on Demand.
Hauff, M. v., & Claus, K. (2012). *Fair trade*. Munich: UVK Verlagsgesellschaft mgH.
Heinemann, S., & Krol, B. (2011). *Nachhaltige Nachhaltigkeit: Zur Herausforderung der ernsthaften Integration einer angemessenen Ethik in die Managementausbildung* (*Sustainable sustainability: Regarding the challenge of serious integration of suitable ethics in management education and training*). Essen: KCS. KCS Schriftenreihe Band 2.
Hentze, J., & Thies, B. (2012). *Unternehmensethik und Nachhaltigkeitsmanagement.* (*Corporate ethics and management of sustainability*). Bern: Haupt UTB.
ILO/International Labour Organisation. (2014). ILO Kernarbeitsnormen (ILO core labour norms). http://www.ilo.org/berlin/arbeits-und-standards/kernarbeitsnormen/lang–de/index.htm. Accessed 15 Jan 2014.
Jonker, J., Stark, W., & Tewes, S. (2011). *Corporate Social Responsibility und nachhaltige Entwicklung* (*Corporate social responsibility and sustainable development*). Heidelberg: Springer.
Lin-Hi, N. (2009). *Eine Theorie der Unternehmensverantwortung* (*A theory of corporate responsibility*). Leipzig: Erich Schmidt Verlag. Management und Wirtschaft Studien 71.
Mingels, G. (2013). Discounter der Herzen—Der Chirurg Devi Shetty betreibt in Indien Krankenhäuser nach dem Aldi-Prinzippreiswert, schmucklos, zuverlässig. Bald soll seine Billigmedizin auch in die Erste Welt exportiert werden (Discounter of hearts—surgeon Devi Shetty runs hospitals in India based on the ALDI-principle—inexpensive, plain, reliable. Soon his cheap medicine is to be exported into first world countries). *Der Spiegel, 33,* 54–58.
Nill, M., & Wick, K. (2012). The carbon and water footprint of cotton made in Africa. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/press/documents/en/CmiA_eco-footprint_study_2012.pdf. Accessed 13 Nov 2013.
NORC/National Opinion Research Center. (2012). Cross-country comparison of key indicators from COMPAC/CmiA baseline surveys. http://www.cotton-made-in-africa.com/fileadmin/cmia_abtf/press/images/COMPACI_Cross-Country_Comparison_of_Key_Baseline_Indicators_June_2012_EN.pdf. Accessed 13 Nov 2013.
O'Riordan, L., & Fairbrass, J. (2006). Corporate social responsibility (CSR) models and theories in stakeholder dialogue. Working Paper Series, Working Paper No 06/45.
Otto-Team. (2013). Frage an Otto GmbH: Warum nicht "Organic Cotton Made in Africa?" (Question to Otto Ltd: Why not "Organic Cotton Made in Africa?"). http://www.utopia.de/gutefragen/fragen/warum-nicht-organic-cotton-made-in. Accessed 12 Nov 2013.
Raynolds, L., & Long, M. (2007). Fair/Alternative trade: Historical and empirical dimensions. In L. Raynolds, D. Murray, & J. Wilkinson (Eds.), *FAIRTRADE. The challenges of transforming globalization* (pp. 15–32). London: Routledge.
Said, S. (2013). The 20 poorest countries in the world in 2013. http://www.therichest.com/expensive-lifestyle/location/the-20-poorest-countries-in-the-world-in-2013/. Accessed 12 Nov 2013.
Sanon, B. (2013). Farmers' business school: Experience, benefits and results from Western Africa. http://www.compaci.org/index.php/en/newletters/38-compaci-newsletter-09-june-2013-en/file. Accessed 12 Nov 2013.

Santen, M. (2013). Wie erkenne ich ökologische Kleidung? (How can I recognise ecological clothing?). http://www.greenpeace.org/austria/Global/austria/marktcheck/uploads/media/2011_Infoblatt_Textillabel.pdf. Accessed 10 March 2014.

Sartory, M. (2013). Online communication and public relation at TransFair. Interview on 15.11.13.

Schneider, S. (2010). Cotton made in Africa. ICAC research associates program, 4th to 12th May 2010, GTZ. https://www.icac.org/cotton_school/research_associate_prog/research_program_2010/documents/schneider.pdf. Accessed 10 March 2014.

Schultz, F. (2011). Moralische und moralisierte Kommunikation im Wandel: Zur Entstehung von Corporate Social Responsibility. (Moral and moralised communication as subject to change: Regarding the origins of corporate social responsibility). In J. Raupp, S. Jarolimek, & F. Schultz (Eds.), *Handbuch CSR. Kommunikationswissenschaftliche Grundlagen, disziplinäre Zugänge und methodische Herausforderungen* (*Handbook CSR. Basics, disciplinary approaches and methodical challenges of communication science*) (pp. 19–42). Wiesbaden: VS Verlag.

Smith, C., Bhattacharya, C. B., Vogel, D., & Levine, D. (Eds.). (2010). *Global challenges in responsible business*. Cambridge: Cambridge University Press.

Staatskanzlei des Saarlands. (2013). Leistungen/Themen–Was wir Ihnen bieten. (Performances/Issues—What we offer you). http://www.csr.saarland.de/index.php?id=71. Accessed 9 Nov 2013.

Steinrücken, T. (2003). Funktioniert fairer Handel? Ökonomische Überlegungen zum alternativen Handel mit Kaffee. (Does fair trade work? Economic considerations regarding alternative trade with coffee). *Diskussionspapier Nr. 32. TU Ilmenau,* 5–11.

Stridde, T. (2013). Managing director aid by Trade Foundation. Interview on 21.10.13.

TransFair. (2013). Fairtrade stärkt Familien im Süden (Fair trade strengthens families in the South). http://www.fairtrade-deutschland.de/ueber-fairtrade/was-ist-fairtrade. Accessed 7 Nov 2013.

Conceptual Framework for Corporate Responsibility Management: A Critical Review of Sustainable Business Practice Based on a Case Study of a Leading Transnational Corporation

24

Linda O'Riordan and Piotr Zmuda

Contents

24.1 Introduction 474
24.2 Literature Review 476
24.2.1 Background 476
24.2.2 Definition of Concepts 476
24.2.3 CR Stakeholder Engagement—The Why? 477
24.2.4 CR Stakeholder Engagement—The How? 479
24.2.5 CR Responsible Management Framework 480
24.3 Research Aim 484
24.4 Methodology 484
24.5 Findings 486
24.5.1 Introduction to the Case Study 486
24.5.2 Examining the Underlying Rationale for Johnson & Johnson's CR Practices 487
24.5.3 Examining How Johnson & Johnson Approaches CR Through the Trust 489
24.5.4 Project Example 491
24.5.5 Comparing Johnson & Johnson's CR Practices (via the Trust) With the Framework Steps 494
24.5.6 Relevance of the CR Management Framework in CR Management 495
24.6 Summary and Conclusions 497
References 500

L. O'Riordan (✉) · P. Zmuda
FOM University of Applied Sciences, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: linda.oriordan@fom.de

P. Zmuda
e-mail: piotr.zmuda@fom.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility*,
FOM-Edition, DOI 10.1007/978-3-658-06794-6_24

Abstract

As stakeholder expectations surrounding the role of business in society evolve, concepts of corporate responsibility (CR) and sustainable development (SD) become increasingly relevant. Significantly in this regard, a review of the latest literature suggests that the management tools for translating notions of sustainable responsible management into everyday business practice are limited. The instruments available inadequately provide feasible management solutions either because they are vague and under-developed, and accordingly lack comprehensiveness, or, in contrast, they are so overly complicated that management decision-makers view them as incomprehensible. The resulting lack of transparency for all stakeholders, but in particular for decision-makers facing the management challenge of identifying why and how to integrate CR and SD solutions into their business operations, is the "missing link" upon which this chapter focuses. It aims to address the identified lacunae by rigorously reviewing a recent conceptualisation (CR management framework) of corporate approaches to responsible stakeholder management. It applies problem-solving techniques both theoretically and empirically via qualitative evidence obtained in a case study of a leading transnational corporation's CR activities. This study simultaneously tests the framework and, in doing so, critically examines the responsible activities of the company under investigation. The ensuing results highlight both the positive potential and eventual room for improvement in both the management framework and the company's CR response.

24.1 Introduction

In the quest to address some of the key challenges currently facing the planet within the triple bottom line (TBL) concept from the economic, social, and environmental spheres (Elkington 1997), the insights proposed in a recent scientific paper which triggered the theme for the missing link book suggest that society might be currently functioning in a vacuum due to a profound "disconnection" between the underlying economic and social system. More specifically, among the three missing links highlighted in that paper (see O'Riordan et al. 2013 for further details), lack of transparency was identified as a key issue. To elaborate, "transparency" is described as a frequently misused term which means more than the ability to "see" and appropriately judge the actions of an organisation. Instead, transparency demonstrates how a complex set of organisational variables (e.g., processes, decisions, material flows, human capital, etc.) are systemically linked (Berggren and Bernshteyn 2007). Within the context of these missing link issues, the same paper further noted in addition to this lack of transparency an additional lack of connectivity in the operative domain at which business and society intersect. Significantly, these missing factors were noted to function like a pair (negatively) reinforcing each other. As a result, because decision-makers in society (i.e., stakeholders with varying interests) are often not aware of the inherent disconnections involved, they frequently adopt strategies which deplete the shared resources on this planet by acting independently and showing preference for immediate profits over benefits that would serve the greater self-interest over the long(er) term. This happens despite the clear intuitive understanding that diminishing the common resource is contrary to the group's[1] long-term best interests (i.e., *tragedy of the commons* phenomena; Hardin 1968; Hardin 1994). This arguably questionable choice is confounded by a lack of sufficiently reliable, accessible, user-friendly, actionable data for those attempting to recognise and address these missing links. This dilemma further highlights ownership issues related to the focus of the interests being pursued in the network of relationships involved and the resulting (responsible) response adopted (O'Riordan et al. 2013, p. 6).

While this missing link (or connectivity) discussion essentially raises over-arching questions regarding the basic role of business in society today which reach to the fundamental roots of the capitalist system itself (Holland and Albrecht 2013; O'Riordan 2010; The Economist 2009; May et al. 2007, p. 7; Wagner 2006; etc.), the transparency and ownership issues particularly highlight the significant challenge facing business decision-makers when designing their corporate responsibility[2] (CR) and sustainable development (SD) management response in an era of newly emerging and escalating stakeholder expectations.

Within the context of the background presented immediately above, this chapter critically examines one potential solution to address the highlighted management challenges. Because an appraisal of the latest literature suggests that the management tools for translating the concept of sustainable responsible management into everyday business practice are limited (e.g., O'Riordan and Fairbrass 2013, 2008; Lindgreen and Swaen 2010; Ferrell et al. 2013; O'Riordan 2010; Lindgreen et al. 2009; Crane and Matten 2007, p. 516), this chapter rigorously reviews a recent conceptualisation of corporate approaches to responsible stakeholder management which was developed in separate research (O'Riordan 2010) and designed to function as a practical set of steps (processes, decisions, or flows) to guide managers when applying sustainable CR and SD concepts into business operations. Ultimately, this achieves two aims. First, it undertakes a critical examination to determine the framework's aptness as an innovative, systematic, and effective approach for integrating sustainable CR and SD solutions into business strategy. Second, this investigation permits the study of the CR strategy of a leading transnational company from the pharmaceutical industry in the EMEA region.

Consequently, this chapter addresses the missing link issues of connectivity, ownership, and lack of transparency in management approaches for settings in which institutions and citizens produce and consume products and services. By testing the new revised management framework which is presented in this chapter to represent a systematic approach to strategic planning and policy implementation for those attempting the challenging task of designing, implementing, and measuring the performance of responsible management activities, this study aims to deliver a missing "piece of the puzzle" in the over-arching quest to improve the underlying sense of responsibility and responsible responses of hu-

[1] In this case all life on this planet.

[2] Although Corporate Social Responsibility is typically the most common label employed in Europe, in this chapter the word "social" has been deliberately omitted from this term in order to reflect the fact that not only social, but also ecological, moral, financial, and other key responsibilities are implied in this acronym of which "social" matters are merely one (albeit highly salient) component.

man beings operating within the context of managing organisational business models (e.g. Jonker et al. 2013).

To demonstrate how sustainable CR values can be translated into optimally balanced TBL solutions, the chapter is structured as follows. It first briefly establishes the key concepts in the field of sustainable CR management with a focus on network management, tools, and frameworks, as well as the *why* and the *how* of CR management. It then presents the CR stakeholder management framework under review. The methodology is subsequently explained and the target company case study is presented. The usefulness of the CR framework is then tested and investigated in a critical discussion of its pros and cons for translating the concept of sustainable management into everyday business practice. The chapter concludes by critically reviewing the *why* and *how* of CR management, addressing the limitations of the work, and proposing some recommendations for future research.

24.2 Literature Review

24.2.1 Background

Ongoing developments in the contextual environment in which business operates including globalisation, climate change, demographic trends, and the global economic crisis have led to increased pressure on both public and private budgets and spending which are triggering a range of new stakeholder expectations that are being amplified by technological progress in the field of information availability and communication (Jonker et al. 2011, p. 22).

These developments have re-kindled active debate on the subject of responsible business behaviour and the role of business in society (e.g., Carroll and Buchholtz 2009; Schwartz and Carroll 2008). This discussion, addresses TBL dynamics (e.g., Elkington 1997) by focusing on the impact of an organisation's business model or value chain processes (Jonker et al. 2013) on society and the environment. The debate surrounding these dynamics can be summarised into four related concept classifications: Business Ethics; Corporate Social Responsibility (CSR); Corporate Citizenship (CC); and Sustainability, which are now explained in greater detail in the next section.

24.2.2 Definition of Concepts

More generally, originating from the term "ethics" which derives from the Greek term "ethos" meaning: custom, convention or practice, Crane and Matten (2004, p. 8) define Business Ethics as:

> The study of business situations, activities, and decisions where issues of right and wrong are addressed.

In a similar but expanded definition, the new ISO 26000 standard defines ethical business as behaviour which is:

> in accordance with accepted principles of right or good conduct in the context of a particular situation and consistent with international norms of behavior. (ISO 2010, p. 12)

Within the context of ethical business, CSR is defined as the voluntary integration of responsibility into the business activity (often related to the internal business capability) with respect to four key areas: capital, employees, society, and the ecological environment.

A related concept is CC which originated in the US and focuses on the company as a citizen voluntarily adopting a responsible role by investing its capital in (primarily) external projects of a social or ecological nature predominately outside of its core competences (e.g., Crane and Matten 2010).

Significantly, Sustainability is an associated "umbrella" concept which originally derived from nature that serves as a guiding concept for a business and societal change process which inherently links the TBL concept as a fundamental prerequisite with the practice of business ethics, CSR, and CC. It has evolved from its original focus on ecology which was expressed by (Carlowitz 1713, cited in Jonker et al. 2011, p. 145) in the discipline of forestry, to encompass a broader notion today which signifies regard for the social and environmental impact of business strategy on future generations (Jonker et al. 2011, pp. 5–8). Based on the initial rationale of replanting trees that have been felled in order to minimise the impact of harm from current deeds to future generations, this concept was advanced in a milestone report by the World Commission on Environment and Development which was chaired by Norwegian Prime Minister Gro Harlem Brundtland. Entitled "Our Common Future" (1987) and also known as the ensuing "Brundtland Report", the concept of sustainability progressed into a new definition of sustainable development which states the case for business activities which foster:

> development that meets the needs of the present world without compromising the ability of future generations to meet their own needs. (Brundtland 1987, p. 1)

This concept was later defined more precisely by Herman Daly, an economist with the World Bank, who specified that a sustainable society needs to meet three conditions: (1) Its rate of use of renewable resources should not exceed their rates of regeneration; (2) Its rates of use on non-renewable resources should not exceed the rate at which sustainable renewable substitutes are developed; (3) Its rates of pollution emission should not exceed the assimilative capacity of the environment (Elkington 1997, p. 55).

24.2.3 CR Stakeholder Engagement—The Why?

Against the background of these intersecting, evolving, and therefore imprecise concepts (e.g., O'Riordan 2010), confining the role of corporations to their initial purpose of providing goods and services in a way that yields maximal profit for the shareholders of the corporation is increasingly deemed to be an overly narrow perspective of doing business (e.g., Jonker et al. 2011, p. 27; O'Riordan 2010). Accordingly, the reasonably sound basis for a range of moral and business arguments in its favour indicate that CR is becoming increasingly established as a key business activity (e.g., Ferrell et al. 2013; Crane and Matten 2004, p. 42). The related emerging understanding that management decision-makers need to be aware of the inclusive role of their business and the powerful impact of their activities on society and the environment (e.g., Jonker et al. 2013) triggers a key question with respect to TBL accountability and the need to adopt a new model of development (Elkington 1997, p. 65) for a better way forward.

To elaborate, in the search to navigate new routes to improved TBL impact for business, the concept of responsibility according to Max Weber (1992) suggests that all individuals are accountable (or have to answer) for their actions. Because responsibility addresses relationships between people, society, and organisations, the study of CR focuses attention on the social context in which business as an institution (responsible subject) operates. For individual management decision-makers within companies this implies the need to reflect on the impact generated by the resources they invest as agents of the company, not only from the narrow standpoint of direct company interests and return to shareholders (ownership), but from the broader perspective of public expectations, e.g., challenges and tasks of a social and/or environmental nature (responsible object). This expanded stakeholder perspective (Freeman 1984; Freeman et al. 2007) necessitates an enhanced way of doing business in which products and services, as well as the systems and processes which shape their generation, are re-imagined, re-organised, and thereby re-adjusted, so that they can be justified, designed, and aligned to reflect the individual values of the business decision-maker and society (Jonker et al. 2011, pp. 3, 11, 19). Moreover, this approach manifests itself in the form of new "connections" based on an improved transparency level.

Notwithstanding the noble notions presented immediately above, in practical terms, the reality remains that for most companies, economic (i.e., not social) success comprises the conventional method for measuring wealth and accordingly the "value" that is then considered to be their effective use of the resources they invest (typically expressed as profit maximisation). Significantly in this regard, recent research[3] highlights the destructive impact of an exclusive value focus on economic wealth, i.e. profit maximisation instead of

[3] According to a recent study at the Swiss Federal Institute of Technology in Zurich, the predominant focus on economic wealth worldwide has led to a web of corporate control in which 147 companies (who own inter-locking states of one another) together globally govern 40% of the wealth in the network and 737 companies control 80% of the total wealth created by business globally. To generate this data, three systems theorists utilised a database listing 37 million companies and investors worldwide and analysed all 43,060 transnational corporations and share ownerships linking them. They combine the mathematics long used to model natural systems with comprehensive corporate data to map ownership among the world's transnational corporations (TNCs). The resulting overview of the structure of global corporate control is being hailed as the first to go beyond ideology to empirically identify the world-wide network of corporate power (New Scientist 2014).

the broader aim of value optimisation. Scientists suggest that this has led to a disconcerting domination of corporate control, which economists warn can lead to an unstable environment when hyper connection is combined with high concentration of power (Forbes 2011). Crucially this implies that what ultimately counts most in the CR debate for society and the ecological environment is the responsible behaviour of business which holds immense power to generate positive transformation. But what precisely is the incentive for responsible behaviour given that companies will only act “honorably” if the economic logic for undertaking such practices is clear? Despite the extensive past scholarship surrounding CR and its related concepts, extant research which precisely exposes the factors which influence CR practice (*why*) is rather limited or deficient (O’Riordan 2010). To address this gap, the search for the underlying rationale or motivation behind the investment of company resources in CR activities consequently leads to the first question both in theory and practice: *Why* do companies undertake CR?

24.2.4 CR Stakeholder Engagement—The How?

In the quest to create the responsible organisational culture or moral identity (expressed as “code of ethics” by Wieland 1999) required to realise CR aims, individual business decision-makers are today expected to manage the impact of the business resources they invest with regard for TBL wealth generation. The premise for this task is the ability to plan, lead, organise, and control this new form of organisational system and its associated mechanisms within the context of the resultant newly evolved and extended range of corporate networks (stakeholder connectivity). Crucially however, a review of previous analytical frameworks to capture and measure this new phenomena indicates that the instruments available inadequately provide feasible management solutions either because they are underdeveloped and lack comprehensiveness, or, in contrast, they are so overly complicated that management decision-makers view them as incomprehensible (O’Riordan and Fairbrass 2013; Crane and Matten 2010, p. 224; Ferrell et al. 2013). Most significantly in this regard, Elkington (1997, p. 92) stresses that accounting for the TBL to determine progress—or the lack of it—involves measuring against the indicators (or metrics) chosen to evaluate performance with respect to the three bottom lines of sustainability. However, in many cases these concepts are still “black boxes” which are often referred to in general or vague terms rather than specifically defined.

Consequently, although the literature surrounding this subject is vast and continually increasing, past scholarship which precisely explains how to manage CR stakeholder engagement in practice is lacking (O’Riordan 2010). Significantly, this gap highlights the need to focus on the processes or steps through which (how) companies create or destroy TBL resources (or in other words reduce or increase the options available to future generations) in line with the Brundtland definition. The search to identify the way companies transform their resources to generate competitive advantage in a responsible way leads to the second question: *How* do companies undertake CR?

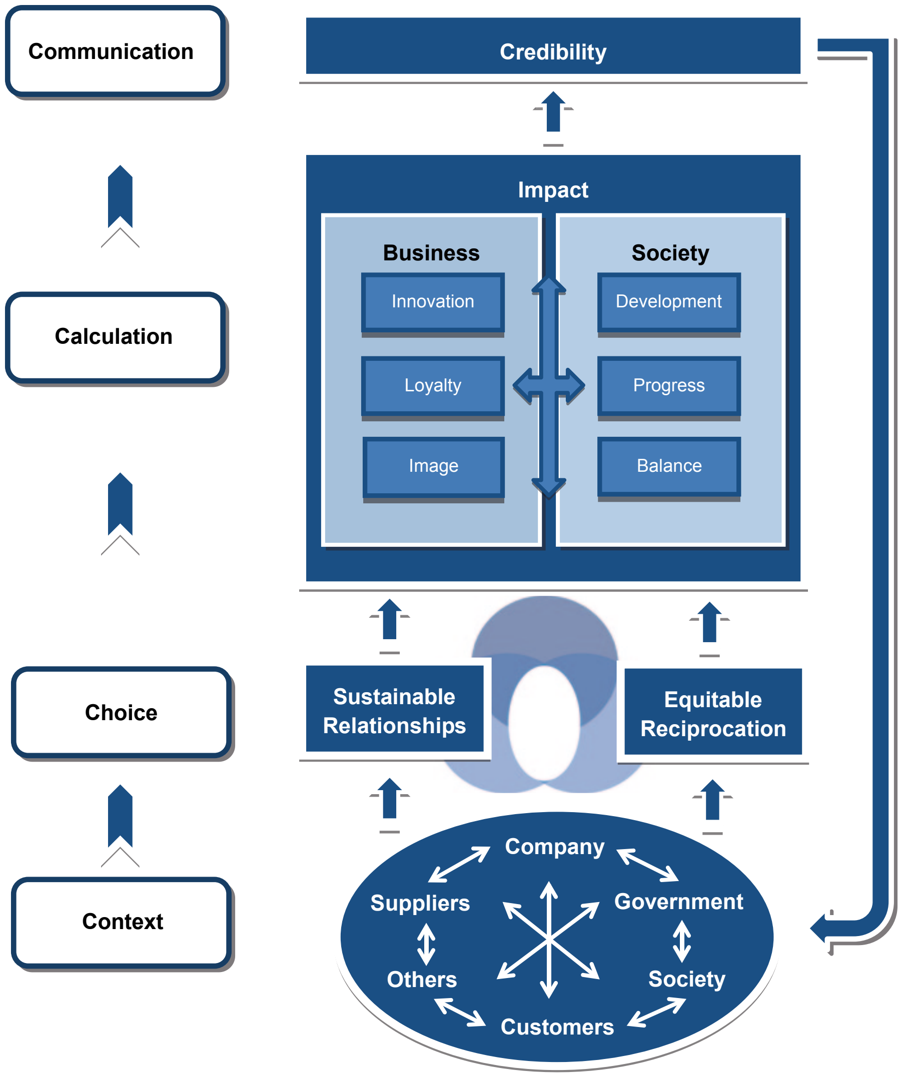
24.2.5 CR Responsible Management Framework

In light of the weaknesses highlighted in the past scholarship above, an explanatory conceptual framework was developed by one of the authors in previous separate empirical research (O'Riordan 2010; O'Riordan and Fairbrass 2013, 2008). The objective was to design a framework which would represent the core influencing factors involved in the organisational process (i.e., why) as well as the main strategic management steps undertaken by business managers (i.e., how) and which could be employed to examine the CR practices found within the pharmaceutical industry. The framework is derived from qualitative, exploratory data obtained over a 6 year period via multiple research methods.[4] Figure 24.1 depicts the conceptual framework diagrammatically.

The CR management framework comprises a series of the four inter-related, interactive, synergic elements which are designed to comprehensively conceptualise how decision-makers manage their CR stakeholder engagement activities.

To elaborate, the findings suggest that *context* first requires attention. More specifically, consideration of contextual factors enables the integration of an inclusive stakeholder perspective in strategic business planning. As a first step to enable collective value creation for all interest groups throughout the entire value chain this facilitates decision-makers to identify who their business decisions might impact, as well as which groups' actions might potentially impact their business. The fundamental premise underlying this first step is the understanding that business relies on an "accepting" and "healthy" society (i.e., a license to operate (e.g., Ulrich and Fluri 1995) from stakeholders such as customers, employees, the local community, etc.) in order to "legitimise" its business activities to ensure its sustainable operation in the medium to long run (e.g., Haniffa and Cooke 2005, p. 3; Woodward et al. 2001, p. 357; Campbell 2000; Gray et al. 1995, p. 52; Lindblom 1994; Stark 1993). This mind-set appreciates the enormous opportunities inherent in the social and ecological needs of mankind as the decisive starting point and trigger for the strategic solutions a business conceives (strategic purpose/intent/vision/mission). The resulting comprehensive inclusive review of the external (macro- and industry determinants) as well as internal (micro-operating environment of internal conditional aspects such as leadership and values, etc.) factors "sets the stage" for transparent identification of both the "players" and "playing field" on which business strategy is then designed and performed (see Fig. 24.2 for further details). Similar to the way in which a chess player might first identify and set "chess pieces" on a "chess board", the "game" that aims to follow a more collaborative approach to generating TBL value is now ready to "start".

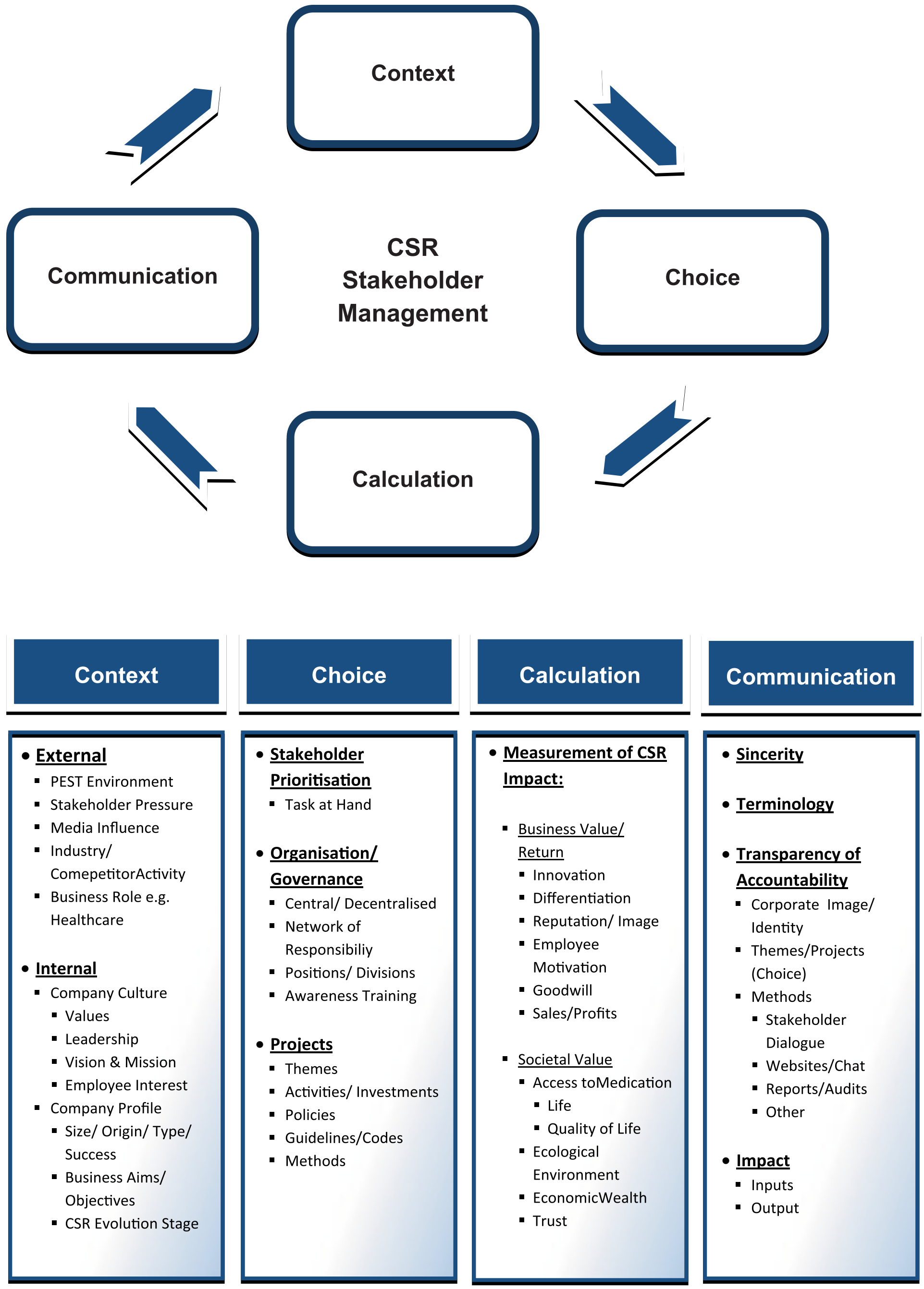
[4] The primary research, which was completed between 2005 and 2010, focused on the pharmaceutical industry in the UK and Germany. It employed a range of research methods including the documentary analysis of 38 company websites and reports, a telephone survey of 46 companies, observation of the CR stakeholder management practices of 142 firms, and 18 in-depth interviews with senior managers from leading pharmaceutical companies (for further details see O'Riordan 2010).



Source: O'Riordan (2010. p. 352).

Fig. 24.1 CSR Framework for Responsible Management

In a second step, on the "stage" which has now been set in the first step, the *choices* which decision-makers deliberate when responding to their TBL obligation of balancing stakeholders' (frequently varying and often conflicting) interests are now "created" and then "acted" or "performed". Crucially, this step presumes the inherent motivation of the individual decision-maker to generate sustainable, transparent, forward-thinking, inclusive business strategies aimed at achieving sustainable relationships (connections) and balanced equitable distribution (reciprocation) of the wealth created. Significantly, this



Source: O'Riordan (2011, pp. 358–362).

Fig. 24.2 Illustrates the conceptual framework components: *context; choice; calculation;* and *communication* in greater detail mind-set determines the key difference between traditional business approaches which were limited to economic value goals (Friedman 1970) or transaction cost economics (e.g., Williamson 1979, 1985), and a more forward-looking imaginative approach focused on TBL aims. Most importantly, it is at the point of interface (or "white space") between social, environmental, and economic factors that new, imaginative, sustainable business opportunities are anticipated to arise in the form of unforeseen collaborations and alliances propelled by innovative entrepreneurial skill. In particular, this step concretely focuses on themes such as stakeholder prioritisation, organisation/governance, and the projects or activities undertaken through which resources are invested to fulfill TBL objectives (see Fig. 24.2 for further details).

The third step depicted in Fig. 24.1 is *calculation.* This component of CR management highlights the pragmatic need for business decision-makers to measure the impact of the resources they invest in CR activities. In line with the TBL principles, this calculation focuses on return *both* to business and society (see Fig. 24.2 for further details). Significantly, the new inclusive mind-set described above as the focus for business solutions denotes a significantly improved conversion of company resources than traditional business approaches (which are limited by their focus in the first instance on sole profit maximisation). Consequently, this approach presumes that business resources which are invested with a view in the first instance to addressing social or ecological needs via company competences and other resources are leveraged far more effectively so that they serve as a much more powerful catalyst for social progress than conventional strategies. Given the huge potential needs in society for such innovation, this approach presumes even greater profits for business as the overall outcome. Crucially, the impact for *both* business *and* society is thereby maximised.

The fourth step in Fig. 24.1 is *communication*. It advocates that only after the other three elements of CR management have first been systematically, thoroughly, and realistically addressed should communication to internal and external stakeholders be commenced. Significantly, done right, this step could establish the necessary credibility that is born of sincere values which drive sustainable impact for business and society in a measurably transparent way (see Fig. 24.2 for further details). Ultimately, such accountability could illuminate and pave the way for enhanced stakeholder relations which could generate auxiliary opportunities in the loop back to the context component so that the process becomes self-sustaining (O'Riordan 2010). Critically, consideration for the inclusion and development of innovative new relationships (via partnerships, collaboration, etc.) with stakeholders is documented to comprise one of the integral elements of corporate reputation or identity (Schwalbach 2000; Schreyögg and Werder 2004, pp. 1262–1263; Ethical Corp. 2009).

24.3 Research Aim

To address both the research gaps associated with the practical application of sustainable CR concepts as well as the inherent management challenges our qualitative research focuses on answering the following three key questions:

1. Why does the target company undertake CR?
2. How does the target company implement its CR strategy?
3. Whether the proposed framework adequately depicts/reflects the CR management steps undertaken by the target company?

24.4 Methodology

To answer the research questions, we draw on problem-solving techniques and decision-making theory (Minto 2009; Eisenführ et al. 2010; Laux et al. 2012; Hungenberg 2010; Rasiel and Friga 2001) and use qualitative evidence obtained in a case study of Johnson & Johnson, and in particular the Johnson & Johnson Corporate Citizenship Trust [Trust] operating in the EMEA region. In doing so, a case study approach presented in Yin (2009) and Eisenhardt (1989) has been adopted.

According to the strategic management theories (Porter 1980, 1985; Barney 1991, 2010; Fama and Jensen 1983; McDonough and Braungart 2002), the conceptualisation and implementation of strategically meaningful ("insightful") CR activities can be understood as a company's strategic problem. A problem in this context is usually defined as the gap between the current state (situation) and the desired state, understood as company's goals (Andler 2011; Hungenberg 2010). Thus, to engage in problem-solving means to search for and to decide on a solution, which requires the identification of goals, a definition of the situation, complication, the key question, as well as the extraction and definition of action steps. In doing so, the strategic decision-makers and management consultants—understood as problem-solvers—usually apply a tailored hypotheses-driven problem-solving technique (Wickham and Wilcock 2012; Biggs 2010; Hungenberg 2010; Minto 2009; Fombrun and Nevins 2004; Rasiel and Friga 2001) which helps to answer the key questions in a logical way. The rationale behind this problem-solving technique requires first "framing" a problem's root causes, then identifying and evaluating solutions in following steps. As a result, so-called "logic trees" or "issue trees" (Minto 2009) are employed. These can either be developed using individualised, innovative, tailor-specific causes or solutions for a particular problem, or alternatively, be represented by generic, already developed (management) frameworks. Such frameworks are typically well-known management tools that are used and applied by managers in order to improve their strategic decisions. In this study for example the Political, Economic, Social and Technological (PEST) Framework (e.g., Aguilar 1967) is employed. Regardless of which framework type is employed, in accordance to the requirements of logic, the trees must be mutually exclusive and collectively exhaustive (MECE).

To elaborate, an empirical research approach using a case-study strategy is adopted which employs the in-depth interview method supported by a questionnaire to both examine the CR strategy of and test the CR management framework with, a leading pharmaceutical company. In this approach, the unit and focus of analysis for the case study is the Johnson & Johnson pharmaceutical company and the Trust operating in the EMEA region. In this investigation, qualitative data concerning the practices, opinions, and behaviour of a small sample of senior business executives[5] from internal company actors in the CR field, as well as secondary research sources (e.g., Trust Annual Reports and homepage information) were employed. A major strength of this research design is the unique access to in-house company perceptions which facilitates a candid and critical examination of the effectiveness of the Trust approach and thereby the Johnson & Johnson strategy in the EMEA region CR in general. In addition, this methodology permits the investigation of the practical usefulness of the CR management framework instrument (presented in the previous section) both in theory and to CR decision-makers in everyday practice. The assumptions underlying this investigation are that the steps in managing CR can be identified and that the framework depicts them. The collection of qualitative data of this nature assists in establishing rich data with greater trustworthiness (Robson 2004).

Given the highly decentralised, diverse, and fragmented nature of Johnson & Johnson's global operations (Interview 2014), as previously stated, the data collection purposefully focuses on the CR activities undertaken by the Trust (Johnson & Johnson 2014a). This choice is based on the rationale that this entity is a particularly interesting object of analysis because it comprises an independent organisation which aims to reflect the Johnson & Johnson family of companies' commitment to improve the quality of life in the communities in which its employees live and work (see subsequent section for further details). As a result, the focus on this Trust is expected to reveal insightful results with respect to its suitability as a vehicle which can more effectively unleash the positive influence of business in society (i.e. to achieve broader value optimisation than the traditional exclusive profit maximisation approach). Consequently, the Trust's flexibility in addressing formal governance challenges which could be interpreted to limit company CR responses, as well as its aptitude as a means for facilitating unlikely alliances to realise strategic opportunities which focus on a public (social) mandate, are of particular interest in this study.

To collect the data to answer the three research questions stated in the previous section, a questionnaire was designed both to examine the CR practices undertaken by the Trust as well as the practical usefulness of a CR framework in CR management. The questionnaire includes both open and closed questions and employs a set of five assumptions to examine the way in which the target company manages the translation of the concept of sustainable responsible management into everyday business practice through the Trust. The data

[5] Including a Board Member, Managing Director Johnson & Johnson Corporate Citizenship Trust & CSR Director EMEA.

were primarily gathered via a 2 hour in-depth interview with two senior members of the Trust from Johnson & Johnson Belgium who received the questionnaire in advance. This facilitated both a transparent communication of the research aim and additionally allowed the respondents to prepare their responses in written form prior to the interview.

Ultimately, the questionnaire responses are employed in a problem-solving approach to identify, study, and deliberate *why* and *how* the Trust operates and thereby to ultimately establish whether the framework steps (depicted in Figs. 24.1 and 24.2 above) are adopted or not in the Trust approach (and if not why). In doing so, the CR framework is tested which facilitates its improvement. Ultimately, the framework is utilised as a conceptual "mirror" to reflect on the Trust CSR activities and thereby the Johnson & Johnson CR strategy in the EMEA region in general.

A crucial premise in this approach is the intention to progress the concept of CR and individual accountability out of the normative realm of subjective values or beliefs (morals and ethics) and into the scientific sphere of empirical testing (Küpper 2011, pp. 140–144). Consequently, in line with the scientific empirical or value-neutral approach to business proposed by Max Weber (1917, 1988), this research design aims to identify and empirically validate the most optimal outcomes for both business and society (e.g., Homann and Lüttge 2005) without the burden of a normative stance.

24.5 Findings

24.5.1 Introduction to the Case Study

Johnson & Johnson comprises a family of companies that was founded by Robert Wood Johnson, the son of a poor Pennsylvania farmer, with his brothers in 1886. After his death in 1910, his brother James led the company's expansion during the First World War, creating the plasters and gauze used by soldiers at the front.

Today, the company that invented Band–Aids now markets a huge offering of products ranging from painkillers to antipsychotics which encompasses more than 275 operating companies in more than 60 countries employing approximately 128,700 people. The company's worldwide headquarters is in New Brunswick, New Jersey, USA. The Johnson & Johnson family of companies comprises: the world's sixth-largest consumer health company; the world's largest and most diverse medical devices and diagnostics company; the world's fifth-largest biologics company; and the world's eighth-largest pharmaceuticals company (Johnson & Johnson 2014b; The Economist 2013).

The Johnson & Johnson Corporate Citizenship Trust [hereafter expressed as "The Trust"] is a company limited by guarantee and a registered Scottish charity which operates the CR activities of the Johnson & Johnson family of companies across Europe Middle East and Africa—thus reflecting their commitment to improve the quality of life of the communities in which its employees live and work (Johnson & Johnson 2014c). This

Trust is connected to and managed by the Johnson & Johnson family of companies in the following ways:

- It is funded by the Johnson & Johnson family of companies as part of their corporate responsibility activities in Europe, the Middle East and Africa (EMEA).[6]
- The Board of Directors[7] is composed of senior Johnson & Johnson employees from across EMEA.
- Johnson & Johnson employees sit on formal and informal operating company CR committees and provide advice to the Trust regarding issues affecting their local communities.
- The Managing Director of the Trust is the Director of CR for the Johnson & Johnson family of companies in Europe, the Middle East and Africa.
- The Trust's offices and facilities are provided by the Johnson & Johnson family of companies.
(Interview 2014).

This Trust, which emerged in 2007 as part of Johnson & Johnson's evolving social response, establishes the legal background which circumvents many of the corporate governance issues typically faced by business executives seeking sustainable solutions to TBL management challenges (Interview 2014). As explained in the methodology section above, this unique feature of the Trust which manifests itself as a legal entity that facilitates an "unlikely" combination of platforms for innovative stakeholder alliances is the reason for the choice to purposefully focus the research study on this aspect of the Johnson & Johnson CR activities. In particular, focusing on the Trust facilitates the specific study of mechanisms which serve to legitimise the goal to achieve "value optimisation" as opposed to the narrower "profit maximisation" which is the legal governance focus of all current business models.

24.5.2 Examining the Underlying Rationale for Johnson & Johnson's CR Practices

The first research question aims to establish *why* Johnson & Johnson undertakes CR. It endeavours to identify the issues or triggers, which influenced Johnson & Johnson to adopt

[6] For further details please follow these links: http://issuu.com/trust2013/docs/johnson-johnson-corporate-citizensh/1?e=8440982/2937331 and http://www.jjcct.org/who-we-are/annual-reports-and-accounts/.

[7] Follow this link for further details: http://www.jjcct.org/who-we-are/board-members-our-team/.

a CR strategy for the time period 2006–2018.[8] To answer this question both external and internal influencing factors were examined.

The findings reveal that external social trends influence the industry as a whole to adopt a CR strategy. According to the International Millennium Poll on CSR:

> Many citizens worldwide expect more from companies than a narrow focus on profits, providing jobs and obeying the law. Citizens expect them also to set a high ethical standard and contribute actively to social initiatives. Consequently, the question of universal access to medicine within society is (and always was) central as it impacts on social welfare. Some aid and development policies are incentivizing the industry to commit more broadly to development and access to medicine in the developing world. (Millennium Development Goals 2014)

In order to examine these social trends more closely, the driving forces from the firm's *external environment* were examined using the PEST Framework (e.g., Aguilar 1967). This resulted in the identification of demographic and social factors, as well as forces at industry level which influence Johnson & Johnson's CR activities. To elaborate, the interview (2014) revealed that external demographic trends either directly or indirectly related to health inequalities including gender, age, ethnicity, language capabilities, disabilities, mobility, home ownership, employment status, religious belief or practice, and income level in conjunction with the burden of illness (in particular in areas of diseases associated with stigma, e.g., non-communicable disease) present significant opportunities to explore better integrated solutions to tackle these societal challenges.

Focusing on the Trust, which operates based on a public mandate as an independent and a non-profit organisation (see above for further details), the influence of political, economic, and technological factors are deemed by the respondents to be of less direct relevance in this context.

The results reveal that external forces at industry level additionally influence Johnson & Johnson's CR activities. To elaborate, the respondents consider that a shift in the focus from product to health outcomes has triggered a recent transition in the pharmaceutical industry. More specifically, they state that the move towards a more evidence-based, outcomes-focused, behaviour-driven world represents a key transformation for the pharmaceutical industry business model in general. This results in several implications including the requirement for improved "connecting" of information, as well as co-creation and community engagement. In summary, the driving forces from both the external demographic and social, as well as the industry trends noted above trigger the requirement for

[8] Given the emphasis on the Johnson & Johnson Corporate Citizenship Trust as the object of analysis for this study, this investigation primarily focuses on the time period since the trust was established in 2007 to its strategic objective mandate in 2018. Nevertheless, it is relevant to note that the findings presented in this section have evolved within the context of the more general philanthropic activities which emerged 16 years ago that were pursued by Johnson & Johnson. Driven largely by broad-brush, universal principles of moral duty, these activities focused predominantly on corporate giving and an environmental programme which established the basis for a global strategic framework for corporate contributions that led to the adoption of the umbrella term "corporate citizenship" to convey all activities of this nature within the Johnson & Johnson family of companies.

collaboration in a cross-sector (multi-stakeholder) network approach which is leading to unlikely alliances. Such new ventures enable innovative ways to exploit both the opportunities and minimise the risks of the factors identified for all stakeholders from both public and private sector interest groups (Interview 2014).

Focusing now on the company as the unit of analysis in the endeavour to establish *why* Johnson & Johnson undertakes CR, the findings additionally identified some *internal triggers* which influenced Johnson & Johnson to adopt a CR strategy for the defined timeframe.[9] In particular, the main changes identified by the respondents include its strong company culture driven by the Johnson & Johnson credo[10] (i.e., the values which guide all Johnson & Johnson decision-making). According to the respondents, this credo challenges decision-makers in the company to put the needs and well-being of the people they serve first. The respondents advocate that the company culture and ensuing employee awareness which this credo generates significantly impacts the way Johnson & Johnson does business in three key areas including: human resource management, organisational structure, management and leadership. Precisely how this manifests itself in specific terms is addressed in greater detail in the subsequent section which focuses on explaining more concretely how the company organises itself to act responsibly. In summary, the respondents reveal in the interview findings that the internal driving forces for all Johnson & Johnson business actions originate from the credo values which establish the basis for all CR activities (Interview 2014).

24.5.3 Examining How Johnson & Johnson Approaches CR Through the Trust

The second research question focuses on *how* Johnson & Johnson undertakes CR. To present these findings, this section first establishes the Johnson & Johnson approach independent of the CR framework steps.

The interview findings reported by the respondents reveal that the Johnson & Johnson company prioritises its stakeholders on an internal versus external basis in a highly decentralised approach which is decided on a local basis and driven by the focus of the CR circumstantial needs/opportunities in that setting. The key driver of CR activities at Johnson & Johnson in the EMEA region however, is the Trust. Therefore, the remainder

[9] This investigation primarily focuses on the time period since the trust was established in 2006 to its strategic objective mandate in 2018.

[10] According to the Jonhnson & Johnson website, Robert Wood Johnson, a former chairman from 1932 to 1963 and a member of the Company's founding family crafted the credo in 1943 just before Johnson & Johnson became a publicly traded company. This was long before the term "corporate social responsibility" became "popular". The company considers this credo to comprise more than just a moral compass but rather a recipe for business success. They consider the fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change to present the proof for this claim. For further details please refer to http://www.jnj.com/about-jnj/jnj-credo#.

of this section focuses on decision-making processes related to how CR strategies are operationalised via the Trust.

The programmes which receive investment support are determined on a merit-based approach which allows for the best projects to be picked and supported in a co-funding arrangement where 50 % of the funding comes from the applying Johnson & Johnson entity and 50 % from the Trust. The length of these partnerships can be for up to a 3 year period after which the aim is that the project either becomes self-supporting or can re-apply for funding. The tools employed to manage this comprise an integrated information technology (IT) system for the grant application process, communication, and reporting of the impact generated. According to internal data, this approach resulted in 140 projects across EMEA in 2012 in 35 countries and more than 800 worldwide.[11] However, these figures are based on the old approach of country-based budgets which did not include co-funding. The key transition which the company has undertaken as part of its new strategy to become more focused and have more impact is a move away from measurement of the quantity of programs to longer term, more sustainable partnerships. This implies a move towards more high quality partnerships with a focus on transformation rather than transactions. Aligned with the Johnson & Johnson Worldwide Corporate Contributions Strategy, this approach consists of three pillars, each with its own designated strategies. Within the context of these pillars, the Trust focuses on five key strategies to achieve cohesion to the 2018 Trust Strategy across EMEA. More specifically, according to the respondents, the three pillars of this strategy include:

- Under Pillar 1: *Saving and improving the lives of women and children*—The Trust focuses on improving maternal and infant health; and promoting the health and development of children and youth.
- In Pillar 2: *Preventing disease in vulnerable populations*—The Trust aims to increase access to integrated solutions that prevent the onset of chronic conditions and support those coping with them.
- For Pillar 3: *Strengthening the healthcare workforce*—The Trust's imperative is to advance the skills of health workers and community members who care for the underserved; and to improve leadership and management in healthcare systems.
  (Interview 2014)

This strategy is exemplified through:

- Social entrepreneurship—focus on innovative solutions to social/societal issues.
- Increased partnering between actors (businesses, NGOs, NPOs, and public services).
- Capacity building in emerging markets to improve health outcomes of vulnerable populations.

[11] For further details please follow these links: http://www.jjcct.org/what-we-do/ and the annual report which provides a financial overview http://issuu.com/trust2013/docs/johnson-johnson-corporate-citizensh/1?e=8440982/2937331.

Within the context of this transformation, the public and private sector are converging to form what could be termed a “Solution Economy” through unlikely alliances for example. To elaborate, this comprises solution-focused business collaborations which enable successful cross-sector partnerships across a wide range of areas from developing and distributing vaccines to accelerating emergency response efforts. Such collaborations have shown that public, private, and non-profit entities can work together effectively to address global development challenges. Significantly in this regard, the respondents state that development sector organisations increasingly look to companies not only for financial resources, but also for access to their skills, knowledge, capital, and networks in order to generate the most effective social progress.

The respondents advocate that a significant feature of the Johnson & Johnson CR activity, and therefore the Trust with respect to stakeholder concepts and strategies (as well as the resulting systems and projects), is the influence which the credo breeds as a fundamental basis for company culture. They claim that this impacts employee awareness which in turn determines the way the company does business in three key areas including: organisational structure, human resource management, as well as leadership and the management system. These areas are now addressed in greater detail.

Focusing on the relevant changes in the Johnson & Johnson *Organisational/Governance structure* due to the CR strategy, the respondents state how the Trust aims to maximise its impact professionalising, guiding, and supporting the Johnson & Johnson Operating Companies in the EMEA region through its focus on the following four areas:

- Partnerships—impacting peoples’ lives by empowering strategic and innovative partnerships.
- Knowledge Transfer & People Engagement—connecting people in joint causes to communities and inspiring networks to make a sustainable difference to society that positively impacts peoples’ lives.
- Discovery & Development—the Trust as an agent of change and innovation investing in entrepreneurial and impact driven solutions.
- Trust Services—the business partners who support CR processes and systems (Interview 2014).

24.5.4 Project Example

One example of this type of new partnership is the collaboration between the Trust: Janssen EMEA and the Coca-Cola Distributing Company SAB Miller. The ColaLife™–Health to Wealth project is a venture in which a small UK charity called ColaLife™ partnered with the Trust to develop, design, and distribute an anti-diarrhoea kit targeted for children in the under-five age-group in developing countries. Because one in eight children in sub-Saharan Africa die before the age of five, the project focuses on alleviating preventable deaths from diarrhoea, one of the biggest causes of both death and under-development in young children in this region. This is achieved by "piggy-backing" on the distribution techniques and channels of the fast moving consumer goods company Coca Cola to bring essential life-saving medicines—such as ORS/Zinc—to remote rural areas.

From the outset, the Trust focused on investing in a "high impact" project aimed at generating lasting local added-value. By enabling and motivating micro-entrepreneurs such as the local wholesalers and micro-retailers to generate local income from the value chain, synergies from across public, private, and non-profit sectors internationally and at local community level were first examined in extensive local stakeholder engagement with up to 20 organisations. The results of this dialogue were leveraged to assess market opportunities and customer needs, as well as to optimally align the ensuing plans with the Zambian policy and business landscape. In the process, and at last count, the ColaLife™ team in Zambia estimated that about 85 micro-entrepreneurs made some profit from the sale of the Yamoyo kit in the two districts included during the pilot.

Currently, financed by co-funding from the Trust, this initiative is now being fully scaled-up. Going forward, the manufacturing and distribution of the multi-award winning "Kit Yamoyo" is now transferring to a small Zambian private company which will produce and sell the kits, thus increasing both access to life-saving medicine and local employment. Consequently, ColaLife™ aims to promote the uptake of its operating model with an open-source approach to share the learning on design, market development, and Bottom of the Pyramid value chains in Zambia and globally. To elaborate, based on the WHO/UNICEF call to action (October 2009) as well as the Lancet series on nutrition/diarrhoea (2013), the project implements a market-based solution which is deemed the most effective way to deliver the needed diarrhoea control commodities. Dialogue and engagement with stakeholders from the local operating environment (context) helped the project team to design a practical solution which pragmatically addressed key issues such as: The difficulties carers faced mixing the medicines; the inadequacy of 1 l sachets for home use; the low availability of Zinc; their willingness/ability to pay as well as their views on the branding among others.

A major advantage of this solution was the practical packaging which fits upside down in a Coca-Cola crate (for transportation) and contains a kit, the so-called Kit Yamoyo, which comprises a range of the key equipment needed to treat diarrhoea such as: a measuring device for the water, a mixing device, a storage device, and a cup (all of which can be re-used). In addition, the Yamoyo-kit, as it is called in Zambia, contains soap and a visual health information leaflet to help prevent recurrence of diarrhoea in children. Interestingly, although the project initially used Coca-Cola crates to distribute the kit, as the project developed, local initiatives, encouraged by the positive results of the project, increasingly got involved. As a result, eventually, less than 10 % of retailers said they used the Coca-Cola distribution system.

A key impact of the project was that treatment delay was cut in half so that after 12 months, retailers serving remote rural communities bought 25,000 kits, serving 40–50 % of the market in the target areas. Due to the successful distribution system, awareness and perception of ORS and Zinc as a combined treatment for diarrhoea increased significantly in the region so that 1 year after the project started, 50 % of children who needed it had access. The positive impact and the novel approach inherent in this example is demonstrated by the fact that this project has been shortlisted to receive a Financial Times Transformational Business Award in 2014 (Interview 2014).

With respect to *human resource management, leadership and the management system*, the respondents assert, as already mentioned above, that the credo values ensure a professional approach to doing business which seeks, promotes, and rewards high qualifications and advanced training. This in turn ensures motivation and low staff turnover levels due to a professional working atmosphere in a co-operative working environment which strives to optimise the development potential of all company employees. Specifically how this is achieved is based on a performance system which is addressed subsequently below in greater detail. From the perspective of organisational structure, the respondents suggest that the credo values serve to inspire adaptability and change in information systems, processes, and project management. With respect to management and leadership, they state that the credo has encouraged change within the Johnson & Johnson management board as well as the firm's reporting and communication systems. These claims suggest that the credo principles might play a role in encouraging improvement in the quality of decisions which affect management style, team spirit, strategic and operative goals, delegation, transparency, and ultimately market orientation (Interview 2014).

With respect to the *management* aspect of how the Trust measures the impact of its evolving CR activities, the findings reported by the respondents reveal that Key Performance Indicators (KPIs) are currently in development as part of the introduction of the competitive bidding system. This comprises a new budget allocation based on the merit and selection procedure noted above which aims to ensure a sustainable long-term approach to enable the future existence of the project after the Trust funding has ceased. Furthermore, the interviewees significantly state that social return is the driver for the decisions on the projects chosen. Within the generation of this social return, business value may or may not arise as a by-product of the projects supported. This focus is facilitated by the nature of the Trust which follows a social mandate. According to the respondents, this means in an operational sense, that the Trust is not exposed to the same stakeholder pressure from the media or society which the Johnson & Johnson family of companies typically face (Interview 2014).

24.5.5 Comparing Johnson & Johnson's CR Practices (via the Trust) With the Framework Steps

The third research question continues the investigation into how Johnson & Johnson via the Trust undertakes its CR strategy by comparing its approach with the framework steps. This question strives to identify the usefulness of the CR Framework in CR management practice and/or the potential requirement for its adaptation or improvement. The ensuing results then reveal the potential requirement for improvement both to the framework as well as to the target company's strategy.

The evidence suggests that Johnson & Johnson via the Trust broadly manages the translation of its sustainable CR activities into everyday business practice along the lines depicted in the management framework by:

- Defining both its external and internal operating *context* in line with elements depicted in the *context* component of the framework.
- Making specific *choices* and balancing its stakeholder interests according to the choice component elements of the framework.
- Calculating and measuring CR impact as outlined in the *calculation* components of the framework.
- Communicating the CR impact as suggested in the elements depicted in the *communication* component of the framework.

Consequently, the findings reveal that all *context* elements (see Fig. 24.2 for further details) are perceived as relevant determining factors of CR practice with the exception of media influence and industry/competitor activity. For clarification, this result is possibly related to the legal nature of the Trust and its social mandate as noted in the previous section.

The results additionally expose that the *choice* elements depicted in the framework play a role within the transformation process of practically implementing CR objectives for the target company. In particular, key aspects which were presented above including stakeholder prioritisation, organisation/governance (the credo principles), and the projects (three pillars strategy), furnish the evidence which supports this claim.

The study further identifies that the *calculation* elements depicted in the framework are salient for the target company. In particular, the Trust's focus on balancing TBL outcomes which deliver return for both society and the business simultaneously as presented in the findings above, serves as an indication of this point.

Furthermore, the *communication* elements depicted in the framework are important within the process of translating CR objectives into practice. In particular, the role of transparency in all processes was noted as essential.

Overall, these findings suggest that the target company generally follows the steps in the framework and thereby confirms the relevance of the CR framework in CR management.

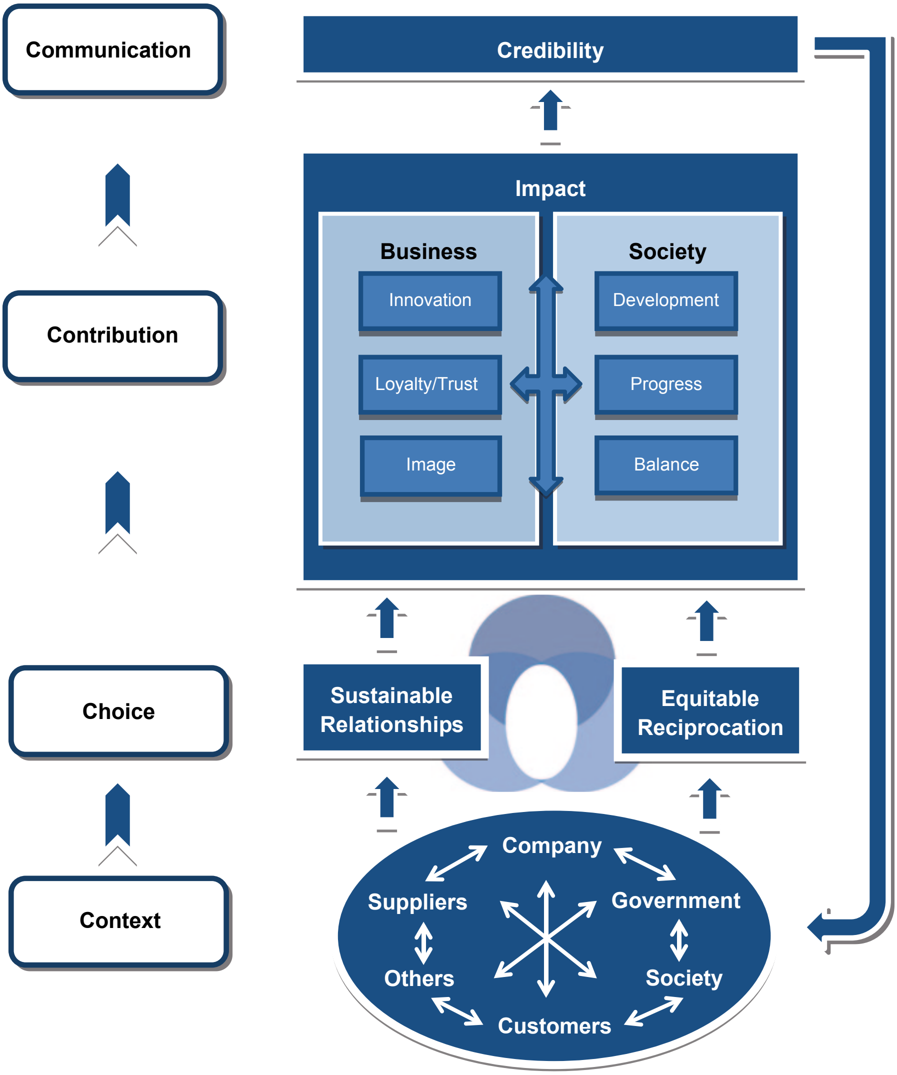
24.5.6 Relevance of the CR Management Framework in CR Management

From a practical CR management perspective, the findings derived from the in-depth interview with two senior level respondents from both the Johnson & Johnson Company and the Trust indicate that the framework under investigation possesses many of the key characteristics necessary for practically translating the concept of sustainable CR into everyday business operations. This result is drawn from the merit of its comprehensiveness, its pragmatism as well as its graphical depiction of the transformative potential of TBL impact. Nevertheless, the results additionally highlight two areas of improvement to the framework in both appearance and substance. These include the labelling/terminology employed and the target audience it intends to address.

First, with respect to labelling/terminology, the findings reveal that the term "calculation" could be improved to better reflect the inclusive nature of the sustainable relationships implied in the framework. To achieve this, the label "contribution" will now replace the original term. Significantly however, apart from the inclusion of the word "trust" in addition to the existing term "loyalty", the elements within this component remain unchanged as their substance is considered to satisfactorily reflect the triple bottom line impact intention. The term "trust" is added to more explicitly reflect the nature of the new relationship between the company and society. This comprises a changed mutual partnership in which trust plays a more dominant role that power based on improved communication between all constituents in the organisational network. Figure 24.3 illustrates the new revised version. For additional clarification, within the contribution component of the business impact, the influence of innovation; loyalty; and image depicted under the stated elements implies an economic rationale. This manifests itself in the tangible relationship between improved strategy and: Customer loyalty; employee motivation; as well as investor attraction; and avoiding any "harm" which could potentially be evoked by other stakeholders. Finally, within the context element, the authors wish to qualify that the term "company" is inherently understood to include employees and management, as well as shareholders and other investors in the company.

Second, regarding the target audience for this framework, the respondents advise that the framework is too complicated to communicate to employees for training purposes. Instead, an alternative approach using narrative and case studies is deemed more appropriate. For the purpose of CR strategic planning, however, the framework in its current form is considered to adequately reflect the steps undertaken by a global transnational company when translating its sustainable CR activities into business practice.

From an academic perspective, the framework facilitates the study of CR not as a moral matter but rather as a systematic set of steps which are designed to guide business decision-makers when addressing the hard practicalities of management (such as reputation, supply chain, human resources, marketing, and other key business functions). In other words, while the scientific study is prescriptive in nature (and accordingly normative because it advocates a set of practical guidelines based on responsible values), a significant determining factor in this approach is that these steps are recommendations which



Source: Adapted from O'Riordan (2010, p. 352).

Fig. 24.3 Updated CSR framework for responsible management

can be empirically tested (Küpper 2011, pp. 140–144). This moves the proposed concept out of the realm of subjective values or beliefs and into the scientific empirical or value-neutral domain (e.g., Weber 1917, 1988). In this approach, the most optimal outcomes for both business and society are identified and empirically validated in an approach suggested by Homann and Lüttge (2005) and previously employed in separate research (e.g., O'Riordan and Fairbrass 2013).

24.6 Summary and Conclusions

This chapter examined a strategic CR decision-making conceptualisation (CR management framework) with a view to demonstrating its effectiveness in determining *why* and *how* sustainable CR values are translated into optimally balanced TBL solutions. A case study of Johnson & Johnson's CR strategy via its Trust was employed to test the conceptualisation.

In doing so, it addressed the missing link issue of connectivity, ownership, and lack of transparency in management approaches. By testing the new revised management framework which is presented in this chapter via the target company, this study focused on demonstrating how sustainable CR values can be translated into optimally balanced TBL solutions. The inadequacy of the existing instruments available to provide feasible management solutions for CR management *per se,* but in particular for decision-makers facing the management challenge of identifying how to integrate CR and SD solutions into their business operations, presented the research gap which this chapter addressed. To fill this gap, the CR management framework was depicted to represent a systematic approach to strategic planning and policy implementation for those attempting the challenging task of designing, implementing, and measuring the performance of responsible management activities.

The proposed management framework was examined to test whether it adequately reflects the CR management steps undertaken by the target company. In doing so, problem-solving techniques and decision-making theory as well as qualitative evidence obtained in a case study using data from both Johnson & Johnson, and in particular for the Trust operating in the EMEA region, were employed. This study focused primarily on investigating why Johnson & Johnson undertakes CR, and how it implements its CR strategy via the Trust.

Ultimately, in striving to deliver a missing piece of the puzzle in the over-arching quest to improve the underlying sense of responsibility and responsible responses of human beings operating within the context of managing organisational business models (Jonker et al. 2013), the evidence presented in this chapter attempted to identify *why* and *how* the target company undertakes its CR practice. The findings with respect to *why* imply that the rationale for Johnson & Johnson to undertake CR practices is based on external social trends which influence the industry as a whole that are either directly or indirectly related to health inequalities including gender, age, ethnicity, language capabilities, disabilities, mobility, home ownership, employment status, religious belief or practice and income level in conjunction with the burden of illness, as well as internal triggers in particular with respect to the Johnson & Johnson credo. Significantly, the interview respondents claim that this credo impacts employee awareness which in turn determines the way Johnson & Johnson as a group does business in three key areas including: organisational structure, human resource management, leadership and the management system. Accordingly, *how* the Trust specifically implements the Johnson & Johnson CR strategy was depicted in light of these credo values by a highly decentralised approach to stakeholder prioritisation focusing on three key pillars which are strategically related to the core competence of the business: Saving and improving the lives of women and children; Preventing disease in vulnerable populations Strengthening the healthcare workforce. These activities are enabled via collaborations comprising unlikely alliances of partners from the public, private, and non-profit sphere. A successful example of this approach in practice was the ColaLife™ project has been shortlisted to receive a Financial Times Transformational Business Award in 2014.

Building on the examination of *why* and *how* the target company undertakes and implements CR, the chapter ultimately investigated whether the proposed management framework, as one solution for illustrating how the conversion of corporate means into CR activities can be approached, adequately depicts/reflects the CR management steps undertaken by the target company. Significantly, recent research with respect to new business models and multiple shared value suggests that those companies which understand how to do this optimally are the most successful and survive the longest (Jonker 2012a, b; Porter and Kramer 2011). The findings with respect to the CR management framework which was tested in this chapter thus confirm previous research in suggesting that a transformation of the way in which business resources are invested along the lines of the comprehensive, inclusive, sustainable approach proposed in the management framework can potentially lead to innovative solutions. Consequently, such an approach could enhance the creation of welfare for human beings and nature, and thereby achieve a fairer distribution of the wealth generated by the corporate conversion process (O'Riordan et al. 2013, p. 8).

The evidence obtained suggests that the Trust can serve as a useful vehicle for creating sustainable unlikely alliances in the process (business practice) of converting company resources into socially valuable responses (value optimisation). In this approach which reflects a stronger social-economic balance, societal needs are strategically linked to the core business competence. Consequently, the Trust concept exemplifies key elements of the new business model research (Jonker et al. 2013) such as its collaborative nature and its emphasis on social outcomes.

Nonetheless, three open issues remain with respect to the Trust's internal operations which query whether the current approach is sufficiently impact-orientated.

First, the immense size of the Johnson & Johnson business prompts the following questions:

- Is this Trust an optimal strategy for Johnson & Johnson to leverage CR practice across the entire business in the EMEA region or even worldwide? More specifically, does this Trust have sufficient transformative powers to inspire, influence, and enable the appropriate organisational behaviour at a sufficiently strategic level across the entire (extended) value chain (as opposed to mere philanthropy)? These questions trigger additional related challenges of how to ideally develop, co-ordinate, and implement CR activities within a global corporation.

- Does the Trust have the inherent capability and can it be sufficiently scaled up in order to enrich the Johnson & Johnson family of companies' core business competence with white space opportunities?

Second, should a "percentage of pre-tax net income" method be employed for budgeting the financial contribution which is made by Johnson & Johnson to the Trust, this could be critically questioned with respect to its TBL impact orientation.

Third, performance measurement still remains an open question as the Key Performance Indicator (KPI) system for the Trust is still under development. Again, given the issue that the measurement of CR activities is recognised as one of the key challenges in CR management *per se* (e.g., Welford 2008; Burchell and Cook 2006), this issue alongside the other open questions noted here represent general dilemmas in CR management which require inclusive-orientated, innovative, and forward-looking solutions from both a macro (external operating conditions) and micro (organisational) level.

The results presented in this chapter could be empirically tested in subsequent research. For instance, to address the dilemma of satisfactorily balancing stakeholder interests, causal links could be established on degrees of win-win in the interplay between private and public interests (such as occur in *tragedy of the commons* issues, see Hardin 1968, 1994). This could be addressed by measuring data outcomes (either historically or predicted) to identify those business solution outcomes which most favourably align private with public interests (as indicated in an approach suggested by Pies et al. 2009, p. 380, cited in Küpper 2011, p. 142). Significantly, this approach, which elevates the study of CR management into the scientific realm, indicates a key starting point for further research on this subject using a scaled-up sample (O'Riordan and Fairbrass 2013).

Notwithstanding these noble notions, in practical terms, the reality remains that for most companies economic (i.e., not social) success comprises the conventional method for measuring wealth and accordingly the value of their effective use of the resources they invest. Economists suggest the resulting focus on economic wealth has led to a disconcerting domination of corporate control which can lead to an unstable environment when hyper-connection is combined with such concentration of power. Consequently, a prerequisite for change is that business decision-makers realise that CR activities focusing on value optimisation for a broader range of stakeholder groups is reasonable and justified. The framework presented in this chapter is one solution to fill the missing link which aims to transparently depict the cycle of change in management mind-sets, objectives, and processes. Most importantly, because the framework depicts both economic and social value, it could be viewed as a first step in improving the transparency in CR implementation. Accordingly, the framework presents a missing link in the CR management process.

Significantly, the findings presented in this chapter indicate that a key potential platform for enabling unlikely alliances in a new solution economy is the white space at the point of intersection of the TBL concepts. In this regard, the evidence presented suggests that constructs such as Trusts which operate beyond the constraints of a corporate agenda can play a key role as a vehicle for generating the type of change required to foster "common sense" as opposed to "nonsense" business investments which merely copy other industry players and do not generate competitive advantage. Differentiation, on the other hand, involves "looking in a different direction" (i.e., for value optimisation opportunities as opposed to exclusive shareholder-orientated profit maximisation interests). This is enabled by recognising the importance of implanting people with the right mind-set to execute the business activities supported by a facilitating organisational structure and systems. In this approach, the company is not seen as a machine or system but as a totality of individuals who have the culture and passion to make a difference. The investment of business resources can serve as a powerful catalyst to offset the collective outcome of some of the most pressing dilemmas of our time. Issues such as the increasingly swelling world population which is triggering gigantic economic growth that in turn fuels consumption in both the developed and most intensely in the developing countries, provoke a domino effect of dilemmas which justify the dramatic need to focus on a more sustainable way forward. While engineers and technology will play a major role in this new scenario, the solution to the sustainability challenge does not lie in the first instance in technology but rather in the cultural sphere. What is required is a new culture with respect to the role of business in social issues such as human dignity and consideration of related aspects including poverty, unemployment, retirement, and equal opportunities, as well as the role of business in environmental issues such as the of depletion of energy and other resources including the identification of ways to diminish the harmful impact of business on the environment. Overall, the evidence with respect to the Johnson & Johnson CR strategy via the Trust case study presented in this chapter suggest that the CR management framework is one management solution which can transparently offer a useful guideline to managers for identifying such white space opportunities.

Consequently, the CR management framework potentially serves to fill a key missing link in the CR management challenge.

The findings presented in this chapter were obtained solely for the purpose of scientific research and are entirely free from any form of financial obligation, support, or expectations of any similar effect or means.

References

Aguilar, F. J. (1967). *Scanning the business environment*. New York: Macmillan.

Andler, N. (2011). *Tools for project management, workshops and consulting: A must-have compendium of essential tools and techniques*. Erlangen: Publicis Publishing.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Barney, J. B., & Hesterly, W. S. (2010). *Strategic management and competitive advantage: Concepts and cases* (3rd ed.). Upper Saddle River: Prentice Hall.

Berggren, E., & Bernshteyn, R. (2007). Organizational transparency drives company performance. *Journal of Management Development, 26*(5), 411–417.

Biggs, D. (2010). *Management consulting. A guide for students*. Hampshire: Cengage.

Brundtland, G. H. (1987). *Our common future*. Oxford: Oxford University Press.

Burchell, J., & Cook, J. (2006). It's good to talk? Examining attitudes towards corporate social responsibility dialogue and engagement processes. *Business Ethics: A European Review, 15*(2), 154–170.

Campbell, D. J. (2000). Legitimacy theory or managerial reality construction? Corporate social disclosure in marks and spencer plc corporate reports, 1969–1997. *Accounting Forum, 24*(1), 80–100.

Carroll, A. B., & Buchholtz, A. K. (2009). *Business and society. Ethics and stakeholder management* (7nd ed.). Mason: South-Western Cengage Learning.

Crane, A., & Matten, D. (2004). *Business ethics, a European perspective: Managing corporate citizenship and sustaintability in the age of globalization*. Oxford: Oxford University Press.

Crane, A., & Matten, D. (2007). *Business ethics: Managing corporate citizenship and sustaintability in the age of globalization* (2nd ed.). Oxford: Oxford University Press.

Crane, A., & Matten, D. (2010). *Business ethics: Managing corporate citizenship and sustaintability in the age of globalization* (3rd ed.). Oxford: Oxford University Press.

Eisenführ, F., Weber, M., & Langer, T. (2010). *Rational decision making*. Heidelberg: Springer.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 14,* 532–560.

Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone Publishing.

Ethical Corp. (2009). If Roche sneezes the pharmaceutical industry catches a cold. http://www.ethicalcorp.com. Accessed 18 Sept 2009.

Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics, 26*(6), 301–325.

Ferrell, O. C., Fraedrick, J., & Ferrell, L. (2013). *Business ethics: Ethical decision-making and cases*. Mason: South-Western Cengage Learning.

Fombrun, C. J., & Nevins, M. D. (2004). *The advice business: Essential tools and models for management consulting* (pp. 75–240). Upper Saddle River: Prentice-Hall.

Forbes. (2011). The 147 companies that control everything. http://www.forbes.com/sites/bruceupbin/2011/10/22/the-147-companies-that-control-everything/. Accessed 28 Jan 2014.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Marshfield: Pitman Publishing.

Freeman, R. E., Martin, K., & Parmar B. (2007). Stakeholder capitalism. *Journal of Business Ethics, 74,* 303–314.

Friedman, M. (13 Sept 1970). The social responsibility of business is to increase its profits. *The New York Times Magazine*.

Gray, R. H., Kouhy, R., & Lavers, S (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing, and Accountability Journal, 8*(2), 47–77.

Haniffa, R. M., & Cooke, T. E. (2005). The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy, 24*(5), 391–430.

Hardin, G. (1968). The tragedy of the commons. *Science, 162,* 1243–1248.

Hardin, G. (1994). The tragedy of the unmanaged commons. *Trends in Ecology and Evolution, 9*(5), 199.

Holland, D., & Albrecht, C. (2013). The worldwide academic field of business ethics: Scholars' perceptions of the most important issue. *Journal of Business Ethics, 117*(4), 777–788.

Homann, K., & Lütge, C. (2005). *Einführung in die Wirtschaftsethik* [*Introduction to business ethics*]. Muenster: Lit-Verlag.

Hungenberg, H. (2010). *Problemlösung und Kommunikation: Vorgehensweisen und Techniken* [*Problem solving and communication: Procedures and techniques*] (3rd ed.). Munich: Oldenbourg.

Interview. (2014). Face-to-face interview based on a structured questionnaire held with the two authors and two senior executives from the Johnson & Johnson Corporate Citizenship Trust at the Dorint Neuss Kongresshotel, Selikumerstrasse 25, Neuss, 41460, Germany on 22 Jan 2014.

ISO. (2010). *Guidance on social responsibility. International Standard ISO/DIS 26000*. Geneva: International Organization for Standardisation.

Johnson & Johnson. (2014a). The J & J Corporate Citizenship Trust. http://www.jjcct.org/who-we-are/. Accessed 24 Jan 2014.

Johnson & Johnson. (2014b). About us. http://www.jnj.com/about-jnj. Accessed 24 Jan 2014.

Johnson & Johnson (2014c). Corporate Citizenship Trust annual report 2012: Inspiring, connecting, engageing. http://issuu.com/trust2013/docs/Johnson-Johnson-corporate-citizensh/1?e=8440982/2937331. Accessed 24 Jan 2014.

Jonker, J. (2012a). *New business models. An exploratory study of changing transactions creating multiple value(s)*. Nijmegen: Nijmegen School of Management.

Jonker, J. (2012b). *Sustainable thinking acting 2011–2035: An inspirational book for shaping our common future*. Alphen aan den Rijn: Kluwer.

Jonker, J., Stark, W., & Tewes, S. (2011). *Corporate Social Responsibility und nachhaltige Entwicklung: Einführung, Strategie und Glossar* [*Corporate social responsibility and sustainable development: Introduction, strategy and glossary*]. Heidelberg: Springer.

Jonker, J., O'Riordan, L., & Marsh, N. (11–13 Sept 2013). *Organising as the art of balancing values: Enabling the realisation of multiple and shared values through a generation of new business models*. Paper presented at the Corporate Responsibility Research Conference, University of Graz (Austria).

Küpper, H. U. (2011). *Unternehmensethik: Hintergründe, Konzepte und Anwendungsbereiche* [*Business ethics: Background, concepts and applications*]. Stuttgart: Schaeffer-Poeschel.

Laux, H., Gillenkirch, R. M., & Schenk-Mathes, H. Y. (2012). *Entscheidungstheorie* [*Decision making theory*] (8th ed). Wiesbaden: Springer-Gabler.

Lindblom, C. K. (1994). The implications of organisational legitimacy for corporate social performance and disclosure. Paper presented at the Critical Perspectives on Accounting Conference, New York, NY.

Lindgreen, A, & Swaen, V. (2010). Corporate social responsibility [Special issue]. *International Journal of Management Reviews, 12,* 1–7.

Lindgreen, A., Swaen, V., & Johnston, W. J. (2009). Corporate social responsibility: An empirical investigation of U.S. organizations. *Journal of Business Ethics, 85*(2), 303–323.

May, S., Cheney, G, & Roper J. (2007). *The debate over corporate responsibility*. Oxford: Oxford University Press.

McDonough, W., & Braungart, M. (2002). *Cradle to cradle: Remaking the way we make things*. New York: North Point Press.

Millennium Development Goals. (2014). Millennium development goals and beyond 2015. http://www.un.org/millenniumgoals/. Accessed 22 Jan 2014.

Minto, B. (2009). *The pyramid principle: Logic in writing and thinking* (3rd ed.). Harlow: Pearson.

New Scientist. (2014). Revealed—The capitalist network that runs the world. http://www.newscientist.com/article/mg21228354.500-revealed-the-capitalist-network-that-runs-the-world.html#.UudnPbS1L3g. Accessed 28 Jan 2014.

O'Riordan, L. (2010). Perspectives on corporate social responsibility (CSR): Corporate approaches to stakeholder engagement in the pharmaceutical industry in the UK and Germany (Doctoral thesis, Bradford University School of Management, Bradford, UK). http://ethos.bl.uk/OrderDetails.do?uin=uk.bl.ethos.545644. Accessed 1 Dec. 2013.

O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.

O'Riordan, L., & Fairbrass, J. (2013). Managing stakeholder engagement: A new conceptual framework. *Journal of Business Ethics*. doi:10.1007/s10551-013-1913-x.

O'Riordan, L., Jonker, J., & Marsh, N. (2013). The missing link in corporate responsibility: Connecting for sustainable growth. KCC White Paper 1, Essen. http://www.fom.de/fileadmin/fom/kc/kcc/KCC_White_Paper_1_ONLINE.pdf. Accessed 22 Jan 2014.

Pies, I., Hielscher, S., & Beckmann, M. (2009). Moral committments and the societal role of business: An ordonomic approach to corporate citizenship. *Business Ethics Quarterly, 19*(3), 375–401.

Porter, M. E. (1980). *Competitive strategy*. New York: Free Press.

Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: Free Press.

Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1/2), 62–77.

Rasiel, E. M., & Friga, P. N. (2001). *The McKinsey mind: Understanding and implementing the problem-solving tools and management techniques oft he world's top strategic consulting firm*. New York: McGraw-Hill.

Robson, C. (2004). *Real world research* (2nd ed.). Madden: Blackwell.

Schreyögg, G., & Werder, A. (2004). *Handwörterbuch Unternehmensführung und Organisation* [*Handbook dictionary of business management and organisation*]. Stuttgart: Schaeffer-Poechel.

Schwalbach, J. (2000). Image, Reputation, und Unternehmenswert [*Image, reputation, and company value*]. In: B. Baerns (Ed.), *Information und Kommunikation in Europa. Forschung und Praxis*. [*Transnational communication in Europe. research and practice*] (pp. 287–297). Berlin: Vistas. http://www.econbiz.de/archiv/b/hub/management/imge.pdf. Accessed 22 Jan 2014.

Schwartz, M. S., & Carroll, A. B (2008). Integrating and unifying competing and complementary frameworks: The search for a common core in the business and society field. *Business & Society, 47*(2), 148–186.

Stark, A. (1993). What's the matter with business ethics? *Harvard Business Review, 71*(3), 38–48.

The Economist. (2009). What went wrong with economics. http://www.economist.com/node/14031376. Accessed 24 Jan 2014.

The Economist. (2013). The Johnson & Johnson dynasty: Pass the painkillers–A headache-inducing biography of the Johnson family. http://www.economist.com/news/books-and-arts/21583230-headache-inducing-biography-Johnson-family-pass-painkillers. Accessed 24 Jan 2014.

Ulrich, P., & Fluri, E. (1995). *Management: Eine Konzentrierte Einführung* [*Management: A concise introduction*]. Berne: Campus.

Wagner, G. R. (2006). Gesellschaftliche Verantwortung als Unternehmensbild? [*Social responsibility as a company image*]. In S. Hilger (Ed.), *Kapital und Moral: Ökonomie und Verantwortung in historisch-vergleichenden Perspektive* [*Capital and moral: Economics and responsibility from historical and comparative perspective*] (pp. 35–66). Cologne: Böhlau.

Weber, M. (1917). Der Sinn der "Wertfreiheit" der soziologischen und ökonomischen Wissenschaften [The meaning of "value-freedom" of the sociological and economic sciences]. http://www.zeno.org/nid/20011440333. Accessed 21 Jan 2014.

Weber, M. (1988). Die "Objektivität" sozialwissenschaftlicher und sozialpolitischer Erkenntnis [The "objectivity" of social science and social cognition]. http://www.zeno.org/nid/20011440104. Accessed 21 Jan 2014.

Weber, M. (1992). *Politik als Beruf* [*Politics as a vocation*]. Stuttgart: Reclam.

Welford, R. (2008). Reporting on community impacts—A survey conducted by the global reporting initiative, the University of Hong Kong, and CSR Asia. https://www.globalreporting.org/resourcelibrary/Reporting-on-Community-Impacts.pdf. Accessed 5 Feb 2014.

Wickham, L., & Wilcock, J. (2012). *Management consulting. Delivering an effective project* (4th ed.). Harlow: Pearson.

Wieland, J. (1999). *Die Ethik der Governance* [*The ethics of governance*]. Marburg: Metropolis.
Williamson, O. E. (1979). *Markets and hierarchies: Analysis and anti-trust implications*. New York: Free Press.
Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: Free Press.
Woodward, D., Edwards, P., & Birkin, F. (2001). Some evidence on executives: Views of corporate social responsibility. *British Accounting Review, 33,* 357–397.
Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks: Sage.

Part III
Educational Realm

CSR—A New Challenge for Universities? A Theoretical and Empirical Analysis of German Universities

25

Karl-Heinz Gerholz and Stefan Heinemann

Contents

25.1 CSR and Universities—An Introduction 508
25.2 CSR and Civic Engagement of Universities 509
  25.2.1 CSR Discourse 510
  25.2.2 Civic Engagement Discourse 512
  25.2.3 Interim Result: Orientation for CSR Design in Universities 514
25.3 Empirical Investigation of CSR Activities at Universities 516
  25.3.1 Study Context and Interest 516
  25.3.2 Data Collection and Analysis 516
  25.3.3 Results of the Empirical Analysis 518
25.4 Conclusion 521
References 523

Abstract

The topic of CSR is often discussed in connection with business organisations. But also for organisations such as universities CSR represents an important area of influence. The main, clearly related question for research is: What form of specific commitment to society is fitting for universities and society, and how can this commitment

K.-H. Gerholz (✉)
Universität Paderborn Department of Business and Human Resource Education,
Warburger Straße 100, 33098 Paderborn, Germany
e-mail: gerholz@wiwi.upb.de

S. Heinemann
FOM University of Applied Sciences,
Leimkugelstraße 6, 45141 Essen, Germany
e-mail: stefan.heinemann@fom.de

L. O’Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_25

be achieved? This leads to the question of how universities should design their CSR activities. This is driven by two discourses: the CSR-and civic engagement-discourse. In the literature a missing link between these discourses can be identified, therefore our first approach is to analyse these discourses concerning their similarities and differences. In doing so, we demonstrate that there are different traditions and theoretical foundations in these discourses. Significantly, from an empirical point of view, no integrated survey of the CSR and civic engagement activities of universities has been conducted to date. Therefore, we present an empirical case study with regard to CSR and civic engagement activities of universities. We present the results of an empirical case study of the current situation of universities in Germany (the federal state of North Rhine-Westphalia specifically and with a focus on business faculties) and their CSR and civic engagement activities. In conclusion, we present some preliminary inferences for future development of CSR and civic engagement activities at universities.

25.1 CSR and Universities—An Introduction

In recent years, the discourse on Corporate Social Responsibility (CSR) has intensified and is often discussed in connection with business organisations (e.g., Scherer and Butz 2010). But also for educational organisations such as universities CSR represents an important area of influence (Ahmad and Crowther 2013; especially business schools Amann et al. 2011). Traditionally universities follow a mandate given by society—but a different one from the licence to operate of businesses (Heinemann 2013, 2014). The mandate is thus not a static mission; universities work rather in dynamic social context and are confronted with multiple objectives (Gourley 2012). As a consequence, the specific—third—mission of universities is also discussed within CSR research (Berthold et al. 2010; Jacoby 2009; Ehrlich 2011). Very important but still unanswered questions are: What kind of commitments and contributions to society are specific to universities, and how can they be achieved by such institutions? What is the relationship between the third mission and CSR? And what concrete fields of action can be identified and what recommendations can be made to universities?

Initially, the main commitments of universities to society can be said to be teaching and research. Research activities relating to CSR exist, for example, in the design of corporate CSR activities or explanatory questions of business ethics (Matten and Palazzo 2008). Beyond these, the numbers of scientific contributions to CSR and the chairs for CSR at universities have increased in the last few years (Küpper and Schreck 2008; Matten and Moon 2004). Teaching consists in the students' learning process and how they are prepared for future responsibility in working life. An increasing number of CSR modules have been introduced over the last few years (Schwalbach and Schwerk 2008; Schwerk 2010; Papenfuß and Schimmelpfennig 2013), accompanied by broader discussion of the design of educational instruction in this field (e.g., Gerholz and Sloane 2010; Heinemann and Krol 2011). Of course, CSR in teaching and research is not by any means limited to business studies. However, consideration of teaching and research alone does not reflect CSR as a whole. CSR relates to the entire organisation and is more than a stakeholder model. For universities this also means CSR becoming institutionalised as part of the organisational structure, and it means dialogue with university stakeholders about their desired objectives. The latter is aimed towards civic engagement discourse, the third mission of universities that refers to dialogue with and commitment to the community. In theoretical terms this leads to the concept of Corporate Social Responsibility (Scherer and Butz 2010); in practical terms it produces activities such as the UNSECO DESD (Decade of Education for Sustainable Development) or the PRME as a special programme for Management Education.[1]

Previous investigations of CSR at universities have been made in teaching and research (Schwerk 2010; Scherer and Picot 2008) or in community engagement (Watson et al. 2011; Soska and Butterfield 2004), but there is clearly no integrated examination of universities' CSR activities that includes the four main perspectives of *Research, Teaching, University Management, and Stakeholder Dialogue.* The purpose of this chapter is therefore to analyse what CSR as a holistic concept would mean for universities. To do so, in Sect. 2 we examine the CSR discourse for universities from a theoretical point of view by analysing CSR discourse in business (2.1) and in higher education (2.2). These discourses function as a descriptive model for CSR activities at universities (2.3). On this basis, we present an empirical case study relating to the current situation at universities in Germany (North Rhine-Westphalia) and their CSR activities (Sect. 3), limited to the field of business education. Our goal is to illustrate best practice for CSR activities. We then present principles for the design of CSR activities in universities based on our findings (Sect. 4).

25.2 CSR and Civic Engagement of Universities

CSR discourse is presently anchored more in business and administration science. It considers the fit between the activities of a company and the values and expectations of society (Scherer and Butz 2010; Joyner and Payne 2002). The discourse in business and administration science is accompanied by a second discourse, in higher education: Internationally there is a growing trend towards university-community partnerships and civic engagement by higher education institutions (Schuetze 2012; Lawry et al. 2009). The civic engagement of universities is sometimes called the "third mission" alongside teaching and research. There are therefore two possible starting points for an analysis of the CSR activities of universities: CSR discourse in business and administration science (see 2.1) and civic engagement discourse in higher education (see 2.2).

[1] Retrieved March 3, 2014, from http://www.desd.org/—http://www.unprme.org/.

25.2.1 CSR Discourse

Corporate Social Responsibility (CSR) is no longer a matter of little consequence. It has become quite significant in research and teaching, especially in the field of business administration, where an overwhelming number of publications and studies, etc. have appeared (e.g., Kraus and Brtitzelmaier 2013). Kraus and Britzelmaier state that, “The concept of Corporate Social Responsibility (CSR) or generally spoken the role of businesses in the society has significantly increased attention in academia but also in practice” (p. 273). In an economic world where it is no longer easy to distinguish between crisis and non-crisis, where corporate scandals are so commonplace as to have become tedious, where the biosphere has become the raw material for the main good—cash—(and not the other way around), where civicide seems to be an acceptable price to pay, and the next generations seem to be a theoretical construct of little concern to anybody—in an economic world like this, “sustainability” (as understood by Brundtland Commission 1987), “business ethics” and “CSR” are buzzwords and often cited; but are they really so relevant to business and economics? The answer is naturally yes, and more and more scholars, managers and the wider community seem to understand this. Businesses in particular are often judged not solely by their profit and game-rule compliance but by the specific responsibility they are required to assume in society (Crane and Matten 2010). There is wide discussion as to what responsibilities these may be (Pearce and Manz 2011) and how companies really are influenced by their sense of society, which leads to more and more advanced CSR (Carroll and Buchholtz 2014). In the Anglosaxon view, CSR is linked to business in its traditional business-case-role (Porter and Kramer 2011) in the European view it is linked to society first and later CSR consequently enriches a firm’s value creating process and perspectives (“a concept whereby companies integrate social and environmental concerns in their business operations and in their inter-action with their stakeholders on a voluntary basis” (European Commission 2001, p. 6). Since Bowen focused on CSR as a social duty over 60 years ago (“Social Responsibilities of the Businessman”), there has still been no widely accepted definition (McWilliams and Siegel 2001); the map of CSR theories, definitions and practices is vast, with different models focusing on different aspects (e.g. corporate citizenship, stakeholder dialogue (O’Riordan and Fairbrass 2008; Garriga and Melé 2004).

In general, however, reference is made to three areas of responsibility of business organisations in the CSR discourse (e.g., Köppl and Neureiter 2004). The first is social responsibility, which indicates the relationship of business organisation to community and society as well as responsibility towards employees. The main question in this area is how a business organisation should contribute to the common weal and public welfare. The second area is ecological responsibility, which refers to the responsible treatment and use of natural resources through the operational value creation process. Last but not least is economic or financial responsibility, which means how the business organisation contributes to economic prosperity against the backdrop of social and ecological responsibility. Strategic fields of activity in this area include, for instance, transparent and responsible corporate governance of the business organisation. These three areas represent the triple bottom line (Salper and Hall 2011; Savitz 2006). Keeping this in mind, the concept of CSR is aimed at integral success of the organisation. The integral dimension means incorporating the various areas of responsibility in decision-making processes.

Based on the three areas of responsibility, it seems that one main intention of CSR is institutional accountability, the idea of a license to operate, a licence granted by society that can be terminated if a firm does not behave according to certain moral standards. Meeting those standards is compatible with business case but not identical to it. There are plenty of activities by e.g. state organisations that would argue for the benefits of implementation of CSR into firms. The official Industry Initiative of the Government of Canada (2014), for example, names the following:

- **Better anticipation and management of an ever-expanding spectrum of risk**. Effectively managing social, environmental, legal, economic and other risks in an increasingly complex market environment, with greater oversight and stakeholder scrutiny of corporate activities, can improve the security of supply and overall market stability. Considering the interests of parties concerned about a firm's impact is one way of anticipating and managing risk.
- **Improved reputation management.** Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. This is particularly important for organizations with high-value retail brands, which are often the focus of media, activist and consumer pressure. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality, and consistency. Even for companies that do not have direct retail exposure through brands, their reputation as a supply chain partner—both good and bad—for addressing CSR issues can make the difference between a business opportunity positively realized and an uphill climb to respectability.
- **Enhanced ability to recruit, develop, and retain staff**. This can be the direct result of pride in the company's products and practices, or of introducing improved human resources practices, such as "family-friendly" policies. It can also be the indirect result of programs and activities that improve employee morale and loyalty. Employees become champions of a company for which they are proud to work.
- **Improved competitiveness and market positioning**. This can result from organizational, process and product differentiation and innovation. Good CSR practices can also lead to better access to new markets. For example, a firm may become certified to environmental and social standards so it can become a supplier to particular retailers.
- **Enhanced operational efficiencies and cost savings.** These flow in particular from improved efficiencies identified through a systematic approach to management that includes continuous improvement. For example, assessing the environmental and energy aspects of an operation can reveal opportunities for turning waste streams into revenue streams (wood chips into particle board, for example) and for system-wide reductions in energy use.

Also as mentioned earlier, the Anglosaxon and European views differ. Discussion is about CSR and competiveness, and about the way CSR could and should be integrated—especially in SMEs.

> CSR is an essential component of risk and reputation management for many companies. The business case for CSR in terms of risk and reputation management is strengthened by the fact that enterprises are more exposed to public scrutiny and criticism than in the past. This also means that there is greater pressure on companies to embed CSR deeply within their values and operations, rather than to assume it can be used as a simple public relations tool. Dealing with CSR issues such as transparency, human rights, and supply-chain requirements from a risk management perspective has led some companies to discover additional positive impacts of CSR. (European Commission 2008, p. 114)

This links directly to business studies because certain competencies are necessary to meet these expectations without bankrupting a company (Schulte et al. 2014).

25.2.2 Civic Engagement Discourse

In the last few years the concept of civic engagement at universities has attracted a great deal of attention (Schuetze 2012), but there is a broad range of understanding as to what civic engagement actually means. Jacoby speaks of a "complex and polyonymous concept," and several terms are used to describe it, such as "civic mission," "community engagement" or "democratic citizenship" (Jacoby 2009). However, a common frame of understanding of civic engagement can include educating students to become active and responsible citizens and fostering universities' role in their community.

The aim of educating students to become responsible citizens is highlighted in liberal arts education, and in particular in Dewey. For him it is essential that a democratic society has active and engaged citizens. To encourage students to become engaged citizens, a civic learning process should consist of three elements. First, the students are engaged in the surrounding community, second the learning process is focused on problems to be solved; and third it should be a collaborative learning process (Dewey 1966; also Ehrlich 2011). Civic education is also important if democracy is to function in the future, which means that in a inter-action and diverse society, students should be taught to understand their own identity and communicate with different people (Checkoway 2000). A best practice initiative in this context is Campus Compact in the United States. It is a coalition of more than 1100 higher education institutions committed to developing citizenship values and skills during the study program (Hollander 2012; Jacoby 2009; Kantanen 2005). As far as education is concerned, civic engagement at universities means preparing students to be civically engaged citizens in a given society and fostering democratic understanding.

Beyond this, civic engagement also focuses on the universities' engagement and their partnerships in the community. This refers to the "third mission" or "third basic responsibility" of universities, although it cannot be separated from teaching and research. The aim is to strengthen them in a community context (Schuetze 2012) and transfer the produced knowledge and insights in the scientific fields to the social and community needs (Kantanen 2005). Universities must make a specific contribution to community development. According, to Goddard, this contribution can take three forms: first, the university is seen as a major partner in regional skills development, direct employment, and as a contributor to social vitality. Second, the university is a locational asset, helping industry and local organisations to evolve and to reap the benefits. Third, the community and region is seen as a source of new students, research contacts and sponsors for new projects. As a whole, the objective is to intensify the exchange and transfer of knowledge between the university and the community to the advantage of both sides.

In the literature and in university practice there are many forms of civic engagement. There is no "one right way" (Bawa and Munck 2012, p. xvii) to do civic engagement. The main types are differently structured and there is a lack of clarity between them (Fisher et al. 2004; Schuetze 2012). Overall, it is possible to differentiate between four main types of civic engagement. Briefly, they are: (a) Community outreach, (b) Community-based research, (c) Service learning, and (d) Community service.

- *(ad a) Community outreach*
  Community outreach refers to universities' activities that meet needs in the community and society. Their support takes the form of a mostly voluntary knowledge and know-how transfer to the community. The engagement of the university is not limited to the local community and can also take place on a regional and national level (Berthold et al. 2010). Transfer can take several forms, which Varga has categorized. He distinguishes between (1) knowledge transmission through formal or informal networks (i.e., research collaborations, faculty consulting, or conferences and seminars), (2) dissemination of technologies through business relation (i.e., technology licensing or university spin-offs or company start-ups), and (3) knowledge transfer using university resources (i.e., libraries or laboratories) (Schuetze 2012; Varga 2009). These forms of transfer show that community outreach activities are often structured as networks and corporate bodies. Engagement in these networks can also depend on the community partners. According to Slowey (2003), there are three types of connections: (1) public bodies (i.e., governments, ministries or NGOs), (2) private organisations (i.e., industry and commerce), or (3) the bodies in civil society (i.e., initiatives in the region). The opportunities for community outreach activities show that the transfer of knowledge can have several extents and institutionalisations. However, the objective of these activities is to improve the quality of life for members of the community and society. The activities mostly address social and environmental issues. The university thus meets its responsibility to follow a mandate given by society and not by itself.
- *(ad b) Community-based research*
  A second main type is community-based research. Universities, faculties, researchers, and students solve community problems in the course of their work. This is sometimes called participatory action research, because it takes place in partnership with the com-

munity (Fisher et al. 2004). The idea is that the community and the universities join together to solve real problems in society. It is a "collaborative knowledge creation process" (Tandon 2008) using scientific methods recognised in the scientific community. Community-based research is therefore not inferior to laboratory-based research (Schuetze 2012). Possibilities for community-based research can exist in all scientific disciplines, such as education, medicine or technical science.

- *(ad c) Service learning*
  Service learning is one of the forms of civic engagement most frequently mentioned in discourse. In the last decade more widespread use of service learning as an educational concept can be observed across a variety of disciplines and universities around the world (Kenworthy-U'ren 2008). The main idea is that students serve the community and have a learning experience in return. In service learning arrangements, students participate in a service activity that fits a community need. There is mostly some linkage to the curriculum, so that the service activity is relevant to the academic content of the course. Reflection on the service activity is intended to foster a deeper understanding of course content and enhance student sensitivity for civic responsibility (Gerholz and Losch 2014; Bringle and Clayton 2012; Butin 2010). Especially the latter shows that service learning can help students to understand the relevance of civic engagement and what it means to be an active citizen. Beyond this, it is an educational concept for enhancing student outcomes. Yorio and Ye showed in a meta study that service learning has a positive effect on understanding of social issues, personal insight and cognitive development (Yorio and Ye 2012).
- *(ad d) Community service*
  The last main concept is community service, in which students also support the community, but their service is not embedded in the curriculum or in modules (Furco 2002). Community service comprises voluntary activities by students to meet community needs. These activities are mostly free and designed to help people in the surrounding area of the university. Examples are youth welfare work, helping homeless people, or volunteering for charitable organizations. The aim is similar to that of service learning, i.e. to foster student civic responsibility.

25.2.3 Interim Result: Orientation for CSR Design in Universities

The two discourses in the prior descriptions show initial potential and possibilities for designing CSR activities at universities. Their aim is to explore the responsibilities and commitments of a university to society, although they tend not to refer to each other in the literature. In Fig. 25.1, the main elements of the discourse concerning the missions of the university are presented.

As far as the traditional mandates of universities—teaching and research—are concerned, the CSR discourse places emphasis on CSR education in the business education curriculum, for example, by offering courses or study programmes in Corporate Gover-

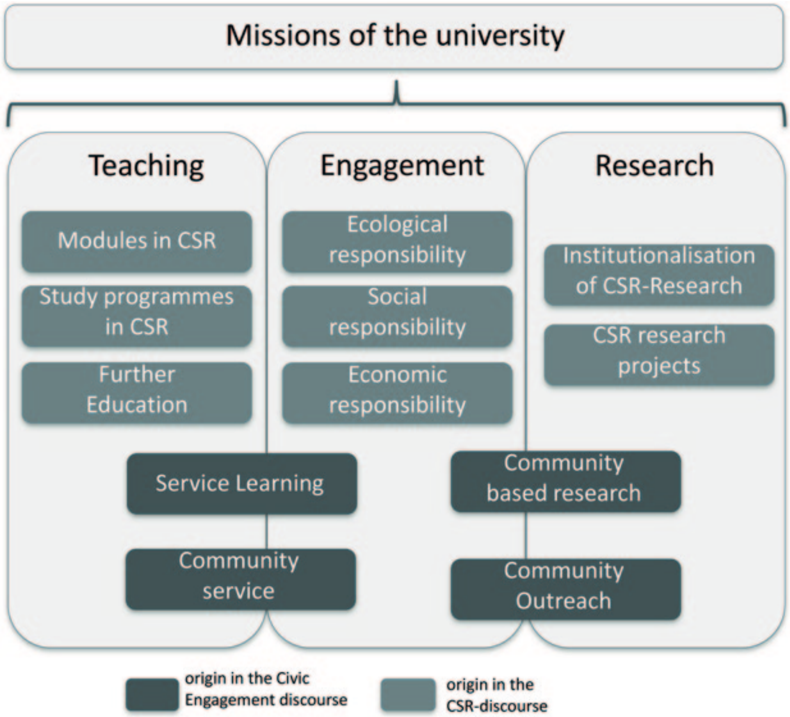


Fig. 25.1 Missions of the university according to CSR and civic engagement discourse

nance, Sustainability, or CSR as an overall concept. In addition, there is an increasing trend towards CSR research at universities (see Sect. 1). Beyond that, however, the CSR discourse also refers to the entire university organisation. The question here is how universities recognise their social, ecological, and economic responsibility, and how people at universities incorporate this in their everyday thinking and actions. The latter question is also the focus of civic engagement discourse, together with the question of which activities reflect the university's role in the community. This refers to the engagement of students in the community as well as the support activities of researchers, lecturers, and the employees as a whole with regard to community needs. Nevertheless, both discourses and the corresponding concepts refer to the internal and external design of universities.

The discourses are a source of orientation for shaping universities' responsibility in society. The concrete detail of the concepts depends on the individual university. Both discourses have their origin in the Anglosaxon and US area, where universities traditionally have a stronger community orientation (Muller 1999). Some adjustment must therefore be made for the German context and its universities. In this regard, it is important to note that universities are peculiar organisations. University routine is shaped by a long tradition of collegial and democratic self-administration, thus making independence and liberty important guiding norms (Gerholz et al. 2013; Musselin 2007). Bearing this in mind, it seems relevant for the various people at a university to come to a common understanding as to the importance of these discourses for their institution. They need to find a common sense of their commitment to society. In this regard, it could be helpful to analyse which activities relating to CSR and civic engagement are already in place. In the following, we therefore present an empirical case study of CSR and civic engagement activities at German universities (3).

25.3 Empirical Investigation of CSR Activities at Universities

25.3.1 Study Context and Interest

An empirical case study (Yin 2003) concerning the current situation of German universities has been conducted. The study focused on the structuring of CSR activities at universities and exploring the present situation regarding the types of engagement of the various universities.[2] The study centred on the business and economics faculties of the universities in the federal state of North Rhine-Westphalia in Germany. The German education system has a federalist structure made up of the country's 16 states. The federal state of North Rhine-Westphalia is the largest location for higher education and has more than half a million students at 70 universities.[3] North Rhine-Westphalia was thus an appropriate choice of research location for the study. Because as a field of research and teaching CSR is usually embedded in the business and economic faculties (Matten and Palazzo 2008), this was where the focus of the study lay.

25.3.2 Data Collection and Analysis

A questionnaire was constructed to collect the data. The questionnaire had four main categories based on the theoretical framework outlined in Sect. 2: (1) teaching, (2) research, (3) profile of the university, and (4) dialogue. The teaching category focuses on the CSR activities in the curriculum (i.e., CSR modules, CSR study programmes, service learning) and on extracurricular elements such as community service or further education (Schuetze 2012). Research refers to the research and development activities in CSR (i.e., research projects in CSR, community-based research or contract research with industry). Beyond this, it focuses on the institutionalisation of research (i.e., chairs in CSR or Community as a research field or funded research centres at the university). The university profile category includes the institutionalisation of CSR in the organisational structure in social and

[2] The aim was an orientation for university stakeholders such as enterprises, associations or other universities. We therefore published the results of the empirical investigation in a CSR Atlas. Retrieved March 3, 2014, from www.csr-atlas.de.

[3] Retrieved March 3, 2014, from www.hochschulen-in-nrw.de for further information.

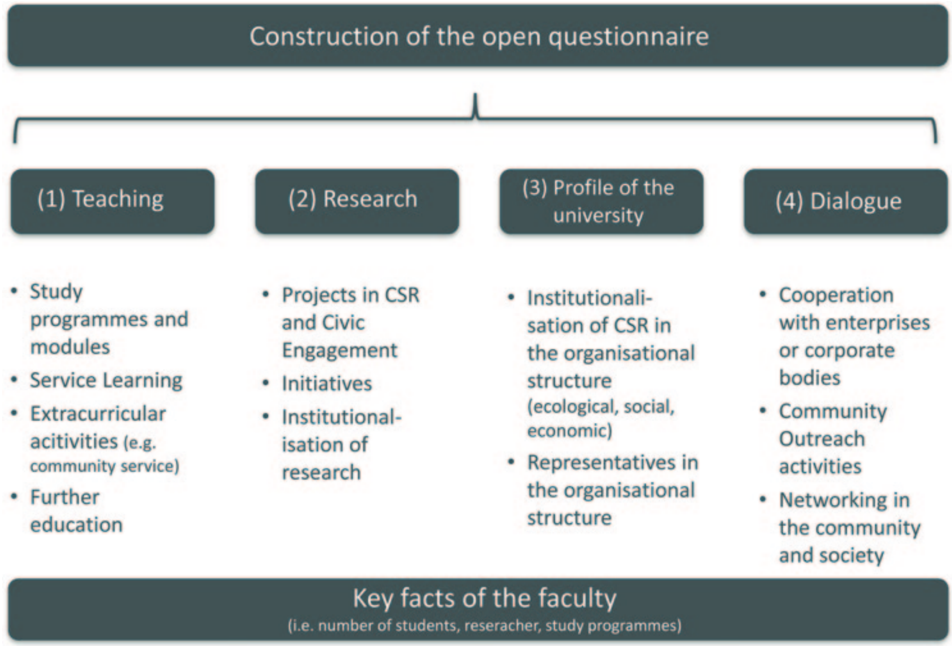


Fig. 25.2 Construction of the open questionnaire

ecological programmes, mission statements etc. The activities in community outreach and networking with the community and society respectively fall under the dialogue category. In addition to the four categories, the key facts of the relevant faculty are recorded (i.e., number of students and researchers) to enable an accurate classification of the activities of the various faculties. The investigation is based on an open questionnaire containing the aforementioned categories, under which the faculties could describe their activities. Figure 25.2

We questioned all faculties of business and economics at universities in North Rhine-Westphalia. The data was gathered from June 2012 to December 2012. The response rate was 40 %, meaning that 20 out of 51 faculties responded. Of these, 12 were universities of applied sciences and eight were regular universities. There are two main types of universities in the German higher education system: Universities of applied sciences (UAS) have a more practical and applied orientation, while the universities (U) are more scientifically and academically orientated. Data analysis of the open answers is conducted by concept-driven qualitative content analysis (Schreier 2012; Creswell 2009). The coding frame for analysis of the data is based on the theoretical and conceptual framework of the CSR and civic engagement discourse (see Fig. 25.1). The activities described in the open questionnaires are thus assigned to the categories of the CSR and civic engagement discourse. The results of the analysed categories are shown in the following.

25.3.3 Results of the Empirical Analysis

Overview[4]

The federal state of North Rhine-Westphalia has a broad and diverse higher education landscape. Research and teaching are conducted at 69 higher education institutions, 15 of which are universities and 37 universities of applied sciences. Fifty one of the higher education institutions have a business and economics faculty, which corresponds to 74 % of all higher education institutions. In June 2012 we wrote to all higher education institutions with a business and economic faculty and sent them the questionnaire developed for the CSR Atlas.

Twenty two higher education institutions took part in the survey, which equates to a response rate of 43 %. Of these 22 higher education institutions, eight (36 %) were universities and 14 (64 %) universities of applied sciences. Differences in the response rates were observed according to the form of higher education institution: 57 % of universities and 38 % of universities of applied sciences with a business and economic faculty took part in the survey.

The "Key Facts—Structure of the participating faculties" were collated for the summer semester 2012. The participating faculties have a total of 54,413 students. They are taught by 748 professors, 1050 scientific assistants and 1258 members of teaching staff.[5] This information is intended to make it easier to consider the CSR activities of the business and economics faculties at the higher education institutions in relation to overall activities.

The diverse CSR activities in the business and economics faculties reflect the heterogeneous nature of the higher education landscape in North Rhine-Westphalia. A kaleidoscope of different CSR activities can be observed, which can be summed up according to the categories of the survey as outlined below.

CSR Activities in Teaching and Learning

The findings for CSR activities linked to the curricula showed 82 modules with CSR relevance. As far as their content is concerned, it reflects the scope of the CSR discourse (i.e., modules in Sustainability, CSR, business ethics, or ecological and social management in companies). The number of relevant modules at universities (U) and universities of applied sciences (UAS) were almost equal (46 % (38 modules) at U and 54 % (44

[4] The following (3.3.1, including Footnotes) was literally translated from the German Original CSR Atlas (Retrieved March 3, 2014, from www.csr-atlas.de).

[5] Please note that the student numbers for the FernUniversität Hagen and the FOM University of Applied Sciences, Essen, Germany refer to the winter semester 2012/2013. In addition, for the aforementioned higher education institutions, which are active beyond the boundaries of North Rhine-Westphalia, only the number of students and not the number of professors, scientific assistants, teaching staff and research institutions refer specifically to North Rhine-Westphalia. Details are not provided by all higher education institutions for all sections. Additional figures relating to the number of students (e.g. for business engineers) were not included. No distinctions were made in the number of scientific assistants (e.g., between permanent positions and third-party funded positions).

modules) at UAS). On average, 4.75 modules per faculty were offered at U and 3.7 per faculty at UAS. A point of interest is that the offering is wider-ranging in bachelor's degree programmes (63 % or 51 modules) than in master's (37 % or 31 modules). More than two thirds of the faculties highlight the integration of CSR in teaching (i.e., CSR is integrated in a module for strategic management). This is part of a broader discussion in the German CSR debate, according to which business and economics have an ethical basis (Albach 2007) and modules especially for business ethics are therefore not needed. Only two degree programmes in CSR were named at UAS (i.e., Bachelor of Green Business Management). A surprising result is that only three modules within the faculties questioned related specifically to service learning arrangements in the curriculum.

As far as extracurricular activities are concerned, there are major variations between the faculties. Student societies were frequently mentioned in connection with CSR or civic engagement (i.e., oikos, sneep). Widespread CSR activities also exist for students (i.e., sustainability days, awards for the best final assignment in CSR, CSR workshops with companies or lecture series in CSR or business ethics). Community service activities can also be found in the data (i.e., students helping junior-high students with reading problems or homeless people with laundry). These activities are almost equally represented at the UAS and U faculties. In terms of further education or continuing education at university, no specific study programmes are mentioned, although training and workshops can still be found in the faculties questioned (i.e., training for sustainability food managers or a workshop on 'ethics as a management competence').

The results in teaching and learning show that a large range of CSR modules is implemented in the study programmes. Room for further development can be identified in the offerings of service learning arrangements and further education. On the whole, there are no major differences between the CSR activities at U and UAS.

CSR Activities in Research

Altogether 34 CSR research projects were referred to by the faculties questioned. The majority of these projects are funded with the faculties' own resources (19 projects, 11 at U and 7 at UAS). The UAS have greater research networking with companies, so that seven projects are funded by companies (0 at the U). In contrast the U have more third-party funded projects (6 at U, 3 at UAS). The research projects referred to are representative of the disciplinary orientation. The majority of the projects are in management science, corporate governance, and logistics, with some projects anchored in business education or management of NGOs. Some of the projects can be assigned to the community-based research category. Examples are the implementation of sustainable controlling in hospitals in the university region or promoting women managers in small and medium-sized enterprises. Based on the data, it was not clear whether the main idea behind these projects was research in partnership with the community as community-based research.

Many of the research activities refer to publications in international and national journals or projects at Ph.D. level. Under the institutionalisation of CSR, research professorships and chairs were often mentioned. A trend towards the development of chairs in business ethics, corporate governance or sustainable management can thus be observed. The chairs mostly reflect the content of the CSR discourse and to a much lesser extent civic engagement discourse. Beyond this, progress towards the institutionalisation of centres for CSR (i.e., competence centre for CRS or centre for Sustainable Development were named) can mainly be recognised at UAS.

To summarise, the research activities are indicative of the rising number of scientific contributions to CSR and the chairs for CSR at the universities over the last few years (Matten and Palazzo 2008). It is also possible to observe an increase in CSR-specific research projects, especially with third-party funding. The latter shows a greater relevance of CSR in publicly supported programmes.

Institutionalisation of CSR

The results of the university or faculty profile show that institutionalisation of CSR can often be found in relation to goals and objectives: two thirds of the faculties referred to the university mission statement. In this context, the majority of faculties emphasised the concept of equality and supporting the balance between family and working life. A variety of institutionalisation activities relating to CSR exist, i.e. membership of the United Nation Global Compact, official commitment to the principles of Responsible Management Education, annual publication of a sustainability report or the existence of a Code of Ethics for the entire university. Around a third of the faculties stated that their university has a diversity concept in place. Reference is often made to equal rights representatives or diversity representatives in this connection. Occasionally representatives in the executive management, i.e. a vice president for diversity or sustainability, were also mentioned.

In summary, it can be seen that the process of institutionalisation of CSR is underway in almost all faculties and universities. Although many activities can be found on the goals and objectives level, they frequently have no counterpart in the organisational structure. Based on the data, it is hard to assess whether the activities on that level have a steering effect on the daily life of the organisations.

Dialogue with the Community

Dialogue with the community focuses on the community outreach activities of the faculties. According to the categorisation by Varga (see Sect. 2.2), there is a great deal of cooperation with enterprises at UAS. These mainly concern technology or knowledge transfer to the various enterprises. Furthermore, many activities are mentioned in knowledge transmission between formal or informal networks. Most examples are working groups for specific CSR themes (i.e., CSR strategies for small and medium-sized enterprises) or sector-specific symposiums (i.e., Sustainability in logistic networks). Examples of knowledge transmission using university resources can also be found. Student activities were frequently mentioned (i.e., students developing CSR strategies for companies) or conferences for CSR on the university campus.

Beyond this, the responses to the questionnaires reveal a varied set of separate activities in the community. Fairtrade or volunteer days at the university, membership of advisory councils in NGOs and research presentations in public working groups are some examples.

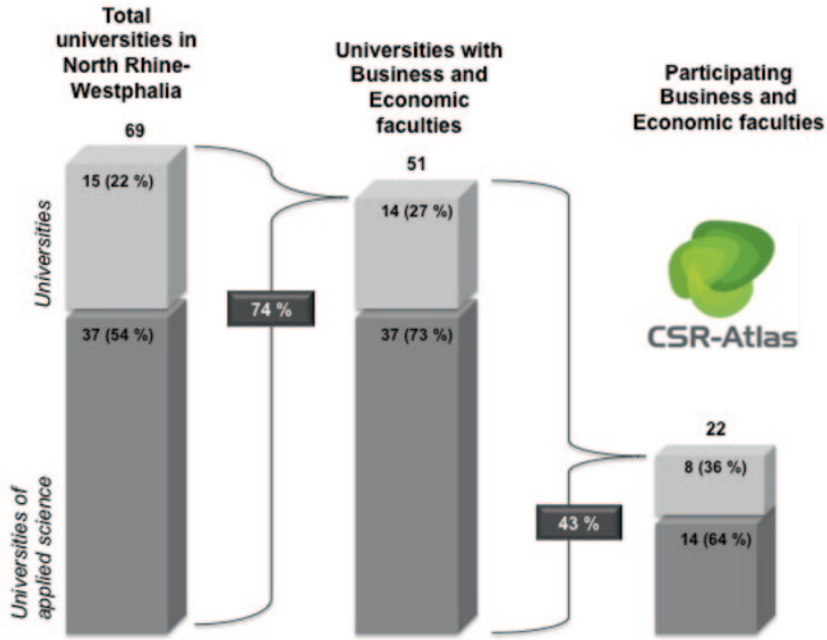


Fig. 25.3 Overview of the universities in North Rhine-Westphalia and the participating faculties in the case study

25.4 Conclusion

The survey is based upon a case study. The results should be consolidated for further empirical exploration considering the representativeness for other faculties. At the same time first empirical results from activities—in this case from business and economics faculties—in the field of CSR and civic engagement have been presented. Figure 25.3 shows an arrangement of these results: In this figure the activities are organised in the areas "Teaching," "Engagement," and "Research." The bigger the circles, the more activities can be found. Sometimes the universities of applied sciences have more activities as the universities or the universities have more activities as the universities of applied sciences. Figures 25.4 and 25.5

Key Facts – Structure of participating faculties				
students	professors	scientific staff members	temporary lecturer	research facilities
54.413	748	1.050	1.258	99

Fig. 25.4 Key facts—structure of participating faculties

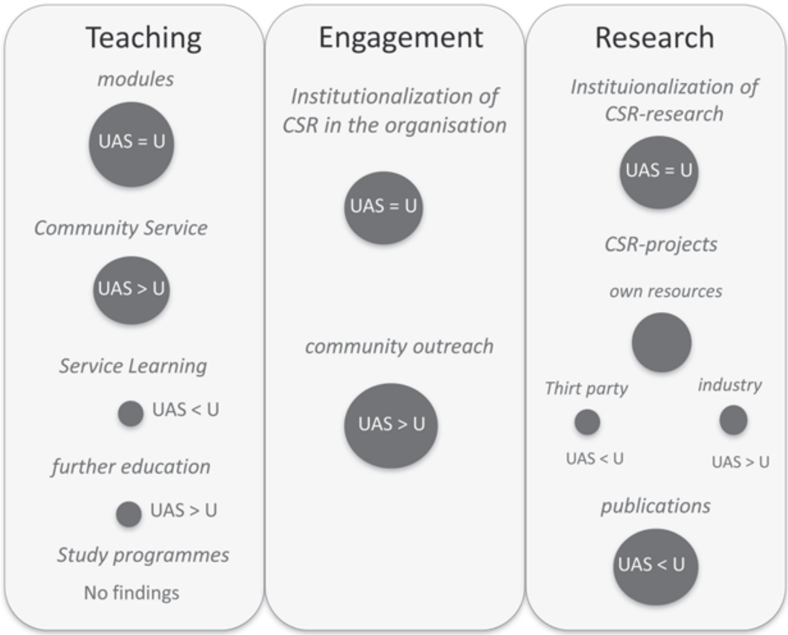


Fig. 25.5 Results of the case study

The mentioned activities represent the activity structure of universities. A concrete classification of the activities into CSR or civic engagement seems not useful because the philosophy and culture of the single university is a decisive factor which must be considered. Although CSR and civic engagement are separate *Sprachspiele* at universities, they are—based in different discourse traditions and perspectives—complementary. CSR in universities is not like CSR in business, simply because universities are no firms. Since universities have to act in, what is at least a quasi-market, they must on the one hand compete and manage limited resources, and mere dialogue with internal and external stakeholders. On the other hand universities—inspired and guided by these dialogues—must develop special forms of CSR management in order to act as they should. A firm has a third mission; a university has a first mission—which is known as the "third mission."

As we mentioned in Sect. 2.3 universities are peculiar organisations. Freedom of teaching and research is a crucial institutional form for universities in the German context. Independence and liberty as well as cooperative and collegial relationships are being meaningful rules for protagonists in universities. The principle of the collegial consensus should be used to find and develop a coherent basic framework of civic engagement for every single university. Based on this framework it is possible to define and to deduce the relevant activities as well as to arrange the existing activities in the field of civic engagement. The idea is, to find a basic framework for every single university to give orientations for further actions of the protagonists and the university as a whole.

CSR and civic engagement represent an ongoing process. The shown activities within the case study offer a opportunity to organise the field of "civic engagement through universities." For further development the universities need to foster the concentration on these topics. The focus lies on defining the position of every single university concerning their "first mission" and not finding the one right way to do CSR or civic engagement.

References

Albach, H. (2007). Betriebswirtschaftslehre ohne Unternehmensethik—Eine Erwiderung (Business studies without business ethic—A reply). *Zeitschrift für Betriebswirtschaft, 77*(2), 195–206.

Ahmad, J., & Crowther, D. (Eds.). (2013). *Education and corporate social responsibility—International perspectives. Developments in corporate governance and responsibility* (Vol. 4). Bingley: Emerald Group Publishing.

Amann, W., Pirson, M., Dierksmeier, C., Kimakowitz, E. v., & Spitzeck, H. (Eds.). (2011). *Business schools under fire: Humanistic management education as the way forward*. London: Macmillan.

Bawa, A. C., & Munck, R. (2012). Globalizing civic engagement. In L. McIlrath, A. Lyons, & R. Munck (Eds.), *Higher education and civic engagement. Comparative perspectives* (pp. xi–xix). New York: Macmillan.

Berthold, C., Meyer-Guckel, V., & Rohe, W. (2010). Mission Gesellschaft (Mission society). http://www.stifterverband.info/publikationen_und_podcasts/positionen_dokumentationen/mission_gesellschaft/mission_gesellschaft.pdf. Accessed 4 March 2014.

Bringle, R. G., & Clayton, P. H. (2012). Civic education through service learning: What, how, and why? In L. McIlrath, L. A. Lyons, & R. Munck (Eds.), *Higher education and civic engagement. Comparative perspectives* (pp. 101–123). New York: Macmillan.

Butin, D. (2010). *Service learning in theory and practice. The future of community engagement in higher education*. Houndmills: Macmillan.

Carroll, A. B., & Buchholtz, A. K. (2014). *Business & society: Ethics, sustainability & stakeholder management*. Mason: South-Western Cengage Learning.

Checkoway, B. (2000). Public service: Our new mission. *Academe, 86*(4), 24–28.

Crane, A., & Matten, D. (2010): *Business ethics*. Oxford: Oxford University Press.

Creswell, J. W. (2009). *Research design: Qualitative, quantitative, and mixed methods approaches*. Los Angeles: Sage.

Dewey, J. (1966). *Democracy and education*. New York: Free Press (Original published 1916).

Ehrlich, T. (2011). Foreword. In C. M. Cress & D. M. Donahue (Eds.), *Democratic dilemmas of teaching service-learning: Curricular strategies for success* (pp. xi–xvi). Sterling: Stylus.

European Commission. (2001). Green paper—Promoting a European framework for corporate social responsibility. http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf.

European Commission. (2008). European Competitiveness Report 2008. http://aei.pitt.edu/45440/. Accessed 1 June 2014.

Fisher, R., Fabricant, M., & Simmons, L. (2004). Understanding contemporary university-community connections: Context, practice, and challenges. *Journal of Community Practice, 12*(3–4), 13–34.

Furco, A. (2002). Is service learning really better than community service? A study of high school service program outcomes. In A. Furco & S. H. Billig (Eds.), *Service learning. The essence of the pedagogy* (pp. 23–46). Greenwich: Information Age Publishing.

Garriga, E., & Melé, D. (2004). Corporate social responsibility theories: Mapping the territory. *Journal of Business Ethics, 53*(1–2), 51–71.

Gerholz, K.-H., & Sloane, P. F. E. (2010). Aktuelles Stichwort: Ethische Kompetenz. Eine Betrachtung vor dem Hintergrund der wirtschaftswissenschaftlichen Hochschulbildung (Topical terms: Ethical competence. A analysis in light of business education). *Kölner Zeitschrift für Wirtschaft und Pädagogik, 54,* 99–121.
Gerholz, K. H., Sloane, P. F. E., Fuge, J., Kaiser, V., & Schwabl, F. (2013). Die Fakultaİt als Organisation—Theoretische und empirische Modellierung (Organisation faculty—A theoretical and empirical analysis). *Zeitschrift für Berufs-und Wirtschaftspaİdagogik, 2,* 191–215.
Gerholz, K.-H. & Losch, S. (2014). Can service learning foster a social responsibility among students? – A didactical analysis and empirical case-study in business education at a German university. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), New perspectives on corporate social responsibility—Locating the missing link. Wiesbaden: Springer-Gabler.
Goddard, J. (1998). Managing the university/regional interface. *Higher Education Management, 9*(3), 7–27.
Gourley, B. M. (2012). Higher education as a force for societal change in the twenty-first century. In L. McIlrath, A. Lyons, & R. Munck (Eds.), *Higher education and civic engagement. Comparative perspectives* (pp. 31–39). New York: Palgrave Macmillan.
Government of Canada. (2014). Corporate social responsibility. http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/rs00129.html. Accessed 18 April 2014.
Heinemann, S. (2013). Wenn nicht hier, wo dann? Diversity management als strategischer Mehrwert für das Hochschulmanagement (Where, if not here? Diversity management as a strategical contribution in higher education management). In K. Spelsberg (Ed.), *Gender 360°: Einsichten und Aussichten—ein interdisziplinärer Auftakt* (pp. 211–245). Berlin: Lit.
Heinemann, S. (2014). Quo Vadis (Business) ethics education? Quo Vadis (business) ethics education? Stand, Kernherausforderungen, Perspektiven. In H. Willing & N. Seeger (Eds.), *Responsible business*. Baden Baden.
Heinemann, S., & Krol, B. (2011). *Nachhaltige Nachhaltigkeit: Zur Herausforderung der ernsthaften Integration einer angemessenen Ethik in die Managementausbildung* (*Sustainable sustainability: About the challenge of the serious integration of an appropriate ethics in management education*). Essen: FOM.
Hollander, E. (2012). Foreword. In D. Butin (Ed.), *Service-learning in theory and practice. The future of community engagement in higher education*. London: Macmillan.
Jacoby, B. (2009). Civic engagement in today's higher education—An overview. In B. Jacoby & Associates (Eds.), *Civic engagement in higher education: Concepts and practices* (pp. 5–30). San Francisco: Jossey-Bass.
Joyner, B. E., & Payne, D. (2002). Evolution and implementation: A study of values, business ethics and corporate social responsibility. *Journal of Business Ethics, 41*(4), 297–311.
Kantanen, H. (2005). Civic mission and social responsibility. New challenges for the practice of public relations in higher education. *Higher Education Management and Policy, 17*(1), 107–122.
Kenworthy-U'Ren, A. L. (2008). A Decade of Service-learning: A Review of the Field Ten Years after JOBE's Seminal Special Issue. *Journal of Business Ethics, 81*(4), 811–822.
Köppl, P., & Neureiter, M. (Eds.). (2004). *Corporate social responsibility—Leitlinien und Konzepte im management der gesellschaftlichen Verantwortung von Unternehmen* (*Guidelines and concepts in management of corporate social responsibility*). Wien: Linde.
Kraus, P., & Brtitzelmaier, B. (2013). A literature review on corporate social responsibility: Definitions, theories and recent empirical research. *International Journal of Management Cases*. Special Issue: Papers from the 9th International CIRCLE Conference, pp. 282–296.
Küpper, H.-U., & Schreck, P. (2008). Unternehmensethik in Praxis, Forschung und Lehre—Status quo und Perspektiven im deutschsprachigen Raum (Business ethics in practice, research and teaching—Status quo and perspective in German-language area). *Zeitschrift für betriebswirtschaftliche Forschung, 58*(8), 72–92.

Lawry, S., Laurison, D., & VanAntwerpen, J. (2009). *Liberal education and civic engagement. Ford foundation's knowledge, creativity and freedom program*. San Francisco: Jossey.

Matten, D., & Moon, J. (2004). Corporate social responsibility education in Europe. *Journal of Business Ethics, 54,* 323–337.

Matten, D., & Palazzo, G. (2008). Unternehmensethik als Gegenstand betriebswirtschaftlicher Forschung und Lehre—Eine Bestandaufnahme aus internationaler Perspektive (Business ethics as a research topic in research and teaching—An inventory in international perspective). In A. Scherer & A. Picot (Eds.), *Unternehmensethik und Corporate Social Responsibility—Herausforderungen an die Betriebswirtschaftslehre*. Sonderheft zfbf, 58(08), 50–71.

McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *The Academy of Management Review, 26*(1), 117–127.

Muller, S. (1999). Deutsche und amerikanische Universitäten im Zeitalter der Kalkulation. In. Ash, M. G. (Eds.), Mythos Humboldt: Vergangenheit und Zukunft der deutschen Universitäten. Wien, Köln, Weimar: Böhlau 1999, S. 195–199.

Musselin, C. (2007). Are universities specific organisations? In G. Krücken, A. Kosmützky, & M. Torka (Eds.), *Towards a multiversity? Universities between global trends and national traditions* (pp. 63–84). Bielefeld: Transcript.

O'Riordan, L., & Fairbrass, J. (2008). Corporate social responsibility (CSR): Models and theories in stakeholder dialogue. *Journal of Business Ethics, 83*(4), 745–758.

Papenfuß, U., & Schimmelpfenning, A. (2013). Ethik, CSR und Public Management in der universitären Ausbildung?—Eine deutschlandweite Analyse betriebswirtschaftlicher Studiengänge (Ethics, CSR and public management in higher education?—A German-wide analysis in business studies). In J. Kegelmann, R. Böhmer, & H. Willmann (Eds.), *Rechnungswesen und Controlling in der öffentlichen Verwaltung*, 2013/5, Freiburg: Haufe, pp. 753–776.

Porter, M., & Kramer, M. (2011). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1/2), 62–77.

Salper, T. F., & Hall, T. J. (2011). The triple bottom line: What is it and how does it work? *Indiana Business Review, 86*(1). http://www.ibrc.indiana.edu/ibr/2011/spring/article2.html.

Savitz, A. (2006). *The triple bottom line. How today's best-run companies are achieving economic, social and environmental success*. San Francisco: Jossey-Bass.

Scherer, A. G., & Butz, A. (2010). Unternehmensethik und CSR in betriebswirtschaftlichen Teildisziplinen—Eine Einführung (Business ethic and CSR in business studies—An introduction). *Die Unternehmung, 4,* 363–390.

Scherer, A. G., & Picot, A. (Eds.). (2008). Unternehmensethik und Corporate Social Responsibility—Herausforderungen an die Betriebswirtschaftslehre (Business ethic and corporate social responsibility—Challenges for business studies). Sonderheft zfbf 58/08.

Schreier, M. (2012). *Qualitative content analysis in practice*. Thousand Oaks: Sage.

Schuetze, H. G. (2012). Universities and their communities: Engagement and service as primary mission. In L. McIlrath, A. Lyons, & R. Munck (Eds.), *Higher education and civic engagement. Comparative perspectives* (pp. 61–77). New York: Macmillan.

Schulte, F. P., Gerholz, K.-H., & Heinemann, S. (2014). Linking "doing", "doing right" and "doing right with others"—Empirical indications of the relationship between ethical competency, diversity competency and other parts of the competency construct. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility—Locating the missing link*. Wiesbaden: Springer-Gabler.

Schwalbach, J., & Schwerk, A. (2008). *Corporate Responsibility in der akademischen Lehre. Systematische Bestandsaufnahme und Handlungsempfehlungen für ein Curriculum (Corporate responsibility in higher education. An inventory for curriculum development). Arbeitspapier des CCCD*. Berlin: Centrum für Corporate Citizenship.

Schwerk, A. (2010): Coporate responsibility in der akademischen Ausbildung von Managern (Corporate responsibility in academic training of managers). In F. Theis & S. Klein (Eds.), *CSR-Bildung* (pp. 112–128). Wiesbaden: VS Verlag für Sozialwissenschaften.

Slowey, M. (2003). Higher education and civil society. In M. Slowey & D. Watson (Eds.), *Higher education and the life course* (pp. 135–151). Berkshire: Jossey.

Soska, T. M., & Butterfield, A. K. J. (2004). University-community partnerships: Universities in civic engagement. *Journal of Community Practice, 12*(3/4), 1–11.

Tandon, R. (2008). *Civil engagement in higher education and its role in human and social development in GUNi-Global University network for innovation-higher education in the world*. Basingstoke: Palgrave MacMillan.

Varga, A. (2009). *Universities, knowledge transfer and regional development: Geography, entrepreneurship and policy*. Cheltenham: Edward Elgar.

Watson, D., Hollister, R. M., Stroud, S. E., & Babock, E. (2011). *The engaged university. International perspectives on civic engagement*. London: Routledge.

Yin, R. K. (2003). *Case study research. Design and methods* (3rd ed.). Thousand Oaks: Sage.

Yorio, P. L., & Ye, F. (2012). A meta-analysis on the effects of service-learning on the social, personal, and cognitive outcomes of learning. *Academy of Management Learning & Education, 11*(1), 9–27.

Linking "Doing," "Doing Right," and "Doing Right With Others"—Empirical Indications of the Relationship Between Ethical Competency, Diversity Competency, and Other Parts of the Competency Construct

26

Frank P. Schulte, Karl-Heinz Gerholz and Stefan Heinemann

Contents

26.1 Introduction . . . 528
26.2 "Doing", "Doing Right" and "Doing Right With Others"—The Competency Construct and its Facets . . . 530
26.2.1 "Doing": The Competency Construct . . . 530
26.2.2 "Doing Right" and "Doing Right With Others": Ethical Competency and Diversity Competency . . . 532
26.3 Development of Short Subscales to Screen Expected Acquisition of Ethical Competency and Diversity Competency . . . 534
26.3.1 Methods . . . 534
26.3.2 Results . . . 535
26.4 Discussion: The Missing Link? . . . 540
References . . . 541

F. P. Schulte (✉)
FOM University of Applied Sciences,
Leimkugelstraße 6, 45141 Essen, Germany
e-mail: frank.schulte@fom.de

K.-H. Gerholz
Universität Paderborn Department of Business and Human Resource Education,
Warburger Straße 100, 33098 Paderborn, Germany
e-mail: gerholz@wiwi.upb.de

S. Heinemann
FOM University of Applied Sciences, Essen, Germany
e-mail: stefan.heinemann@fom.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_26

Abstract

As a construct, competency is generally divided into several parts (e.g., professional competency, social competency, personal competency), of which ethical competency ("to do right") and its social counterpart, diversity competency ("to do right with others"), are still being researched. The importance of this research is obvious: Especially, but not exclusively, in business education, teaching "to do" as well as "to do right" and "to do right with others" is becoming more urgent and complex, and concepts related to corporate as well as individual social responsibility are gaining recognition as essential elements. However, analysis of university curricula indicates that higher business education programs are often not as "doing"-orientated as the construct of competency may imply. What is more, effective and efficient methods of measuring students' expectations and experiences with regard to the teaching of ethical and diversity competency are not yet available.

We therefore developed a short self-report scale to screen expected academic acquisition of ethical competency and diversity competency. We tested the scale with the help of students from several business degree programs at a German university. We compared their expected ethical and diversity competency acquisition with expected acquisition of unspecific professional and methodological expertise, social competency and personal competency, as well as their general self-efficacy. Despite the small sample size, the results of the study indicate acceptable degrees of construct validity of the scales within the general construct of competency. We identify a pronounced demand for the teaching of "doing right" as well as "doing right with others" and specific relationships between diversity competency, ethical competency, and the other parts of the competency construct (e.g., an expected strong relationship between "doing right" and "doing right with others", or the surprisingly missing relationship between ethical competency and social competency).

26.1 Introduction

In the fast-moving world of business, companies focus more and more on alignment of their strategy and on certain competencies which are needed in the workforce and management to reach the respective goals. As the effective and efficient way to do the right things right no longer seems to be sufficient for a sustainable management approach, training and teaching in corporate academies and universities become more challenging. Business schools are accused of and "under fire" for (Amann et al. 2011) holding their stake leading future managers towards unethical business practices. Since not every problem can be solved from a compliance point of view—too costly and requires further legitimisation—or from a management point of view—key performance or key risk indicators first require specific goals and means, which again have to be not only legal and efficient but also legitimate—the core management competencies in the twenty-first century will have an ethical perspective (Heinemann 2014).

When it comes to business and academic reality, however, there is more talk than action. The pressure may be high enough, there may be countless crises, corporate scandals, and environmental risks, yet the lack of theoretical understanding of how ethics "work" has persisted since the ancient times of Plato's didactic challenges with ethics education. A company interested in reducing compliance problems often sets up ethics classes or expects their new managers to take classes in business ethics or CSR at university level. In a recent scientific paper, the authors pointed out that, "Researchers have taken two main approaches to rebooting morality: Firstly, a values-orientated approach that shifts individuals' preferences to be ethical by reminding them of their moral ideals or the moral ideals of the group or organization, and secondly, a structure-orientated approach that redesigns the decision itself such that the temptation to cheat is no longer appealing during the moment of the decision" (Zhang et al. 2014, p. 29). So is it the intrinsic or the extrinsic way? Or both?

We cannot answer this question immediately here, but the core questions of moral philosophy, the reflection between "Is" and "Ought" and finding the "grounds of ethical judgment" (Illies 2003), still seem highly relevant. This is not just an academic remark, but rather an indication that ethics and especially business ethics may entail more than a compliance course or a management class. That is why businesses seek feasible ways to establish "ethical competencies" in their organizations—without putting their competitive advantage at risk. Since "diversity" is a social fact, moral judgment is necessary to deal with that fact (assuming with Hume and Kant that we cannot deduce ethical norms from facts, e.g., social facts or natural facts such as the colour of one's skin). Furthermore, a way to manage diversity and make it productive, e.g., in the workforce, is also needed. This set of competencies—along with ethical competencies—is becoming an increasingly crucial part of HR competencies and influences all areas of business, especially in global companies.

From an education perspective, it has been shown that promoting ethical and diversity competencies should be an integral part of the education process for future business leaders (Heinemann 2013). Business education institutions such as universities or business schools therefore play an important role in preparing future managers to act responsibly in business situations. This can be illustrated, for instance, in the "Principles for Responsible Management Education" (PRME) of the UN Global Compact. The purpose of these principles is to develop "the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy." (http://www.unprme.org). This statement shows two different intentions of business education: on one hand students should be sensitized and prepared for appropriate ethical action in future business situations. On the other hand, it seems crucial for an inner attitude and engagement to be fostered during educational processes. The latter is a question of personal development and students identifying themselves as part of society. They must recognize that they share responsibility for the sustainable development of society and feel responsible for addressing ethical and diversity challenges in business as well as in society. However, the principles are formulated in a very general manner, and there remains the question of how the principles guide to concrete didactic and curriculum design in business schools (e.g., Gerholz 2014) and for educational processes in companies. Clarification between ethical and diversity competency and how it corresponds to other competency facets is therefore necessary. In order to do this, we will make the links between the various competency facets relating to responsible action.

In the following, we give a brief overview of the concept of a competency construct in general (2.1) before looking into two of its possible sub-facets: "ethical competency" and "diversity competency" (2.2). We then outline the rationale for development of a short scale to screen expected as well as experienced acquisition of ethical and diversity competency and of four other competency sub-facets (3). We next describe the methodology and findings of a study we conducted at a German university of applied sciences (3.1 and 3.2) before we go on to discuss whether the findings of the study give any indication of a relationship—a link, so to speak—between "doing," "doing right," and "doing right with others" (4).

26.2 "Doing", "Doing Right" and "Doing Right With Others"—The Competency Construct and its Facets

26.2.1 "Doing": The Competency Construct

An individual's ability to perform the actions required for a task ("to do") is called competency (McClelland 1973)[1]: A sufficient degree of competency enables individuals to behave appropriately in given (social) situations and according to circumstances, roles and rules (Illeris 2010). Spencer and Spencer's description is still a valid working definition: competency is "an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation" (Spencer and Spencer 1993, p. 9).[2] Although at least partly based on innate skills, competency is generally considered to be the result of learning processes (Klieme et al. 2008). The resulting degree of competent behaviour is often (but not always) verified in tests and then certified by qualification certificates in both education and vocational training (Hoffmann 1999). From a psychological point of view, all processes relevant to behaviour are involved here, as competency not only describes a person's cognitive ability to solve certain problems but also their motivational, volitional, and social preparedness and skills to use his or her problem-solving ability in variable (social) situations—the so-called "context"—in responsible ways (Weinert 2001). The focus on context is the marked difference between "competency" construct and "intelligence" construct. The latter focuses on the structure

[1] In this chapter we use the expression "competency" as a description of those characteristics of an individual that, when used, result in successful performance, whereas the term "competence" is used to describe the successful performance itself (Dubois 1998; Gilbert 1996).

[2] This definition is based on a functional-pragmatic concept of competence. For overviews see Klieme et al. (2008) or Hartig and Klieme (2006).

and performance of the cognitive system independently from the situation in which the individual has to act. When talking about competency, both person-specific and situation-specific factors must be taken into account; Klieme and colleagues summarize the difference between "competency" and "intelligence" constructs by remarking that, "Thus the question "Competent for (doing) what?" is essential to any competence definition" (Klieme et al. 2008, p. 7).

Competency is often divided into several sub-constructs or "competency facets," as it is considered to be a multi-dimensional construct (Erpenbeck and Rosenstiel 2007; Hoffmann 1999). Respective competency structure models may differ with regard to the questions they are intended to answer: A structure model which is intended, e.g., to explain a rather generic aspect of economic decision behaviour most likely identifies other and more specialized competency facets than a model used to evaluate learning outcomes in tertiary education in general and aiming to generate insight that could also be transferred into other domains. This process of decomposition helps us to understand the complex processes and outcomes of human learning, education, and training, as it allows us to evaluate all parts of the construct separately and then check if all parts together explain variance in learning and teaching behaviour. However, as all competency facets relate to their general competency construct, the facets often exhibit moderate discriminatory power and therefore may overlap to a certain degree (Waters and Sroufe 1983).

One of the advantages of a decomposition view of competency is that (more or less) discrete competency facets provide more concrete goals ("output") that learners, instructors, or education designers may aspire to achieve in their respective practice over time (Sadler 2013) compared to a "general competency in a specific field of expertise" view. This thought also includes two more dimensions to consider when discussing competency: the levels of "mastery" regarding the different competency facets on the one hand (e.g., Bloom 1956; for a discussion Krathwohl 2002), and the development of competency and its facets over time on the other (Prenzel et al. 2004; Prenzel et al. 2005 for a rare example of a large-scale longitudinal perspective on competency acquisition).

In the European context, competency in tertiary and vocational education is often split into four key competency facets (Salganik 2003; OECD 2005). An increase in "professional competence" is desired when an individual wants to gather or improve general or specific knowledge or skills, to improve his or her ability to habitually apply said knowledge and skills, or to be able to analyse information in a specific field (Bloom 1956; Dochy and Alexander 1995). "Methodological competency" focuses on a person's ability to effectively plan his or her behaviour and on the mastery of specific working techniques (Frey and Balzer 2003; Klippert 2000). This includes the ability and willingness to collect, (re-)structure, and (re-)use information and to interpret and present the results of the aforementioned processes. A "socially competent" individual is able to attain personal goals while taking the perspectives of another individual or of a group of other individuals into account (Kanning 2003). He or she is able to successfully and responsibly communicate with other individuals or groups, to foster social relationships and to cooperate with others (Erpenbeck 2003). "Personal competency" refers to an individual's ability and willingness to act in a self-organized, reliable, and self-determined way, aware of his or her own limitations and assets and able to challenge him or herself (Grühn 2001; Kramer 2003; Schaeper and Briedis 2004). This is the competency structure model on which the following considerations are based.

26.2.2 "Doing Right" and "Doing Right With Others": Ethical Competency and Diversity Competency

If one follows the idea of a competency construct and its facets, an individual's ability to perform the skills required for a task in an ethically acceptable or even ideal way could be called "ethical competency" ("to do right"). Ethical competency thus stands for the attitudes and values of an individual and how the individual can take these into consideration in a given action situation (Butz and Gerholz 2009). We are aware of the fact that there is an academic discourse on "sustainability competence" (Wiek et al. 2011) or "CSR competence," but since sustainability, CSR, business values etc. essentially depend on certain ethical reflections (Heinemann 2014), "ethical competency" seems to be the main ground on which to build further management competencies (e.g., to manage the responsibility of a company etc.). In this case, ethical competency becomes an integral part of business situations. For instance, Schwalbach and Schwerk argue that ethical acting comprises of all sub-disciplines of business (Schwalbach and Schwerk 2008).

"Ethical competency" could be described as the ability and willingness to make adequate judgments about the ethical dimension of one's own or another individual's behaviour (micro-level), the organization itself (meso-level), the regulatory framework (macro-level), and/or certain situations which might be of ethical relevance (e.g., human rights for robots). Ethical competency should enable individuals to know, identify, and evaluate ethical matters (Shaw 1996). Rossouw (2002) identifies several areas of expertise that ethically competent individuals would show: understanding moral obligations and responsibilities in different fields and being aware of common moral issues and dilemmas would show a sufficient degree of "moral awareness" and judgment capabilities. "Moral understanding" would indicate that he or she has a thorough knowledge of the necessary theories and concepts with which to articulate appropriate ethical and moral dimensions of a given field. Competent "moral reasoning" abilities—based on knowledge of appropriate approaches, procedures, and techniques—would help such individuals understand ethical disputes and make decisions accordingly. Finally, a certain degree of "moral tolerance" would enable ethically competent individuals to endure and tolerate the ethical and moral ambiguities and differences to their own moral positions they may find in other individuals and to even embrace them on their way to ethical clarity. But "moral tolerance" as we understand it here does not mean "moral relativism," because if every moral proposition is equally true, every proposition is equally false also. In which case it would be possible to prove everything. At the same time, "moral tolerance" is crucial in order to avoid decisionism and fundamentalism (Heinemann and Miggelbrink 2014).

When the acquisition of cognitive competency is regarded as the purpose of teaching business ethics, students will be expected to demonstrate that they have achieved sufficient levels of competency in the aforementioned cognitive competencies. This might entail assessing their knowledge of the theoretical constructs they have been introduced to and/or requiring them to demonstrate that they can apply their acquired knowledge by analysing and evaluating specific cases and scenarios that might arise in business.

Ethical requirements are often associated with other individuals and human differences. So, if an individual is to fulfill ethical requirements in inter-action with other individuals, he or she would need the "social counterpart" to ethical competency: "diversity competency," the competency to deal with socially diverse environments ("to do right with others": Schulte and Heinemann 2013). Social diversity is the preexisting, developed, or newly developing variety and differentiation in an organization or in a society. The demographic changes of the last decades and the projections of demographic changes yet to come (United Nations, Department of Economic and Social Affairs, Population Division 2013) leave no doubt that it is relevant for individuals to be able to cope with the organizational, social, and vocational outcomes of these phenomena: The aging population and the associated growing demand for qualified employees, a general increase in cultural diversity as a result of increasing migration, and the growing percentage of women in the workforce are issues connected with increasing diversity.

Often, categories such as age, ethnic background, religious affiliation, or gender are used to describe diversity (Rühl and Hoffmann 2008; Gardenswartz and Rowe 1998). Organization-specific criteria (e.g., length of affiliation to an organization, position in the organizational hierarchy or proximity to decision makers) are also utilized for this purpose (Schein 1971). "Diversity" is more than "compliance," as it focuses on the potential benefits of variety for both the individual and the organization. The way of dealing with the resulting issues is "diversity management": systematic planning, organization, and controlling of situations of diversity, the active use of the benefits of diversity and avoidance of its negative consequences, all within legal and social parameters. Johnston and Packer (1987), Gunkel (2013), Reichart and Bieling (2013), and Rühl (2013) describe the role successful diversity management might play for organizations as well as individuals. Amstutz and Müller (2013) summarize the expected benefits of successful diversity management for for-profit organizations and identify several pros of systematic management of diversity, e.g., an improvement in the organizational climate, an increase in creativity and success of teamwork, a strengthening of the organization's employer brand. However, "diversity management" is only likely to succeed if the individuals within the diverse organization or society are able to act competently—they need to be "diversity competent."

Following these lines of thought regarding ethically adequate and diversity-competent behaviour, we assume that an ethically competent individual should be able to identify moral qualities, recognize situations of moral importance, and where necessary take a firm stand based on his or her own ethical convictions. And given an appropriate degree of empathy, a diversity-competent individual should be able to cooperate with others who have a different cultural, ethnic or religious background, different professional qualifications or are of a different gender. However, the relationship of "diversity competency" and "ethical competency" to the established sub-facets of the competency construct are still unclear. Are they part of one of the existing sub-facets, e.g., of personal competency or social competency? Or are they one or even two sub-facets in their own right? To obtain some initial empirical indicators to these questions, we constructed two new sub-scales on the basis of an established competency measurement instrument. We then assessed the competency acquisition expectations of students and examined the relationships between data gathered for the established competency sub-facets and data from two new sub-scales, "diversity competency," and "ethical competency". Moderate correlations between the new sub-scales and the established sub-scales would indicate the existence of one or two distinct sub-facets of the competency construct, whereas high correlations would suggest that the new sub-scales are in fact "merely" aspects of existing sub-facets of the competency construct.

26.3 Development of Short Subscales to Screen Expected Acquisition of Ethical Competency and Diversity Competency

26.3.1 Methods

An assessment of competency acquisition and competency status is often considered essential for quality management in educational contexts (Blömeke et al. 2013; Schaeper 2005; Erpenbeck and Rosenstiel 2007; for a critical discussion also: Zlatkin-Troitschanskaia and Seidel 2011). In summary, Zlatkin-Troitschanskaia and Kuhn (2010) differentiate between "measurements of objective competency" and "measurement of subjective competency": the first refers to a performance measurement while the latter focuses on an assessment of learners' impressions of what they (might or might not) have learned. However, to ensure the quality of a training program or an educational measure it is not only important to monitor (objective or subjective) competence development over the course of the study or training program, it also seems relevant to assess the initial expectations of the stakeholders involved to avoid a mismatch between expectations and experiences. Hasenberg and Schmitz-Atzert (2013) for example showed that students' expectations have a significant influence on student satisfaction. They questioned 85 students at the beginning of their academic studies and at the end of the first semester. In a regression analysis the authors showed that satisfaction with course content as well as satisfaction the pressure of studying could be predicted through the students' expectations of the general field in which they were studying (in Hasenberg and Schmitz-Atzert's study: "biology").

Following this idea, we assessed students' competency-acquisition expectations for several sub-facets of the competency construct. Whereas the "ex-post-facto" measurement of competency acquisition is conducted rather frequently, an assessment of competency acquisition expectations is rare, and to our knowledge no established instruments are available for this purpose. We therefore adapted the "Berliner Evaluationsinstrument für selbsteingeschätzte, studentische Kompetenzen” (BEvaKomp) by Braun et al. (2008). The BEvaKomp is a questionnaire consisting of 26 items to assess self-reports of several sub-facets of the competency construct: professional competency/knowledge processing, general methodology competency, and methodology competency with a focus on presentation, social competency focused on communication and focused on cooperation competency, and personal competency. Field-tested with the help of more than 2500 participants, the instrument exhibits sufficient reliability, construct validity, and discriminant validity (following classical test theory).

Because the original BEvaKomp was formulated to assess the ex-post-facto experiences of students, we reformulated the original items with regard to their time scope: “Now at the end of my bachelor’s degree, I can give an outline of the topics covered by my course” became “At the end of my bachelor’s degree, I will be able to give an overview of the topics covered by my course.” We then expanded the instrument with regard to the sub-facets of “ethical competency” and “diversity competency” by adding two sub-scales, each consisting of three items, which derive from the theoretical considerations mentioned above. On a 7-point Likert-scale (like those used in the original BEvaKomp) participants were asked to indicate their agreement with three statements concerning their ability to actively identify situations as morally relevant, the ability to behave in a morally acceptable way in business situations, and their general knowledge of basic ethical points of view as well as three statements regarding the diversity topics of “cultural diversity,” “gender,” and “people with other qualifications.” For all sub-scales, arithmetic means were computed as aggregated values on which the later relationship analysis was based. We also assessed general self-efficacy using the “Allgemeine Selbstwirksamkeit Kurzskala” (ASKU) by Beierlein et al. (2012). Self-efficacy is the extent of an individual’s belief in his or her own ability to complete tasks (Bandura 1977), and as a personality trait it can be assumed to play an important role in subjective evaluation of everything related to competency. The ASKU is a short screener used to gather information on the degree of “self-efficacy.” It is based on items from the “generalized self-efficacy scale” by Schwarzer and Jerusalem (1995).

The respective three items of the new sub-scales “ethical competency” and “diversity competency” as well as example items from the adapted BEvaKomp and from the ASKU are shown in Table 26.1 in the German original used in this study and in their English translation.

26.3.2 Results

In an online study we assessed the expected competency acquisition among students of several business degree programs at a German university of applied sciences. 142 students took part in this study. Their mean age was 22.42 years ($SD = 2.184$ years). 78 of them were female, 64 were male. The male students were slightly older (23.00 years vs. 21.95 years; $t_{(140)} = -2.930$, $p = 0.004$). However, an analysis of the collected data showed

Table 26.1 (Example-) items of the short sub-scales to screen expected acquisition of ethical competency and diversity competency, of the modified BEvaKomp (Braun et al. 2008) and of the self-efficacy scale (Beierlein et al. 2012); German original (which was used in the study) and respective English translation

German original	English translation
Am Ende meines Bachelorstudiums…	At the end of my bachelor course of studies…
Newly developed subscales	
Diversity competency	
…bin ich in der Lage, im beruflichen Alltag angemessen mit Personen mit einem anderen kulturellen Hintergrund zusammenzuarbeiten	…I will be able to work together with people with different cultural backgrounds than me in a business environment
…kann ich feinfühlig mit Personen des anderen Geschlechts umgehen	…I will be able to interact with people of a different gender than me in an empathetic way
…kann ich auch mit Personen, die eine andere berufliche Qualifikation haben oder die andere Begabungen aufweisen, im beruflichen Alltag erfolgreich zusammenarbeiten	…I will be able to work together with people who have different professional qualifications or different talents than me in a business environment
Ethical competency	
…kann ich Konflikte zwischen moralischen Werten besser erkennen und dazu eine eigene Stellung beziehen	…I will be able to identify moral values and take my own firm stand
…kann ich Situationen und Sachverhalte als wichtig sowie als Regeln vorschreibend oder wertend erkennen und eine eigene Haltung dazu formulieren	…I will be able to recognize situations and themes as relevant and prescriptive or judgmental and will be able to form an opinion towards them
…kann ich unterschiedliche moralische/ethische Grundpositionen benennen	…I will know different moral and ethical standpoints
Example items for other competency constructs based on Braun et al. (2008)	
Professional competency/knowledge processing	
…kann ich einen Überblick über die Themen des Studiums geben	…I will be able to give an outline of the topics of my course of study
Methodological competency—general	
…habe ich meine Arbeitstechniken verbessert	…I will have improved my working methods
Methodological competency—presentation	
…kann ich bessere Vorträge halten	…I will have improved my ability to give a speech
Social competency—communication	
…kann ich meine Wortbeiträge verständlicher formulieren	…I will be able to express myself better verbally
Social competency—cooperation	
…werde ich mich an die Absprachen in den Teams, in denen ich arbeite, halten	…I will keep to agreements within the teams I work with
Personal competency	

Table 26.1 (continued)

German original	English translation
…werde ich Sachen gelernt haben, die mich begeistern	…I will have learned things which inspire me
Example item from ASKU scale to assess self-efficacy (Beierlein et al. 2012)	
Auch anstrengende und komplizierte Aufgaben kann ich in der Regel gut lösen	I can usually solve even challenging and complex tasks well

no differences between male and female participants (all absolute $t_{(140)}$ were between 0.039 and 1.538, all $p>0.13$). Therefore we do not differentiate between male and female students in the following analyses.

Table 26.2 shows the results of an analysis of the internal consistency of the (sub-) scales used. Results show good to excellent internal consistency of all established (sub-) scales (Cronbach 1951; Cortina 1993) as all Cronbach's alpha values are between 0.639 and 0.916. The newly developed scales of "diversity competency" ($\alpha=0.825$) and "ethical competency" ($\alpha=0.808$) both also show excellent internal consistency.

Students in the present sample expected an increase in their competency in all subscales of the competency construct, as on average they agree (rather than disagree) with all competency-related statements in the administered instruments (Fig. 26.1). However, an analysis of variance shows that there is at least one small difference in the level of acquisition expectations ($F_{(6.179,\,871.177)}=20.329$; $p<0.001$; $\eta p=0.126$; Cohen 1988): accordingly, bonferroni-corrected pairwise comparisons show that expectations in the sub-facets "professional competence/knowledge processing" and "diversity competence" are higher

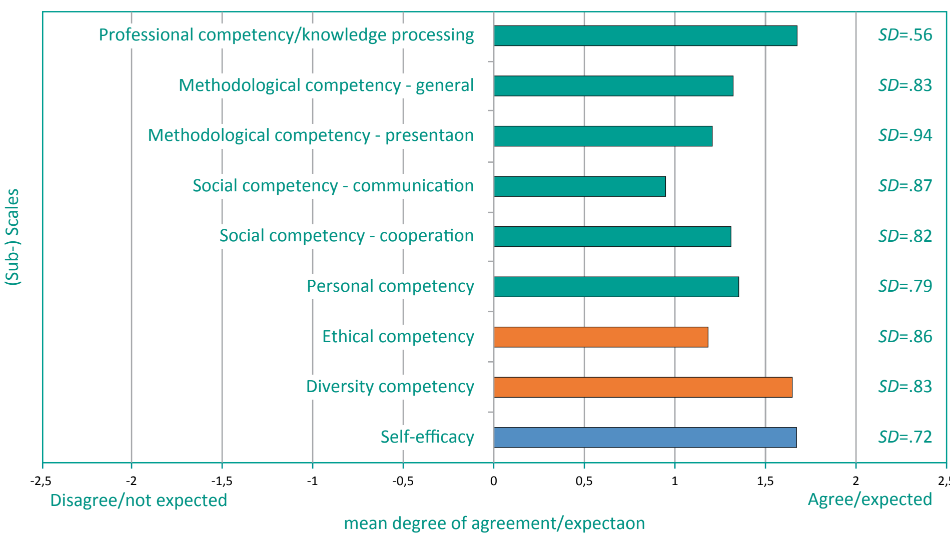


Fig. 26.1 Expected competency acquisition in the different competency sub-facets (based on Braun et al. 2008) including new sub-scales for ethical and diversity competency as well as data from the self-efficacy scale. (Beierlein et al. 2012)

Table 26.2 Results of an internal consistency analysis using Cronbach's alpha

(Sub-)scale	Number of items	Cronbach's α
Professional competency/knowledge processing[a]	6	0.790
Methodological competency—general[a]	5	0.639
Methodological competency—presentation[a]	3	0.916
Social competency—communication[a]	5	0.887
Social competency—cooperation[a]	5	0.880
Personal competency[a]	5	0.813
Ethical competency	3	0.808
Diversity competency	3	0.825
Self-efficacy[b]	3	0.859

[a] Items based on Braun et al. 2008
[b] Items based on Beierlein et al. 2012

than those in the other sub-facets of the construct. The participants report the lowest expectations in the field of "social competency–communication," although they are still as high as the expectations in the areas of "methodological competency–presentation" and "ethical competency".

Overall, the participants in this study show a higher degree of self-efficacy compared to the reference-values Beierlein et al. (2012) report. However, we also see a higher degree of variance in the self-efficacy data compared to the variance in the reference population, indicating a more heterogeneous sample with regard to this attribute.

Table 26.3 shows the result of a correlation analysis using Pearson's correlations. We found small to medium positive relationships between the expected acquisition of ethical competency and the acquisition expectations in most other competency areas (all r between 0.305 and 0.472, all $p<0.001$). The correlations between expected diversity competency acquisition and other competency facets were small to moderate (all r between 0.283 and 0.445, all $p<0.001$); the relationship between diversity competency acquisition expectation and expected competency acquisition in the sub-facet "social competency–cooperation," however, was slightly greater ($r=0.532$, $p<0.001$), whereas the relationship to the Beierlein et al. self-efficacy scale was rather small ($r=0.291$, $p<0.001$).

There was a strong relationship between the two new subscales of expected ethical competency acquisition and diversity competency acquisition expectation ($r=0.691$, $p<0.001$), while the relationship between ethical competency expectation and self-efficacy, assessed using the instrument by Beierlein et al. (2012), was moderate ($r=0.340$, $p<0.001$).

Table 26.3 Results of the correlation analysis using Pearson's correlation

	1	2	3	4	5	6	7	8	9
1. Professional competency/knowledge processing	1	0.465***	0.430***	0.308***	0.372***	0.359***	0.378***	0.362***	0.531***
2. Methodological competency—general		1	0.472***	0.481***	0.378***	0.332***	0.472***	0.350***	0.377***
3. Methodological competency—presentation			1	0.351***	0.307***	0.402***	0.305***	0.341***	0.450***
4. Social competency—communication				1	0.546***	0.470***	0.407***	0.445***	0.303***
5. Social competency—cooperation					1	0.402***	0.424***	0.531***	0.304***
6. Personal competency						1	0.332***	0.283***	0.601***
7. Ethical competency							1	0.691***	0.340***
8. Diversity competency								1	0.291***
9. Self-efficacy									1

$*p<0.001$, $**p<0.01$

26.4 Discussion: The Missing Link?

The results of the study indicate acceptable degrees of construct validity of the new short sub-scales as well as of the established and adapted sub-scales by Braun et al. (2008) within the general construct of competency. The self-reports vary within reasonable parameters. We see no differences between female and male participants in the study.

Overall, we do see a pronounced demand in the teaching of "doing" in all its sub-facets as well as of "doing right" and especially of "doing right with others": not surprisingly, expectations in the field of professional competency are highest, as well as those in methodological competency. Both fields can be considered to be "classical" areas of academic expertise. Also, the strong relationship between personal competency and self-efficacy speak for the validity of the competency scales used. The comparably low expectations in "social competency–communication," however, are unexpected. The expected acquisition of diversity competency—measured on the newly developed short sub-scale—is noticeable, too: learning to interact with individuals who are different with regard to gender, occupation, or cultural background seems to be an attractive or at least expected study objective, at least among the students who took part in our study. Being able to manage diversity and use diversity for the better—whatever that is and however it can be done—seems to be much in demand, as the expectations scores are as high as those for professional competency. Where gaining general knowledge about basic ethical points of view and learning to be able to behave in a morally acceptable way in business situations are concerned, expectations appear to be lower. They are, however, still as high as those of acquiring presentation skills.

The strength of the relationships between the sub-scales is within the parameters we hypothesized: As the sub-scales are all meant to assess facets of one common construct, the low to moderate correlations we found were to be expected. The fact that the newly developed sub-scales for "diversity competency" and "ethical competency" also only relate to the other sub-facets in moderate ways can be understood as an indicator of their discriminant validity within the competency construct: Obviously, the sub-scales are not just "versions" or "variants" of the other sub-scales but describe different, discrete sub-facets of the competency construct. Especially the weak relationships with the social competency expectations scores and the personal competency data are indicators of discreteness of the newly developed sub-scales.

Clearly, this study is exploratory and therefore has its limitations. The sample size is too small to permit any final conclusions. Also, all participants came from one business school only, which might have affected the results. The selection and construction of the items of the two new sub-scales "diversity competency" and "ethical competency"—albeit theoretically founded—were not as systematic as would be required under test theory (e.g., taking a factor-analytical approach). Finally, the high correlation between "diversity competency" and "ethical competency" indicate that both subscales—at least in the way we operationalized them here—may refer to one and only one common construct, "ethical/diversity competency," which itself would then most likely be a sub-facet of the competency construct.

Nevertheless, the results indicate that further research into acquisition expectations and learning experiences in the fields of ethical and/or diversity competency could yield insight both into the structure of the competency construct in general and into the relevance of these two related topics for educational purposes. Further research could therefore also include other stakeholder groups. Also, the relationship between expectations and the degree of integration of competency-orientated teaching of business ethics (Heinemann and Krol 2011) as well as diversity management (Avery and Thomas 2004) in the curricula of higher business education programs could be investigated. This could also be an important basis for instructional design principles to foster ethical and/or diversity competency. Ultimately, this research could lead to practical guidelines and recommendations for successful integration of learning methods and processes that address metacognitive, emotional, and motivational aspects (e.g., goals or attitudes; Gerholz 2012) of ethically and diversity-appropriate behaviour into these curricula. The results of the study presented here—high student expectations regarding the teaching of ethical and/or diversity competency, probable discreteness of one or even two sub-facets of the competency construct—indicate that, in an educational context, both “doing right” and “doing right with others” exist and are strongly linked to “doing” in general.

References

Amann, W., Pirson, M., Dierksmeier, C., Kimakowitz, E. v., & Spitzeck, H. (Eds.). (2011). *Business schools under fire: Humanistic management education as the way forward*. Houndmills: Macmillan.

Amstutz, N., & Müller, C. (2013). Diversity management (Diversity management). In T. Steiger & E. Lippmann (Eds.), *Handbuch Angewandte Psychologie für Führungskräfte* (pp. 359–380). Berlin: Springer.

Avery, D. R., & Thomas, K. M. (2004). Blending content and contact: The roles of diversity curriculum and campus heterogeneity. Fostering diversity management competency. *Academy of Management: Learning and Education, 3,* 380–396.

Bandura, A. (1977). Self-efficacy: Towards a unifying theory of behavioral change. *Psychological Review, 84*(2), 191–215.

Beierlein, C., Kovaleva, A., Kemper, C. J., & Rammstedt, B. (2012). *Ein Messinstrument zur Erfassung subjektiver Kompetenzerwartungen: Allgemeine Selbstwirksamkeit Kurzskala (ASKU)* (*An instrument to measure subjective competency expectations: The general self-efficacy scale (ASKU)*). Köln: GESIS.

Blömeke, S., Zlatkin-Troitschanskaia, O., Kuhn, C., & Fege, J. (2013). Modeling and measuring competencies in higher education. Tasks and challenges. In S. Blömeke, O. Zlatkin-Troitschanskaia, C. Kuhn, & J. Fege (Eds.), *Modelling and measuring competencies in higher education. Tasks and challenges* (pp. 1–12). Rotterdam: Sense.

Bloom, B. S. (1956). *Taxonomy of educational objectives: The classification of educational goals. Handbook 1, cognitive*. New York: McKay.

Braun, E., Gusy, B., Leidner, B., & Hannover, B. (2008). Kompetenzorientierte Lehrevaluation—Das Berliner Evaluationsinstrument für selbsteingeschätzte, studentische Kompetenzen (BEvaKomp) [Competency-oriented evaluation of teaching activities—The Berlin evaluation instrument for the self-assessment of student competency (BEvaKomp)]. *Diagnostica, 54,* 30–42.

Butz, A., & Gerholz, K.-H. (2009). Providing business ethics education—A fresh didactical perspective. Academy of management annual meeting 2009.

Cohen, J. (1988). *Statistical power analysis for the behavioral sciences*. Hillsdale: L. Erlbaum.

Cortina, J. M. (1993). What is coefficient alpha? Examination of theory and applications. *Journal of Applied Psychology, 78,* 98–104.

Cronbach, L. J. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika, 16,* 297–334.

Dochy, F. J. R. C., & Alexander, P. A. (1995). Mapping prior knowledge: A framework for discussion among researchers. *European Journal of Psychology of Education, 10,* 225–242.

Dubois, D. (Ed.). (1998). *The competency casebook*. Amherst: HRD Press.

Erpenbeck, J. (2003). Einführung (Introduction). In J. Erpenbeck & L. von Rosenstiel (Eds.), *Handbuch Kompetenzmessung. Erkennen, Verstehen und Bewerten von Kompetenzen in der betrieblichen, paedagogischen und psychologischen Praxis* (*Handbook of competency measurement*) (pp. 9–19). Stuttgart: Schaeffer-Poeschel.

Erpenbeck, J., & Rosenstiel, L. v. (Eds.). (2007). *Handbuch Kompetenzmessung* (2. Aufl.) (*Handbook of competency measurement*). Stuttgart: Schäffer-Poeschel.

Frey, A., & Balzer, L. (2003). Soziale und methodische Kompetenzen—der Beurteilungsbogen SMK: Ein Messverfahren für die Diagnose von sozialen und methodischen Kompetenzen (Social and methodological competency—The rating sheet SMK: An instrument to diagnose social and methodological competency). *Empirische Pädagogik, 17,* 148–175.

Gardenswartz, L., & Rowe, A. (1998). *Managing diversity. A complete desk reference and planning guide*. New York: McGraw-Hill.

Gerholz, K.-H. (2012). The development of ethical competences in higher business education: A curriculum theory oriented approach. In I. V. Budal & J. Saether (Eds.), *Building ethical schools and teaching practices*. Bergen: Earli, SIG13 and NLA Forlaget. Proceedings of the 3th EARLI SIG 13 moral and democratic education conference.

Gerholz, K.-H. (2014). Fostering ethical competence in business education. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility—Locating the missing link*. Wiesbaden: Springer-Gabler.

Gilbert, T. F. (1996). *Human competence: Engineering worthy performance*. New York: Wiley.

Grühn, D. (2001). Praxisorientierung in Bachelorstudiengängen (Practical experience orientation in bachelor level courses of study). In U. Welbers (Ed.), *Studienreform mit Bachelor und Master* (*Academic reform by means of bachelor and master courses of study*) (pp. 101–127). Neuwied: Luchterhand.

Gunkel. (2013). Cultural Diversity—Aktueller Erkenntnisstand und Bedeutung für das strategische Personalmanagement (Cultural diversity—Current findings and relevance for strategic human resource management). In R. Stock-Homburg (Ed.), *Handbuch strategisches Personalmanagement* (*Handbook of strategic human resource management*) (pp. 425–444). Wiesbaden: Springer.

Hartig, J., & Klieme, E. (2006). Kompetenz und Kompetenzdiagnostik (Competency and competency diagnostics). In K. Schweizer (Ed.), *Leistung und Leistungsdiagnostik* (*Performance and performance diagnostics*) (pp. 127–143). Berlin: Springer.

Hasenberg, S., & Schmitz-Atzert, L. (2013). Die Rolle von Erwartungen zu Studienbeginn: Wie bedeutsam sind realistische Erwartungen uÌber Studieninhalte und Studienaufbau fuÌr die Studienzufriedenheit? (The role of expectations at the start of studies: How important are realistic expectations of content and structure of the course of studies for study satisfaction?) *Zeitschrift für Pädagogische Psychologie, 27*(1–2), 87–93.

Heinemann, S. (2013). Wenn nicht hier, wo dann? Diversity Management als strategischer Mehrwert für das Hochschulmanagement. (If not here, then where? Diversity management as a strategic surplus for university management) In K. Spelsberg (Ed.), *Gender 360°: Einsichten und Aussichten—ein interdisziplinärer Auftakt* (*Gender 360°: Insights and perspectives—An interdisciplinary start*) (pp. 211–245). Berlin: Lit.

Heinemann, S. (2014). Quo vadis (business) ethics education? Stand, Kernherausforderungen, Perspektiven. (Quo vadis (business) ethics education? Status, core challenges, perspectives) In H. Willing & N. Seeger (Eds.), *Responsible business*. Baden Baden: Nomos (in press).

Heinemann, S., & Krol, B. (2011). *Nachhaltige Nachhaltigkeit: Zur Herausforderung der ernsthaften Integration einer angemessenen Ethik in die Managementausbildung* (*Sustainable sustainability: Challenges of a serious integration of adequate ethics into management education and training*). Essen: FOM Hochschule.

Heinemann, S., & Miggelbrink, R. (2014). Shopping in the (business) ethics supermarket? On the relationship between value pluralism and management. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility—Locating the missing link*. Wiesbaden: Springer-Gabler.

Hoffmann, T. (1999). The meanings of competency. *Journal of European Industrial Training, 23*(6), 275–285.

Illeris, K. (2010). Competence, learning and education. How can competences be learned, and how can they be developed in formal education? In K. Illeris (Ed.), *International perspectives on competence development. Developing skills and capabilities* (pp. 83–98). New York: Routledge.

Illies, C. (2003). *The grounds of ethical judgement. New transcendental arguments in moral philosophy*. Oxford: Oxford University Press.

Johnston, W. B., & Packer, A. E. (1987). *Workforce 2000: Work and workers for the twenty-first century*. Indianapolis: The Hudson Institute.

Kanning, U. P. (2003). *Diagnostik sozialer Kompetenzen*. (*Social competency diagnostics*). Göttingen: Hogrefe.

Klieme, E., Hartig, J., & Rauch, D. (2008). The concept of competence in educational contexts. In J. Hartig, E. Klieme, & D. Leutner (Eds.), *Assessment of competencies in educational context* (pp. 3–22). Bern: Hogrefe Huber.

Klippert, H. (2000). *Methoden-Training: Übungsbausteine für den Unterricht* (*Training of methodological competency: Practise modules for teaching*). Weinheim: Beltz.

Kramer, K. (2003). *Entwicklung eines Lerndiagnose-Monitorings für Lehrkräfte—Zwischenergebnisse eines Arbeitsprozesses zur Weiterbildung. Unveröffentlichter Arbeitsbericht zum Bund-Länder-Projekt "Lebenslanges Lernen-Grundschule"*(*Development of a learning diagnostics monitoring for teaching staff—Intermediate findings of a working process within continuing education. Unpublished working paper of the federal-provincial-project "Lebenslanges Lernen-Grundschule"*) Kiel: IPN.

Krathwohl, D. R. (2002). A revision of Bloom's taxonomy: An overview. *Theory Into Practice, 41*(4), 212–218.

McClelland, D. C. (1973). Testing for competence rather than for "intelligence". *American Psychologist, 28,* 1–14.

OECD. (2005). The definition and selection of key competencies. Executive Summary. http://www.oecd.org/pisa/35070367.pdf. Accessed 1 June 2014.

Prenzel, M., Baumert, J., Blum, W., Lehmann, R., Leutner, D., Neubrand, M., et al. (Eds.). (2004). *PISA 2003: Der Bildungsstand der Jugendlichen in Deutschland—Ergebnisse des zweiten internationalen Vergleichs* (*The status of education of adolescents in Germany—Findings of the second international comparison study.*). Münster: Waxmann.

Prenzel, M., Baumert, J., Blum, W., Lehmann, R., Leutner, D., Neubrand, M., et al. (Eds.). (2005). *PISA 2003: Der zweite Vergleich der Länder in Deutschland—Was wissen und können Jugendliche?* (*PISA 2003: The second comparison of federal states in Germany—What do adolescents know and how do they perform?*). Münster: Waxmann.

Reichart, E., & Bieling, G. (2013). Age Diversity Management ¨bei der Hewlett-Packard GmbH: Das Projekt "Age Diversity @ HP" (Age diversity management at Hewlett-Packard GmbH: The project "Age diversity @ HP"). In R. Stock-Homburg (Ed.), *Handbuch strategisches Personalmanagement* (*Handbook of strategic human resource management*) (pp. 504–518). Wiesbaden: Springer.

Rossouw, G. J. (2002). Three approaches to teaching business ethics. *Teaching Business Ethics, 6,* 411–433.
Rühl, M. (2013). Diversity Management bei Deutsche Lufthansa AG—Strategische Ausrichtung und operative Praxis (Diversity management at the Deutsche Lufthansa GmbH—Strategic orientation and operative practice). In R. Stock-Homburg (Ed.), *Handbuch strategisches Personalmanagement* (*Handbook of strategic human resource management*) (pp. 466–482). Wiesbaden: Springer.
Rühl, M., & Hoffmann, J. (2008). *Das AGG in der Unternehmenspraxis* (*The law for general nondiscrimination in management practice*). Wiesbaden: Springer.
Sadler, R. D. (2013). Making competent judgements of competence. In S. Blömeke, O. Zlatkin-Troitschanskaia, C. Kuhn, & J. Fege (Eds.), *Modeling and measuring competencies in higher education. Tasks and challenges* (pp. 13–28). Rotterdam: Sense.
Salganik, L. H. (2003). *Key competencies for a successful life and a well-functioning society*. Cambridge: Hogrefe Huber.
Schaeper, H. (2005): Hochschulbildung und Schlüsselkompetenzen. Der Beitrag der Hochschulforschung zur Evaluation der Qualifizierungsfunktionen und-leistungen von Hochschulen (University education and key competencies. The contribution of research into academia to the evaluation of universities function and performance to qualify students). *Zeitschrift für Pädagogik, 50,* 209–220. (Beiheft).
Schaeper, H., & Briedis, K. (2004). *Kompetenzen von Hochschulabsolventinnen und Hochschulabsolventen, berufliche Anforderungen und Folgerungen für die Hochschulreform* (*Competencies of university graduates, practice requirements, and consequences for the reform of the university system*). Hannover: Hochschul-Informations-System.
Schein, E. H. (1971). The individual, the organization, and the career: A conceptual scheme. *Journal of Applied Behavioral Science, 7*(4), 401–426.
Schulte, F. P., & Heinemann, S. (2013). Anders kennen, anders können—Diversity-Kompetenz im Kontext anderer Kompetenzfacetten (Knowing differences and acting in due consideration of differences—Diversity competency within the context of other subfacetts of the competency construct). In K. Spelsberg (Ed.), *Gender 360°: Einsichten und Aussichten—ein interdisziplinärer Auftakt* (*Gender 360°: Insights and perspectives—An interdisciplinary start*) (pp. 248–262). Berlin: LIT.
Schwalbach, J., & Schwerk, A. (2008). Corporate Responsibility in der akademischen Lehre. Systematische Bestandaufnahme für ein Curriculum (Corporate responsibility within academic teaching: A systematic inventory for the purpose of curriculum development). http://www.nachhaltigwirtschaften.net//archiv/2828/corporate_responsibility_in_der_akademischen_lehre.pdf. Accessed 1 June 2014.
Schwarzer, R., & Jerusalem, M. (1995). Generalized self-efficacy scale. In J. Weinman, S.Wright, & M. Johnston (Eds.), *Measures in health psychology: A user's portfolio. Causal and control beliefs* (pp. 35–37). Windsor: Nfer-Nelson.
Shaw, W. H. (1996). Business ethics today: A survey. *Journal of Business Ethics, 15,* 489–500.
Spencer, L. M., Jr., & Spencer, S. M. (1993). *Competence at work: Models for superior performance*. New York: Wiley.
United Nations, Department of Economic and Social Affairs, Population Division. (2013). World population prospects: The 2012 Revision, Vol. I: Comprehensive Tables. ST/ESA/SER.A/336.
Waters, E., & Sroufe, L. A. (1983). Social competence as a developmental construct. *Developmental Review, 3,* 79–97.
Weinert, F. E. (2001). Concept of competence: A conceptual clarification. In D. S. Rychen & L. H. Salganik (Eds.), *Defining and selecting key competencies* (pp. 5–65). Seattle: Hogrefe Huber.
Wiek, A., Withycombe, L., & Redman, C. L. (2011). Key competencies in sustainability: A reference framework for academic program development. *Sustainability Science, 6*(2), 203–218.

Zhang, T., Gino, F., & Bazerman, M. H. (2014). Morality rebooted: Exploring simple fixes to our moral bugs. Harvard Business School NOM Unit Working Paper No. 14–105.

Zlatkin-Troitschanskaia, O., & Kuhn, C. (2010). Messung akademisch vermittelter Fertigkeiten und Kenntnisse von Studierenden bzw. Hochschulabsolventen—Analyse zum Forschungsstand (Measurement of academically mediated skills and knowledge of students and graduates—Analysis of the current state of research). http://www.wipaed.uni-mainz.de/ls/382.php. Accessed 1 June 2014.

Zlatkin-Troitschanskaia, O., & Seidel, J. (2011). Kompetenz und ihre Erfassung—das neue „Theorie-Empirie-Problem" der empirischen Bildungsforschung? (Competency and its measurement—The new "theory-empiricsm-problem" of empirical educational research). In O. Zlatkin-Troitschanskaia (Ed.), *Stationen Empirischer Bildungsforschung. Traditionslinien und Perspektiven* (*Stations of empirical educational research*) (pp. 218–233). Wiesbaden: VS Verlag für Sozialwissenschaften.

Fostering Ethical Competence in Business Education

27

Karl-Heinz Gerholz

Contents

27.1 The Relevance of Fostering Ethical Competence in Business Education 548
27.2 The Aim of Business Education and the Connection to Ethical Competence 549
27.2.1 Ethical Competence as an Integral Part of Employability 549
27.2.2 Discourses on Ethical Competence in Business Education 551
27.2.3 Interim Result: Ethical Competence in an Action-Orientated Approach 553
27.3 Current Status of Fostering Ethical Competence in Business Education 554
27.4 An Action-Orientated Curriculum Design to Foster Ethical Competence 556
References 559

Abstract

Due to recent scandals—for example, during the financial crisis—ethical competence and behaviour has been recognised as an important area of attention for managers. This trend indicates the relevance of business ethics as an integrated part of the education of (future) managers in Higher Education institutions. At the same time, there is a growing demand that higher education is more pertinent to the needs of the working environment. Based on these premises, a missing link between Business Education and ethical needs in working environments can be recognised. In order to close this gap two questions arise: Which ethical competences do future managers need? How can

K.-H. Gerholz (✉)
Universität Paderborn Department of Business and Human Resource Education
Warburger Straße 100, 33098 Paderborn, Germany
e-mail: gerholz@wiwi.upb.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_27

Business Education comply with these requirements and support students to develop these ethical competences during study processes? This contribution will address these questions and, in doing so, draw from curriculum theory. The key goal of the contribution is to discuss the main aim of Business Education in Higher Education institutions and what this means with respect to fostering ethical competence. Based on these remarks, empirical studies of curricula in Business Education are presented. One conclusion is that it seems important—especially for the intention of Business Education—to design more action-orientated curricula to foster ethical competence. These curricula are based on practical ethical problem situations. The requirements for acting in these situations define the competences respectively knowledge, motivation, and attitude aspects in ethical business behaviour. In conclusion, an action-orientated curriculum for Business Education will be presented.

27.1 The Relevance of Fostering Ethical Competence in Business Education[1]

There are two starting points which can be mentioned for the discussion of fostering ethical competence in Business Education: Firstly, due to recent scandals, for example, during the financial crisis, ethical competence has been recognised as an important area requiring attention from society. People in companies are being reproached for their actions, which mostly do not fit society's moral standards. It seems to society that ethical competence is missing in some companies during decision-making situations. However, and this is not widely recognised, ethical behaviour depends on the context. There is a difference between ethical acting in business and private situations (Habermas 1978). Therefore, the judgements about managers' actions should be made in the context of the specific situations. Nevertheless, Business Education has been recognised as a central part in the discussion of the managers' moral behaviour, and the roles and values of Business Education have been called into question (Moratis et al. 2006). Business Education also plays a crucial role in preparing future managers for responsible acting in business situations.

This leads to the second starting point in the discussion about fostering ethical competence. There is a growing trend for Higher Education to be more focused on the needs of working environments. A shift in Higher Education to a more "workplace-orientation" can be noticed (Tennant et al. 2010). Study programmes—especially during Bologna in European countries (Gerholz and Sloane 2008)—are targeted at promoting the students'

[1] The term "ethical" competence is used in the contribution. For clarification, there is a difference between the terms "morality" and "ethics". The term morality refers to values and standards to which the individuals in a society orientate. These values and standards represent common sense in a given society and these will be justified if an individual action is socially desirable. By contrast, ethics concerns reflection on moral values and standards at a meta-level (e.g. Scherer and Picot 2008). For this reason, ethical competence, which also includes reflection on the moral action, will be mentioned in the following.

employability. The trend of employability suggests an increasing need for study programmes that prepare students for prospective vocational situations. For Business Education, this means that future managers will be sensitised to the requirements in business situations, especially ethical requirements, and be enabled to fulfil these in a responsible way. O'Riordan, Marsh, and Jonker argue about the importance of individuals in society to feel responsible and motivated to arrange ethical challenges in society (O'Riordan et al. 2013, p. 5). Therefore, specific curricular and instructional designs are needed which have the potential to foster ethical competence during the study process.

However, all in all, a "missing link" can be specified between the actual field of Business Education and the ethical skills that are needed in working environments. The challenge of Business Education is, to prepare students to act responsibly in future Business situations. Based on this, two questions arise: Firstly, which ethical competences do future managers need? This refers to the description of employability as the aim of Business Education and which ethical competences comprise employability. The second question is how should learning processes in study programmes be designed to foster ethical competence during the study process? The latter is a question of the curricular design of study programmes and which curricular concepts have the potential to foster students' ethical competences.

This contribution will address these questions on the basis of Business Education in Higher Education institutions in Europe. Following this, in Sect. 2, the discourse of employability is examined and what this means concerning ethical competence. In doing so, the concept of employability is analysed (2.1) and, based on that, several discussions in the literature concerning ethical facets of employability are presented (2.2). These descriptions lead into an analytical framework of ethical competence and what it means to foster this competence in study programmes. In Sect. 3, the current situation of Business Education concerning the fostering of ethical competence is described. Three empirical studies and their results are presented in illustration. Based on these results, a curricular concept is shown which has the potential to foster ethical competences in a more action-orientated way.

27.2 The Aim of Business Education and the Connection to Ethical Competence

27.2.1 Ethical Competence as an Integral Part of Employability

During Bologna there is a movement in the main intention of Higher Education in Europe. The goal is to ensure sufficient employability of the graduates. As a result, Higher Education is now being aligned to address the needs of working environments (Kehm and Teichler 2006). New demands from the economy and government exists that Higher Education focuses on the requirements of vocational situations and the needs of employers (Tennant et al. 2010). Hence, a shift to a more competence-orientated approach of educational processes is therefore needed to foster the students' employability. Competence can be seen as the capability of an individual to act appropriately in a given situation and according to certain requirements (Illeris 2010); in other words, an outcome-orientation. Higher educational processes are managed by the outcomes, in the sense of what kind of competences should be achieved at the end of a study process.

However, for describing the aim of employability three dimensions can be differentiated (Dilger et al. 2008; Gerholz and Sloane 2011).

- Firstly, employability has the dimension that an individual is capable of acting in a given working situation. This refers to the usability of the competences in the labour market. There is, consequently, a close link between the educational system and the labour market (Georg and Sattel 1995).
- Secondly, employment biographies are characterised by several transitions. In this dimension, employability means that individuals can cope with these transitions successfully. Hillage and Pollard define employability as "the ability to gain initial employment", "the ability to maintain employment", and "the ability to obtain employment" (Hillage and Pollard 1998; Kraus 2006). Thus, students should be enabled to find adequate employment, to further develop their abilities in this employment and to change their employment successfully.
- Thirdly, the requirements of the labour market are changing. These requirements are usually complex and unpredictable(Van den Bossche et al. 2011). Therefore, students have to anticipate the current requirements in the labour market and change accordingly. This dimension of employability refers to the ability to adapt to the changing demands in the labour market (Kraus 2008).

These dimensions show a broad understanding of employability. This understanding can be described a shift in Higher Education to promote the students' ability to act adequately in societal situations. This ability to act means an ability to solve problems. This indicates, that students are able to recognise problems in given situations and to solve them by using scientific methods. Thus, the target of Higher Education can be specified as a fostering of a scientific action competence by the students (Gerholz and Sloane 2011).

Scientific action competence for Business Education means the capability of individuals to act adequately in business situations. In order to do this, it is necessary to analyse the specific requirements in a given business situation. Schwalbach and Schwerk argue that responsible and ethical acting comprises all subdisciplines of business and economics (Schwalbach and Schwerk 2008). Thus, ethical requirements are integrating into wider business functions (e.g., to counterfeit a balance sheet includes an ethical as well as an accounting dimension). Based on this meaning, ethical competence becomes an integral part of scientific action competence (e.g., Gerholz and Sloane 2010; Sloane 2007). This implements preparing students to be able to analyse problems in business situations which include the recognition of ethical requirements and be able to handle these adequately. This also depends on the motives and attitudes of the students. The concept of competence comprises knowledge, motivation and attitudes (Seeber et al. 2009). Therefore, it is necessary to train the students so that they are able to apply their own knowledge, motives, and attitudes to ethical requirements in business situations. Beyond that, it is also important for students to learn to reflect upon their values, attitudes, and motives. Higher Education also has the mission to develop the personality of the students. This becomes apparent in the dimension of employability referred to previously, that students also need the ability to arrange their own biography during employment. From this point of view, a Higher Education programme aiming at employability has to foster ethical competence, because this dimension of a scientific action competence is required in relevant fields of work for which the graduates should be qualified, respectively, gain employability.

Nevertheless, it is necessary to analyse the connection between ethical competence and the ethical requirements in the future business situations of the students. This is the basis from which clarification of the facets of ethical competence can be obtained.

27.2.2 Discourses on Ethical Competence in Business Education

An analysis of the facets of ethical competence can be performed on the level of the education policy and the level of the companies. The level of the education policy refers to the requirements of society expected of Business Education, which lead to the description of objectives for Business Education. A first point of orientation comprises the *Principles for Responsible Management Education* (PRME), which have been developed in a public dialogue by the UN Global Compact. Six principles for the design of a responsible management education have been developed. The first principle can be mentioned as an example:

> Purpose: We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy. (http://www.unprme.org)

It becomes obvious that preparing students for acting responsibly in societal situations is one task of Business Education. The principles are formulated in a very general manner, and the question could be asked, what is, for instance, the meaning of "sustainable value" concerning acting in business situations? However, the principles show more a framework which is clarified in several study programmes. The National Business Education Association (NBEA, 2001) of the U.S., for instance, formulated educational standards for business students regarding "Ethics and Social responsibility". The standards on the level of community colleges, which are comparable to Bachelor and Master programmes, are shown in Table 27.1.

Based on these standards it is shown, that students should be able to analyse several schools of ethical thought in relation to business situations as well as to assess the long-term consequences of business decisions. The latter shows the relational meaning between business decisions and the outcomes for society. However, the standards illustrate that both the knowledge of ethical concepts and the implications of acting in business situ-

Table 27.1 Educational standards of the NBEA (2001) in "Ethics and social responsibility" for Level 4

Ethics	Social responsibility
• Evaluate a business code of ethics	• Recognise the long-term impact of practicing social responsibility
• Identify government regulations that have resulted from unethical behaviour	• Evaluate social responsibility approaches used by business organisations
• Analyse various schools of ethical thought as they relate to business decisions	• Identify government regulations that have resulted from social responsibility

ations are important. The way in which it is necessary for the students to find their own position—in the sense of a normative position—concerning a given ethical concept is less clear. The focus is more on analysing and discussing concepts. This suggests more of a discursive ethical approach and that it is important to find a position in negotiation with people involved (Apel 1990).

Besides the level of the education policy, the level of the companies and their requirements for future managers can be differentiated. This means the need for ethical skills from the point of view of the companies. As has already been described in the introduction, a lot of companies have realised the relevance of an integrative management that helps embed environmental, social, and governance concerns into their strategic thinking and daily operations. Here, the concept of corporate social responsibility is often discussed and seems like a moral imperative in doing business. This requires ethical skills that allow future managers to balance profitability with stakeholder interests and social and environmental realities (Butz and Gerholz 2009). Nevertheless, it is interesting to note what kind of potential companies see in Business Education and what could contribute to foster ethical skills.

Schwalbach and Schwerk (2008) carried out an interview study on corporate responsibility (CR) managers in companies. The question the authors asked related to their demands and desires regarding Business Education. The CR managers stressed that a basic understanding of business and economics is an important precondition for responsible acting in the companies' daily life. Furthermore, knowledge about the function and the role of the several sectors in society (e.g., government, society, stakeholders) is needed. Beyond that, the CR managers claimed that the students should be able to moderate dialogues, to communicate and cooperate with different stakeholders, and convince people. The majority of the CR managers also thought that learning on the job and experiences in the daily life of the companies are more important to foster the skills mentioned (Schwalbach and Schwerk 2008).

In summary, on the one hand, the CR managers assume that promoting ethical skills and responsible acting is more possible while "training on the job" when during lectures in Higher Education. By contrast, a study by Heinemann and Krol (2010) shows that lectures at universities see a high relevance to integrate business ethics into study programmes for the preparation of the students for future working fields. On the other hand, the CR managers emphasise the relevance of social and communicative competences. In contrast to the standards of the NBEA, knowledge of ethical thinking and concepts or the ability to reflect one's own attitudes and values are not referred to by the CR managers. Nevertheless, these findings suggest that promoting ethical skills is contextually linked. The latter refers to the specific requirements in business situations. The CR managers focus on the experience of companies' daily life and the management of responsibility.

27.2.3 Interim Result: Ethical Competence in an Action-Orientated Approach

Fostering employability in the sense of scientific action competence (see Chap. 2) can be seen as a main task of Business Education. Ethical competence is an integral part of this scientific action competence. This competence refers to the ability of individuals to also act using adequate ethics in business situations. Ethical tasks are an integrated part of business situations. Thus, ethical competence can be defined as a function of the ethical requirements in a given business situation. This is also represented in the educational standards of the NBEA, in which knowledge about ethical concepts in isolation is not sufficient. It is more important, on the one hand, to apply this knowledge and to appreciate the potential consequences in a given problematic situation. On the other hand, the individual needs the ability to take his/her own moral position. So Ulrich and Thielemann argue, for example, that people need to have a moral position to handle an ethical business situation (Ulrich and Thielemann 1993).

These aspects suggest the requirement to view ethical competence in the domain of business and economics within the context of the situational requirements and the action of the individual as a whole. This is an action-orientated approach in which there can be differentiated between "competence", "action", and "working environment" (business situation) (Beck 2010; Dilger et al. 2008). An individual in a working context is confronted with certain business situations. These situations contain ethical requirements for the individual to handle a problem. An individual in a working context is confronted with certain business situations. These situations contain ethical requirements for the individual to handle a problem. Consequently, the individual must reflect on his/her ethical competence—as a part of scientific action competence—and analyse what is necessary to fulfil the requirements. While acting, the individual must plan his/her actions, carry out the plan and, thereafter, evaluate his/her prior action. An action can, thus, be separated into three phases (Gerholz 2010; Sloane 1999). Ethical competence involves the capability of an individual and includes knowledge, motivation, and attitudes (e.g., Heinrichs 2005). Thus, the individual must regulate his/her knowledge, motivation, and attitudes during the action (Fig. 27.1).

The connection between the situational requirements and the competence of the individual is the basis for defining which ethical skills are needed in business situations. The following question seems to be relevant for the development of ethical competence in Business Education: How can we reconstruct these real-life ethical challenges and transfer

Fig. 27.1 Connection between ethical competence, action, and business situation

them to learning arrangements in Higher Education programmes? The points made immediately above suggest that these learning arrangements aim at providing ethical skills are most effective for students when they have the potential to be transferred in typical daily-life business situations. Consequently, one implication for curricula in Business Education is that these should be action-orientated. Therefore, it seems relevant to have a look at the current situations of fostering ethical competence in Business Education.

27.3 Current Status of Fostering Ethical Competence in Business Education

In the following, a description of the current status of ethics education in the German Higher Education context will be made. A literature analysis concerning empirical studies which analyse and examine the current status was conducted for clarification. It is important to note, however, that modules in ethics education include themes such as corporate social responsibility (CSR), business ethics, and corporate sustainability. In this case, it can be stated that topics such as business ethics and CSR have a longer tradition in the U.S. and the Anglo-Saxon world, while these issues are only gradually appearing in German Business Education (Scherer and Picot 2008).

As a result of the literature analysis, three main groups of studies that examine the current situation of business ethics could be identified: (1) Papenfuß and Schimmelpfennig (2013), (2) Schwalbach and Schwerk (2008) and Schwerk (2010), taken together, and (3) Gerholz and Sloane (2010). The results of these studies are shown in Table 27.2.

Papenfuß and Schimmelpfennig (2013) examined modules, courses, and seminars concerning the contents of ethics and CSR. They found that references to ethics exist in 18 modules and 19 learning objectives of 72 module handbooks of bachelor study programmes and in 29 modules and 35 learning objectives of 93 module handbooks of master study programmes. The content of CSR could be found in only two modules and five learning objectives at the bachelor level and in three modules and in 12 learning objectives at the master level. The overall result is that ethics and CSR are an integral part of courses in business and economics study programmes, but a greater consideration of these contents is desirable (Papenfuß and Schimmelpfennig 2013).

Schwalbach and Schwerk (2008) conducted similar inquiries. They examined the course catalogues in business and economics faculties concerning the content of corporate

Table 27.2 Current status of ethical education in German business education

	Papenfuß and Schimmelpfennig (2013)	Schwalbach and Schwerk (2008), Schwerk (2010)	Gerholz and Sloane (2010)
Aim of the study	Description of how many modules, courses, and seminars exist in ethics and CSR	Description of modules in corporate responsibility (e.g. business ethics, CSR, sustainability) and recommendations regarding their development	Analysis of the understanding of ethical competence and the instructional design in modules in the area of business ethics (e.g. CSR, sustainability, corporate governance) in business education
Methodology	Content analysis of indications of modules in business and economics study programmes	Content analysis of the web pages in business and economic faculties concerning their study programmes	Content analysis of module descriptions in business and economics study programmes
Data basis	165 module handbooks: 72 in bachelor study programmes and 93 in master study programmes	204 faculties of business and economics: 84 faculties in universities and 120 faculties in universities of applied science	Faculties of Business and Economics: 30 module descriptions
Main results	Ethics is more integrated than CSR in the study programmes	Greater integration of corporate responsibility is necessary	Ethical competence is modelled more as a disposition of knowledge
	Overall, a greater consideration of ethics and CSR would be desirable	Stronger linkage between teaching and research is needed	Contents focus on approaches of business ethics, but situational requirements are not included
		More integration of experience from daily life in companies is necessary	Instructional design is more of a content-orientated approach

responsibility. This includes content such as business ethics, sustainability, and CSR. The analysis was conducted in faculties at universities and universities of applied science. Universities of applied science have a higher practical and application orientation. They found that 60% of the universities and 50% of the universities of applied science offer courses in corporate responsibility. These courses focused mostly on business ethics. Ethical concepts and normative orientations based on philosophical schools are more in the foreground. The main conclusion is that a greater integration of corporate responsibility is necessary. Schwalbach and Schwerk recommend, among other things, that it is necessary to combine more teaching and research in corporate responsibility and to integrate the experience of the daily life in the companies in the curricula (Schwalbach and Schwerk 2008; Schwerk 2010).

The focus in the third study by Gerholz and Sloane (2010) is not only on the analysis of the content in modules of business ethics, but also on the understanding of ethical competence and the instructional design to foster these. Here, 30 significant module descriptions in the field of business ethics in faculties of business and economics were found. Regarding the modelling of ethical competence, the main result of the study is that this is seen primarily as a disposition of knowledge. Motivation, attitudes, and the regulations concerning the situational requirements are hardly considered. The contents in the module descriptions were regarded as terms and definitions of as well as approaches to business ethics, but they did not include the situational requirements. With reference to learning methods, case studies were used in 20 % of the modules, but they are used more in a content-orientated than competence-orientated approach. The overall result is that the main focus is predominantly on content, whereas situational requirements and the development of attitudes seem to be subordinated (Gerholz and Sloane 2010).

These studies have different main emphases and are not directly comparable (e.g., data basis, research focuses). Furthermore, some limitations of the studies can be marked. On the one hand, the significance of module descriptions is to discuss, and, for a deeper analysis, among other things, interviews with the lecturers about their understanding of business ethics and the instructional design is necessary. On the other hand, the studies only deal with modules with the description “ethics”, “responsibility”, and the like. Modules based on an integrated fostering of ethical skills (e.g., an accounting module with an embedded lecture regarding tampering with balances and the consequences for business) are not recognised.

Nevertheless, all in all, the studies show that the focus is currently more on the content aspects, such as approaches to business ethics, philosophy, and normative orientations. The connection to requirements in daily business situations and the need to sensitise students to act in these situations is still neglected. The current curricula follow more a content-orientated approach. Here shortcomings can be ascertained: Content-orientated curricula often lead to learning and teaching processes which overemphasise content enrichment and often neglect the situational requirements. Therefore, these findings suggest that a competence-based approach in Business Education based on an action-orientated curriculum approach seems as a beneficial strategy in order to maximise the real-word employability in specific business situations.

27.4 An Action-Orientated Curriculum Design to Foster Ethical Competence

Action-orientated curricula are based on real business situations. The requirements for acting in these situations define the competences and the knowledge, motivation, and attitude aspects regarding business ethics. In other words, the ethical competence profiles are being deduced from the situational requirements. These competence profiles should be the basis for learning situations in modules of business ethics.

The theoretical basis for this model has its origin in the German vocational training system which is called “learning field concept” (*Lernfeldkonzept*). Learning fields represent working contexts that are pedagogically adapted from real and actual situations (Kremer and Sloane 2000). The main intention of this concept is the reconstruction of vocational or business processes at vocational colleges. Everyday business situations and the practical requirements posed in the working field are the basis for the construction of learning fields (Ertl and Sloane 2004; Gerholz and Sloane 2008).

For fostering ethical competence, the learning field concept as an action-orientated curricula approach has the potential to close the missing link between Business Education and the ethical skills that are needed in working environments. The main idea is that the ethical requirements in real-world business situations are the basis for the design of learning situations which foster ethical competence. This conception of action-orientated curricula is shown in Fig. 27.2.

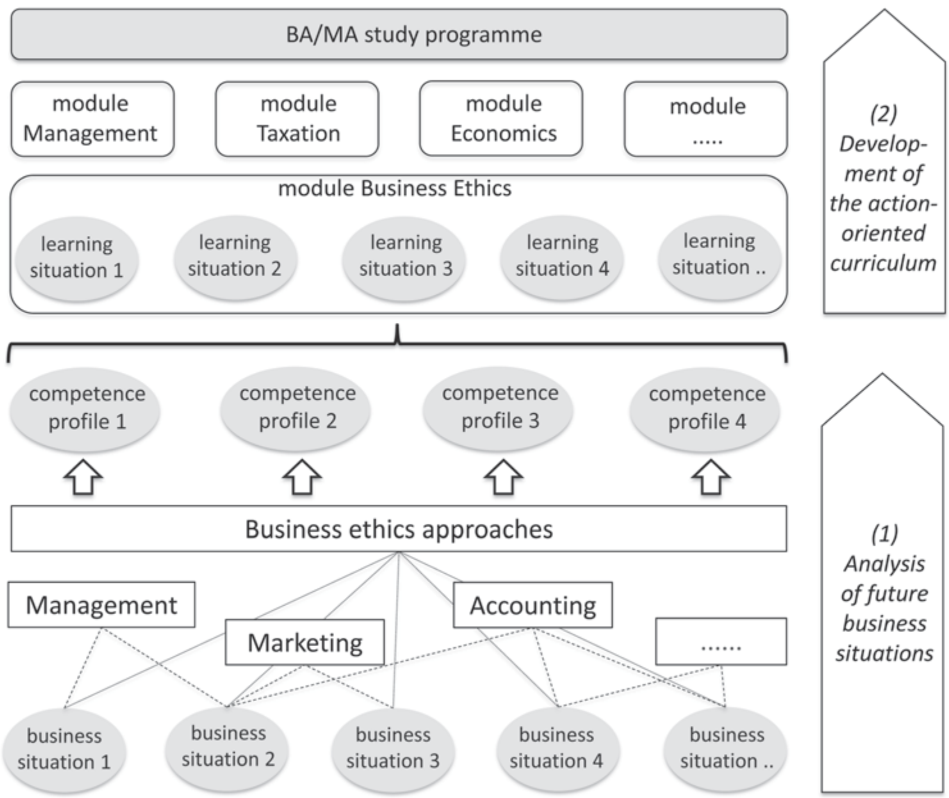


Fig. 27.2 The development of action-orientated curricula in business ethics. (It would be consistent if the whole curriculum of a study programme follows an action-orientated approach; Gerholz and Sloane 2011)

Figure 27.2 recommends that two steps are necessary for the development of action-orientated curricula in business ethics. Firstly, the analysis of real and future business situations is necessary. In this analysis, however, specification of the ethical requirements in the business situations and definition of which knowledge, motives, and attitudes are needed to handle these requirements are necessary. The latter refers to the competence profiles. Thus, systemising the analytical findings concerning the relationship between competence and situational requirements is also required. Because ethical requirements in the business and economic domain can be regarded as an integrative part of business situations, Fig. 27.2 additionally includes other business functions. Concerning business situations, given that the requirements of business situations constantly change a key challenge is deciding which situations are important for the analysis of ethical competence (Teichler 2005). However, it seems possible to filter typical situations where ethical competence is required (Gerholz and Sloane 2008). Based on the results of this analysis, an action-orientated curriculum for the learning and teaching process can be designed in step two. The implications for learning processes are the focus on business situations and their ethical requirements as the basis for learning situations. Similarities to the concept of problem-based learning are shown (Barrows 1996; Jonassen 2000). From a curricular point of view, two options for the integration of business ethics modules arise: On the one hand, it is possible that the curriculum represents a module of business ethics that is parallel to the other modules in a study programme. On the other hand, fostering ethical competence could be an integral part in the learning and teaching processes during other modules, such as accounting or management. It seems appropriate to follow the integrative approach, because ethical competence is an integral part of actions in the business and economics domain.

The concept for an integrative approach can be shown in the example of a module in human resources management. It is conceivable that subjects such as expatriate management and staff development are addressed in this module. It is a content matter of the individual development during the working process and of fostering the employees' potentials. Ethical competence is necessary to handle such situations in working contexts. Thus, an analysis concerning the ethical requirements is necessary. Who, for example, is responsible for the decision regarding which employees will be promoted? How to handle a situation if an employee wishes to go abroad but fails the internal needs in the company? What if the result of an internal staff assessment is not compatible with the feeling of the personnel development officer? How do the shared values in the company provide orientations to handle these situations and which ethical approaches help to find a solution?

The argumentation is illustrative and a deeper examination of the ethical requirements is required. Nevertheless, the action-orientated curriculum describes learning situations as problem situations in which knowledge is applied and which illustrate the context in which a learner acts and reacts. In a more traditional content-based curriculum, the syllabus is a description of the knowledge which, of course, is necessary to handle business situations. It is obvious that both approaches can be a basis to develop competences from an idealistic point of view. This is always a matter of how the curriculum is interpreted by lecturers. Nevertheless, it seems that action-orientated curricula have the potential to promote Business Education which enables students to transfer their ethical competence into real-world business.

In this curricular design, it seems to be important that the promotion of ethical competence does not only follow a material understanding, i.e. only an orientation at normative standards. Material ethics reduce the question of ethical acting to a set of standards that must be followed. However, business situations are normally complex and show inconsistencies. Individuals refer to different principles and standards in different operating contexts. Therefore, this implies that it is beneficial to foster ethical competence which is understand as a capability to communicate and to discuss about given business situations and given operating contexts. Action-orientated curricula allow students to discover ethical requirements and negotiation parameters in situations, discuss these and weigh up the action options. Instead of the presentation of norms, the basic willingness and ability to pursue an open discourse about given parameters is delivered. The landmarks of this discourse can be negotiated between the students with moderation by the lecturers. Therefore, it is an opportunity, to bring practical ethical requirements into Business Education curricula as well as to connect the links between Business Education processes and ethical requirements in real business situations.

References

Apel, K.-O. (1990). *Diskurs und Verantwortung: Das Problem des Übergangs zur postkonventionellen Moral (Discourse and responsibility: The problem of the transition to post-conventional morality)*. Frankfurt a. M.: Suhrkamp.

Barrows, H. S. (1996). Problem-based learning in medicine and beyond. In L. Wilkerson & W. H. Gijselears (Eds.), *New directions for teaching and learning*. *Vol. 68 Bringing problem-based learning to higher education: Theory and practice* (pp. 3–13). San Francisco: Jossey-Bass.

Beck, K. (2010). Moralisches Lernen–selbstorganisiert? Zur Förderung der Urteilskompetenz in “offenen” Lernumgebungen (Moral learning—self-organized? To promote judicial competence in “open” learning environments). In J. Seifried, E. Wuttke, R. Nickolaus, & P. F. E. Sloane (Eds.), *Lehr-Lern-Forschung in der kaufmännischen Berufsbildung–Ergebnisse und Gestaltungsaufgaben. Zeitschrift für Berufs-und Wirtschaftspädagogik* (Vol. 23, pp. 137–153).

Butz, A., & Gerholz, K.-H. (2009). Providing business ethics education—A fresh didactical perspective. Academy of management annual meeting 2009.

Dilger, B., Gerholz, K.-H., & Sloane, P. F. E. (2008). Aktuelles Stichwort: Employability–Eine Begriffsannäherung vor dem Hintergrund der Bachelor-Studiengänge (Topical terms: Employability—a conceptual analysis in context of undergraduate study programmes). *Kölner Zeitschrift für Wirtschaft und Pädagogik, 23*(4), 83–112.

Ertl, H., & Sloane, P. F. E. (2004). The German training system and the world of work: The transfer potential of the Lernfeldkonzept. bwp@, 7: Vocational and Business education and training in Europe: Qualifications and the world of work. http://www.bwpat.de/7eu/ertl_sloane_de_bwpat7.pdf. Accessed 8 April 2013.

Georg, W., & Sattel, U. (1995). Arbeitsmarkt, Beschäftigungssystem und Berufsbildung [Labor market, employment and vocational education]. In R. Arnold & A. Lipsmeier (Eds.), *Handbuch der Berufsbildung* (*Handbook of vocational training*) (pp. 123–141). Wiesbaden: VS Verlag für Sozialwissenschaften.

Gerholz, K.-H. (2010). Innovative Entwicklung von Bildungsorganisationen. Eine Rekonstruktionsstudie zum Interventionshandeln in universitären Veränderungsprozessen (Innovative development of educational organisations. A reconstruction of intervention action in university change processes) (Doctoral dissertation). Universität, Padeborn.

Gerholz, K.-H., & Sloane, P. F. E. (2008). Der Bolognaprozess aus curricularer und hochschuldidaktischer Perspektive–Eine Kontrastierung von beruflicher Bildung und Hochschulbildung auf der Bachelor-Stufe (The Bologna process from a curricular and HE didactic perspective—contrasting vocational education and higher education at the Bachelor level). bwp@ Berufs-und Wirtschaftspädagogik-online, 14, 1–24. http://www.bwpat.de/ausgabe14/gerholz_sloane_bwpat14.pdf. Accessed March 2011.

Gerholz, K.-H., & Sloane, P. F. E. (2010). Aktuelles Stichwort: Ethische Kompetenz. Eine Betrachtung vor dem Hintergrund der wirtschaftswissenschaftlichen Hochschulbildung (Topical terms: Ethical competence. A analysis in light of business education). *Kölner Zeitschrift für Wirtschaft und Pädagogik, 54,* 99–121.

Gerholz, K.-H., & Sloane, P. F. E. (2011). Lernfelder als universitäres Curriculum? Eine hochschuldidaktische Adaption (Areas of learning in university courses?—A higher education didactic adaption). bwp@ Berufs-und Wirtschaftspädagogik online, 20, 1–24. http://www.bwpat.de/ausgabe20/gerholz_sloane_bwpat20.pdf. Accessed Nov 2011.

Habermas, J. (1978). Strukturwandel der Öffentlichkeit. Untersuchungen zu einer Kategorie der bürgerlichen Gesellschaft (*Structural transformation of the public. Inquiry into a category of civil society*) (9th ed.). Griesheim: Wieland Eschenhagen.

Heinemann, S., & Krol, B. (2010). Nachhaltige Nachhaltigkeit: Zur Herausforderung der ernsthaften Integration einer angemessenen Ethik in die Managementausbildung (Sustainable sustainability: About the challenge of the serious integration of an appropriate ethics in management education). http://www.fom.de/fileadmin/fom/downloads/nachhaltigkeit/KCS-Schriftenreihe_Band2_Nachhaltige_Nachhaltigkeit.pdf. Accessed 10 April 2013.

Heinrichs, K. (2005). *Urteilen und Handeln–Ein Prozessmodell und seine moralpsychologische Spezifizierung. Reihe Konzepte des Lehrens und Lernens* [*Judging and acting—A process model of moral psychology and its specification. Concepts of teaching and learning*]. Frankfurt a. M.: Peter Lang.

Hillage, J., & Pollard, E. (1998). Employability: developing a framework for policy analysis. *DfEE Research Report RR 85, November 1998*. London: Department for Education and Employment.

Illeris, K. (2010). Competence, learning and education. How can competences be learned, and how can they be developed in formal education?. In K. Illeris (Ed.), *International perspectives on competence development. Developing skills and capabilities* (pp. 83–98). London: Routledge.

Jonassen, D. H. (2000). Toward a design theory of problem solving. *Educational Technology Research and Development, 48*(4), 63–85.

Kehm, B. M., & Teichler, U. (2006). Mit Bachelor-und Masterstudiengängen und -abschlüssen wohin? Eine Zwischenbilanz zum Bolognaprozess (Where to go with bachelor's and master's study programmes and degrees? An interim report of Bologna). *Das Hochschulwesen. Forum für Hochschulforschung, -praxis und -politik, 2,* 57–67.

Kraus, K. (2006). *Vom Beruf zur Employability? Zur Theorie einer Pädagogik des Erwerbs* (*From vocation to Employability? On the theory of a pedagogy of employment*). Wiesbaden: VS Verlag für Sozialwissenschaften.

Kraus, K. (2008). Beschäftigungsfähigkeit oder Maximierung von Beschäftigungsoptionen? Ein Beitrag zur Diskussion um neue Leitlinien fuÌr Arbeitsmarkt und Beschäftigungspolitik (Employability or maximisation of employment options? A contribution to the discussion of new guidelines on labor market and employment policy). http://library.fes.de/pdf-files/wiso/05865.pdf. Accessed 23 May 2013.

Kremer, H.-H., & Sloane, P. F. E. (2000). Lernfeldkonzept–Erste Umsetzungserfahrungen und Konsequenzen für die Implementation (Learning areas concept—First experiences and consequences for implementation). In R. Bader & P. F. E. Sloane (Eds.), *Lernen in Lernfeldern* (*Learning in learning areas*) (pp. 71–83). Markt Schwaben: EUSL.

Moratis, L., Hoff, J., & Reul, B. (2006). A dual challenge facing management education. *Journal of Management Development, 25,* 213–231.

NBEA. (2001). *National standards for business education. What America's students should know and be able to do in business*. Reston: National Business Education Association.

O'Riordan, L., Marsh, N., & Jonker, J. (2013). The missing link in corporate responsibility. Connecting for sustainable growth. http://www.fom.de/fileadmin/fom/kc/kcc/KCC_White_Paper_1_ONLINE.pdf. Accessed 27 March 2014.

Papenfuß, U., & Schimmelpfenning, A. (2013). Ethik, CSR und Public Management in der universitären Ausbildung?–Eine deutschlandweite Analyse betriebswirtschaftlicher Studiengänge (Ethics, CSR and public management in higher education?—A German-wide analysis in business studies). In J. Kegelmann, R. Böhmer, & H. Willmann (Eds.), *Rechnungswesen und Controlling in der öffentlichen Verwaltung (Accounting and controlling in public administration)* Freiburg: Haufe, (Vol. 6, pp. 753–776).

Scherer, A. G., & Picot, A. (2008). Unternehmensethik und Corporate Social Responsibility–Herausforderungen an die Betriebswirtschaftslehre (Business ethics and corporate social responsibility–Challenges for business studies). *Zeitschrift für betriebswirtschaftliche Forschung, 58*(8), 1–25.

Schwalbach, J., & Schwerk, A. (2008). Corporate Responsibility in der akademischen Lehre. Systematische Bestandaufnahme für ein Curriculum (Corporate responsibility in higher education. An inventory for curriculum development). http://www.nachhaltigwirtschaften.net//archiv/2828/corporate_responsibility_in_der_akademischen_lehre.pdf. Accessed 28 Sept 2010.

Schwerk, A. (2010). Corporate Responsibility in der akademischen Ausbildung von Managern (Corporate responsibility in academic training of managers). In F. Theis & S. Klein (Eds.), *CSR–Bildung. Corporate Social Responsibility als Bildungsaufgabe in Schule, Universität und Weiterbildung* (*CSR education. Corporate social responsibility as an educational task at school, university and training*) (pp. 112–128). Wiesbaden: VS Verlag für Sozialwissenschaften.

Seeber, S., Nickolaus, R., Winther, E., Achtenhagen, F., & Breuer, K. (2009). Kompetenzdiagnostik in der Berufsbildung. Begründung und Ausgestaltung eines Forschungsprogramms (Competence diagnostics in vocational education. Rationale and design of a research programme). *Berufsbildung in Wissenschaft und Praxis, 1,* 1–15.

Sloane, P. F. E. (1999). *Situationen gestalten: von der Planung des Lehrens zur Ermöglichung des Lernens* (*Design of situations: From planning of teaching to enabling learning*). Markt Schwaben: EUSL.

Sloane, P. F. E. (2007). *Bildungsstandards in der beruflichen Bildung. Wirkungssteuerung beruflicher Bildung* (*Educational standards in vocational education. Effect control of vocational training*). Paderborn: EUSL.

Teichler, U. (2005). Berufliche Relevanz und Bologna Prozess (Employability and Bologna). In U. Welbers & O. Gaus (Eds.), *The shift from teaching to learning* (pp. 317–320). Bielefeld: W. Bertelsmann.

Tennant, M., McMullen, C., & Kaczynski, D. (2010). *Teaching, learning and research in higher education. A critical approach*. London: Routledge.

Ulrich, P., & Thielemann, U. (1993). Unternehmensethische Denkmuster von Führungskräften (Corporate ethical pattern of executives). *Die Betriebswirtschaft, 53*(5), 663–682.

Van den Bossche, P., Gijselaers, W. H., & Milter, R. G. (Eds.). (2011). *Building learning experiences in a changing world*. Dordrecht: Springer.

Transdisciplinary Teaching of CSR by Systemic Constellations

28

Georg Müller-Christ and Anna Katharina Liebscher

Contents

28.1 Introduction . . . 564
28.2 Sustainable Leadership: Organising the “Bickering of Premises” . . . 565
28.2.1 What are Decision-Making Premises? . . . 566
28.2.2 Eco-efficiency and Responsibility as Synonyms for Sustainability . . . 566
28.2.3 Sustainability is Preservation of Substance . . . 567
28.2.4 A Systemic Visualisation of Decision-Making Premises . . . 568
28.2.5 The “Bickering of Premises” . . . 570
28.3 How Does the Method of Systemic Constellations Work? . . . 572
28.3.1 Introduction to the Method of Systemic Constellations . . . 572
28.3.2 Systemic Constellations as a Method of Action Research . . . 573
28.3.3 First Experiences with the Method of Systemic Constellations in the Context of Sustainability . . . 574
28.4 Responsibility Constellated: Examples of Good Practice . . . 575
28.4.1 Example 1: Responsibility in the Livestock Branch . . . 575
28.4.2 Example 2: Social Responsibility and Companies . . . 577
28.5 Potentials of the Method for the Knowledge Transfer Regarding CSR . . . 580
References . . . 581

G. Müller-Christ (✉) · A. K. Liebscher
Fachbereich 7, Universität Bremen, Wilhelm-Herbst-Straße 12,
28359 Bremen, Germany
e-mail: gmc@uni-bremen.de

A. K. Liebscher
e-mail: liebscher@uni-bremen.de

L. O’Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_28

Abstract

The demand for innovative teaching methods for the transfer of sustainability and CSR knowledge to students is constantly rising. However, the problem remains that such knowledge is rather orientational than hard fact knowledge. So the question rises, if there are new and innovative methods—especially in the course of rising demands for transdisciplinary and research-orientated teaching—which are suitable for the transfer of knowledge and the creation of insights into socially highly important topics such as sustainability and CSR.

This chapter presents such a method. The method of systemic constellations is meanwhile well known in organisational consulting and is slowly finding its way to university teaching. The authors have worked with the method for several years and have gained some experience in the use of the method in university teaching. In this chapter the topics sustainability, CSR, sustainable leadership and decision-making premises in companies are addressed and related to the benefit, which can be gained by applying the method. To illustrate the huge potential the method bears, some examples are explained that show how the method has been applied in the context of teaching CSR.

28.1 Introduction

There are many occasions, numerous theoretical concepts and ample examples of practice that deal with the transfer of CSR knowledge to students and practitioners. Despite this plenitude of good practice examples, the topic is hardly transferable or capable of being integrated into economic activity. Misgivings remain about the better part of political or economic CSR commitment that seems to remain only a way of rhetorically coping with the CSR challenges. But why is this so?

A literature survey quickly reveals that the most common approach to conveying CSR knowledge is the promise of short-term advantages. The benefits of a more responsible behaviour are emphasised, short-term win-win-hypotheses are rather postulated than proven, risks are pointed out and—if all this is still not enough—the knockout argument of long-term success is brought out. In reality, however, the side effects of economic activity on humans and nature are rising rather than declining.[1]

In this paper, the imparting of ideas to students and practitioners concerning which place CSR could occupy in firms follows a different logic. From a consistent systemic perspective, it is possible to view responsibility not primarily as a trait of people or firms, but as one decision-making premise among many. Figuratively speaking, these premises play a systemic game with each other, they kind of bicker with each other over meaning. Every new premise causes changes for the relationship system of the existing premises. In

[1] Since the focus of this paper is on the teaching of CSR, especially via the method of systemic constellations, an extensive explanation of CSR is not given here. An overview of modern understanding is given by Schwartz (2011); Horrigan (2010); May, Cheney, and Roper (2007).

this game, responsibility is a decision-making premise, having been pushed to the system of premises from the outside for years, with the expectation that it will quickly occupy an important place and displace another one. But which one?

Systemic constellations are an effective method to explore and to explain the game of premises. Persons representing the premises are being placed in a room in relation to each other. The emerging picture is not only a way of illustrative systemic visualisation. It is also the starting point for the following process work, which aims at the clarification of the respective relationships of the premises. Practitioners and students applying the method together enter into a serious learning process about the logic of complex decision-making processes. This process does not only need much less time than reading and discussing; it is also orientated towards solutions rather than towards problems.

This paper presents experiences from the application of the method of systemic constellations in the university teaching and learning process. It points out that the method is notably suitable for the transfer of orientational knowledge.

28.2 Sustainable Leadership: Organising the "Bickering of Premises"

The question of striving for sustainability, ethics and responsibility is not only a question of asking "where" or "what," but also a question of the point of origin or the level of origin. What does the present demand, what does the future need? A firm concentrating on the present has survived on markets until today and has generated more income than costs. This however does not mean that the same will hold true tomorrow. Management studies would state that markets are far too dynamic and decisions are far too complex. Therefore, firms and entrepreneurs continuously need to search for a good position for their firms on the markets. A future-compliant and responsible firm does not only search for a good position in the markets in comparison with its competitors, but also for a good position within society (Remer 2004). This new kind of searching makes the difference.

Today, the "good position within society" is often connected with sustainability or responsibility. A sustainable firm is able to treat all its material and immaterial resources thriftily and to keep in mind that all the ecological, social and economic resources needed for survival will also be needed in the future. This new challenge demands a dual view: The procurement side becomes crucial for corporate success in addition to the sales side. The scarcer material and immaterial resources of one society or the whole world become, the more importance is allocated to the question: What are the resources used for? Now that the world's resources are becoming absolutely scarce new answers are needed to the question of which needs we want to meet with our understanding and organisation of economy (and which ones not). The critical challenges are the order that entrepreneurs and leaders give to corporate decision-making premises and the willingness to bear and to cope with contradictions. This new complexity does not only occur on the markets, but also during the search for the good position within society. The ability to cope with them does not only emanate from intelligent instruments, but also from personal attitude.

28.2.1 What are Decision-Making Premises?

For a long time, management and business studies have been perceived as a science clearly orientated towards decision-making. Here, prescriptive and descriptive decision-making theories are well established (Bell et al. 1988; Laux 2005). The decision-making premises that firms want to meet are less often discussed. Decision-making premises are understood as the criteria and rationalities for action a decision-making process needs to fulfil. Over time, the Gutenbergian understanding of business studies (Gutenberg 1958), which added the premise of productivity and therefore efficiency to the sole premise of the functionality of production, was enhanced by legality, social and environmental compatibility. Morality as a decision-making premise has always had a back row position (meaning that it always existed without being pulled to focus) and gained greater importance through the public debate on business ethics. Since the beginning of this millennium, sustainability has become another important decision-making premise for business activities. With the decision-making premises in mind, complexity develops not only through the separation of premises, but rather because of the premises' unclear, invisible relationships. Overall complexity shows itself in the fact that every good business decision needs to meet the following premises:

1. The decision must result in functionality.
2. The decision must result in efficiency.
3. The decision must result in legality.
4. The decision must result in ethical action (ethics).
5. The decision must result in the preservation of substance (sustainability).

Of course, business studies know about the topic of multi-criteria decision-making processes with conflicts of objectives. It seems that the rules for the solution of such processes are based on the assumption that the criteria or premises are equivalent (Laux 2005), which would imply that they need to be brought into order giving the premises descending importance. However, the new premise of sustainability makes clear that there are tensions and forces of attraction, which make decision-making processes quite complex. From a systemic perspective, some of these relationships can be described differently.

28.2.2 Eco-efficiency and Responsibility as Synonyms for Sustainability

To date, politics and science are acting on the assumption that sustainability stands on the business profit side. The win-win-hypothesis resulting from the supposition that more sustainable economic behaviour results in greater profits persists even without sufficient empirical evidence. The wish to stick sustainability to the profit side can only be maintained when sustainability is interpreted as eco-efficiency: Less material and energy input reduces costs and raises profits. A closer look reveals that this way of thinking is based solely on economic rationalisation: Markets demand continuing growth of productivity and efficiency, which is realisable through savings in material and energy.

At the same time, sustainability is also interpreted as a more ethical or responsible business management, aiming at a more respectful treatment of man and nature. Incentives for corporate social responsibility lie in the combination of this understanding with the one described above: Considerately acting firms produce more revenues because customers reward responsible behaviour through their buying behaviour. In this understanding, sustainability, profits and responsibility are being placed directly next to each other although empirical evidence is mostly missing here as well.

The interpretation of sustainability as an intensification of eco-efficiency or as responsible business management can actually contribute to a more sustainable economy. However, these premises are not able to preserve the flow of scarce resources in the long run. This is the task of the preservation of substance, which is seen as the essential character of sustainability in this paper (Müller-Christ 2011, 2013a).

28.2.3 Sustainability is Preservation of Substance

The preservation of the resource base can be circumscribed as the preservation of a firm's substance. The term substance is actually well known in business and management studies, usually being associated with balance-sheet-policies. When forestry adopted the sustainability term, it was the notion of substance that it was built upon (von Carlowitz et al. 2000). The demand to not cut more wood than can regrow within a certain period of time follows the same logic as not spending more money than one can earn or not using up trust faster than it can be rebuilt. However, the foresters' substance was visible which made it measurable, countable, and therefore easier to deal with sustainably. Later, when fossil energy sources took over, the substance was below ground and therefore invisible. Presumably, the ideas of preservation of substance lost importance due to immense raw material and energy deposits and finally disappeared from economic decision-making processes.

In the meantime, management studies recognised that firms are dependent on immaterial resources as much as they are on material resources (at least). However, when the discussion about immaterial resources started—as it was lead on the resource-based view of strategic management—, no bridge could be built to the preservation of substance or to sustainability, because the development or production process of the resources remained unconsidered.

Actually, it can be observed that the conceptualisation of corporate substance kept developing, albeit widely unknown and hardly discussed. At first, the substance of a firm (i.e., what a firm is made of) comprised only capital and production plants. Later, personnel were added, based on the statement that personnel is the crucial factor of success. Personnel are indeed physically present, but as a resource for a firm it is the qualification and the appropriate attitude towards the firm that are important. With the focus on personnel the dematerialisation of the substance term was initiated, which proceeded to the resource-based view that defined organisational capabilities as resources.

As a rationality for action the substance term implies its preservation. He who ruins his substance destroys the source of his income (i.e., not keeping an apartment house in good condition). By ruining his physical substance he reduces his action options (i.e., burnout). In particular cases it might be advisable to use up substance to a certain level for short-term survival (i.e., invest assets in case of crises). However, in the end this will always lead to a run-down enterprise. Preserving the substance is smart economic behaviour aiming at the lasting preservation of enterprises.

The notion of sustainability as a comprehensive substance-preserving way of economic activity is only slowly establishing itself in management studies (Scherhorn 2010). This might be due to the difficulty of the substance term. For the re-acquirement of a comprehensive logic of substance preservation, being understood as the rationality of sustainability, it is probably advisable to speak of the resource base instead of the substance. The substance term implies a static character, a narrow understanding of existence, whereas the resource term allows speaking of material and immaterial means, of the operational functionality of their sources and of multi-dimensional reproduction. There is a functional equivalence in the use of resources, which means that not only the reproduction of a consumed resource, but also the reproduction of another than the consumed one can be called sustainable.

To sum it up, the great challenge of the re-introduction of a substance-orientated sustainability notion is that the broadness of the resource base (ecologically, economic and social as well as material and immaterial) requires a great amount of time, money and attention. To cope with the absolute scarceness of material and immaterial resources, management studies need an extended frame of reference for the treatment of resources beyond the efficiency rationality (for details see Müller-Christ 2012).

28.2.4 A Systemic Visualisation of Decision-Making Premises

The different premises of corporate decision-making can be understood as the elements of a system of premises. The systemic view is characterised by the focus on the relationships between the elements. These can be neutral, complementary (i.e., appealing, mutually reinforcing) or conflicting (in tension with each other, dilemmatic). Conflicting relationships complicate decision-making processes and are therefore often avoided. How can, against this background, one find out what the actual relationship between sustainability and efficiency looks like?

A good way to visualise systems and relationships is to position the single elements in a certain space. This can be done with playing pieces on a table or on the floor, or it can be done with persons as representatives for the elements. In such a three-dimensional systemic visualisation, a lot more questions need to be answered than in a two-dimensional analysis: how long is the distance between the elements? Where do they look? Which elements feel connected to another one? Which ones feel tension between them? Which ones are clear and strong, which ones are diffuse and weak (Müller-Christ 2013b)? This method is increasingly used in the context of corporate sustainability in order to reveal the relationships between elements (Gminder 2005).

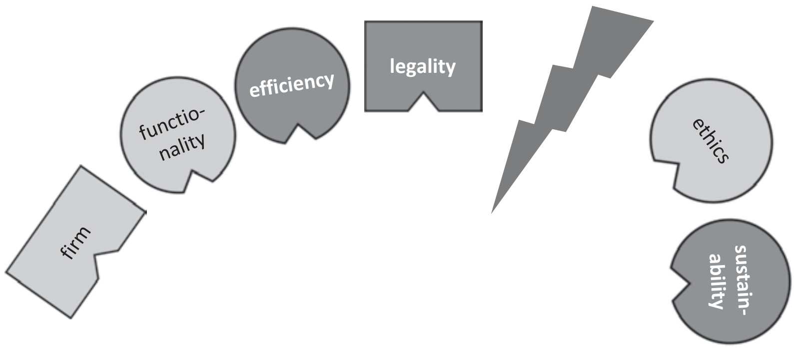


Fig. 28.1 Constellation of decision-making premises

Some people might place all the premises introduced above next to each other, sorted by their appearance in business studies. This already shows the observer that five decision-making premises standing next to each other make decision-making processes very complex. They cannot be equally considered, so they lose power the farer they are away from the decision-maker (the firm). Individual rearrangements even increase complexity because in every decision-making process situationally appropriate criteria for the adjustment of premises need to be found. Figure 28.1 shows the visualisation of this constellation "game" and indicates the way management studies present decision-making premises.

Various constellations are possible because for every firm the "bickering of premises" is different. In a firm in which cost-pressure and efficiency breathe down the firm's neck, the inter-action of the premises could look like shown in Fig. 28.2.

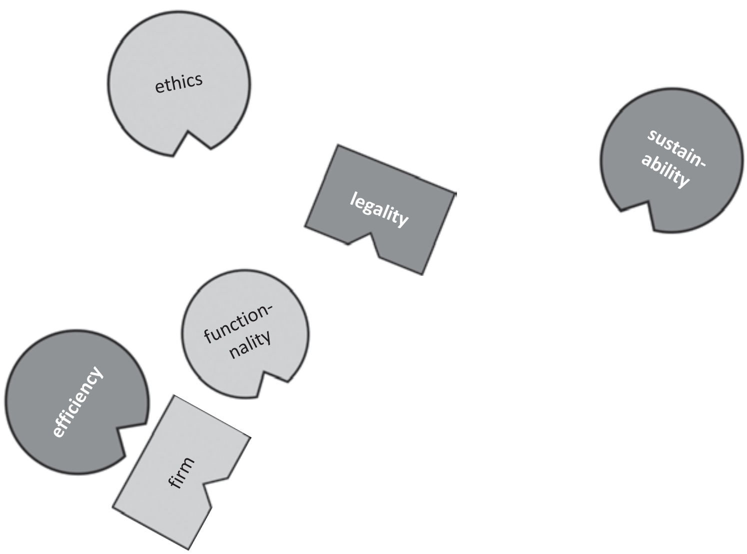


Fig. 28.2 Inter-action of the decision-making premises under efficiency pressure

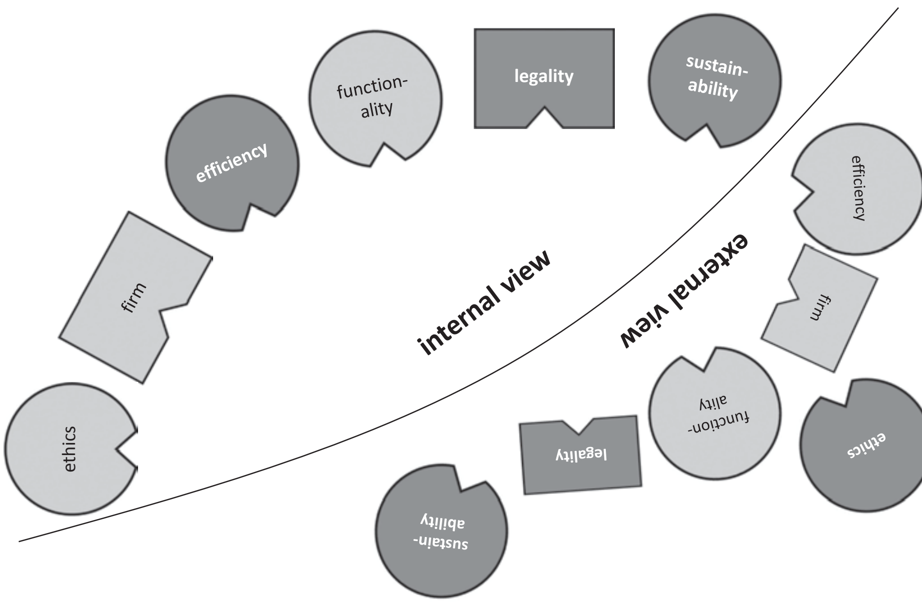


Fig. 28.3 Inter-action of the decision-making premises under efficiency pressure

This way of presenting the system of premises is also suitable for a comparing look at self-monitoring and external observation. One can assume that ethics and sustainability are being positioned in the centre of the decision system when looked at from the outside. The environment, however, might perceive a different behaviour and would constitute the firm's system of premises differently. The "game" firms and their stakeholders play seems to be based on this distinction: Which system of premises does the firm present in its glossy brochures, which one does it pursue internally (see Fig. 28.3)?

What does it mean for a corporate decision-making process if the premises are not lined up next to the decision-makers but spread around the room? Could it be that there are clear and strong premises and diffuse, weak ones? How do decision-making processes have to be organised that have to orientate themselves according to diffuse and weak premises due to functional reasons, but for which the stronger premises turn out to be the dominant ones? At this point, it becomes clear that a constellation of premises in a room leads to completely new questions for the system of premises, which could hardly be associated from the study of texts and tables.

28.2.5 The "Bickering of Premises"

This approach is based on the hypothesis that the vagueness of the "bickering of premises" is the reason why firms seldom strive for sustainability and responsibility intensively. Every newly occurring decision-making premise changes the inter-action between the existing premises of the system. For about 20 years, many special interest groups have tried to integrate ethics as a decision-making premise in the corporate system of premises. The major part of theoretical efforts for this strives for the justification of this integration. Another part of the argumentation tries to assign ethics a position close to the decision-makers (making it more important than the premise of efficiency). All these rhetorical efforts have not yet resulted in making ethics a dominant decision-making premise for firms. The same holds true for the premise of sustainability.

The systemic perspective allows addressing entirely different changes: Premises can become stronger or weaker when other premises appear; they can change their position or can even change inwardly when relationships alter. Such changes are hardly observable through cognitive observations and causal explanations. Like for all kinds of relationships, invisible factors control the quality of the mutual reference. When systemic changes shall be observed methods like systemic constellations are helpful since they are able to make implicit knowledge visible via intuition (Müller-Christ 2013c).

From the perspective of decision-making, the following questions arise:

- Why do new premises occur at all, if a system is actually only interested in its own existence?
- Is there a fixed order of premises, which re-emerges after a period of bickering when a new premise occurs? Or
- Do the positions of the premises have to be chosen situationally (which would mean that there is a unique order of premises for every decision-making problem)?
- Do trivial premises push the complex premises away from the decision-maker?
- Does any former order of premises take effect on current decisions?
- What do persons have to be able to do in order to realise the order of elements in the system of premises and to re-arrange them if necessary?
- Are tensions in the system of premises the source of innovative solutions?

The view on the system of premises gives an idea of the reasons why it has been so difficult for such a long time to connect sustainability and ethics to corporate decision-making routines. The difficult-to-compass complexity of the relationships between the premises and the inherent contradictoriness greatly challenges decision-makers: They have to have and keep the ability to be flexible in the changing system of premises.

Sustainable leadership (Hargreaves and Fink 2006) implies the task to organise the interplay of forces of conventional, existing and new, sustainability-related decision-making premises according to new rules. It aims at giving decision-making processes a certain structure, which allows installing intelligent processes of consideration between short-term and long-term success. These new rules and intelligent processes of consideration will not be configurable solely according to rational criteria. The willingness to depend on one's own intuition is one of the prerequisites for sustainable leadership. The new challenge of looking at things systemically and of coping with dilemmas constructively now occurs alongside the known competencies for coping with complexity (Müller-Christ and Nikisch 2013).

28.3 How Does the Method of Systemic Constellations Work?

28.3.1 Introduction to the Method of Systemic Constellations

Systemic constellations facilitate emotional, affective and cognitive experience and learning in divergent groups. They work with scenic presentations of relationship structures of a system: A client places persons in the room (in the constellation space) as elements of a system, and the relationships of the elements are being visualised through the distance between persons and their respective viewing directions (Wade 2004). Persons standing as representatives make use of their "representative perception" which allows them to empathise with the elements they represent and to serve as their mouthpiece. They can physically feel if the position they were assigned and the relationships they have with others are acceptable, pleasant, distracting, strengthening etc. and they gain implicit knowledge of the system through intuition (for this frequently verified phenomenon the definite explanation has not yet been provided, see Klein and Limberg-Strohmaier 2012). In this way, a certain system of origin can be reproduced realistically in a different place under the responsibility of a trained facilitator.

The process work comprises specific questioning of elements, the inclusion of new elements or exclusion of old ones and precise demands concerning the representatives' condition. It aims at creating a "good" system and reveals interpretation offers for the original problem, which often lead to great progress regarding the insights of the clients. The following discussion between all participants and the audience is of particular importance. In this discussion, the representatives as well as the observers describe and compare the associations they had. Experience teaches that during these discussions researchers and practitioners can debate on the same level because they refer to commonly created pictures and experienced changes. The conclusions drawn from constellation work would, in most cases, not have been reached through document analyses, interviews or empirical surveys—at least not in such a short period of time (constellations usually take 1–2 h).

Empirical evidence is growing that in constellations a kind of sign language or sign system is used which is interpreted in similar ways by different people (Varga von Kibéd and Sparrer 2009). Schlötter proved in an often-cited work that persons share supra-individually similar experiences regarding the meaning of the positions persons occupy in a certain space, which is why they derive not only similar experiences, but also similar interpretations. When persons in constellations are exchanged or constellations are repeated somewhere else with different representatives, the statements the representatives make correspond significantly (Schlötter 2005; Kohlhauser and Assländer 2005). Baecker concludes that systemic constellations generate a self-commenting structure in space, which does not demand more than the copying of specific characteristics of the system of origin (Baecker 2005).

From constellations practice can be seen that people are able to take the role of representatives in constellations in a realistic way without extensive theoretical explanation, solely through professional guiding: Without having explicit causal explanation yet, the apprehension of inter-relations and their verbal expression emerge from the simulation of a system of origin (Rosner 2007). The prevalent attempts to explain this phenomenon work with constructs such as “representative perception” (Varga von Kibéd 2005), “morphogenetic fields” (Sheldrake 2008) or “knowing fields” (Mahr 2003).

The method of systemic constellations has reached a maturity that makes it an interesting instrument for sustainability-related management research. It can be viewed as part of action research.

28.3.2 Systemic Constellations as a Method of Action Research

Giving recommendations for institutions’ activities requires substantiated knowledge and understanding of the institution that is about to be changed. At an early stage, the insight emerged that the people who want to develop an organisation can cause more effects once they get into the institution and develop better understanding though participation. However, a participant automatically becomes an element of the system he or she wants to change. From the view of neutral science, great challenges arise for this kind of action research. Action research belongs to qualitative empirical social research whose methodological self-confidence continually grows with an increasing quality of recommendations (Atteslander 2003; Krause 2006). With their solution-orientation, systemic constellations can contribute to this self-confidence and can provide greater significance for the demands for analyses and insights the transdisciplinary action research makes.

In the end, action research builds a bridge between the observers’ and the representatives’ self-experience and the scientifically distanced research (Rosner 2007). The latter can not only explore the method’s causal links, but also cluster repeatedly occurring relationship patterns and condense them to new hypotheses on systemic relationships. In the process of integrating sustainability into predominant decision-making routines, such new relationship patterns are essential.

In comparison to conventional methods of qualitative empirical social research, systemic constellations have the advantage that within a very short period of time even complex systems can be illustrated and be given a voice. Systemic constellations are an effective instrument for the visualisation of the order of interactions between a system’s elements, in the sense of a grammar of systemic action.

The term action research carries terminologically both the search for new insights and organisational will. Research insights and recommendations for organisation and action develop in the same process. Every constellation helps understand the grammar of systemic action better. For this, every constellation recalls the principles of systemic order and, at the same time, makes the testing of different solutions possible based on these principles. At the end, there may not be specific recommendations for action (however, no method can provide these with absolute certainty), but a clearer and deepened insight into the analysed system which subsequently leads to more appropriate behaviour.

28.3.3 First Experiences with the Method of Systemic Constellations in the Context of Sustainability

The transfer of CSR and sustainability issues to students is a crucial point in academic teaching because it can change the students' behaviour and especially in business studies might influence their attitude towards conventional management praxis (for an overview of the use of systemic constellations, esp. in university teaching, see Kopp and Martinuzzi 2013).

In order to evaluate the learning success perceived by the lecturers in a course of business studies with a study focus on behavioural management, ongoing reflections via discussions in class were part of the course. Moreover, a qualitative evaluation using half-standardised questionnaires was conducted. Since the insights of this evaluation are part of an ongoing research project and will be published later on (Hußmann 2015), only some essential insights are presented here.

The evaluation aimed at the investigation of the effect systemic constellations have on the students taking part in it regarding the development of competencies and understanding. The open questioning revealed that some of the students only realised their development and learning progress through the replies they were asked to give. For the use of the method in the future, this shows how important shared phases of reflection and debriefings are for the learning outcome of the students. The method proved to be an appropriate means for the deepening of expert knowledge, particularly in comparison with conventional teaching methods. As regards the issue of sustainability, most of the students experienced learning progresses through the participation in systemic constellations. The greatest progress was observed in the field of thinking in multiple cause-and-effect-relationships. The method seems to be most suitable when multi-causalities in systems shall be pointed out. This can also be seen in the practical relevance of theoretical questions: Some constellations were conducted based on real problems external clients presented in class. Here, the students considered positive the relevance for the "real world out there" and the interactive learning processes.

In the field of sustainability and responsibility, learning outcome is not only related to knowledge, but also to behavioural effects. Overall, with systemic constellations in university lectures dealing with sustainability, the knowledge level can well be reached and enhanced. Systemic thinking is developed when being part of a system. However, impacts on personal behaviour were less extensive than expected; in other words: Systemic action has not yet been affected to a high extent. The evaluation of the course revealed that the method still carries a great lot of potential. Future attempts to include the method in university lectures will place more emphasis on the embedment of the method in the other methods used for the transfer of knowledge and understanding. Moreover, a stronger focus shall be on behavioural consequences. This is obvious in systemic constellations: A slight motion of one element can cause a big effect on another element at the other end of a room. This connection needs to be better conveyed to the praxis level so that the students do not only understand the relationships of premises and the role and position of elements like sustainability for firms, but that they also learn what can be done in order to enhance the establishment of order and to take the theoretical insights to everyday and business life as well.

28.4 Responsibility Constellated: Examples of Good Practice

28.4.1 Example 1: Responsibility in the Livestock Branch

An ongoing research project on sustainability in the livestock branch examines the relationships between the different elements of the system by the use of the method of systemic constellations (Scholtz 2015). Here, the relationships between actors (process partners, stakeholders, consumer groups) as well as more abstract entities are analysed. In this connection, a constellation was conducted that focused on the premises explained above. The system was looked at in the context of the field of tension between industrial livestock farming and sustainable animal agriculture. Moreover, the element animal ethics as another premise was added. Responsibility was specified as meaning the responsibility for humans.

This systemic constellation was conducted as a hidden constellation, which means that the representatives did not know whom they represented. Six students received folded pieces of paper, each with one premise written on it. In the case of hidden constellations, the information is present on the piece of paper, but not in the minds of the representatives. Experienced representatives are able to enter into the "representative perception" immediately; and they quickly find out which place or position in the system is suitable for them. In the constellation about the livestock branch all six representatives searched themselves for a good position within the field of tension between industrial livestock farming and sustainable animal agriculture. In doing so, they clearly perceived where the other premises positioned themselves and how they affected each other. After some time of searching and trying out different positions all the representatives found a position, where they felt comfortable and where they knew which other elements were important for them (dependent on viewing direction and distance). The facilitator asked the elements (the premises) one after another how they were doing, which other elements they noticed and which other element was important for them. Afterwards, the roles were revealed. Figure 28.4 shows the initial picture of the constellation.

From the wealth of information about the relationships of the premises that were obtained from the constellation, only partial information can be presented here. Interestingly, the premises quickly formed logical couples. Animal ethics and the preservation of substance (sustainability) felt associated with each other, but did not want to stand inside the field of tension. They strengthened and bolstered the sustainable animal agriculture when standing behind it. The preservation of substance did not have a good relationship with efficiency. Efficiency could not find a good position within the field of tension and would ideally like to stand next to functionality. Functionality, however, tried to build a relation-

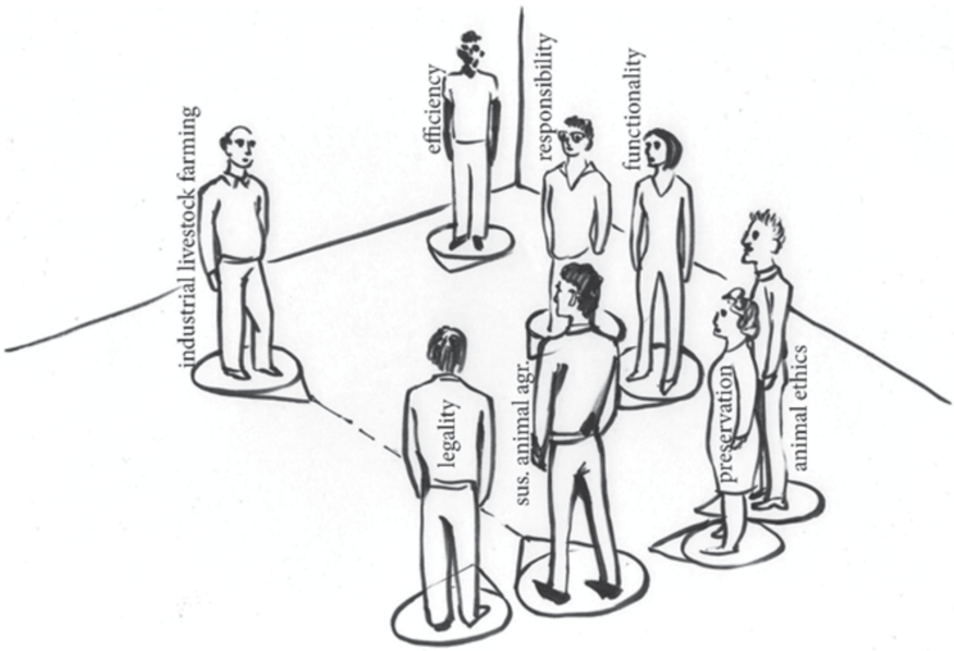


Fig. 28.4 Initial picture of the livestock branch constellation

ship with legality, who was in turn interested in responsibility. Via their representatives, premises (like persons) react systemically and sensitively to any change in position, in attention and to others' actions and reactions. No premise felt autonomous or independent from the other premises.

Systemic constellations deploy their full strength when influences or solutions are tested. In this example, four system irritations were placed in the field with the aim to find out which forces might make the system of premises orient itself more clearly towards the sustainable animal agriculture. The four irritations were assigned to four representatives who again did not know which irritation they represented. However, as soon as they entered into the field, the other elements reacted to them—even though they did not know what the new element stood for either. Nevertheless, the reactions proved to be coherent and plausible.

The four system irritations were: vegetarianism, rotten meat scandal, tightened EU-standard for animal protection, and laboratory production of proteins. Since only a selection of the observed reactions can be presented here, the focus is on the reactions of the premises responsibility for humans and animal ethics. Responsibility, for instance, reacted critically to the new EU-standard asking whom the norm would really protect: man or animal? Moreover, responsibility exhibited antipathy toward the rotten meat scandal, and sympathy toward the vegetarianism. It was very sceptical toward the production of proteins in laboratories instead of normal meat production. Animal ethics felt weakened by the new EU-standard for animal protection, it felt strengthened when the rotten meat scandal occurred, had great sympathy for vegetarianism and absolutely no relationship to laboratory production of proteins. It is important to point out once more that these relationship statements of the premises were not developed through cognitive performance, but through the representative perception of the persons within the constellation, due to which the representatives were able to perceive system changes caused by external influences. The kind and character of the different influences, however, was not revealed to the representatives.

What did the students taking part in this constellation learn about responsibility and animal ethics? On the one hand, the constellation aimed at getting to know the systemic "bickering" of the premises not only on a cognitive level (i.e., through lectures or text study), but also on a physical level, which means that the students should physically perceive system changes by being a representative in a constellation. This is a different way of learning; a way that one could describe as action learning. On the other hand, the students learned that the premises react upon each other and that they react differently to external irritations. Through this, the students were given an idea of how difficult interventions in complex systems aiming at specific effects can be. Trying to expand efficiency and demanding more responsibility at the same time is a problem of systemic contradictoriness—the forces cancel each other out.

28.4.2 Example 2: Social Responsibility and Companies

In the above-mentioned course in the Bachelor's programme of business studies from the specialisation in behavioural economics and business studies, which focused on fields of tension in a systemic context, the first careful attempts to integrate systemic constellations in university teaching were confirmed. The course included both fields of tension in management studies and real examples from practice, which were both analysed via systemic constellations. One of the practical examples dealt with the meaning of society for firms and with the corporate commitment to society in terms of CSR. This systemic constellation and its relevance for the transfer of CSR-understanding in university teaching are outlined below.

The client works on a research project dealing with the meaning of society for firms and corporate social responsibility. In this context, the client examined four large corporations from different industries empirically and case study based with regard to the meaning these corporations give the issue of society. In order to evaluate the research results with a completely different method, systemic constellations were conducted in the systemically orientated course mentioned above. In this course, the lecturers worked with constellations in many cases and contexts, embedding the method in their teaching programme with an unvarying basic structure. Therefore, the constellations were carried out with students who were very familiar with the method.

In a first step, the basic field of tension between firms and society was constellated, and was complemented by the field of tension between sustainability (serving as the generic

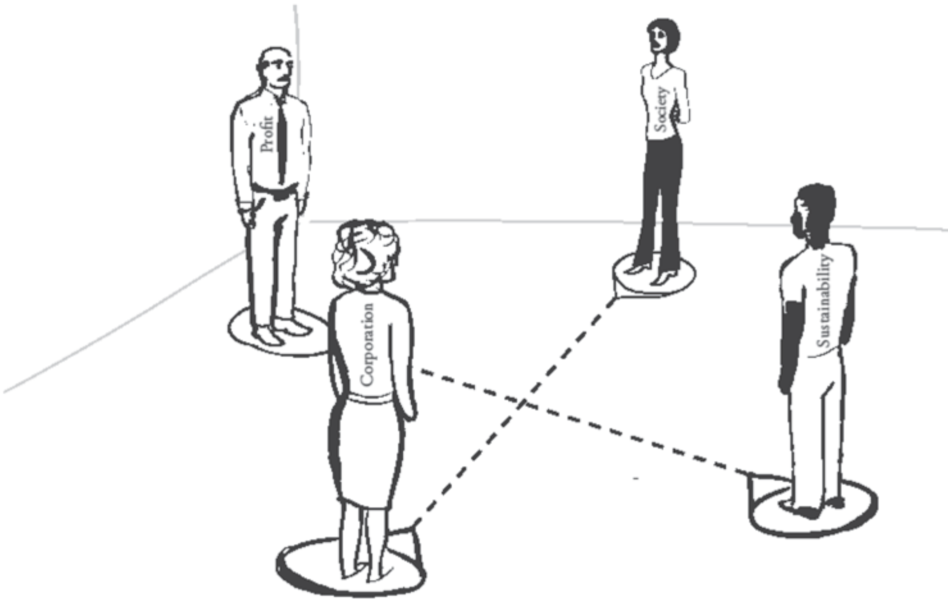


Fig. 28.5 Initial picture of the "social responsibility and companies" dilemma²-constellation

term for CSR) and profit (that is usually reduced when sustainability investments are made). These four poles formed a "square of tension" as shown in Fig. 28.5. For this kind of constellation, the term dilemma²-constellation was chosen.

Four constellations were conducted for the four corporations by placing the respective representatives for these corporations in the dilemma². Here, the hidden version of systemic constellations was chosen again, so that every element knew which corporation was entering the system, but the representatives for the corporations did not know which of the four representatives stood for which of the elements shown in Fig. 28.5. The corporations searched for an appropriate position for themselves. The picture shown in Fig. 28.6 resulted from the systemic constellation for a corporation from the energy provider industry.

The central statements of the energy provider regarding the relationships to the respective actors were: the relationship with sustainability was very weak, the one with society very powerful; profit seemed to be made unsure and anxious due to a lack of attention; corporation seemed to be well-disposed towards the energy provider. The statements returned by the elements were rather incongruous: sustainability felt fine and not at all powerless; society had great expectations of the energy provider; profit perceived the relationship to the energy provider as neutral, and the corporation had the wish that the energy provider would stand next to it from the very beginning.

Afterwards, the most important society-based drivers and barriers for the corporations' CSR-commitment were added to the system. They searched for an appropriate position themselves. In the case of the energy provider industry, these elements were the expectation of a constant availability of cheap energy supply (1) and climate change (2). When

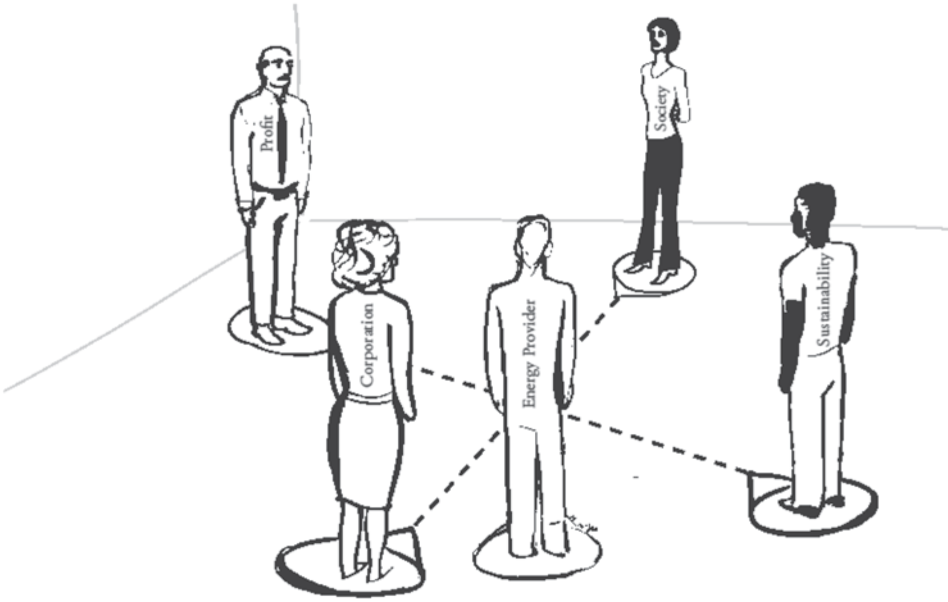


Fig. 28.6 Initial picture of the energy provider constellation

the expectation (1) appeared, the energy provider instinctively took a step forward and said that the expectation (1) was its only purpose in life and that sustainability completely disappeared from the energy provider's sight. The other elements hardly reacted, only profit felt relief. When climate change (2) appeared, it caused greater effects: the energy provider took a step to the side in order to not having to have the climate change (2) in sight; for society the situation became diffuse, and profit felt somehow bewildered due to the uncertainty of the energy provider. Figure 28.7 shows the picture that developed as explained above, which is also the final picture of the constellation.

The same procedure was repeated for three more corporations from different industries (food/consumer goods, publishing industry), all of which highlight sustainability and CSR in the field of corporate communication. Following the three other constellations, the involved representatives and the audience discussed the different pictures and constellations. This discussion revealed that in comparison with other firms the energy provider in the example outlined above tackles the issue of sustainability and social responsibility in an unguided and unorientated manner. This could be traced back to the energy provider's position within the industry and the contradictory stakes of its customers (climate-friendly and cheap).

The demonstration of fields of tension representing two opposingly positioned poles pleased the students who were able to learn a lot from the visual clarification of the nature of tensions. They learned to differentiate between the different forms of attraction and rejection, of well-being and discomfort. The students' learning progress regarding the connections that affect the integration and tracking of CSR in firms already started when the elements searched for their own appropriate positions within in the system of the dilemma[2].

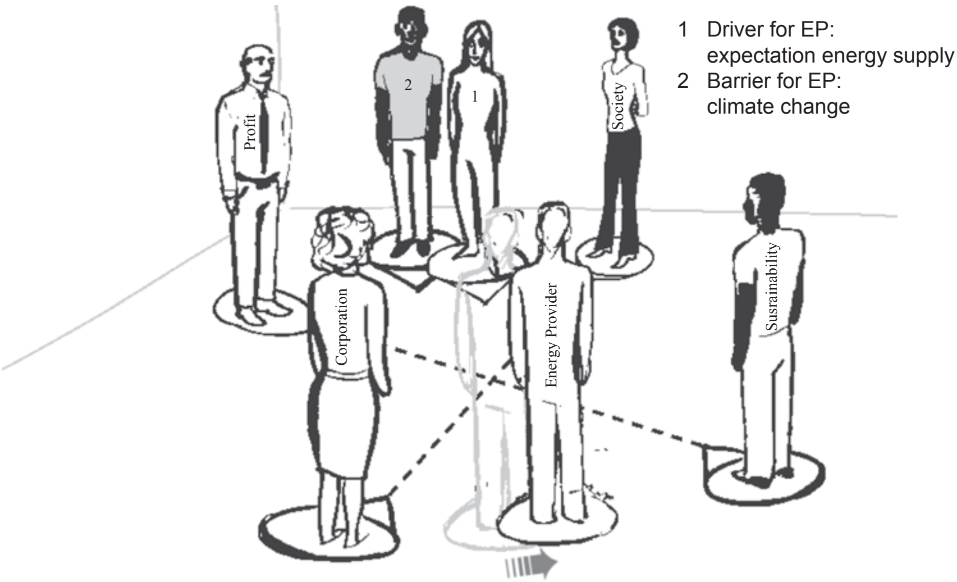


Fig. 28.7 Final picture of the energy provider constellation

The students described the feel for changes during the process work as very intense. By constellating four different corporations from the same point of view in the same original setting, the students were able to understand that the different elements have different perceptions in different contexts. The variable meaning of elements, of the appreciation of one's own position and of the stakes from the outside, as well as the insight that the view from the inside may be completely different to the view from the outside, were conveyed to the students via systemic constellations. The concluding questioning of the students regarding the perceived coherence of the system's positioning in the square of tensions formed by society vs. corporation and sustainability vs. profit revealed that the students found this setting very plausible. They were able to understand and to reflect the different meanings society and sustainability were assigned in the respective systems. Most notably, the challenges of making and keeping society stakes visible and the corporate sustainability orientation were made visible and could be understood in an experiencing setting.

28.5 Potentials of the Method for the Knowledge Transfer Regarding CSR

To date, students usually learn about the role of responsibility of firms via theoretical approaches and examples of good practice. They are very interested in this topic despite this kind of knowledge transfer. Many of them want to spend time on the topic within the scope of their bachelor or master theses and want to contribute in an innovative way to the establishment of CSR as everyday management practice. In the end, many research questions on the effectiveness of the stakeholder approach are asked and answered.

But what is it that is really transferred when teaching the stakeholder approach? Ultimately, lecturers draw a map that shows several environments surrounding the firm, which hold stakes in the firms because they are interested in the main effects (e.g., stockholders, employees or the state) or because they are affected by the side effects (e.g., environmental protection groups, employment protection groups or neighbours). The firm then is left to deal with the problem of coping with the dynamics of stakes, usually by meeting the most powerful demands and rejecting the weaker ones.

What do students learn when they take part in a systemic constellation about the relationship network of stakeholders? They do not only learn cognitively which relationships exist; via different kinds of knowledge acquisition they also experience that institutions, people and premises interact dynamically. Closeness or distance, appreciation or ignorance, autonomy or co-operation, system or environment membership, sympathy or antipathy affect these relationships and create a field of tension, which is hardly ascertainable on a theoretical basis. Systemic constellations convey the complexity and dynamics of this field of tension to the students both on a prototypical level (dealing with the general field of tension which reveals itself frequently) and on a concrete level (which means the concrete field of tension of a specific firm's stakeholders).

The latter reveals the exceptional potential of the method. When practitioners come to university with difficult CSR-issues and work in a systemic constellation with students, a co-educative learning process takes place. The students who are part of the constellation as representatives and as observers experience a deep analysis of a management problem from practice. The practitioners receive a profound solution to their specific problem within a very short time. A systemic constellation for a client from practice usually takes 1–2 h and produces more information than time-consuming consulting processes that take weeks. At the University of Bremen, such joint learning processes take place within the scope of Syst-A-Lab, an experimental lab for joint learning of practitioners and students using the method of systemic constellations. The method opens the door for very efficient, but nevertheless well-founded transdisciplinary research processes. Experience teaches that there are hardly any communication difficulties between research and practice when both communicate their problems and solutions by means of three-dimensional pictures produced in systemic constellations.

References

Atteslander, P. (2003). *Methoden der empirischen Sozialforschung* [*Methods of empirical social research*] (10th ed.). Berlin: de Gruyter.

Baecker, D. (2005). Therapie für Erwachsene. Zu Dramaturgie der Strukturaufstellung [Therapy for adults. Dramaturgy of systemic constellations]. In T. Groth & G. Stey (Eds.), *Systemaufstellung als Intervention in Organisationen—Von der Praxis zur Theorie und zurück* [*Systemic *constellations as interventions in organisation—from practice to theory and back*] (pp. 14–31). Heidelberg: Carl Auer.

Bell, D. E., Raiffa, H., & Tversky, A. (1988). Descriptive, normative, and prescriptive interactions in decision making. In D. E. Bell, H. Raiffa, & A. Tversky (Eds.), *Decision making. Descriptive, normative, and prescriptive interactions* (pp. 9–30). Cambridge: Cambridge University Press.

Gminder, C. U. (2005). Using the management constellation as tool for corporate sustainability. http://www.smia.info/files/eh94jbm8.f1_fr-1262.pdf. Accessed 28 March 2014.

Gutenberg, E. (1958). *Einführung in die Betriebswirtschaftslehre* [*Introduction to business studies*]. Wiesbaden: Gabler.

Hargreaves, A., & Fink, D. (2006). *Sustainable leadership*. San Francisco: Jossey Bass.

Horrigan, B. (2010). *Corporate social responsibility in the 21st century: Debates, models and practices across government, law and business*. Cheltenham: Edward Elgar.

Hußmann, G. (2015). Leading Manager for Sustainability, will be published in 2015.

Klein, P., & Limberg-Strohmaier, S. (2012). *Das Aufstellungsbuch. Familienaufstellung, Organisationsaufstellung und neueste Entwicklungen* [*The constellation book. Family constellations, organisational constellations and latest developments*]. Wien: Braumüller.

Kohlhauser, M., & Assländer, F. (2005). *Organisationsaufstellungen evaluiert. Studie zur Wirksamkeit von Systemaufstellungen in Management und Beratung* [*Organisational constellations evaluated. An examination of the effectiveness of systemic constellations in management and consulting*]. Heidelberg: Carl Auer.

Kopp, U., & Martinuzzi, A. (2013). Teaching sustainability leaders in systems thinking. *Business Systems Review, 2*(2), 191–215.

Krause, O. (2006). *Performance Management. Eine Stakeholder-Nutzen-orientierte und Geschäftsprozess-basierte Methode* [*Performance management. A stakeholder-benefit-oriented and business-process-based method*]. Wiesbaden: DUV.

Laux, H. (2005). *Entscheidungstheorie* [*Decision theory*]. Berlin: Springer.

Mahr, A. (2003). *Konfliktfelder—wissende Felder. Systemaufstellungen in der Friedens- und Versöhnungsarbeit* [*Fields of conflict—knowing fields. Systemic constellations in the work on peace and reconciliation*]. Heidelberg: Carl Auer.

May, S., Cheney, G., & Roper, J. (Eds.). (2007). *The debate over corporate social responsibility*. Oxford: Oxford University Press.

Müller-Christ, G. (2011). *Sustainable management. Coping with the dilemmas of a resource-oriented management*. Heidelberg: Springer.

Müller-Christ, G. (2012). Nachhaltiges Management aus der Entscheidungsperspektive: Restitutionskosten, Jetzt-für-dann-Entscheidungen und Trade-offs [Sustainable management from a decision-making perspective. Restitutions costs, now-for-then-decisions and trade-offs]. In H. Corsten & S. Roth (Eds.), *Nachhaltigkeit—Unternehmerisches Handeln in globaler Verantwortung* [*Sustainability—corporate action with global responsibility*] (pp. 51–66). Wiesbaden: Gabler.

Müller-Christ, G. (2013a). Ambitionsniveaus eines nachhaltigen Managements [Levels of ambition of sustainable management]. In H. Schäfer & K. Krummrich (Eds.), *Handbuch Nachhaltigkeit* [*Handbook sustainability*] (pp. 43–57). Stuttgart: Deutscher Sparkassen Verlag.

Müller-Christ, G. (2013b). Konzepte in Beziehung setzen. Systemaufstellungen in der universitären Managementlehre und -forschung [Relating concepts. Systemic constellations in management teaching and research in university]. *Praxis der Systemaufstellung, 1*/2013.

Müller-Christ, G. (2013c). Wo stehen Nachhaltigkeit und Ressourcenorientierung im Unternehmen? Ordnungsangebote im Prämissengerangel durch Systemaufstellungen [Where do sustainability and resource-orientation stand within the corporation? Offers of order for the bickering of premises with systemic constellations]. In S. Klinke & H. Rohn (Eds.), *RessourcenKultur* [*Resource culture*] (pp. 383–397). Baden-Baden: Nomos.

Müller-Christ, G., & Nikisch, G. (2013). Sustainable Leadership. Ressourcenkompetenz zur Strukturierung von Entscheidungsprämissen [Sustainable leadership. Resource competency for the structuring of decision-making premises]. *Die Unternehmung, Sonderheft Managementkompetenzen für Nachhaltigkeit, 67*(2), 89–108.

Remer, A. (2004). *Management—System und Konzepte* [*Management—system and concepts*]. Bayreuth: R.E.A.

Rosner, S. (2007). *Systemaufstellungen als Aktionsforschung. Grundlagen, Anwendungsfelder, Perspektiven* [*Systemic constellations as action research. Basics, application, perspectives*]. Munich: Rainer Hampp.

Scherhorn, G. (2010). Unternehmen ohne Wachstumszwang: Zur Ökonomie der Gemeingüter [Corporations without growth compulsion. On the economy of the commons]. In L. Seidl & A. Zahrnt (Eds.), *Postwachstumsgesellschaft. Konzepte für die Zukunft* [*Post-growth society. Concepts for the future*] (pp. 129–144). Marburg: Metropolis.

Schlötter, P. (2005). *Vertraute Sprache und ihre Entdeckung. Systemaufstellungen sind kein Zufallsprodukt der empirische Nachweis* [*Common language and its detection. Systemic constellations are not a product of chance—empirical evidence*]. Heidelberg: Carl Auer.

Scholtz, A. (2015). Ongoing dissertation project, will be published in 2015.

Schwartz, M. S. (2011). *Corporate social responsibility: An ethical approach*. Peterborough: Broadview Press.

Sheldrake, R. (2008). *Das schöpferische Universum. Die Theorie der morphogenetischen Felder* [*A new science of life*]. Munich: Nymphenburger.

Varga von Kibéd, M. (2005). Ein Metakommentar [A meta-comment]. In G. Weber, G. Schmidt, & F. B. Simon (Eds.), *Aufstellungsarbeit revisited—nach Hellinger?* [*Constellation work revisited—According to Hellinger?*] (pp. 200–250). Heidelberg: Carl Auer.

Varga von Kibéd, M., & Sparrer, I. (2009). *Ganz im Gegenteil. Tetralemmaarbeit und andere Grundformen systemischer Strukturaufstellungen* [*Quite the contrary. Tetralemma work and other basic forms of structural constellations*]. Heidelberg: Carl Auer.

von Carlowitz, H. C., Irmer, K., & Grober, U. (2000). *Sylvicultura oeconomica: Anweisungen zur wilden Baumzucht* [*Forest economy: Guide to tree cultivation conforming with nature*]. Freiberg: TU Bergakademie. (Reprint 1713/2000).

Wade, H. (2004). Systemic working: The constellations approach. *Industrial and Commercial Training, 36*(5), 194–199.

Shopping in the (Business) Ethics Supermarket? On the Relationship Between Value Pluralism and Management

29

Stefan Heinemann and Ralf Miggelbrink

Contents

29.1 Introduction: God as the Most Important "Managerial Stakeholder" 586
29.2 Value Pluralism and Management 588
29.2.1 Values in Business 588
29.2.2 Value Pluralism Without Relativism: Faith-Friendly Companies as an Answer to "Fatal Dualism" 591
29.2.3 Hermeneutic Benevolence: Good Business Needs Subjects Who Are Capable of Religious Ethical Pluralism 593
29.3 Universalism Without Fundamentalism: Religious Ethical Pluralism, No Multimonism 595
29.4 Critical Discussion: The Ethical Supermarket Is Not an Attractive Management Solution 596
References 598

Abstract

In this chapter, we argue that the plurality of values in global business raises questions and challenges in company management that the companies, their workforce, management, customers, suppliers and ultimately all other stakeholders, are barely able to address and answer without the normative realm coming into view. The concept of

S. Heinemann (✉)
FOM University of Applied Sciences, Leimkugelstraße 6, 45141 Essen, Germany
e-mail: stefan.heinemann@fom.de

R. Miggelbrink
Institut für katholische Theologie, Universität Duisburg-Essen,
Universitätsstraße 3–5, 45117 Essen, Germany
e-mail: ralf.miggelbrink@uni-due.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_29

the *faith-friendly company* (Miller) similarly stems from the American public theology agenda, which in a sense has succeeded the concept of *civil religion*: rather than powerful indoctrination of a metareligious ethical consensus, here different religious and ethical convictions are the focus. The logic of the *faith-friendly company* dictates that reason and understanding, based on the individual experiences and practices of employees, partners and customers in handling with the reality of the Absolute, are essential. The authors claim that the ethical supermarket is not an attractive management solution; it renders faith-friendly business impossible and ultimately endangers the assumption of social responsibility with any conviction. This concept responds to the dilemma of companies not being able to prescribe religion to their employees but still needing some kind of connection between them and the reality of the Absolute, together with the necessary religious plurality.

29.1 Introduction: God as the Most Important "Managerial Stakeholder"[1]

In this chapter we argue that the plurality of values in global business raises questions and challenges in company management that the companies, their workforce, management, customers, suppliers and ultimately all other stakeholders, are barely able to address and answer without the normative realm coming into view.

Just as in the still comparatively unsecularised USA (Norris and Inglehart 2007, p. 40)[2] there are successful companies, like Timberland, Tyson Foods or Marriott, who make Christian or other beliefs the value base within their company[3] and convey them to their customers with what for European observers is unusual missionary zeal (who is not familiar with the Mormon scriptures in the bedside drawer of Marriot Hotel rooms?), Germany also has its own similarly "exotic," albeit less demonstrative, examples (Deichmann). Respectively "[…] individual corporate leaders appear to accept that God is a critical entity to be taken into account when making business decisions, and in this respect represents their most important stakeholder." (Singer 2014, p. 711). Such exceptions aside, corporate social responsibility has become a subject of more or less constant discussion (Kraus and Brtitzelmaier 2012) and an increasingly regulated facet of business activity in a market

[1] Singer 2014. The interesting question is, if present or future human beings are the only acceptable stakeholders. Without a special concept of a (*three-)personal* divine being(s) even future human beings cannot be considered being stakeholders. Simply because it is not easy to grant future generation rights without at least some idea of an ultimate foundation of moral values.

[2] Ibidem "We can conclude that the United States remains one of the most religious in the club of rich countries […]." The secularization in Germany can be understood as the diminishment of Christian Churches in modern Western societies according to morality and the way it binds together people (Pollack 2003).

[3] Retrieved March 3, 2014, from http://finance.yahoo.com/news/big-u-s-companies-you-might-not-know-are-religious-175228053.html.

that in Germany today is very much seen as part of society (and not *vice versa*; Carroll 2008) and CSR has become a part of the university agenda[4] (Schuetze 2012; Berthold et al. 2010; Lawry et al. 2009; Jacoby 2009; Ehrlich 2011), of managerial economics (Rasche and Escudero 2010) and to some extent ethics education at Universities and Business Schools (Heinemann and Krol 2011; Gerholz and Heinemann 2012, 2014; Küpper and Schreck 2008; Matten and Moon 2004; Schwalbach and Schwerk 2008; Schwerk 2010; Papenfuß and Schimmelpfennig 2013). Sustainability, CSR, values/ethics management, etc., are at least discussed daily—although undoubtedly not to the same extent among all stakeholders. Europe 2020 objectives include sustainable growth[5]—but this message has not yet reached European Citizens broadly (European Commission 2013, p. 6: "Just over half of European citizens believe that companies have a positive influence on society, while more than 4 out of 10 believe companies have a negative influence. Europeans are more sceptical about the influence of companies than citizens from other major economies.")

Prima Facie surprisingly enough, "corporate values" are sometimes seen as being oddly *non*-normative—it is not even hoped that they will have a binding effect (because ultimately these "norms" are not trusted to be able to influence behaviour), or they have to be enforced with hard compliance (for the same reason). Especially "German companies are very reluctant to address normative questions publicly" (Melé 2008, p. 16, referring to Palazzo 2002). Alternative approaches are more holistic and try to embody the normative realm (Hahn 2011). It is still relatively rare for companies to develop their guiding principles, code of conduct, ethical values, etc. in a broadly participatory process (Helin and Sandstrom 2007)—with greatens and limits, positive, negative and mixed results according to firm performance and organizational change (Kaptein and Schwarz 2008; of course such a process does not necessarily lead to religious or spiritual realms—French Laicism for example was recently established in the workplace of French Company Paprec as 4000 employees voted against the display of religious symbols [Yarmulke/Kippah, Christian crosses, Muslim head] at work[6]). This, in addition to the cost, is possibly because such processes often make the plurality of values tangible and management with such a diversity of convictions especially "tricky." but it nevertheless considerably challenges the idea of duality between private beliefs and the workplace. But nevertheless the management of participation is possible and effective: "The process enables the unconscious to be made conscious, or the latent to become manifest." (Messikomer and Cirka 2010, p. 68).

In the following we initially pursue the above line of questioning and theory in discussing value pluralism and management (2). We present a form of value pluralism without

[4] For the strong opposite see Mearsheimer 1998.

[5] Retrieved March 3, 2014, from http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF.

[6] See also the "Baby Loup" affair—giving legal backing for the Paprec decision. Retrieved March 3, 2014, from http://www.lemonde.fr/societe/article/2013/11/27/l-affaire-baby-loup-en-quatre-questions_3520954_3224.html.

relativism, hence the concept of "faith-friendly companies" as an answer to "fatal dualism" (Follett 1930, p. 87; Johnson 2007), and the need for hermeneutic benevolence among the workforce, since good business relies on subjects who are capable of religious ethical pluralism. From this follows a universalism without fundamentalism, a religious ethical pluralism that demands and fosters a special kind of sensitivity (3). The almost common alternative of shopping in the (business) ethical supermarket is not an attractive solution for management—as we outline in our concluding critical section as a starting point for necessary further elaboration and a basis for further discussion (4).

29.2 Value Pluralism and Management

29.2.1 Values in Business

Businesspeople cannot be blamed for initially considering everything from a business perspective—as long as this consideration is not taken as absolute. Yet from this perspective there is no absolute validity, no absolute values. Ultimately, at least according to neoclassical thinking, every *just* transaction in the Hobbesian sense is reduced to a single, more or less clear point: the coincidence of supply and demand, the concluding of a contract (Hobbes 1996, p. 72; Hösle 1995, p. 117; Koslowski 1988, p. 248). A society of smart egoists would be the desirable result, Ethics in this view is grounded in Economics (and not the other way around). This and only this determines whether needs are met, and it can be articulated quantitatively as an economic, monetary value. Especially as far as religion and ethics are concerned, certain indifference therefore emerges. This is because what religion and ethics are about is essentially non-quantitative, orientated on and originating from transcendence. Religion naturally has some influence on values in business activity (Hanssmann 2010), yet there is little empirical evidence that its influence is as strong as assumed by Weber (1904/1920). The indifference is thus to be understood more in relation to the claim religions (although certainly not every religion or in the same way) lay to having authorized, if not even privileged, access to the truth—a claim few today consider to be plausible, let alone compatible with business. It would, after all, imply that there is an absolute corrective to the economic points of balance (Hösle 1995; Heinemann 2011; Miggelbrink 2009; Brodbeck 2011).

This insight had an entirely liberating effect at the birth of bourgeois society: the enlightened Prussian King is indifferent to the *façon* of his subjects' belief as long as they are peaceful and pay their taxes. Indeed, according to a widespread narrative in historical scholarship and the social sciences, the indifference of the prudent ruler to the diverse religions, worldviews and values is the actual source of social peace: religions, this is the message of the philosophy of the Enlightenment as pronounced by Hume, Rousseau and Kant, are cruel and destructive. These philosophers remembered the horrors of the confessional wars in Europe in the seventeenth century and prepared the ground for this widespread narrative of destructive religion and peacemaking rationality.

That is not to say that religion and ethics are of no interest. Yet the interest lies not in their specific substance but in the effect they are hoped to have. Religions and convictions that are essentially incompatible, because they dispute in a fundamentalist and non-argumentative manner the equality of other beliefs, are naturally excluded here. Otherwise, however, what matters is not what a person's ethics or religion are, but that he or she has ethics or a religion at all. Hans Küng's research on the ethics of the world religions (Christianity, Judaism, Islam, Buddhism, Hinduism; Küng 1990) suggests that they all share certain fundamental ethical convictions. So when it comes to ethical orientation in management and the workplace today, there is a tendency to look to existing "values," in other words the traditional ethical knowledge and associated authority to make moral judgments of the religions.

The term "value" is especially appropriate for such an eclectic approach. It stems from a descriptive way of treating convictions. It is possible to describe empirically which convictions and positions people adhere to. The term "value" means that certain convictions have a crucial function for the subject in reaching ethical judgments and explaining why these judgments are justified. The term "value" accepts as a fact that certain values are considered valuable. It does not allow discussion of whether these values really are valuable. Values exist, can be described, are perceived and may be functional for the company. Values in this sense can be regarded as socio-cultural facts that must be taken into account. The question of whether they are right or wrong is avoided if not banned.

At first glance, it seems entirely fitting in management to take a descriptive and non-judgmental approach to values. Non-normative business administration theory and corporate management practice appear to sit well with one another here. No entrepreneur will ever presume to indoctrinate specific values or oppose certain religious beliefs (at least not usually). Even ethical or religious discourse in a company is also seen more as a danger than an opportunity. It is therefore understandable that airlines ban their employees from wearing turbans or crosses. In 2014 in the Netherlands, the University of Wageningen refused to acknowledge a good graded dissertation in agricultural engineering until the doctoral candidate removed the dedication to God in the preface that had so scandalized the doctoral committee.[7]

But if a company demands that the workplace is free from religion and establishes this as company doctrine in the interests of *political correctness*, how can the same company revert to values that are intended to keep the people in positions of responsibility from radical and absolute self-interest? The trend towards CSR and value management concepts nevertheless continues unabated, and they are increasingly being reflected in the regulatory framework (e.g., forthcoming mandatory social and financial reporting,

[7] Retrieved March 3, 2014, from http://diepresse.com/home/panorama/welt/1569541/Niederlande_Entweder-Gott-oder-Doktortitel.

integrated reporting etc.[8]). Philosophically speaking, we are faced with the intractable problem here of being required to produce assertions as to how the world should be from purely descriptive assertions as to how the world is. This philosophical issue is exacerbated by the fact that, for at least a quarter of a century, schoolchildren in Germany have been non-critically taught to take a critical approach to values, fuelled by the contradictory idea that critique is the first principle. However, if it is no longer possible to understand how people arrive at these values in the first place, this critical ability as a socialization goal becomes nothing more than absolute scepticism. Then there are no corporate values that can guide management, the workforce or any of the other stakeholders, and guiding principles are merely principles—harshly expressed—without the power to guide anyone.[9] Since ethical guidelines (Codes of Conduct) "have recently become a nearly ubiquitous feature in business" (Erwin 2011, p. 536; North America Chonko et al. 2003; Europe Sobczak 2003; Worldwide Kaptein 2004: 85 % of the largest companies implemented such a code) this issue is not just of an academic interest. A gap between what a company says and does when it comes to value-orientated business and the expectations of internal and external stakeholders and the society determines the effectiveness of the corporate ethical guidelines (Kaptein and Schwarz 2008), i.e., that all this is not just about a formal process, marketing and monetary profit in first place.

In the fields of national politics there exists a successful concept of combining value pluralism with social responsibility and commitment to basic values of common acceptance. It is called the concept of Civil religion. *Civil religion* is a doctrine developed in the mid-twentieth Century in the USA.[10] The doctrinaire and moral convictions of the citizens are met with tolerance and indifference by the state. However, each citizen is expected to share certain fundamental beliefs as part of a common elementary religion. The concept of *civil religion* originated in the sixties, at a time when patriotism and readiness to defend the homeland were as important in the USA as family and faith in God. It was as natural then to reject homosexuality as it is today to oppose homophobia. Even racist convictions were at least to some extent part and parcel of *civil religion* in the USA of the day. The macro-cosm of values on which the *civil religion* as a doctrine of decency naturally drew, however, has since disappeared.

A new answer within the Christian Theology has emerged as "public theology." Public theology does not aim to indoctrinate certain convictions that can be shared by everybody. Public theology starts with the study of theological different and plural insights and asks: What do these different convictions mean with regard to social and political responsibility?[11]

[8] Retrieved March 3, 2014, from http://www.csrandthelaw.com/2014/03/mandatory-social-and-financial-reporting-coming-soon-to-the-european-union/.

[9] For norms and their creation in companies (also with regard to the Prisoner's dilemma) see also Gröneweg & Matiaske 2012.

[10] Bellah 1967; Lübbe 1981.

[11] Retrieved March 3, 2014, from http://www.public-theology.de/and http://www.brill.com/international-journal-public-theology;Miggelbrink2011.

29.2.2 Value Pluralism Without Relativism: Faith-Friendly Companies as an Answer to "Fatal Dualism"

David W. Miller talks about the need, with the taboos of race and gender on the labour market now overcome, to likewise break the last remaining taboo, employees' religion. This is possible in a "faith-friendly company," an environment for spiritual, motivated employees who have a capacity for criticism (Miller 2007, 2010). William Schweiker of the University of Chicago defines the perception of God "as the integrity of all living existence," the moment at which determined by Christian tradition a "cosmopolitical conscience" (Schweiker 2010, p. 138) necessary for a globalized world is formed. On the whole, individual faith convictions appear to be playing a greater role in all areas of life, including the workplace (Nash and McLennan 2001; Williams 2003; Giacalone et al. 2005).

The concept of the faith-friendly company similarly stems from the American public theology agenda, which in a sense has succeeded the concept of civil religion: rather than powerful indoctrination of a metareligious ethical consensus, here different religious and ethical convictions are in the focus. The concept of the faith-friendly company is therefore far superior to that of "faith-avoiding companies" (Giacalone and Jurkiewicz 2010), because it does not require employees to separate their private from their professional life and does not produce a "fatal dualism" (Follett 1930, p. 87).[12] Such a division not only hinders motivation, it above all endangers ethical awareness, because ethical awareness depends on the experience of the Absolute. Immanuel Kant describes ethical imperatives as being based on a categorical imperative. In many respects, business activity is determined by the correct analysis of conditions. At its core, ethical judgment is a question of whether attitudes, decisions and virtues exist that are absolutely valid and, if so, what they consist in. This concept takes a moderate, universalistic and yet plurality-friendly approach and is therefore superior to alternative belief models.

> Faith-friendly policies are welcoming and inclusive, and do not privilege one tradition over another. As such, the faith-friendly corporate model is different from faith-based organizations that are typically grounded in a single tradition. Faith-friendly companies are also integrative and avoid the problems associated with compartmentalization. Correctly implemented, faith-friendly companies have the potential to harness some of the positive dimensions of various traditions while avoiding conflictual aspects. A faith-friendly company recognizes the centrality of faith in many employees' lives, and their desire to live an integrated, holistic life both at work and in their private life. A faith-friendly company seeks to do this in a way that is respectful of all faith traditions by creating a culture of respect, diversity, inclusion, and tolerance. Indeed, being faith-friendly includes being welcoming of and respectful towards those whose faith lies in secular humanism, atheism, and other materialist worldviews. (Miller and Ewans 2013, p. 15)

[12] Follett speaks about the average person, not about managers. Her influences got back to German Idealism, especially Hegel and Fichte, see Mele (2006, p. 5, footnote 2). Of course Hegel is not just a monist, opponing against dualism. His objective idealism is a synthesis of monism and dualism.

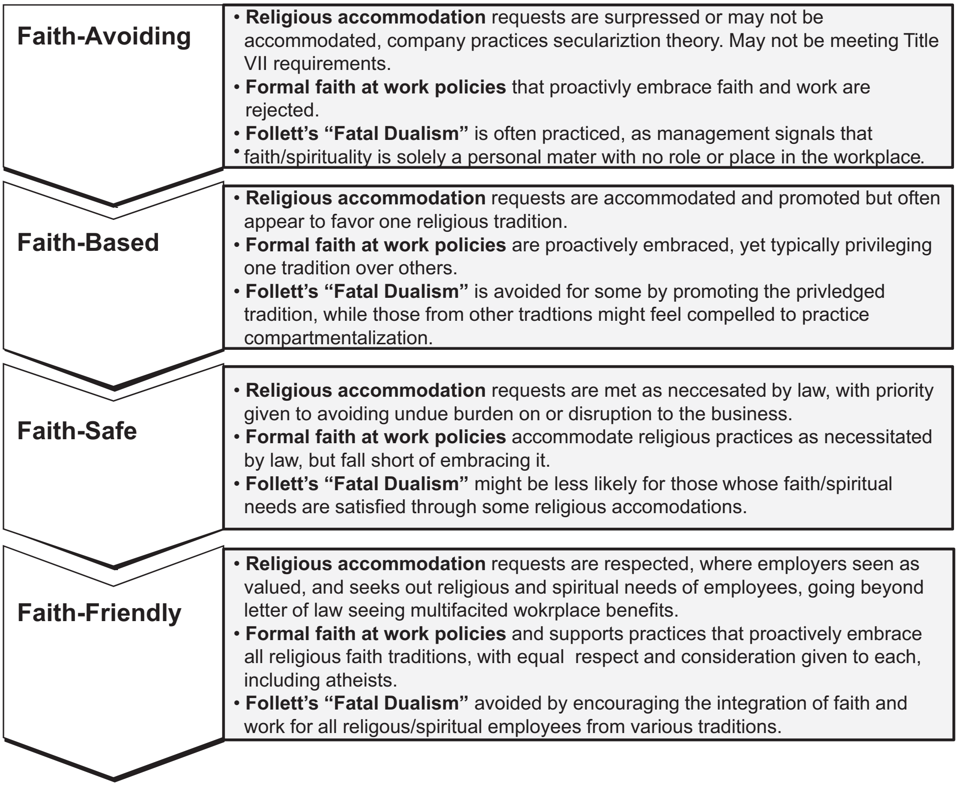


Fig. 29.1 Faith-friendly scorecard. (Note: Miller and Ewans 2013, p. 27)

A faith-friendly scorecard identifies the different stages of the model for faith integration in the workplace (Fig. 29.1):

If people do not accept any form of absolute worth in their life, they will base their actions entirely on the prevailing conditions. In business in particular, this seems to be an extremely sensible thing to do. The question nevertheless remains of whether anyone is really willing to put their economic and professional existence in the hands of radical opportunists—generation Y at least appears increasingly to be saying no (Boyd 2010). The hitherto so celebrated collective intelligence is, in fact, nothing more than careful observation of the immediate environment with an absolute willingness to adapt to it. *Absolute* willingness to adapt to any given situation is also a way of handling the Absolute, but it is one that leads to the peculiar self-contradiction of only absolutely accepting the invalidity of the Absolute. Self-contradictions are not particularly rational (Hösle 1987) and therefore have little attraction for rational people.[13] That is why opportunists are not capable of loyalty inside or customer attractiveness outside the firm. In the long run at least, a lack of integrity combined with legitimate beliefs cannot be conducive to success.

[13] Another argument why the rational choice might be not that rational.

The concept of the faith-friendly company responds to the dilemma of companies not being able to prescribe religion to their employees but still needing some kind of connection between them and the reality of the Absolute, together with the necessary religious plurality. This way, they wish to ensure that people act with convictions in the workplace and do not have to endure the division between professional and private life, a division that modern labour organization is making increasingly unrealistic anyway. This blurring of the line between private and public life is exacerbated by the *gender*-induced integration of children in the companies of working mothers and fathers. The modern company is more and more becoming a living space in all its dimensions. It can therefore hardly avoid confronting itself with the faith of its employees. Only a corporate culture of pluralism without relativism can offer a solid fundament to social diversity, which is productive rather than destructive or repressive (Heinemann 2014).

29.2.3 Hermeneutic Benevolence: Good Business Needs Subjects Who Are Capable of Religious Ethical Pluralism

Religions can be defined as culturally acquired techniques for handling with the experience of the Absolute. Faith-friendly companies cultivate and in some cases systematize this function.[14] If they do so, they will therefore need ethics education to be included in the business administration degrees of their higher education partners not only for HR marketing reasons, which is why similar consideration is also necessary on this level. The separation of private moral convictions from management and workforce in concrete management practice more or less clearly demands the ideological freedom of business administration to be adopted in business ethics teaching. *Faith-friendly (business) ethics education* would be one possible way of overcoming the ideological-freedom-issue in academic management training—without undercutting enlightenment but with a focus on developing competences in e.g. moral arguing (Schulte et al. 2014; Gerholz 2014). Teaching business ethics in an “Epoch of Catastrophes” (Wankel and Stachowicz-Stanusch 2012) is a core challenge—more Catastrophes, more ethical dilemmas. To develop a strong power of judgment when ethical dilemmas in business occur is the basis for the next steps towards a more management-orientated ethical competence as we find it in CSR-Management. “The Absolute” is not the opposite of the enlightened classroom, from a metaphysical point of you but also in a pragmatic sense since arguing against the existence of objective values also sharpens students capabilities to argue instead and attack prejudices. Since Plato’s Menon the problem of teaching ethics is discussed: “Can you tell me, Socrates, whether virtue is something teachable?” (70a1–2 in Plato 2004). *If* virtue is knowledge it should be possible: “if virtue is knowledge, to teach virtue is to teach that virtue is knowl-

[14] The authors have already attempted this in connection with medical ethics (Heinemann and Miggelbrink 2011). There they present various ethical positions without hiding their *own* (e.g., Heinemann 2014).

edge. In having Socrates answer his own question, Plato himself is answering Meno's. If Socrates can teach Meno what virtue is, he can teach him virtue. But Socrates teaches (i.e., reminds) Meno that virtue is knowledge; virtue, therefore, can be taught." (Stone 2010, p. 5). The separation of knowledge and virtue is the cold heart of relativism. Plato's "metaphysics of education" (Scolnicov 1988) is exactly the counter conception. A conception which is compatible with the idea of moral development (Kohlberg 1981). There is empirical evidence that business ethics education e.g. in the field of (often blames as top of unethical business functions) marketing leads to more ethical decision making (Yoo and Donthu 2002).

The experience of the Absolute can be described as inherent to ethical practice. Anyone wanting to make decisions and take on responsibility can only do so if they are in the practice of handling with the Absolute. Where this is not the case, decisions are made in a void. This does not mean that one have to subordinate Ethics under Religion or the other way around. Without religious experience moral actions are possible but the sole focus on rational arguments might end in a motivational gap for the individual person, e.g., in a business context. But without rational Arguments religious experience is not communicable. Experience is not general, it is special, unique, very personal. We need a point which is not our own interest or desire, not the unreflected interest or desire of others, a point, which provides clarity beyond the accelerating infinitesimal arbitrage of prices, regulatory frameworks or political power, even beyond the sometimes unjust ideas of the voting mass. The last criterion for the Good cannot be found in the subjective or intersubjective realm nor in the positivistic objective realm. Moral orientation can be found in an orientation to the Absolute—may it be a sound argument, may it be a personal or impersonal God.

It is precisely this situation that appears to have had such a catastrophic effect during the financial crisis. If everyone looks to everyone else for orientation, there is no single point of reference for anyone. The need for ethical orientation in business is not so much the need for a particular ethos, a particular set of beliefs or attitudes. Above all it is the need for the ability to develop an attitude in the first place, not one that mimics the (labour) market, but one that is built on the ability of a person to recognize a fundamental obligation to the Absolute. Wherever decisions are made, there must be people to make them. The question is whether the decision-makers merely adapt opportunistically to whatever situation they face, or whether they are aware of their own obligation to some absolute worth. Or try to find sound arguments against radical externalism of responsibility without referring to the Absolute—which in our view is impossible but this does not mean that more postmodern approaches to life, business and values should be discriminated. They do this for themselves. In a faith-orientated view a legitimate tolerance and open dialogue are the better option.

Put this way, the question also reveals the danger of opening up to religious beliefs. Where is commitment more tangible than in the suicide bomber, whose strong sense of the Absolute makes it possible to transcend any spontaneous feelings of sympathy and their own mortal fear. The Absolute is not always harmless, and here we can sense why the ideology of excluding religion from business and politics could come about. Religious practice of the Absolute not only enables subjects to make decisions, it also puts the subjects at risk. Nevertheless, the answer cannot lie in the de-subjectifying purism of the divide between a religious home and a religion-free workplace. The answer should lie in creating a capacity for religious and ethical pluralism, for hermeneutic benevolence.

29.3 Universalism Without Fundamentalism: Religious Ethical Pluralism, No Multimonism

Our prevailing model of religious ethical pluralism has its origins at the time of the religious wars. Its maxim is to divide and ignore. In the Ruhr mines of the 1960s, the miners were still sent underground in confessional cohorts. How could they be expected to trust someone of a different faith in the face of death and danger? How were they to understand that people who believe in neither the Pope nor the church could still have an ethical and religious sense of some absolute obligation? Life has moved on from confessional separation, but the imperative not to talk about others' religious beliefs in order to avoid conflict has remained. As techniques for dealing with the Absolute, religions have an affinity for conflict. Not least because convinced relativists uphold their own convictions as existentially absolute, not wishing to appear to others as inconsolably cynical, lacking drive, seriousness or creative will. Even other relativists are often uneasy with the "logic" of their fellow relativists. Universalists are criticized by relativists as being relics of past mistakes—if not even as fundamentalists. Yet convinced relativists are themselves universalist. And *vice versa*, many universalists today are surprisingly and inconsistently unconvinced of the validity of their own convictions—which in some cases are not actually convictions at all.

This is why, in the end, all opportunists understand each other. And just non-Opportunists need to tolerate them—non-Opportunists who should tolerate what is different but right, not what is different simply because it is different (in other words: Of course there are very important postmodern thoughts, mostly not so convincing in answering the important questions of metaphysics and ethics but to ask the right questions). To be clear, it is not a matter of claiming that there is an ultimate truth and ultimate validity of ethical norms which everyone in real life realizes, to which everyone must subscribe. This is in particular associated with different empirical conditions; which means that it is also possible for people to make mistakes—but not that they always make mistakes, or that their mistakes are always necessary and therefore it would be impossible to gain insights in the principles of Is and Ought (not in every detail of the empirical world). If the impossibility of this insight were the case, it would presuppose the existence of an Archimedean point from which to judge, at least pragmatically if not dialectically, whether the assertion—that it is fundamentally possible and necessary to know the truth—is itself true or false. A contradiction which avoids ultimate foundations for the price of strict analyticity and non-reflexivity—a price to high to pay since this ban for last arguments does not foster freedom but rather an enforcement of what one could call a "Multimonism." The goal here is the opposite: universalism without fundamentalism, not a Multimonism which camouflages itself as diversity-compatible pluralism.

There are two antidotes to this affinity for conflict: People are surprised to discover that people of different faith may be different, but they clearly have their own way of dealing with the Absolute. This discovery is what justifies trust, justifies hermeneutic benevolence. Conflicts nevertheless still arise in connection with decisions as to which concrete actions and practices constitute an absolute obligation. Is it absolutely obligatory to observe Ramadan, not eat meat on Fridays or treat others fairly? As techniques for handling the Absolute, religions clearly tend to see absolute obligation in a religious context. Nevertheless, all the major world religions also have elements of absolute obligation in the context of interhuman ethics. It is this common ground that makes religious ethical discourse and understanding possible. Discourse and understanding about the Absolute in the life of every person engaged in business deepen their ability to take responsibility and make commitments. In an interreligious context, meanwhile, they also cultivate mutual respect and insight into the need for rational discussion among all people about the reality of the Absolute in every individual's life.

The pluralism of tolerance not infrequently leads to ignorance and a lack of relationships. The more communication is eroded, the less people are accessible to themselves and others, and the more they become estranged from each other. The subjects are banished from business life, and with them go responsibility and trust. A religious pluralism that brings peace and productivity must contain a spirit of open and rational understanding on a religious and ethical level. Because the belief in the Absolute (or an Absolute Being) is not the opposite of freedom but guarantees it because the idea of freedom itself cannot be just relative in principle.

29.4 Critical Discussion: The Ethical Supermarket Is Not an Attractive Management Solution

The values that are increasingly sorely missed in business life cannot be found in a kind of ethical supermarket. Shopping for random values would fail to create any sense of commitment in the individual, because the process of constructing value would counteract the ability to accept the constructed values as Absolute. Ethical values are not commodities that can be shopped for or things that can be passed on. Ethical values only exist in connection with the experience of an absolute obligation. This is not just private, it is intimate. It cannot be part of any business transaction. Business remains dependent on ethical values. And therefore a "rational choice" might be *one* way to *describe* the "Religious consumers" (Iannaccone 1992, p. 172).

But: Why should I avoid shopping in the (business) ethical supermarket but rather search for sound arguments for the right moral ground and a good life? Should I act like this because it is "rational"? How can I answer the question if my Pay-Offs and preferences are just? And does this specific econometric rationality qualifies my action as legitimate? Rational Choice might be a useful concept to deal with some sociological questions, but this utility means not that it is proven to be true—let alone it is proven to be ethical. The "Economic Man" might shop in the ethical supermarket, the Moral Man does more than that (not strictly the opposite since Men are Being between Is and Ought)—by the way: The Shopping Man today is by far not under a somewhat rational pressure but rather compensatory, regressive, narcissistic and irrational (Gourgé 2001, p. 85). Furthermore it is not very conceiving that the rational choice should be a preferred model—in postmodern times! (Luke 1985; Gourgé 2001, p. 23). The world is more than just a game and we are more than rational gamers or irrational individuals. Our decisions can be inefficient (Miljkovic 2005), our rationality can be described as "bounded" and seeking for alternatives (Simon 1956) as well as wrong in an ethical sense. In a complex world even good intentions turn out to deliver bad results (and *vice versa*—the core of modern economics, think of Mandeville, Smith, Malthus).

What businesspeople cannot create, however, they can demand and nurture. Nurturing religious and ethical identity is what faith-friendly companies are all about. It is based on the awareness that companies need ethically responsible subjects, which explains why they are demonstratively open and respectful towards the different religious beliefs of their employees, customers and partners. At the same time, however, this openness is prevented from becoming ignorant tolerance because *theology* is considered possible.

Theology here is taken—in line with the above—to mean the possibility of *rational* consideration of the personal obligation to the Absolute. A simple Fideism is not enough to grasp the *differentiae specificae* of Christian thought, dogmatic theology without a *specific* rational foundation faces the same problem, but taking into account that there is more than just scientific reason a strong rational Theology conciliates faith and reason, Grace and necessity. It is important that this is never done in a condescending manner, however, since the personal sphere of this obligation must be respected unconditionally. The rational nature of the connection with the Absolute includes the fact that it may be expressed in concrete forms. Hence a prophetical and critical Religion is misunderstood being an opiate (although the reality of religious practices sometimes does not meet the essence of their respective transcend orientation).

The model of a society shaped by values is not an ethical and spiritual supermarket; it is a community that believes it possible to seek ethical and religious understanding by rational means; in management, this fundamental insight is expressed in diversity management. The statement "If organizations are going to utilize the value of religious and spiritual workplace traditions, they must create strategies and structures to meet the expectations of an increasingly spiritually aware if not alarmed workforce" (Bennet 2009, p. 57) is entirely justified. In the view of the authors (both of whom are theologists), the reason for optimism lies in the concept of God. This is where the absolute obligation lies in the most diverse religions. Yet the concept of God has always been a topic of rational discourse between the major religions, because by its very structure it demands reason and understanding.[15] How can reality be acknowledged as the first foundation and ultimate goal of life and the world if its concrete profile is not communicable in any way? Naturally, this perspective can immediately be criticized for presuming a rational concept of God in the Christian tradition. That is true, but still it does not pose a problem for the faith-sensitive company. An awareness of the need for validity of one's own beliefs is a prerequisite for acknowledging the same need among other, even conflicting, convictions, and thereby creating a basis for dialogue. Not every concept of God—bearing in mind that non-religious beliefs also exist—is a *Trinitarian* one. It is not possible here to explain why precisely this concept of the Divine is necessary for the hermeneutic benevolence mentioned earlier (Miggelbrink 2004; Hösle 1997). Yet perhaps it is plausible that such a point of reference must exist at all. If it does not, respect turns to insipid disinterest and social diversity of beliefs becomes an irrational Panopticon; burning conviction can easily give way to fanaticism, and reservation to a threatened minority. All this is at once illegitimate and unproductive.

The logic of the *faith-friendly company* dictates that reason and understanding, based on the individual experiences and practices of employees, partners and customers in handling with the reality of the Absolute, are essential. The ethical supermarket is not an attractive management solution; it renders faith-friendly business impossible and ultimately puts at risk the assumption of social responsibility with any conviction.

Acknowledgments The authors would like to thank A. Dixon for assistance with the translation of this chapter.

References

Bellah, R. N. (1967). Civil religion in America. *Journal of the American Academy of Arts and Sciences, 96*(1), 1–21.

Bennet, M. F. (2009). Religious and spiritual diversity in the workplace. In M. A. Moodian (Ed.), *Contemporary leadership and intercultural competence. Exploring the cross-cultural dynamics within organizations* (pp. 45–60). Thousand Oaks: Sage.

Berthold, C., Meyer-Guckel, V., & Rohe, W. (2010). Mission Gesellschaft [Mission society]. http://www.stifterverband.info/publikationen_und_podcasts/positionen_dokumentationen/mission_gesellschaft/mission_gesellschaft.pdf. Accessed 4 March 2014.

Boyd, D. (2010). Ethical determinants for generations X and Y. *Journal of Business Ethics, 93*(3), 465–469.

Brodbeck, K.-H. (2011). *Die Herrschaft des Geldes. Geschichte und Systematik* [*The rule of money. History and systematics*]. Darmstadt: WBG.

Carroll, A. B. (2008). A history of corporate social responsibility, concepts and practices. In A. Crane, et al. (Eds.), *The Oxford handbook of corporate social responsibility* (pp. 19–46). Oxford: Oxford University Press.

[15] There were admittedly just as many wars. But they—and this challenges a stubborn prejudice against the apparent violent predisposition of monotheistic religions—were based on misinterpretation, irrational misinterpretation of the substance of the relevant beliefs, and thereby on an *ungodly* concept of God.

Chonko, L. B., Wotruba, T. R., & Loe, T. W. (2003). Ethics code familiarity and usefulness: Views on idealist and relativist managers under varying conditions of turbulence. *Journal of Business Ethics, 42,* 237–252.

Ehrlich, T. (2011). Foreword. In C. M. Cress & D. M. Donahue (Eds.), *Democratic dilemmas of teaching service-learning: Curricular strategies for success* (pp. xi–xvi). Sterling: Stylus.

Erwin, P. M. (2011). Corporate codes of conduct: The effects of code content and quality on ethical performance. *Journal of Business Ethics, 99*(4), 535–548.

European Commission. (2013). Flash Eurobarometer 363. How companies influence our society: Citizens' view, report. http://ec.europa.eu/public_opinion/flash/fl_363_en.pdf. Accessed 3 March 2014.

Follett, M. P. (1924/1930). *Creative experience*. London: Longmans.

Gerholz, K.-H. (2014). Fostering ethical competence in business education. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility—Locating the missing link*. Wiesbaden: Springer-Gabler.

Gerholz, K.-H., & Heinemann, S. (Eds.). (2012). *CSR-Atlas edition Hochschulen Nordrhein-Westfalen 2012*. Essen: Akademie. (Print version 2013).

Giacalone, R., & Jurkiewicz, C. (2010). *Handbook of workplace spirituality and organizational performance*. Armonk: M. E. Sharpe.

Giacalone, R., Fry, L. W., & Jurkiewicz, C. (2005). From advocacy to science: The next steps in workplace spirituality and research. In R. F. Paloutzian & C. L. Park (Eds.), *Handbook of psychology of religion and spirituality* (pp. 515–528). New York: Guilford Press.

Gourgé, K. (2001). *Ökonomie und Psychoanalyse: Perspektiven einer psychoanalytischen Ökonomie* [*Economics and psychoanalysis: A perspectives of psychoanalytic economics*]. Frankfurt a. M.: Campus.

Gröneweg, C., & Matiaske, W. (2012). Gullivers Fesseln—Corporate Social Responsibility als Normbildung [Gulliver's fetters—Corporate social responsibility as a standard formation]. Berichte der Werkstatt für Organisations- und Personalforschung e.V. Beriln, 25.

Hahn, R. (2011). Integrating corporate responsibility and sustainable development: A normative-conceptual approach to holistic management thinking. *Journal of Global Responsibility, 2*(1), 8–22.

Hanssmann, F. (2010). *Christliche Werte in Wirtschaft und Gesellschaft* [*Christian values in business and society*]. Münster: LIT.

Heinemann, S. (2011). Vergütung des Vorstands [Management compensation]. In J. Grundei & P. Zaumseil (Eds.), *Der Aufsichtsrat im System der Corporate Governance—Betriebswirtschaftliche und juristische Perspektiven* [*Bord members within the system of corporate governance*] (pp. 113–162). Wiesbaden: Springer.

Heinemann, S. (2014). Quo Vadis (Business) Ethics Education? Stand, Kernherausforderungen, Perspektiven [Quo Vadis (business) ethics education? Status, core challenges, perspectives]. In H. Willing & N. Seeger (Eds.), *Responsible business*. Baden Baden: Nomos.

Heinemann, S., & Krol, B. (2011). *Nachhaltige Nachhaltigkeit: Zur Herausforderung der ernsthaften Integration einer angemessenen Ethik in die Managementausbildung* [*Sustainable sustainability: The challenge of serious integration of an appropriate ethics in management education*]. Essen: Akademie.

Heinemann, S., & Miggelbrink, R. (2011). Medizinethik für Ärzte und Manager [Medical ethics for physicians and managers]. In C. Thielscher (Ed.), *Medizinökonomie* (pp. 107–144). Wiesbaden: Springer.

Helin, S., & Sandstrom, J. (2007). An inquiry into the study of corporate codes of ethics. *Journal of Business Ethics, 75,* 253–271.

Hobbes, T. (1996). *Leviathan*. Hamburg: Meiner.

Hösle, V. (1987). *Die Krise der Gegenwart und die Verantwortung der Philosophie* [*The present crisis and the responsibility of philosophy*]. München: CH Beck.
Hösle, V. (1995). Versuch einer ethischen Bewertung des Kapitalismus [Attempt of an ethical valuation of capitalism]. In V. Hösle (Ed.), *Praktische Philosophie in der modernen Welt* [*Moral philosophy in the modern world*] (pp. 109–130). München: CH Beck.
Hösle, V. (1997a). *Moral und Politik. Grundlagen einer politischen Ethik für das 21. Jahrhundert* [*Morals and politics*]. Munich: C. H. Beck.
Hösle, V. (1997b). *Hegels System. Der Idealismus der Subjektivität und das Problem der Intersubjektivität* [*Hegel's system. The idealism of subjectivity and the problem of intersubjectivity*]. Hamburg: Meiner.
Iannaccone, L. R. (1992). Religious markets and the economics of religion. *Social Compass, 39,* 123–131.
Jacoby, B. (2009). Civic engagement in today's higher education—An overview. In B. Jacoby & Associates (Eds.), *Civic engagement in higher education: Concepts and practices* (pp. 5–30). San Francisco: Jossey-Bass.
Johnson, A. (2007). Mary Parker Follettt: Laying the foundations for spirituality in the workplace. *International Journal of Public Administration, 30*(1), 425–439.
Kaptein, M. (2004). Business codes of multinational firms: What do they say? *Journal of Business Ethics, 50,* 13–31.
Kaptein, M., & Schwarz, M. S. (2008). The effectiveness of business codes: A critical examination of existing studies and the development of an integrated research model. *Journal of Business Ethics, 77*(2), 111–127.
Kohlberg, L. (1981). *The philosophy of moral development*. San Francisco: Harper and Row.
Koslowski, P. (1988). *Prinzipien der ethischen Ökonomie: Grundlegung der Wirtschaftsethik und der auf Ökonomie bezogenen Ethik* [*Principles of ethical economy. Issues in business ethics*]. Tübingen: Mohr.
Küng, H. (1990). *Projekt Weltethos* [*Project world-ethos*]. München: Piper.
Küpper, H.-U., & Schreck, P. (2008). Unternehmensethik in Praxis, Forschung und Lehre—Status quo und Perspektiven im deutschsprachigen Raum [Business ethics in practise, research and teaching—Status and perspectives in Germany]. *Zeitschrift für betriebswirtschaftliche Forschung, 58*(8), 72–92.
Lawry, S., Laurison, D., & VanAntwerpen, J. (2009). *Liberal education and civic engagement. Ford foundation's knowledge, creativity and freedom program*. San Francisco: Jossey.
Lübbe, H. (1981). Staat und Zivilreligion. Ein Aspekt politischer Legitimation [State and civil religion. An aspect of political legitimation]. In N. Achterberg & W. Krawietz (Eds.), *Archiv für Rechts- und Sozialphilosophie*, *Beiheft 15* [*Archive for the historie of the philosophy of lay and social sciences*] (pp. 40–55). Wiesbaden: Wiesbaden.
Luke, T. W. (1985). Reason and rationality in rational choice theory. *Social Research, 52*(1), 65–98.
Matten, D., & Moon, J. (2004). Corporate social responsibility education in Europe. *Journal of Business Ethics, 54,* 323–337.
Max, W. Peter, R. B. & Gordon, C. W. (2002). The Protestant Ethic and the Spirit of Capitalism. Penguin. Original 1904/1920.
Mearsheimer, J. (1998). Teaching morality at the margins. *Philosophy and Literature, 22,* 193–198.
Melé, D. (2008). Business ethics: Europe versus America. In G. Flynn (Ed.), *Leadership and business ethics* (pp. 13–27). Dordrecht: Springer.
Messikomer, C. M., & Cirka, C. C. (2010). Constructing a code of ethics: An experiential case of a national professional organization. *Journal of Business Ethics, 95,* 55–71.
Miggelbrink, R. (2004). Modalismusvorwurf und Personbegriff in der trinitätstheologischen Diskussion [The accusation of modalism and the concept of person in the debate over trinitarian theology]. In A. R. Batlogg, M. Delgado, & R. A. Siebenrock (Eds.), *Was den Glauben in Bewegung*

bringt. Fundamentaltheologie in der Spur Jesu Christi, FS für K. H. Neufeld SJ [*What moves faith. Fundamental theology within the track of Jesus Christ*] (pp. 279–296). Freiburg: Herder.
Miggelbrink, R. (2009). *Lebensfülle. Für die Wiederentdeckung einer theologischen Kategorie* [*Plenitude. Arguments for a reinvention of a theological category*]. Freiburg: Herder. (QD 235).
Miggelbrink, R. (2011). Öffentliche Theologie. Neues zur gesellschaftlichen Ortsbestimmung von Religion und Theologie [Public theology]. *Theologische Revue, 6,* 443–456.
Milijkovis, D. (2005). Rational choice and irrational individuals or simply an irrational theory: A critical review and the hypothesis of perfect rationality. *The Journal of Economics, 34,* 621.
Miller, D. W. (2007). *God at work: The history and promise of the faith at work movement*. Oxford: Oxford University Press.
Miller, D. W. (2010). The faith-friendly company: An idea whose time has come? In D. K. Hainsworth & S. R. Paeth (Eds.), *Public theology for a global society*. *Essays in honor of Max L. Stackhouse* (pp. 74–86). Grand Rapids: Eerdmans Publishing.
Miller, D. W., Ewest, T. (2013). The Faith-Friendly Workplace: A contextual consideration of organizational frames in light ofincreased religious opacity, diversity and expression at work, Princeton/ http://www.princeton.edu/faithandwork/tib/research/Faith-Friendly-Company.pdf. Accessed 1 June 2014.
Nash, L., & McLennan, S. (2001). *Church on Sunday, work on Monday: A guide for reflection*. San Francisco: Jossey-Bass.
Norris, P. & Inglehart, R. (2011). Sacred and Secular: Religion and Politics Worldwide, New York: Cambridge Press.
Palazzo, B. (2002). U.S.-American and German business ethics: An intercultural comparison [Book review]. *Journal of Business Ethics, 41*(3), 195–216.
Papenfuß, U., & Schimmelpfenning, A. (2013). Ethik, CSR und Public Management in der universitären Ausbildung?—Eine deutschlandweite Analyse betriebswirtschaftlicher Studiengänge [Ethics, CSR and public management as part of the curriculum? A analysis of German programms]. In J. Kegelmann, R. Böhmer, & H. Willmann (Eds.), *Rechnungswesen und Controlling in der öffentlichen Verwaltung, 2013/5* [*Accounting and controlling in the public sector*] (pp. 753–776). Freiburg: Haufe.
Plato (2004). Meno. In *"Protagoras" and "Meno"* (trans: R. C. Bartlett). Ithaca: Cornell University Press.
Pollack, D. (2003). *Säkularisierung—ein moderner Mythos? Studien zum religiösen Wandel in Deutschland* [*Secularization—A modern myth?*]. Tübingen: Mohr.
Rasche, A., & Escudero, M. (2010). Leading change: The role of the principles of responsible management education. *Journal of Business and Economic Ethics (zfwu), 10*(2), 244–250.
Schuetze, H. G. (2012). Universities and their communities: Engagement and service as primary mission. In L. McIlrath, A. Lyons, & R. Munck (Eds.), *Higher education and civic engagement*. *Comparative perspectives* (pp. 61–77). New York: Macmillan.
Schulte, F. P., Gerholz, K.-H., & Heinemann, S. (2014). Linking "doing", "doing right" and "doing right with others"—Empirical indications of the relationship between ethical competency, diversity competency and other parts of the competency construct. In L. O'Riordan, P. Zmuda, & S. Heinemann (Eds.), *New perspectives on corporate social responsibility—Locating the missing link*. Wiesbaden: Springer.
Schwalbach, J., & Schwerk, A. (2008). Corporate Responsibility in der akademischen Lehre. Systematische Bestandsaufnahme und Handlungsempfehlungen fuÌr ein Curriculum [Corporate responsibility within the curriculum]. Arbeitspapier des CCCD—Centrum fuÌr Corporate Citizenship, Berlin.
Schweiker, W. (2010). Public theology and the cosmopolitan conscience. In S. Paeth & D. J. Hainsworth (Eds.), *Public theology for a global society: Essays in honor of Max Stackhouse* (pp. 123–138). Grand Rapids: Eerdmans.

Schwerk, A. (2010). Coporate responsibility in der akademischen Ausbildung von Managern [Corporate responsibility within the curriculum]. In F. Theis & S. Klein (Eds.), *CSR-Bildung* [*CSR-education*] (pp. 112–128). Wiesbaden: VS Verlag für Sozialwissenschaften.

Scolnicov, S. (1988). *Plato's metaphysics of education*. Oxon: Routledge.

Simon, H. A. (1956). Rational choice and the structure of the environment. *Psychological Review, 63*(March), 261–273.

Singer, A. W. (2014). God as a managerial stakeholder? In W. Hoffman, M. Frederick, R. E. Schwartz, & S. Mark, Business ethics readings and cases in corporate morality, Sussex (pp. 705–719).

Sobczak, A. (2003). Codes of conduct in subcontracting networks: A labour law perspective. *Journal of Business Ethics, 44*(2–3), 225–234.

Stone, A. (2010). On the teaching of virtue in Plato's Meno and the nature of philosophical authority. *New Yearbook for Phenomenology and Phenomenological Philosophy, 10*(1), 251–282.

Wankel, C., & Stachowicz-Stanusch, A. (2012). *Handbook of research on teaching ethics in business and management education*. Hershey: IGI Global.

Williams, O. (2003). *Business, religion, & spirituality: A new synthesis*. Notre Dame: University of Notre Dame Press.

Yoo, B. & Donthu, N. (2002). The effects of marketing education and individual cultural values on marketing ethics of students. *In Journal of Marketing Education, 24,* 92–103.

Can Service Learning Foster a Social Responsibility Among Students?—A Didactical Analysis and Empirical Case-Study in Business Education at a German University

30

Karl-Heinz Gerholz and Simone Losch

Contents

30.1 Potential of Service Learning in Business Education 604
30.2 Service Learning: A Theoretical and Empirical Foundation 605
30.2.1 Service Learning: Concept, Types and Fields of Application 605
30.2.2 Empirical Results of the Effects of Service Learning 609
30.2.3 Interim Result: Service Learning as a Context-Sensitive Concept 611
30.3 Case-Study of Service Learning at a German Faculty of Business Administration and Economics 612
30.3.1 Study Contexts and Interest 612
30.3.2 Design of the Service Learning Arrangement 613
30.3.3 Evaluation of the Service Learning Arrangement 614
30.4 Classification of the Results and Conclusion 623
References 624

Abstract

Due to the recent global economic crisis, the role of business education is becoming more urgent and concepts related to social responsibility are gaining recognition as essential elements in business education. One open question is how can business educa-

K.-H. Gerholz (✉) · S. Losch
Universität Paderborn Department of Business and Human Resource Education
Warburger Straße 100, 33098 Paderborn, Germany
e-mail: gerholz@wiwi.upb.de

S. Losch
e-mail: simone.losch@wiwi.upb.de

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6_30

tion contribute to sensitising future managers into acting responsibly? Service learning is often attributed to the potential to promote social responsibility and citizenship skills among students. Service learning can be described as a teaching tool that is characterised by students giving service to the community and having a learning experience. The key goal of this chapter is to have a look at service learning as a teaching tool from a didactical point of view. In the first part, we provide an overview about the potentials of service learning and show the didactical and learning theoretical foundations of this approach. Based on that, we present several empirical studies on service learning in business education and aim to demonstrate that cognitive development and understanding of social responsibility can be promoted through service learning. However, having an effect on the sense of responsibility is mostly dependent on the didactical design. Service learning can be described as a context-sensitive concept; therefore, an implementation in German business education needs a contextual adaption. To address this, in the second part, we present a case-study to design and to implement service learning in a German faculty of Business Administration and Economics. We evaluated this service learning arrangement through a qualitative survey. As one result of the survey, it can be shown that the didactical adaption of the service projects and the reflection about the service activity through the students are relevant design criteria for service learning.

30.1 Potential of Service Learning in Business Education

The cases in the financial crisis have triggered fundamental debates on the role of business and the prevailing values. A growing trend can be observed that many firms are redefining their role in society (Moratis et al. 2006). The fundamental connections between business, environment and society have become essential, especially during the discourse of corporate social responsibility (CSR) (Scherer and Butz 2010). The discourse of CSR can be described as a polyonymous debate and several similar concepts, such as "corporate sustainability" or "corporate citizenship" (e.g., Scherer and Patzner 2011; Schrader 2011) exist. The main intention of this debate can be described in the sensitisation of business leaders so that their actions should be responsible not only for business issues, but also for social and environmental issues. These issues are factors dependent on each other and show that several sets of values have been carefully balanced in business actions.

One driver to foster responsible actions by (future) business leaders can be seen in business education. A growing trend concerning CSR education exists and a broad range of CSR in business education curricula can be found in European and German business education (e.g., Scherer and Picot 2008; Matten and Moon 2004). However, there is a diverse understanding and conceptualisation of CSR teaching and learning. Business schools and higher education institutions sometimes use this to gain a better reputation (Matten and Moon 2004). Beyond that, it is often emphasised that business education provides students with a limited view of both business and their future roles as employees and managers

(Dipadova-Stocks 2005; Salimbene et al. 2005). Godfrey, Illes, and Berry, for instance, argue that business education has a paradigmatic narrowness of a transactional view of human and social interactions. Subsequently, students have a high material orientation and a lack of recognition regarding their own citizenship and social responsibility (Godfrey et al. 2005, p. 313). Nevertheless, business education has the potential to foster a responsible behaviour in future business leaders and to sensitise them for different existing values in society. Therefore, a corresponding didactical design to reach these aims is needed. In other words, a "missing link" can be specified between the aim of business education to foster social responsibility and the existing instructional practice for that. At this point, service learning as a teaching tool can offer potential to fill this missing link.

Service learning is a teaching and learning tool that combines academic content with civic engagement. In service learning arrangements, students participate in a service activity that fits a community need, and the reflection of this activity fosters a deeper understanding of the academic content and of the students' values, and attitudes towards civic responsibility. There is a possibility with service learning that students can recognise the set of given values in a society and take them into consideration in their actions during the service activity. Thus, service learning provides business educators with a teaching strategy that can help them solve the challenge to foster social responsibility during study processes. In doing so, a didactical conceptualisation is needed that service learning has an effect on the sense of responsibility among the students. Therefore, in this chapter, we analyse service learning from a more didactical perspective. Consequently, Sect. 2 presents an overview of service learning and its conceptual foundations (2.1), as well as the current empirical findings concerning the effects of service learning arrangements (2.2). These remarks allow us to ascertain that service learning is a holistic and context-sensitive approach, and discover that a contextual and didactical adaption is needed for an implementation of service learning. Based on this, in Sect. 3, we present a case-study about a service learning arrangement in business education at a German faculty. This lets us illustrate a possible design of service learning in business education (3.2) and we analyse the effects of the service learning arrangement presented with an empirical survey of the competence development among the students (3.3). To conclude, we offer some didactical conclusions for service learning in business education (4).

30.2 Service Learning: A Theoretical and Empirical Foundation

30.2.1 Service Learning: Concept, Types and Fields of Application

Growing numbers of universities and disciplines have used service learning as an educational concept in the last decade (Kenworthy-U'Ren and Peterson). The main idea is that students provide service to the community and receive a learning experience. Bringle and Clayton define service learning as a

> course or competency-based, credit-bearing educational experience in which students (a) participate in mutually identified service activities that benefit the community, and (b) reflect on the service activity in such a way as to gain further understanding of course content, a broader appreciation of the discipline, and an enhanced sense of personal values and civic responsibility. (Bringle and Clayton 2012, p. 105)

This definition shows that service learning has an explicit learning focus as well as a community focus. The term "credit-bearing" demonstrates a link to the curriculum, however, other definitions also underline the extra-curricular possibility (e.g., Jacoby 1996). Moreover, with this definition, two traditional dimensions of service learning can be illustrated.

On the one hand, an integration of theory and real-life experience exists in a service learning arrangement. Service learning can be described as a form of experiential learning that was founded by Kolb (1984). Kolb defines learning as a "process whereby knowledge is created through the transformation of experience" (Kolb 1984, p. 41). Four components are relevant to experiential learning: concrete experience, the reflection of the experience, forming abstract concepts, and testing these in new situations (Kolb 1984; Kolb and Kolb 2005). Thus, the service activity in service learning can be seen as a concrete experience for the learner to reflect about course content, his/her own values and attitudes towards civic responsibility. Therefore, it seems important from a didactical point of view that students have possibilities to reflect on their experiences in service learning arrangements.

On the other hand, service learning is closely related to the discourse on the civic role of Higher Education and Liberal Art Education that are influenced by Dewey. For him, it is essential that a democratic society needs engaged citizens. Consequently, one aim of Higher Education is to prepare students to be responsible citizens. Dewey argues that a civic learning process should consist of three elements: Firstly, the students are engaged in the surrounding community; secondly, the learning process is focused on problems to be solved; and thirdly, it should be a collaborative learning process (Dewey 1966; Ehrlich 2011; Jacoby 2009). Service learning in this sense refers to identified problems in the community that should be solved by the students in a collaborative process.

Service learning literature, based on its traditional dimensions, can be summarised in three elements which are crucial for a didactical design of service learning and were developed by Godfrey et al. (2005, p. 315): reality, reflection, and reciprocity.

1. Reality refers to the fact that service learning arrangements incorporate rigorous academic content as well as real-life settings. The latter focuses on the service activity of the students, in which they are confronted by specific social issues (e.g., poverty, charity, human dignity), which are sometimes intractable, vague and inconsistent. Given the social issues, the students should work on the problem in the community that makes service learning a meaningful type of experiential education.
2. Reflection points to the balancing of the student's internal elements and the external elements of the experience. The value of service learning depends on the intensity of the reflection. Reflection encourages the students to think about how the service activity has affected them. Dewey calls this the "organic connection" between the experi-

ences and the personality of the individual (Dewey 1998). It refers to the interplay between the student and their service activity and how the student acts and reacts during the activity based on his/her values and attitudes. Didactical instruments for fostering students' reflection could be portfolios, journals or reflective essays to set the linkage between the course content, the personal insights and the service experience.

3. Reciprocity refers to the aim that both community partner (e.g., a charity organisation) and students benefit from the relationship. Service learning has the intention that each party learns from the other and that a partnership exists during the service activity. Students and community partners have different types of knowledge and experiences that can only bring together a valuable contribution to the improvement of the community and to the learning experience. Brower argues that this reciprocal gain is an important factor leading to the initial and sustained success of the service learning arrangement (Brower 2011, p. 63).

These three elements should be taken into consideration in the design of a service learning arrangement. The distinctness and intensity of the service experience depends on the consideration and implementation of these elements. Furthermore, there are several types of differentiated didactical designs in the literature. The National Service Learning Clearinghouse in the US,[1] for instance, differentiates between four types of service learning: (1) Direct service learning as a person-to-person service activity; there is direct contact to individuals in need (e.g., tutoring other students, students support senior citizens in using tablet PCs). (2) Indirect service learning means students working on community issues, but not directly with the individuals who are in need (e.g., collecting food for homeless people, environmental projects to improve the landscape in the community). (3) Community-based research or research-based service learning refers to a partnership between students and community partners who solve a community problem with scientific methods (e.g., feasibility analysis for new attractions in the community, survey of citizens' satisfaction with the community). (4) In advocacy service learning, students educate people in the community about topics of community needs (e.g., presentation of the climate protection in the community, organisation of public forums concerning specific questions within the community). These types reflect a broad and general understanding of service learning. The boundaries to other teaching and learning concepts are fluid. Direct service learning, for example, can be specified as a form of peer learning and community-based research is also a form of research-based learning (learning through research). Godfrey et al. (2005) offer another typology. They differentiate between three types of service learning, which differ in the learning and/or service focus. The first type of service-Learning (lower case "s," capital "L") focuses primarily on academic learning and the service experience functions for an illustration of the course content (e.g., students spend a couple of hours to

[1] National Service-Learning Clearinghouse (Retrieved March 3, 2014, from http://gsn.nylc.org) is an online platform which connects the several educational institutions which are active in service learning and provides resources for service learning courses.

teach low-income residents about budgeting). The second type of Service Learning (capital "S," capital "L") has a dual emphasis combining civic service and academic learning, in other words, a complete integration of the service activity in the course objectives (e.g., development of a strategic management plan for a charity organisation). The third type of Service-learning (capital "S," lower case "l") emphasises the service focus that students encounter practical experiences and extended exposure during a community service (e.g., students help the community government by the development of a marketing campaign for recruitments of new inhabitants) (Godfrey et al. 2005, p. 310).

Based on the types of service learning mentioned, it is obvious that service learning represents more of a framework, within which several teaching and learning concepts, such as problem-based learning or experiential learning, can be assigned. All types represent the main idea, to varying degrees: the integration of civic service and curriculum content. It concerns the idea of the organic connection between service experience and academic content. The depth of this connection differs between the several types. Nevertheless, the actions of the students have an important meaning; this is a common ground in all the types of service learning mentioned. Therefore, an action-orientated approach can be seen as significant for sustaining service learning and also for the didactical design.

In this approach, differentiation can be made between the three elements: "action context," "action process" and "action result." The "action context" is the service activity and its circumstances, as well as the overall conditions. The students are confronted with a problematic situation that deals with a community need. The "action process" is working and dealing with the given problem by the students. To do this, the students must plan their actions, carry out the plan, and then evaluate their prior action. The latter refers to the third element that is the "action result" of the working and learning process (Fig. 30.1).

These three elements constitute both the service process and the learning process, respectively, the community focus and learning focus. Taking this into consideration, ser-

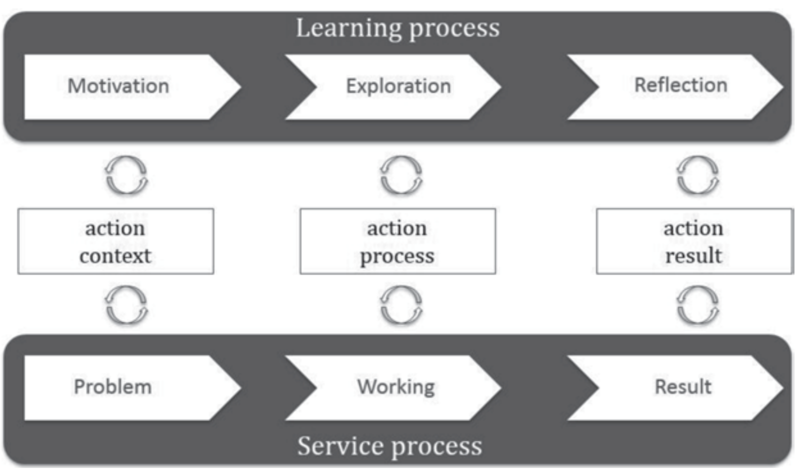


Fig. 30.1 Conceptualisation of the learning and service process

vice learning is a dual process including an execution of the working process in the service activity and an acquirement of skills, as well as personal insights during the learning process. Thus, how the three elements are perceived depends on the perspective. From the perspective of the service process, the students define and describe their given service problem, they work on this service problem and, in the end, have a result that optimally improves the community. From the perspective of the learning process, the students have an interest in and motivation towards the service activity, they explore the curriculum content to work on the service problem and they reflect on their learning process. The latter is the learning result that differs from the action result in the service process. The reflection is important, so that the students reconstruct what they have learned as well as what kind of personal insights, such as values and attitudes, the students have had through the service experience. It is obvious that the service process and the learning process are interdependent in this action-orientated conceptualisation of service learning. It underlines the "organic connection" between service experience and academic content.

30.2.2 Empirical Results of the Effects of Service Learning

In addition to the conceptualisation of service learning, it is significant to have a look at the empirical results concerning its effects. Service learning in the US has a long history and a lot of empirical studies on the effects of service learning exist. In addition, research on service learning in Germany can be observed. Thus, many diverse results on the potentials of service learning exist. In Table 30.1, a range of studies and their results comparing the US and German areas are presented.

Regarding the effects of service learning, the studies show evidence that academic skills during service learning can be promoted. There are significant effects that students have improved writing skills and critical thinking skills (Prentice and Robinson 2010; Astin et al. 2000), as well as leadership skills, communication skills and problem-solving skills (Govekar and Rishi 2007; Astin and Sax 1998). Nonetheless, there are not necessarily any differences in academic performance between service learning students and non-service learning students (Prentice and Robinson 2010). Nevertheless, there are indications that the perception of self-efficacy, self-esteem, and learning success is valued higher than in non-service learning arrangements (Yorio and Ye 2012; Reinders 2010; Peters et al. 2006).

In addition to the academic skills, several empirical studies have identified that service learning fosters an understanding of social issues and the personal insights of the students (Yorio and Ye 2012). Students reflect and develop their civic attitude, civic responsibility and empathy with social issues in service learning courses (Govekar and Rishi 2007; Astin et al. 2000; Weber and Glyptis 2000; Astin and Sax 1998). The willingness to be engaged—although not always significant—increases through service learning (Prentice and Robinson 2010; Reinders and Wittek 2009). Service learning students who perceived service experience useful for society, also have a higher motivation in the future to engage in the community and charity organisations (Burns 2011).

Table 30.1 Examples of empirical studies of service learning in the US and German context

Author(s)	Interest	Research method	Main results
Business education in the US			
Prentice and Robinson (2010)	Examination of learning outcomes from service learning students and non-service learning students	Questioning at community colleges in the US: $n=2317$	No significant differences between the learning outcomes of the GPAs by service learning and non-service learning students
		Measuring the learning outcomes and GPA	
		Comparison of means	Service learning students show significantly higher results in 'teamwork' and 'willingness for engagement'
Burns (2011)	Influence of service learning on students' motivation to be engaged in society	College students of Business: $n=480$	Positive correlation between benefit of the service learning course and motivation to be engaged in charity organisations
		Questionnaire with scales (e.g. civic engagement, attitudes, motivation)	
		Correlation analyses	
Govekar and Rishi 2007	Potentials of service learning to integrate real-life challenges in business education curricula	College students of Business: $n=43$	Significant improvement of leadership and communication skills and creative thinking
		Pre-post design	
		Comparison of means	Higher empathy for other social persons
Yorio and Ye 2012	Meta-analysis concerning the effects of service learning courses on the learning outcomes (cognitive development, personal insights, understanding social issues)	Admission of 48 empirical studies to service learning in the analysis	Positive effects of service learning on skill development, understanding social issues and personal insights
		Examination of the effects of service learning to the learning outcomes	Reflection is important for a positive effects of service learning courses
Germany			
Reinders and Wittek (2009)	Effects of service learning arrangements on the willingness for engagement and successful learning	Psychology students at universities in Germany	Self-efficacy and self-esteem are higher in service learning courses
		Quasi-experimental longitudinal study (two enquiries): $n=116$	Descriptive: Willingness for engagement increase through service learning
Reinders (2010)	Effects of service learning on learning processes at the university	Pedagogy students and teacher training students: $n=116$	Interaction effects on social environment and subjective learning success: service learning a reason for these effects
		Quasi-experimental pre-post design with control group	

The existing empirical studies have focused more on student outcomes than on didactical design of the service learning arrangement. The connection between didactical design and effects of the service learning arrangement are not often presented. However, in some studies, moderator variables are integrated and, on that basis, conclusions on the didactical design can be drawn. There are indications on the curricular level that an ECTS-bearing service learning has stronger effects than an extra-curricular arrangement (Astin et al. 2000). Yorio and Ye (2012) show by conducting a meta-analysis that there are no significant differences in social understanding and personal insights between a compulsory or optional service learning course (Yorio and Ye 2012, p. 14). On the instructional level, it is important for the learning success that the connection between service activity and course content is provided (Prentice and Robinson 2010). Therefore, it is useful to have a permanent contact person in the charity organisation available to the students. Moreover, it seems important that lecturer establishes the connection between curricular content and service activity during the service process (e.g., Batchelder and Root 1994). In addition, there are indications that the competence development of the students is higher when they choose their service-project themselves. (Yorio and Ye 2012; Prentice and Robinson 2010). The empirical studies also indicate that stimulating the students to think about their learning and action results during the service activity has a positive effect on their personal insights and development (Godfrey et al. 2005; Astin et al. 2000). Yorio and Ye show in the meta-analysis that an oral reflection (e.g., discussion groups) leads to a higher understanding of social issues than a written reflection (Yorio and Ye 2012).

The empirical results show indications that a fostering of a deeper learning of course content and an understanding of responsible action in society during service learning in business education can succeed. Nevertheless, it seems difficult to classify and to compare the several empirical results. On the one hand, the service learning courses conducted in the studies show a high variation in their realisations. There is often a general comparison between service learning courses and traditional courses. On the other hand, the studies used different measures and a variety of operationalised learning outcomes. The measuring instruments used in the empirical studies are heterogeneous and range from verified scales (e.g., SELEB scale) to less loadable instruments (e.g., an evaluation questionnaire of a course) (Toncar et al. 2006). Significant results are often presented, but do not always effect sizes. All in all, however, the multi-dimensionality of learning arrangements can mostly not be depicted.

30.2.3 Interim Result: Service Learning as a Context-Sensitive Concept

It is shown in the prior descriptions that service learning offers potential to foster a responsible understanding and acting in society. To reach this potential, a didactical classification of the concrete business curricula is needed. It depends on the questions how can service learning be integrated into a given business education curriculum and—from a more didactical point of view—how can the action process in the service activity and the learning process during the service learning arrangement be supported? The empirical results show general points of reference for this; for instance, a stimulation of the students to think about their experiences seems important and a connection between the service activity and the course content is essential. The significance of these empirical analyses is, however, limited, especially for an implementation of service learning in the German business education area.

On the one hand, the contexts of the studies are mostly based on the US area. The US educational system differs from the German educational system. A distinction, for example, is normally made between undergraduate and graduate students, and between colleges and universities in the empirical studies presented, which only corresponds conditionally with Bachelor and Master students or Universities and Universities of Applied Science in Germany. Additionally, the tradition in US universities follows a stronger community orientation (Muller 1999). By comparison, the German tradition emphasises a more scientific orientation that reflects on Humboldt's ideal of combining research and teaching. Thus, there needs to be a contextual adaption of the traditional educational mandate to implement service learning in German business education.

On the other hand, the concrete didactical design of the service learning arrangements examined is not often described. It remains, however, mostly an open question during which concrete didactical interventions the learning process can be provided. In this regard, open questions, for instance, are: What is the role of the community partners and the lecturers during the learning process and what kind of influence do they have? Are there differences in the learning styles of Bachelor and Master students to make several didactical instruments necessary? What kind of didactical instruments exist to foster reflection during the service process? In which sections of study processes is it sensible to make a service learning arrangement: Is it important to confront the students with real-life community challenges at the beginning of the study or is it more useful at the end of a study process? The questions are exemplary, but they make the point quite clearly that service learning can be seen as a context-sensitive concept. Therefore, it seems important for an implementation of service learning in German business education that a context-sensitive curricular and didactical clarification of service learning for the given business education process is made. Consequently, in the following, we present an empirical case-study of the design, implementation, and evaluation of a service learning arrangement.

30.3 Case-Study of Service Learning at a German Faculty of Business Administration and Economics

30.3.1 Study Contexts and Interest

The focus of this single case-study (Yin 2003) will be set in the Faculty of Business Administration and Economics at the University of Paderborn, which is a medium-sized university in North Rhine-Westphalia, one of the biggest federal states in Germany. The

Faculty of Business Administration and Economics offers study programmes, such as Business Administration, International Economics, International Business Studies, and Business and Human Resource Education. The diversified faculty is closely connected with the region and local society, but has had no experience in service learning so far.

The case-study is based on an educational design research approach. This approach is perceived as the systematic study of designing, developing, and evaluating (design cycles) educational interventions (Plomp 2010). The results of the design cycles are used for the development of interventions in the next design cycle. The approach is important for understanding how, when, and why educational innovations work in practice (Design-Based Research Collective 2003). Therefore, design principles and theories will be produced based on the design cycles (McKenney and Reeves 2012; Reeves 2006). The intention of the following study is to describe the design, implementation, and evaluation of a service learning arrangement in the faculty mentioned. We will, thus, identify the effects on students' competences in the service learning arrangement investigated as well as reconstruct first didactical design principles.

30.3.2 Design of the Service Learning Arrangement

The Faculty of Business Administration and Economics at the University of Paderborn offered the service learning arrangement "Economics Citizenship Education" (ECE) to business and economics students for the first time in the summer term of 2013. This arrangement aims at connecting practice (business and economics), society (citizenship), and theory (education) supporting student activities in practical situations. Regional charity organisations present real-world business problem situations. These situations with academic content will be analysed and worked on with groups of students to promote their competence development and to raise the students' awareness of human and community needs. "Economics Citizenship Education" was offered as an extracurricular and voluntary course for the students. It was a chance to gather first experiences of service learning at the faculty and to look at the possibility for a future integration in the curriculum.

Four charity organisations were successfully recruited for this service learning arrangement, each with one problem situation. Participating students had to face one of the following four challenges: to optimise the human resource management in rescue service for Malteser Westfalen-Lippe, to develop information material for Arbeiterkind Paderborn, to attract volunteers for Diakonie Paderborn-Höxter, or to support Rotaract Paderborn with their marketing work.[2] Care has been taken to ensure that the problem situations are

[2] Malteser Hilfsdienst e.V. and Diakonie Paderborn-Höxter are larger organisations. Diakonie is the social welfare organisation of Germany's Protestant church, and Malteser is a catholic aid agency. Both support social needs. Arbeiterkind Paderborn is an organisation that supports the education of children and young people of non-academic families. Rotaract Paderborn is a club of young people who engage socially.

linked to the curricular content. These problem situations provided the starting point for the learning and service process (see Sect. 2.1). The students worked on the problems in groups, which meant that, firstly, they concentrated on the conditions of the charity organisation and given problem situation ("action context"). Then they analysed the problem situation and developed possible approaches to solve the problems based on their curricular content ("action process"). Finally, they presented their solutions and reflected on their service and learning experiences ("action result"). Therefore, this service learning arrangement can be considered as an "action-orientated" and "problem-based" learning experience. Student groups are confronted with authentic problems of charity organisations. In this way, learning constitutes a situation-bound, active and collaborative process.

The didactical conception of the service learning arrangement is visualised in Fig. 30.2. The first event (1) introduces the partners of the charity organisations and their current problem situations. This occasion offers the students an environment in which to communicate with the community partners and academic professionals. Students then work with their groups inside practice, analyse, the problem and find a way to deal with it during the next 2 months. Finally, they have to develop a concept to solve the problem. In this time, they interact with the community partner (2c) and get to know something about the charity organisation's structure, goals, and community needs. The reciprocity (see Sect. 2.1) of both community partners and students building a relationship and benefitting from each other should be ensured by this interaction. During the service activity, the student groups have the possibility to communicate with academic professionals, such as professors or scientific assistants (2a), to get content and methodical support for their problem-solving process. The academic professionals function as specific experts concerning the given problem situation. The lecturer of the service learning arrangement functions as a moderator and guides the learning process from a methodical point of view (e.g., gives support for exploring academic content, stimulating students' reflection) (2b). Thus, the student groups have three partners—academic, community, and the lecturer—who ensure the organic connection between service experience and academic content. The last event (3) includes the presentations of the groups and the results of their service process. There is also a discussion including all participants: student groups, community partners, academic professionals, and lecturer. The latter discussion represents the starting point of the structured reflection on the project work and the individual development. At the end, students receive a certificate from the faculty.

30.3.3 Evaluation of the Service Learning Arrangement

Data Collection and Data Analysis

Design-based research is methodically creative to cope with different settings (McKenney and Reeves 2012, p. 8). This study was situated in "Economics Citizenship Education" (ECE), a service learning arrangement at the Faculty of Business Administration and Economics. The design procedure is based on qualitative research. A total of 19 students

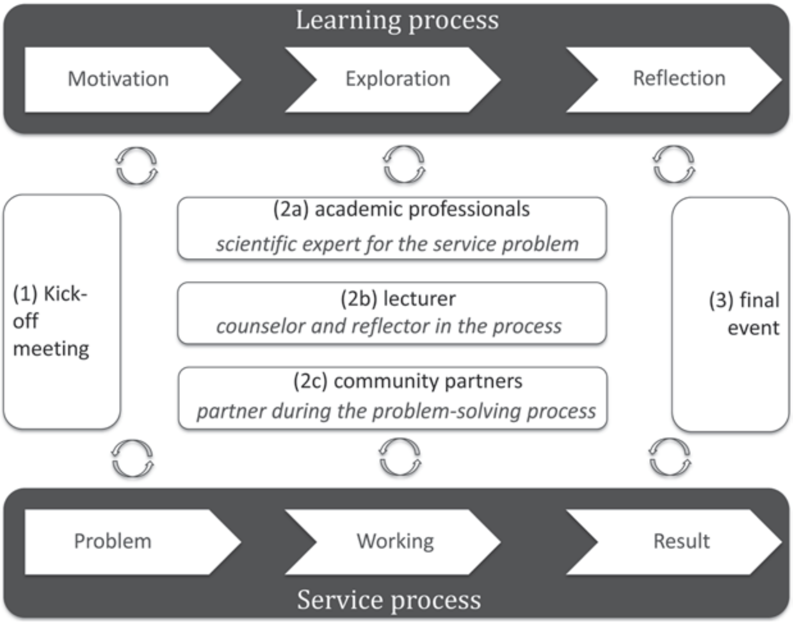


Fig. 30.2 Didactical design of the service learning arrangement

participated in ECE in the summer term of 2013. At the end of the course, five participants and two partners of the charity organisations were questioned about the service learning arrangement.[3] Service projects, gender, programme of study (e.g., International Business Studies or Business and Human Resource Education), and duration of study were considered in a purposive sample. There was a semi-structured interview guideline helping the conduct of the interviews. According to the theoretical foundation, interviewees were asked whether they, respectively, the students, enhanced their personal insight, application of skills and understanding of social issues (Yorio and Ye 2012; Kolenko et al. 1996) through the service learning arrangement. In addition, we wanted to know if students and charity organisations agreed that all elements of successful service learning (reality, reflection, reciprocity, see Sect. 2.1) occurred. Categories were built through systematic qualitative content analysis, according to Mayring (2002, 2010).

Furthermore, during the last meeting ("final event"), students had the possibility to evaluate the service learning arrangement through completing a questionnaire. The questions began with the students' self-assessment according to their development rated on a five-step Linkert scale. The assessment regarding the development and application of skills and knowledge (two items), the assessment of skills and personal development (two

[3] The interviews were conducted in German. Quotations from the interviews in the text are own translations in English. The interviews were recorded and transcribed (participants I1–I5, charity organisations I6 and I7).

items), and the understanding of social issues and volunteer engagement (four items) can be seen. The questionnaire was answered by 17 out of 19 students (89 % return rate).

The results of the analysis concentrate on students' development through service learning (3.3.2.1). Experience in components of service learning, such as personal insight, application of skills, and understanding social issues will be discussed. Moreover, we reveal the elements for successful service learning which had implications for the service learning arrangement (3.3.2.2). The analysis of the questionnaire will be conducted according to relative frequencies in the sections mentioned.

Results of the Analysis

Students' Development Through Service Learning

In the following, the results of the analysis of students' development through service learning are presented regarding its elements: personal insights, understanding social issues, and cognitive development.

Personal Insights

Considering developing personal insights, students and partners of charity organisations reveal skills concerning social interaction, such as the ability to work in a group and communications skills,[4] self-organisation, time management, self-assessment, and self-expression.

Several students answered that they changed their time management ("to organise one's time" I2 line 544) or "learned to organise themselves and their group work" (I3 line 386, see also 549). They improved their social communication skills when they "compare notes and information with the community partners" (I2 line 543). A few students "learned to small-talk" (I4 line 1009, see also I1 line 476) through the conversations with partners of charity organisations, academic staff, and other students. The co-operation partners agreed with this statement, "[students] have to co-ordinate with each other (…) it was a positive development [of social communicative skills] in any case" (I7 line 491–493, see also I6 line 1118–1023).

Other aspects that have often been mentioned in this survey are teamwork, especially in unknown surroundings (people, organisation), and team agreements: "[I learned] how to motivate [team members], pull a team together and to focus on our target" (I3 line 549–551, see also I5 line 685–687). Co-operation partners highlighted this factor: "It is necessary to make compromises (…) and everybody had different views on the implementation or its own way of working" (I6 line 1156). Teamwork was a main topic in one challenge, because students did not want to share their preliminary results with other subgroups. "A concluding and clarifying talk about teamwork, especially in the business and working environment, dissolves tensions" (I7 line 560). Only one student disclosed

[4] It could also belong to the cognitive development, but the people interviewed pointed out the personal level, rather than factual and professional knowledge. Consequently, it is clustered in the category personal insights.

an acknowledgement of career choice through solving the challenge, “the challenge supported my decision on studying business and human resources in the future” (I5 line 411).

One partner of an organisation and one student saw an enhancement of self-confidence and self-assurance: “Students develop themselves, because they work on a problem and identify with the challenge, respectively, the organisation. Furthermore, they get self-confidence through the presentation” (I6 line 928), or “I learned to have the guts to do something even if you are not sure about it” (I3 line 187). Other students cited self-assessment (I3 line 544 “(…) assess themselves”) and the estimation of limits (I4 line 714 “(…) notice my personal limits”) as examples of the development of personal skills.

According to the personal insights, the majority of the students agree that programmes such as Economics Citizenship Education has the potential to foster a personal development. Nevertheless, the evaluation shows indications that a relatively small development of self-evaluation skills during Economics Citizenship Education is provided (see Fig. 30.3).

Understanding Social Issues

Another important learning outcome of service learning is the understanding of social issues, which includes, for example, an understanding of community needs and a awareness of and sensitivity for engagement in society.

There are indications in the interviews that students have been sensitised towards the importance of voluntary work and the problems of society in particular by the co-operation with the charity organisations. “Influenced by the contact with motivated people” (I3 line 714) and by “getting information about their aims and what they do without getting money” (I4 line 927–929) within and outside the university, students gained insights into charity organisations. The contact with volunteers raised the awareness of different problems in our community and also confirmed the importance of civic engagement (I2 line 684, I1 line 567, I4 line 585).

Working with problems and designing a solution concept generate new skills and knowledge for students, but they also internalise the benefit for charity organisations: “I appreciate the importance of engagement, without earning money. (…) I would not have believed in it without doing the course” (I4 line 406–410) or “The course illustrates that importance [of engagement resp. voluntary work” (I2 line 828, see also I1 line 593 and I3 line 528). Students notice that civic engagement is important. However, a majority of students mentioned a small development of civic engagement. They argued that the level of engagement was still high, because of the voluntary participation in the course. Furthermore, they mentioned that they had “less time during the semester” (I2 line 819, see also I1 line 615 and I3 line 509) doing voluntary work. Co-operation partners advanced similar arguments. They thought that “students have the possibility to leave the comfort zone, experience the diversity of civic problems and realise that they can do something. This may raise their awareness” (I6 line 1026–1028). They clarified that “the development of civil aspects is relatively low (…) because the challenge was management-oriented (…) the visitation of the organisation does not change that, because we focused the task” (I7

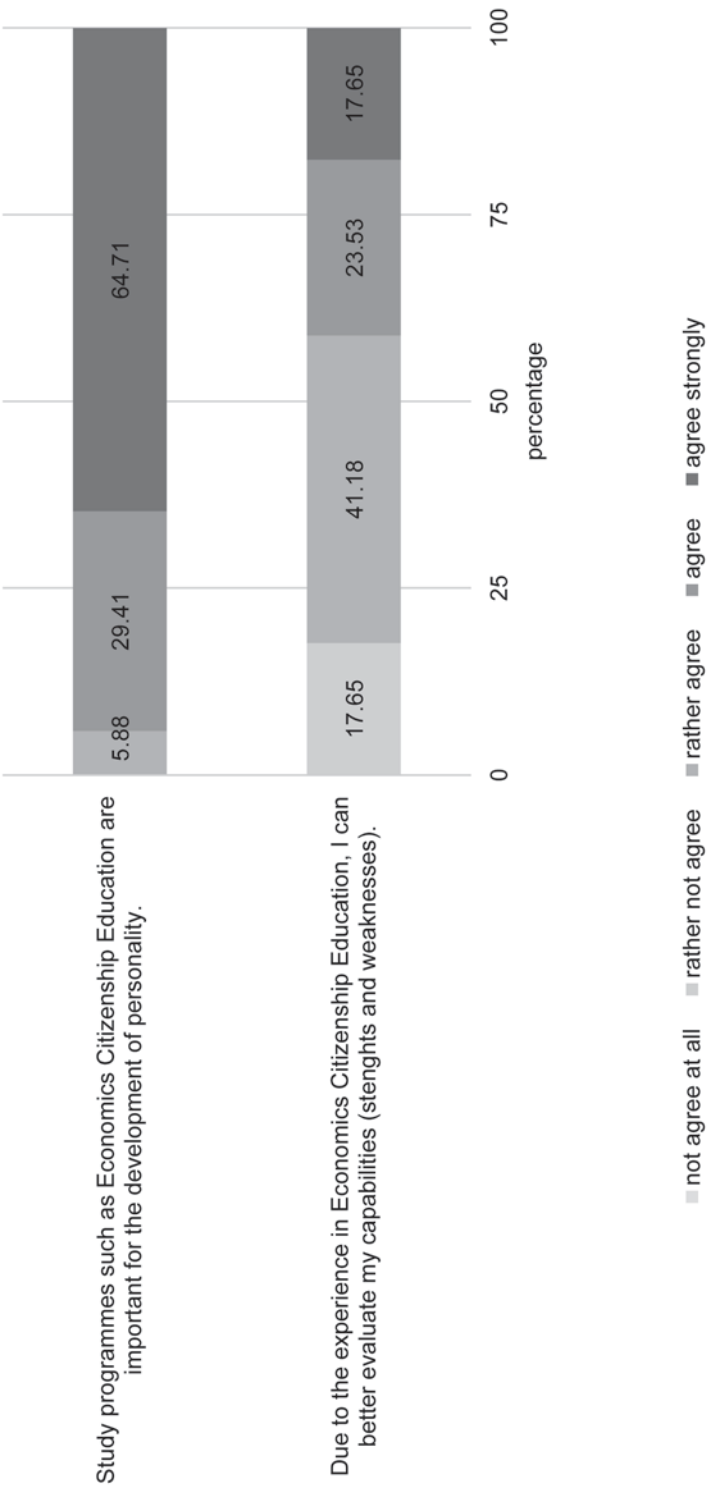


Fig. 30.3 Evaluation: personal insights

line 418–428 and 443). This argument is contrary to the students' statements, which were focused (awareness) primarily on the organisation: "We visited the rescue station, which was very impressive (…). It may well be that this has an impact on my life" (I2 line 518, see also I5 line 883–889).

In addition, the last meeting of the service learning arrangement and the participation of prominent urban personages reinforced the importance of civic engagement: "It was like an event. Deputy councilor, dean, and professors compliment our engagement, which underlines the importance of civic engagement and the benefit for organisations" (I3 line 680, see also I2 line 849 and I4 line 946).

The analysis of the evaluation in Fig. 30.4 registers that students assess the relevance of civic engagement very highly and they recognise what kind of social needs exist. Furthermore, it shows that 88 % of the participants answered that the importance of civic engagement was already very high before the course began. Nevertheless, the results regarding civic engagement and voluntary work in the future is relatively low as well, which could be traced back to the fact that students said they had less time for voluntary work.

Cognitive Development

The term cognitive development is used to describe the application and improvement of skills and knowledge. Data analysis points out the positive development of methodical proceedings (e.g., problem-solving skills) and factual knowledge (e.g., use of word processing programmes, Facebook or Prezi up to insights into organisations), but also show that academic achievement has decreased.

Participants had different learning outcomes depending on which challenges had been selected. Some students learned to handle software tools, such as "design a presentation with Prezi" (I4 line 269), "working with Excel" (I5 line 600) or "design a [professional] Facebook profile" (I3 line 544). Others had to cope with project processing and increased their problem understanding: For instance, one student said "It might be helpful to focus on the problem" (I5 line 743, see also I3 line 872–875). The accentuation of developing problem-solving skills can be different. We point out that the aspiration level of the challenges is important for the students' development, for example, if "the solution was relatively simple" (I3 line 872–878, see also I4 line 362 and 370). Another aspect is the relation to the studies (see also I4 line 363). Challenges with rigorous academic content stimulate interest and motivation, and increase the growth of knowledge. On the other hand, tasks with less academic content and a less valuable proficiency level only form a part of knowledge (see also I1 line 138). Consequently, some students would also receive little or no impact on their cognitive development: "I do not have much academic achievement" (I2 line 541, see also I1 line 138).

Several students enhanced their expert and factual knowledge, especially during the service process (I2 line 912, I3 line 611). Co-operation partners agreed with that (I7 line 384). Here, I2 mentioned: "knowledge, especially the organisation of a rescue service, legal basics shift models (…), how to optimise such models and transfer them to the other contexts" (I2 line 756–761, see also I5 line 265). Moreover, I4 notes "Marketing basic

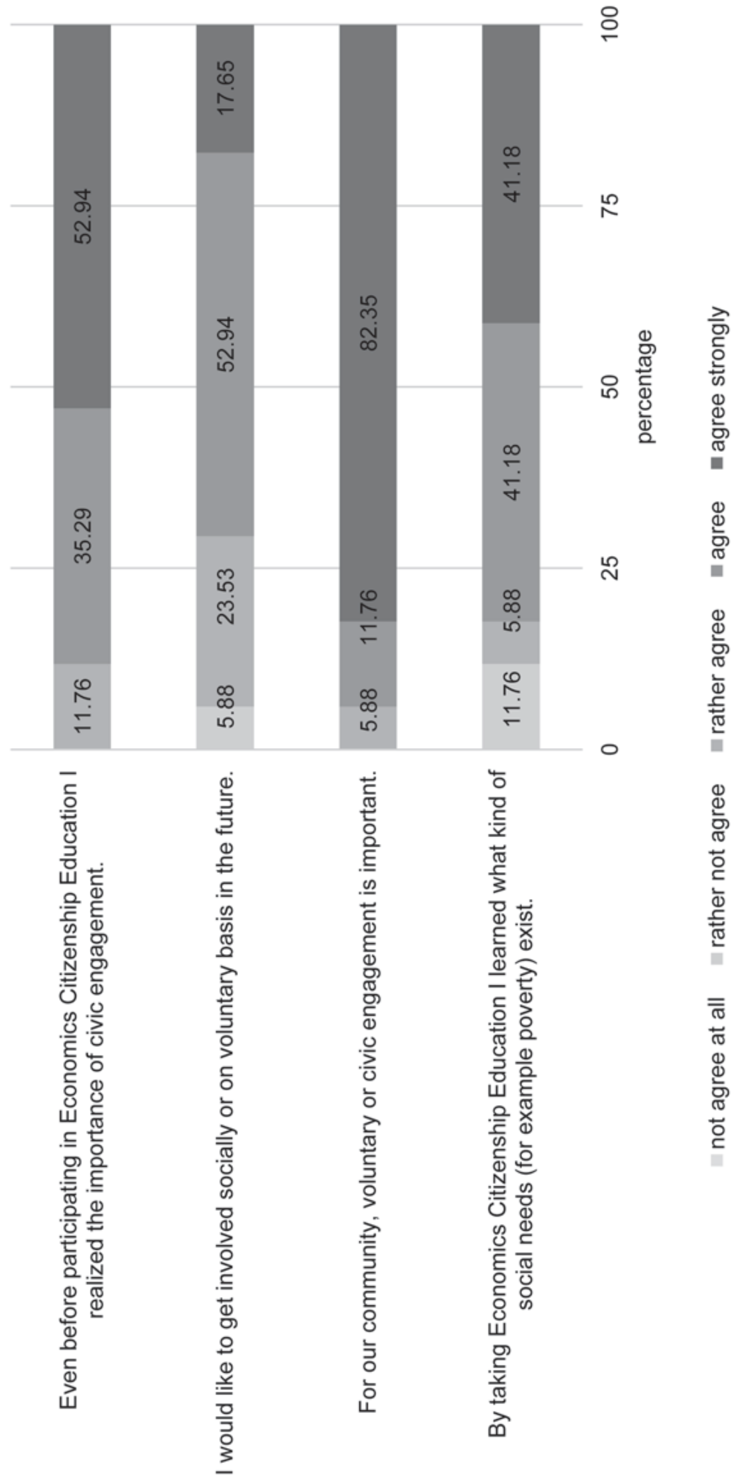


Fig. 30.4 Evaluation: understanding social issues

knowledge" (I4 line 682). Through the presentations, they got to know the other projects and they dealt intensively with their own challenge. One student answered that "for me, the presentation was important, because I cannot present well enough" (I3 line 612–614).

Concerning the academic achievement, one co-operation partner noted, "Students were not able to apply their skills during the challenges" (I7 line 609). However, the arrangement offered students the opportunity to apply their theoretical knowledge.

Over 60% of participants agree in the course evaluation response that a development of skills was part of these tasks. The application of academic knowledge, which is also illustrated in Fig. 30.5, showed a smaller percentage.

Results for the Didactical Design

In addition to the students' development, the survey focused on the didactical design. Data were evaluated concerning the didactical elements of service learning described in Sect. 2. The analysis focused on revealing implications for the service learning arrangement: (1) reality, (2) reflection and (3) reciprocity.

- (ad 1) Reality
  Regarding "reality" as an element of successful service learning, students preferred challenges with content to the academic studies (I2 line 274). According to this, one student said: "It is very good offering students the opportunity to examine specific topics or thematic aspects in detail and in a practice-oriented environment" (I2 line 629, see also I1 line 51 and I5 line 113). This "practical experience" (I2 line 1250, see also I1 line 65) was also mentioned by other students. Community partners regard references to reality and (business) practice as the core of service learning arrangements, "Practical experience, which does not mean to be on-site [in its daily work], but in the sense of applying knowledge [to see what it is good for]" (I7 line 225–227).
  Other participants saw the benefit in the practical applicability: "It is clever if students solve real problems (…) and I had a good feeling about knowing for whom it [(the solution)] is" (I4 line 547–553), and about "giving something back to society" (I2 line 1249, see also I5 line 526). We subsume students' activities to gain practical benefit for organisations under the heading "service activity." Students with less business and economic content suggest it as an improvement to enhance learning outcome (I1 line 668–670). Another optimisation could be the confrontation with specific social issues (e.g., poverty, charity, human dignity) through service activities (I3 line 958–966). This is also supported by the course evaluation. There are references that the content of the challenge related to the studies was relatively small, by contrast, the practical relevance became clear.
- (ad 2) Reflection
  According to the literature (Godfrey et al. 2005, p. 316), reflection is important to transform the students' action into experience and learning effects. Students related during the interviews that they reflected with team members, partners of the social service providers, and professionals automatically during the service learning arrangement:

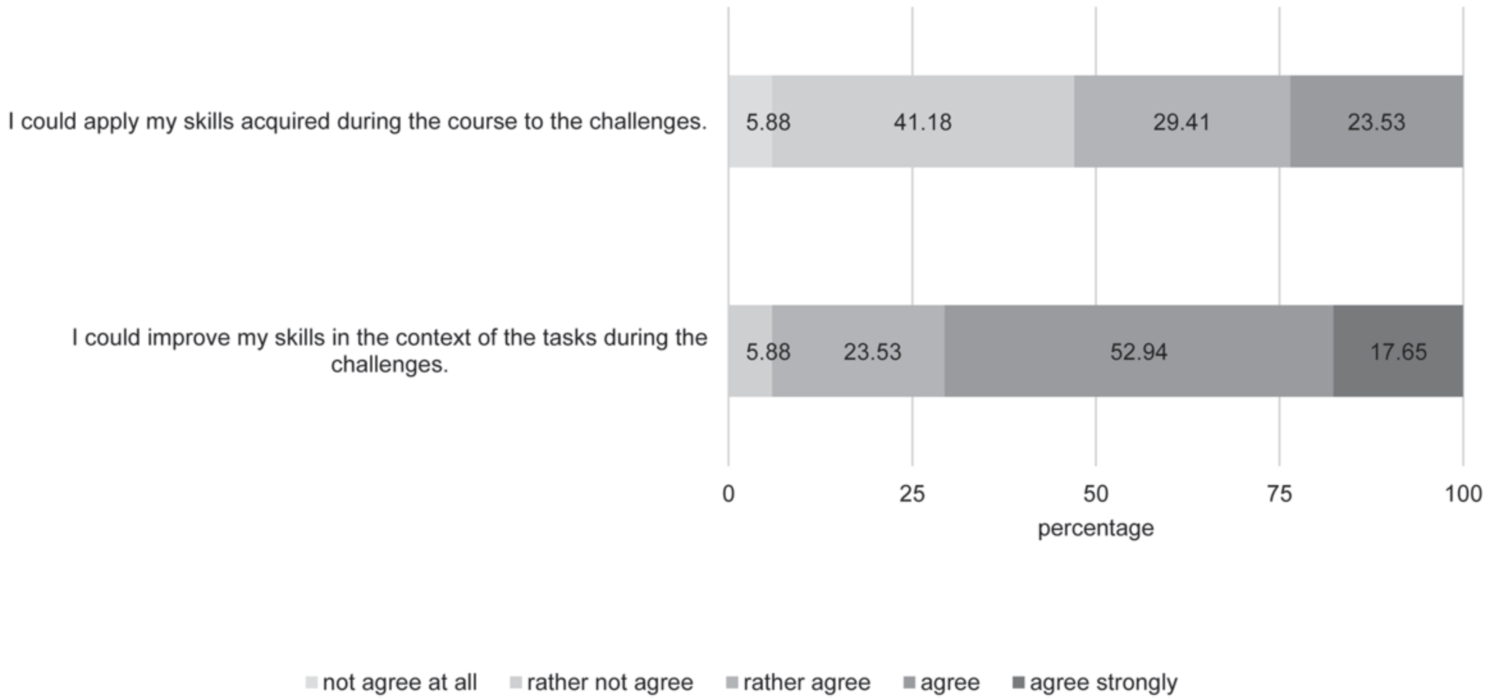


Fig. 30.5 Evaluation: cognitive development

"We considered how we do it, why we do it and what is the best way of doing it. That is what I would call reflection" (I3 line 463). This quote indicates the reflection within the group. A co-operation partner mentioned, "Students told us what they do (…) and we discussed it" (I6 line 579–587), and supported students' assumptions. The following quote documented students' thinking about how service learning affects them: "[I did reflections] after the presentation and asked myself whether I am pleased with the result or not. (…) I also reflected on my work during the process of development" (I2 line 577). At the end of the last event, all participants had to reflect on the learning outcomes and think about how the service activity affected them (organic connection).

- (ad 3) Reciprocity
  The majority described a reciprocal relationship between students and partners of the social service providers. Their interaction was friendly and open-minded so that students felt accepted and respected (I5 line 533 and 543, I3 line 453). Co-operation partners described the same "open-minded relationship" (I7 line 270, see also I6 line 521). Based on this, both parties became equal and trusted partners, which enabled learning together and improved performance: "We got on well together and this enables a good result in any case" (I4 line 138). Reasons for this reciprocal relationship might be the voluntary and extracurricular design and the time invested by both parties. One student mentioned: "[The organisations] are deeply grateful for the engagement and I think it is a good possibility to see insight [practice] (…). Especially, if you do not have much work experience" (I1 line 255–258). Several students used the possibility to exchange information with experts. These discussions are important and informative, especially for sophisticated and difficult tasks. Co-operation partners and students exchanged information on a regular basis. They also co-ordinated and reflected on the co-operation regularly.

30.4 Classification of the Results and Conclusion

The results of this study revealed factors that enhanced the students' academic and personal development. Thus, an increase in knowledge and skills, particularly with regard to methodical (problem-solving, project work) and social-communicative (teamwork, ability to communicate) abilities, can be indicated. Moreover, the students are sensitised to think about their attitudes and civic understanding. Based on the empirical results, there are indications that the community partners and the guidance of the students during the service activity are important factors providing thoughts from the students about the existing values in society and about their own values and civic attitudes. The impressions of the participants show that the service learning arrangement combined reality, reflection, and reciprocity well and provided a wide range of experience. Nevertheless, this analysis generated a few aspects that could be focused on during the redesign of this intervention.

The analysis supports the assumption that the design of the challenges has a strong influence on students' personal and cognitive development. An integration of academic content, the work on real-world problems in real settings, and challenging tasks and real responsibilities are important in order to fulfil service learning as a studying technique characterised by problem-solving. Perhaps, a direct confrontation with social problems and concerned individuals would intensify experiences and raise personal development. Furthermore, there are indications that the depth of fostering skills depends on the specific (subjective) problem definition of the student groups and their intentions in the given service project. From a didactical point of view, it seems important that a didactical adaptation of the community problem is carried out in preparation for the service learning arrangement.

All in all, however, it seems that there is the potential that business education provides students with a broader view of business and their future roles in society during service learning (see Sect. 1). Keeping this in mind, the question is, how can the students transfer these personal insights into their role as future business leaders? It depends on the didactical design of the reflection that students recognise that responsible acting in business situations is also significant. While doing this, it is important to consider the perspectives "learning process" and "service process." Didactical instruments fostering students' reflection and connecting both processes could be, for example, portfolios, journals and reflection questions during the service activity. With instruments like this, there is a possibility to guide the learning process and that students can internalised social values in their actions.

References

Astin, A. W., & Sax, L. J. (1998). How undergraduates are affected by service participation. *Journal of College Student Development, 39*(3), 251–263.

Astin, A. W., Vogelgesang, L. J., Ikeda, E. K., & Yee, J. A. (2000). *How service-learning affects students*. Los Angeles: University of California.

Batchelder, T. H., & Root, S. (1994). Effects of an undergraduate program to integrate academic learning and service: Cognitive, prosocial cognitive, and identity outcomes. *Journal of Adolescence, 17,* 341–355.

Bringle, R. G., & Clayton, P. H. (2012). Civic education through service learning: What, how, and why? In L. McIlrath, A. Lyons, & R. Munck(Eds.), *Higher education and civic engagement. Comparative perspectives* (pp. 101–123). New York: Palgrave Macmillan.

Brower, H. H. (2011). Sustainable development through service learning: A pedagogical framework and case example in a third world context. *Academy of Management Learning & Education, 10*(1), 58–76.

Burns, D. J. (2011). Motivations to volunteer and benefits from service learning: An exploration of marketing students. *Journal for Advancement of Marketing Education, 18,* 10–23.

Design-Based Research Collective. (2003). Design-based research: An emerging paradigm for educational inquiry. *Educational Researcher, 32*(1), 5–8.

Dewey, J. (1966). *Democarcy and education*. New York: Free Press (Original published 1916).

Dewey, J. (1998). *Experience and education*. West Lafayette: Kappa Delta (Original published 1938).
Dipadova-Stocks, L. N. (2005). The major concerns about service-learning. What if we don't do? And what if we do? *Academy of Management Learning and Education, 4*(3), 345–353.
Ehrlich, T. (2011). Foreword. In C. M. Cress & D. M. Donahue (Eds.), *Democratic dilemmas of teaching service-learning: Curricular strategies for success* (pp. xi–xvi). Sterling: Stylus Pub.
Godfrey, P. C., Illes, L. M., & Berry, G. R. (2005). Creating breadth in business education trough service-learning. *Academy of Management Learning & Education, 4*(3), 309–323.
Govekar, M. A., & Rishi, M. (2007). Service learning: Bringing real-world education into the b-school classroom. *Journal of Education for Business, 83,* 3–10.
Jacoby, B. (1996). Service-learning in today's higher education. In B. Jacoby (Ed.), *Service-learning in higher education* (pp. 3–25). San Francisco: Jossey-Bass.
Jacoby, B. (2009). Civic engagement in today's higher education—An overview. In T. Ehrlich & B. Jacoby (Eds.), *Civic engagement in higher education: Concepts and practices* (pp. 5–30). San Francisco: Jossey-Bass.
Kenworthy-U'Ren, A. L., & Peterson, T. O. (2005). Service-learning and management education. Introducing the "WE CARE" approach. *Academy of Management Learning and Education, 4*(3), 272–277.
Kolb, D. A. (1984). *Experiential learning: Experience as the source of learning and development*. Englewood Cliffs: Prentice-Hall.
Kolb, A. Y., & Kolb, D. A. (2005). Learning styles and learning spaces: Enhancing experiential learning in higher education. *Academy of Management Learning & Education, 4*(2), 193–212.
Kolenko, T. A., Porter, G., Wheatley, W., & Colby, M. (1996). A critique of service learning projects in management education: Pedagogical foundations, barriers, and guidelines. *Journal of Business Ethics, 15,* 133–142.
Matten, D., & Moon, J. (2004). Corporate social responsibility education in Europe. *Journal of Business Ethics, 54,* 323–337.
Mayring, P. (2002). *Einführung in die qualitative Sozialforschung. Eine Einleitung zu qualitativem Denken* (*Introduction in qualitative research. A manual for qualitative thinking*) (5. ed.). Weinheim: Beltz.
Mayring, P. (2010). *Qualitative Inhaltsanalyse. Grundlagen und Techniken* (*Qualitative content analyse. Foudations and techniques*) (11. ed.). Weinheim: Beltz.
McKenney, S., & Reeves, T. C. (2012). *Conducting educational design research*. New York: Routledge.
Moratis, L., Hoff, J., & Reul, B. (2006). A dual challenge facing management education. *Journal of Management Development, 25,* 213–231.
Muller, S. (1999). Deutsche und Amerikanische Universitäten im Zeitalter der Kalkulation. (German and American universities in the age of calculation). In M. G. Ash (Ed.), *Mythos Humboldt: Vergangenheit und Zukunft der deutschen Universitäten* (pp. 195–199). Wien: Böhlau.
Peters, T., McHugh, M. A., & Sendall, P. (2006). The benefits of service learning in a down-turned economy. *International Journal of Teaching and Learning in Higher Education, 18*(2), 131–141.
Plomp, T. (2010). Educational design research: An introduction. In T. Plomp & N. Nieveen (Eds.), *An introduction to educational design research* (pp. 9–36). Enschede. http://www.slo.nl/downloads/2009/Introduction_20to_20education_20design_20research.pdf. Accessed 23 Feb 2014.
Prentice, M., & Robinson, G. (2010). Improving student learning outcomes with service learning. American Association of Community Colleges. http://www.aacc.nche.edu/Resources/aaccprograms/horizons/Documents/slorb_jan2010.pdf. Accessed Jan 27 2014.
Reeves, T. (2006). Design research from a technology perspective. In J. Van den Akker, K. Gravemeier, S. McKenney, & N. Nieveen (Eds.), *Educational design research* (pp. 52–66). London: Routledge.

Reinders, H. (2010). Lernprozesse durch Service Learning an Universitäten (Learning through service learning at universities). *Zeitschrift für Pädagogik, 56*(4), 531–547.
Reinders, H., & Wittek, R. (2009). Persönlichkeitsentwicklung durch Service Learning an Universitäten (Personal development through Service Learning at universities). In K. Altenschmidt, J. Miller, & W. Stark (Eds.), *Raus aus dem Elfenbeintrum?* (pp. 128–143). Weinheim: Beltz.
Salimbene, F. P., Buono, A. F., Van Steenberg Lafarge, V., & Nurick, A. J. (2005). Service-learning and management education: The Bentley experiment. *Academy of Management Learning and Education, 4*(3), 336–344.
Scherer, A. G., & Butz, A. (2010). Unternehmensethik und CSR in betriebswirtschaftlichen Teildisziplinen—Eine Einführung (Business ethic and CSR in business studies—An introduction). *Die Unternehmung, 4/2013,* 363–390.
Scherer, A. G., & Patzner, M. (2011). Corporate social responsibility. In M. S. Aßländer (Ed.), *Handbuch Wirtschaftsethik* (pp. 321–329). Stuttgart: Metzler.
Scherer, A. G., & Picot, A. (Eds.). (2008). Unternehmensethik und Corporate Social Responsibility—Herausforderungen an die Betriebswirtschaftslehre (Business ethic and corporate social responsibility—Challenges for business studies). *Sonderheft zfbf 58/08*.
Schrader, U. (2011). Corporate citizenship. In M. S. Aßländer (Ed.), *Handbuch Wirtschaftsethik* (pp. 303–312). Stuttgart: Metzler.
Toncar, M. F., Reid, J. S., Burns, D. J., Anderson, C. E., & Nguyen, H. P. (2006). Uniform assessment of the benefits of service learning: The development, evaluation, and implementation of the SELEB scale. *Journal of Marketing Theory and Practice, 14*(3), 223–238.
Weber, J., & Glyptis, S. (2000). Measuring the impact of a business ethics courese and community service experience on students' values and opinions. *Teaching Business Ethics, 4,* 341–358.
Yin, R. K. (2003). *Case study research. Design and methods* (3. ed.). Thousand Oaks: Sage.
Yorio, P. L., & Ye, F. (2012). A meta-analysis on the effects of service-learning on the social, personal, and cognitive outcomes of learning. *Academy of Management Learning & Education, 11*(1), 9–27.

About the Authors

David N. Abdulai holds a BA in Political Science and Journalism from Howard University and an MA in International Development from the School of International Service (SIS) at American University in Washington, D.C. His Ph.D. (Distinction) is in International Economics and Technology Analysis and Management from the Graduate School of International Studies (*Josef Korbel Graduate School of International Studies*), University of Denver in Colorado, USA. Abdulai also holds a Post-Graduate Certificate in Technology Analysis and Management from the Graduate School of International Studies and is a graduate of Harvard Business Schools' Programme in Leadership Development. He was the former CEO and Executive Director of Unisa's Graduate School of Business Leadership in Midrand, South Africa and is currently the founding President and CEO, of the African Graduate School of Management and Leadership in Ghana, West Africa. Professor Abdulai has worked for the Public Sector Management division of the World Bank, Bank for International Settlements, Morgan Stanley-Dean Witter, CBS News Washington Bureau, Voice of America (Africa Field Service), and Africare International. He also taught at the Centre for the Teaching of International Relations (CTIR), University of Denver, Metropolitan State College of Denver, and the Faculty of Management, Multimedia University. He was additionally the Dean of the Faculty of Business and Law at Multimedia University and Director of the Office of Internationalisation and Institutional Collaboration at Multimedia University in Kuala Lumpur, Malaysia. He has also consulted for the World Bank, Spring Institute for International Studies, the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB), the African Union, the United Nations Development Programme (UNDP), the Africa Peer Review Mechanism (APRM) to mention a few. A prolific writer, his most recent book is titled: African-Centred Management Education: A New Paradigm for an Emerging Continent.

L. O'Riordan et al. (eds.), *New Perspectives on Corporate Social Responsibility,*
FOM-Edition, DOI 10.1007/978-3-658-06794-6

Teresa Bal-Woźniak is an Associate Professor at the Rzeszów University of Technology in Poland, Faculty of Management. Her scientific interests are connected with the management of active development determinants of enterprises. She specialises in seeking possibilities for shaping innovativeness in connection with the use of intellectual capital. She is the author of a book entitled: "Innovativeness in the Subjective Approach. Institutional Determinants", and author or co-author of more than 100 research papers and articles.

Marek Ćwiklicki is an Associate Professor at the Cracow University of Economics in Poland, in the Faculty of Management. His main research interests cover methodology of organisation and management, evolution, adaptation, development and implementation of contemporary management concepts and methods, and information management. He is the author and co-author of more than 150 research papers and articles.

Matthew J. Drake is an Associate Professor of Supply Chain Management and the Director of International Business Programs in the Palumbo-Donahue School of Business at Duquesne University in Pittsburgh, Pennsylvania, USA. Prior to joining the Palumbo-Donahue School of Business as a faculty member, he was a student in the school, graduating in 2002 with a B.S. in Business Administration with concentrations in Supply Chain Management and Finance. After graduation from Duquesne, Prof. Dr. Drake entered the doctoral program in the Stewart School of Industrial and Systems Engineering at the Georgia Institute of Technology. He earned a M.S. in Industrial Engineering in 2005 and a Ph.D. in Industrial Engineering with a concentration in Economic Decision Analysis in 2006. He joined the faculty at Duquesne University immediately afterward. Prof. Dr. Drake's main research interest is in studying the incentives faced by decentralised decision makers in supply chains.

Matthias S. Fifka is a Professor for Business Administration and Business Ethics at the University of Erlangen-Nuernberg. He is also a visiting professor at the University of Dallas (USA), the Nanjing University of Finance and Economics and the Shanghai Jiao Tong University (China), the École Supérieure des Sciences Commerciales d'Angers (ESSCA) (France), and the Maastricht School of Management (Netherlands). He serves as an external evaluator at the Maastricht School of Management, Netherlands, and the Hamburg University of Applied Sciences. From 2011 until September 2013 he held the Dr. Juergen Meyer Endowed Chair for International Business Ethics and Sustainability at Cologne Business School (CBS). His research and teaching focuses on issues of strategic management—especially the strategic implementation of sustainability and corporate social responsibility, business ethics, corporate governance, international management, as well as the American political and economic system.

Dariusz Firszt is an Associate Professor at the Cracow University of Economics in Poland, in the Faculty of Commodity Science. His research interests cover economic growth, modernisation, innovation, its diffusion and international technological convergence. He is the author of the book titled "Determinants of diffusion of innovation in the Polish economy", and author or co-author of more than 20 research papers dedicated to innovation.

Karl-Heinz Gerholz is Juniorprofessor for Higher and Vocational Education at the University of Paderborn, Germany. His research interests comprise counseling learning and service learning in vocational and higher education as well as organisational structures and development in educational institutions. He is responsible for diverse research projects which are mostly third-party funded.

Thomas Heupel is a Professor of Business Studies and Management Accounting and Vice-Rector for Research at the FOM University of Applied Sciences in Essen, Germany. His research fields are Environmental Management Accounting, Management Impact of demographic Change, Management of SME, and Supply Chains in the Automotive Industry.

Łukasz Jabłoński holds a doctoral degree in economics and is a researcher at the Cracow University of Economics in Poland, in the Faculty of Commodity Science. His research interests cover economic growth and development, convergence, inequality, and human capital. He is the author and co-author of two books dedicated to economic convergence between countries and economic modernisation, and more than 50 research papers and articles published in reviewed journals.

Marek Jabłoński is an Associate Professor at the Cracow University of Economics in Poland, in the Faculty of Management. His main research interests cover methodology of organisation and management, evolution, development and implementation of contemporary management concepts and methods, as well as competence management. He is the author and co-author of more than 110 research papers and articles.

Lara Johannsdottir is an Assistant Professor in Environment and Natural Resources in the School of Business at the University of Iceland. She is also a board member of an occupational pension fund, a board member of the Institute for Business Research, University of Iceland, and an independent consultant. Her research focus is on the insurance sector, sustainability, CSR, and environmental issues. Dr. Johannsdottir holds a Ph.D. degree in Business from the School of Business, University of Iceland, and a MBA degree in Global Management (with honors) from Thunderbird School of Global Management. She has 16 years of working experience as an executive and specialist from the Icelandic finance sector. Her academic papers have for instance been published by the Journal of Cleaner Production, Environmental Science and Policy, Journal of Management and Sustainability, Palgrave Macmillan and John Wiley & Sons, Inc.

Jan Jonker is a specialist in the field of sustainable development. He is employed as a professor at the Nijmegen School of Management (NSM) at the Radboud University Nijmegen (RU—Holland) where he holds the chair of "Sustainable Entrepreneurship". Since 2014 he also holds the Chair d'Excellence Pierre de Fermat positioned at the Toulouse Business School (TBS) in Toulouse (France). Professor Jonker's research interests are at the crossroads of management, corporate social responsibility (CSR) and sustainable development (SD), specifically, the development of strategies for sustainability and related (new) business models. Within this focus, Professor Jonker is increasingly concentrating on how to enable and foster fundamental change and transformation leading to organising (inter)organisational sustainability. He can be seen as an academic entrepreneur. As such, he is creating a variety of crowdparticipating research projects in order to create impact. At present, he concentrates his research on developing a taxonomy of sustainability strategies and unravelling the building blocks for a generation of (new) business models. In early early 2013, he published the edited book "WEconomy" and is now working on a business model methodology to be published as a book launched in November 2014. All of Professor Jonker's books, projects, lectures, and encounters comprise the common goal of driving progress in sustainable development in and between organisations and people. He firmly believes that our society and the people within it hold the power to make changes. Thus far, he has written and cowritten 27 books and published over 150 articles. He is a frequently sought international speaker and acted as a visiting professor in countries including the United States, France, Denmark, Australia, Italy, Spain, Norway, Morocco, Germany, Poland, and China.

Ortrud Kamps is a lecturer in Intercultural Competencies and Business English at the FOM University of Applied Sciences in Essen, Germany, teaching courses at various locations such as Aachen, Bonn, Cologne, Düsseldorf, and Wuppertal on subjects including Business Ethics and International Management. Her research focuses on Corporate Social Responsibility (CSR), Sustainability Management, and Intercultural Competencies. She studied Political Science and Philosophy in Heidelberg and completed her studies at the University of Massachusetts at Amherst, USA, with a Master of Arts in Political Science (International Relations). She obtained her Ph.D. in Political Science (Global Sustainability) at the University of Heidelberg, Germany. At that time she also undertook extensive research at the United Nations Environmental Program (UNEP) in Kenya, at the University of Nairobi, and with several Kenyan NGOs. She has additionally collected extensive practical experience in the professional world: Since 2000 she has been managing the Dr. Kamps Professional Communication Institute in Aachen. In this position, she has gathered extensive knowhow in training and consulting a broad range of medium-size companies catering for global markets as well as governmental and non-profit organisations involved in globalisation affairs. She is currently a guest lecturer and advisor with a particular focus on Intercultural Competencies and Business Ethics at universities, companies, and institutions. Her latest research not only focuses on best practice examples for CSR worldwide such as *Cotton made in Africa*, but also on comparing CSR theory and practice internationally (e.g., Europe versus Africa), and the implementation of *Cradle to Cradle* models at a variety of companies in different countries.

Dinah A. Koehler is a senior research manager at Deloitte Services LP USA. Dinah has been invited to present her research at University of Michigan, Yale, the Wharton School, and Harvard and has published in peer reviewed journals and books. At Deloitte, her research has focused on materiality, valuation and measurement of environmental, social and governance performance. She won the 2005 Academy of Management Organization and the Natural Environment Division's Best Dissertation Prize. She has worked in and advised large corporations, national governments and international organisations on sustainability issues. She has advised Harvard and Wharton on academic programs and research databases related to enterprise sustainability. Before joining Deloitte, she worked at The Conference Board, the EPA's Office of Research and Development, and Wharton. She has a Bachelor of Arts in International Relations from Wellesley, a Master in Law and Diplomacy from The Fletcher School at Tufts University, and a doctorate in environmental health and risk management from Harvard School of Public Health.

Marianna Król is a psychologist, and a Ph.D. student in the Psychology Department at the Jagiellonian University, Krakow, Poland, a lecturer, an organisational development consultant, a trainer and a coach. In her research and consulting she focuses on helping organisations to reach their maximum potential through optimal applicant attraction strategies, valid recruitment and selection processes, and evidence-based coaching. She co-authored "Situational Judgment Tests", a handbook on using SJT in recruitment and assessment practice. Since July 2013 she is a SEAT Dealer Network Recruitment and Selection Coordinator at Volkswagen Group Poland.

She teaches Business Simulation Games and Psychology of Coaching, and is a co-owner and partner at 313 Consulting, a consulting company specializing in the development of recruitment, selection and educational simulation games.

Agnieszka Lapot graduated from the Jagiellonian University in 2004. She began her career with a focus on the psychology of management in 2003 during an internship in SUMA Wholefools Ltd. in the United Kingdom. Agnieska has been working in the Human Resources (HR) field in an information technology company and in various other production companies. She is currently employed as a HR manager in an automative company in southern Poland. She is writing her Ph.D. thesis under the direction of Professor Dr. habil. Ryszard Stocki. Her work focuses on the subject of participative management with respect to cynical attitudes in organisations. The aim of this study is to verify whether a cynical attitude is universal for the positions and types of organisations or whether the management of the company has an impact on the attitude of cynical manifestations. A further goal is to verify the positive aspects of cynicism, for example, in the context of a defense mechanism.

Anna Katharina Liebscher studied Industrial Engineering & Management at the University of Bremen where she also received her doctoral degree in business studies in 2012. Since 2010 she has been working at the Chair in Sustainable Management at the Department of Business Studies and Economics at the University of Bremen. She has been working with the method of systemic constellations for several years in the university context. Together with Prof. Dr. Georg Müller-Christ she uses the method of systemic constellations in university courses on sustainability and management.

Simone Losch, MSc, is currently working on her Ph.D. in business and economics. She is a research associate at the Department of Business and Human Resource Education at the University of Paderborn, Germany. Her current research is focused on teaching and learning in vocational and higher education.

Cristian R. Loza Adaui is a researcher and lecturer of strategic management at the University of Erlangen-Nuremberg and researcher and lecturer of business ethics and corporate social responsibility at the Catholic University of Eichstaett-Ingolstadt. He is also project manager at the Academy of Business in Society (ABIS) and researcher at the Center of Corporate Citizenship e.V. From 2005 until 2008 he was Professor of Business and Professional Ethics at the Universidad Católica San Pablo (Perú). His research focuses on business ethics, corporate social responsibility, corporate citizenship, sustainability and strategic management, as well as Catholic social thought and spirituality in management.

Nina Marsh graduated in October 2013 at the FOM University of Applied Sciences Essen, Germany, where she received an MBA with distinction for her thesis "Investment Behaviour and CSR: Utilising Existing Mind-Sets to leverage Sustainable Business". During her management studies, her chosen area of specialisation was sustainability, organisational analyisis, and behavioural economics. She developed her skills and expertise in these fields through residencies as a student and research asssistant at leading international scientific institutions such as the London School of Economics and Political Science (LSE) and the California Institute of Technology (Caltech). Alongside her work in the public sector and as a research fellow in the field of Neuroeconomics in the NEMO Research Group at the University of Bonn, Nina Marsh was appointed to become a research fellow at the Competence Centre for CSR at the FOM in 2012. Since January 2013, she is involved in a European research project focusing on "New Business Models". This research project was initiated by Prof. Dr. Jan Jonker of the Nijmegen School of Management and the KCC under the directorship of Prof. Dr. Linda O'Riordan, as one of the participating institutions. Since February 2014, Ms. Marsh is undertaking a Ph.D. on the 'Responsible Organization (RESORG)' Doctoral Program at the Nijmegen School of Management/Radboud University (NL). Her dissertation research is concerned with exploring innovative networks between constituents which promote a Collaborative Advantage for Sustainable Development and Corporate Responsibility.

Donna Marshall has researched, taught, and contributed to the supply chain management field for over a decade at University College Dublin. She has published scholarly articles on outsourcing, relationship management, and organisational cultures in international journals such as Journal of Supply Chain Management; Supply Chain Management: International Journal; International Journal of Operations and Production Management; and Journal of Purchasing and Supply Management. She has been the academic director of the MSc in supply chain management since 2003, has won several teaching awards for her teaching, and has supervised two Ph.D. students to completion. She has also received several large corporate and research organisation grants. She is currently completing an IRCHSS funded study investigating the interaction of environmental and social sustainability practices and their effect on supply chain performance.

Lucy McCarthy is a Government of Ireland Postdoctoral Fellow. She is currently working at the University College Dublin on an Irish Research Council funded project entitled: 'Transparency in the Supply Chain'. This project is aimed at understanding the enablers of, and barriers to, transparency in supply chains and how behaviours affect a number of different focal firm outcomes: economic, operational, social, and environmental. She completed her Ph.D. at University College Cork (UCC) in 2011; she also holds a first class honours degree from UCC. During this time she additionally worked as a cross-disciplinary researcher in the field of sociolinguistics at the University of Limerick. Upon completion of her Ph.D. she worked as a researcher on the IRCHSS funded project led by Donna Marshall Dr. investigating the interaction of environmental and social sustainability practices and their effect on supply chain performance, at University College Dublin. She has since researched in the areas of market analysis and revenue modelling. Her areas of interest lie in sustainability, supply chains, regional development, minority languages, and marketing.

Viola Möller joined Deloitte and the Enterprise Risk Services Team in 2012. Her responsibilities include advisory and assurance services in the fields of Sustainability Management. She focuses on strategic sustainable development, communication and stakeholder engagement processes, as well as sustainability reporting advisory and assurance. She has gained a broad experience at global service and industry companies and in projects with international stakeholders ranging from executives to association representatives, NGOs, and media.

Georg Müller-Christ born in 1963, holds the Chair of Sustainable Management at the University of Bremen, in the Department of Economics. In his scientific works he pursues a research concept as to whether the requirements of a sustainable development can be connected to entrepreneurial decision routines. Furthermore, since 2003 Georg Müller-Christ has been a member of the Research Center for Sustainability Studies at the University of Bremen and a member of various commissions. From 2008 until 2011 he served at the University of Bremen as a Vice-rector for study affairs. Since 2009, he is the speaker of the working group for Sustainability in Higher Education Institutions, a working group of the Round Table of the UN-Decade for Education for Sustainable Development.

Snjolfur Olafsson received his Ph.D. in operations research in 1984. He joined the School of Business, at the University of Iceland in 1990, and has been a full professor since 1995. His main focus in teaching and research has been related to decision-making, e.g. optimisation, group and decision-making, and strategic decisions. His research gradually moved towards strategy implementation/execution and the focus is now on different issues regarding CSR (e.g. implementing CSR strategy) and sustainability. His latest publications have been in the Journal of Cleaner Production, Environmental Science and Policy, and Journal of Management and Sustainability. Dr. Olafsson has undertaken consultancy work in the official sector regarding strategic management, risk assessment, and other matters. He also has connections to the private sector, e.g. as a board member.

Tomasz Potocki is an Assistant Professor at the University of Rzeszów, Poland, as well as a lecturer in the Faculty of Economic Science at the University of Warsaw. His research interests focus on banking responsibility, financial capabilities, as well as welfare and happiness economics. He is the author and co-author of more than 40 research papers and articles. He has more than ten years of professional experience in business consulting and project execution.

Piotr Prokopowicz is an Assistant Professor in the Department of Sociology of Economy, Education, and Social Research Methods and researcher at the Centre for Evaluation and Analysis of Public Policies, Head of Strategy Implementation Monitoring at the Jagiellonian University, lecturer and organisational development consultant. He holds a Ph.D. degree in Sociology and Master's degree in Psychology from the Jagiellonian University, Krakow, Poland

He co-authored "Total Participation Management," a book on participative management practices, "Situational Judgment Tests," a handbook on using situational judgment tests in competency measurement, and the "Sector Skills Balance Sheet"—a series of reports on the competency supply and demand in Krakow.

An expert in organisational research, he teaches Psychology of Recruitment and Selection, International Organisational Development and Planning, Business Simulation Games and Organisational Behavior. He is additionally a co-owner and partner at 313 Consulting, a consulting company specialising in the development of educational simulation games for business and non-governmental organisations.

Diane P. Ramos co-teaches the live consulting project and practicum courses that anchor the full-time MBA Sustainability at Duquesne University, overseeing student teams as they frame and solve sustainability challenges for multi-national, non-profit and government organisations. She serves as associate director of graduate programs and leads study trips to developed and developing economies. An adjunct professor since 1991, Ramos has taught graduate marketing, public relations, and communication courses. She was corecipient of the university-wide Creative Teaching Award for "engaging students in learning how to solve complex real-world problems related to the ethical management of social, environmental, and financial resources" and among the faculty recognised for designing the internationally ranked MBA Sustainability curriculum. A former corporate marketing executive, Ramos provides strategic advisory services to multi-national corporations. Her work has been published by the *Journal of Applied Marketing Theory, Decision Sciences Journal of Innovative Education and AMACOM.* She holds a BA and an MBA from the University of Pittsburgh, USA.

Donald Rhodes is an MBA Candidate and Research Fellow in the Palumbo-Donahue School of Business at Duquesne University in Pittsburgh, PA; USA. During his time at Duquesne, he had the opportunity to work on two semester long consulting projects for multi-national corporate clients Pricewaterhouse Coopers (PwC) and Alcoa. Prior to his arrival at Duquesne, Donald received his Bachelor of Arts in Government from Georgetown University in 2013. While at Georgetown University, Donald interned for his Congressman, Rep.

Tim Murphy, and as Policy Intern with the Defense Contractor Systems Planning and Analysis, Inc.

Frank P. Schulte, Professor for Business Psychology and scientific director of the FOM School of Dual Studies at the FOM University of Applied Sciences, Essen, Germany, has studied Educational Science with a focus on paedogocial information management at the University Duisburg-Essen. Here, he undertook psychological research and received his doctorate in psychology. His research currently focuses on empirical competency aquisition research in vocational and acedemic contexts.

Robert Sroufe is a Professor of Sustainability, Operations, and Supply Chain Management, and Murrin Chair of Global Competitiveness at Duquesne University, USA. Within the MBA Sustainability program he develops and delivers courses on Sustainable Theories and Models; Business Applications of Sustainability; and oversees Action-Learning Consulting Projects every semester with corporate sponsors. The MBA Sustainability program is the #1 ranked MBA program in the U.S. by Corporate Knights, and for six prior years has been ranked in the top ten MBA programs internationally by the Aspen Institute. His research with global corporations involve Sustainable Business Practices, Environmental Management Systems, and Sustainable Supply Chain Management. He has published in the numerous academic and environmental business journals, including books on *Developing Sustainable Supply Chains to Drive Value: Management Issues, Insights, and Tools*; and *Strategic Corporate Environmental Management Systems.*

Ryszard Stocki is an Associate Professor at the University of Social Sciences and Humanities, Regional Faculty in Katowice. From 2014 to 2016, he is a fellow researcher at Saint Mary's University, Halifax. He views organisational values as domains of expertise, which have to be developed in the same way as other competencies. He co-authored the book "Total Participation in Management" where he views participation as a culturally universal, indispensable element of human dignity and not a value. Presently, he conducts research on cooperatives and the reasons why they abandon their values and principles to become similar to investor-owned companies. He finds the reason not in managerial systems or governance, but in lifestyles related to competence in following one's principles. He holds the opinion that people are lost in complexities of the contemporary world, and they need well-organised and academically supported educational and training programs to deal with everyday life in general, including their work.

Ina Stubenrauch is a managing director for the service line Sustainability Services of Deloitte & Touche GmbH since 2007. She is leading the German Sustainability Advisory Services with a focus on sustainability management. Being active for several years as both auditor and advisor, she has a longstanding experience with focus on investigation, evaluation and minimisation of environmental and social risks from a technical and organisational perspective. Ina's strength lies in understanding systems and processes, assessing their impacts, and working with clients on potential reduction and optimisation opportunities. Ina is engaged in various boards and committees, such as Econsense and the working group "Sustainability Reporting" of the Institute of Public Auditors in Germany (IDW). Before joining Deloitte, she worked for several years as an environmental specialist and corporate consultant for a Management Consulting Group. She has more than 15 years of relevant business experience in the development and implementation of process orientated, integrated management systems (Environment, Quality, Safety, Sustainability).

Michał Gabriel Woźniak is a Professor of Economics. He is head of the Department of Applied Economics at the Cracow University of Economics and of the Department of Economic Theory and International Relations at the University in Rzeszów. He specialises in problems of economic growth and economic systems. His field of studies is however, wider, and his recently conducted research on the integration of Poland within the EU and social inequality corresponds with sustainable development. He is an author and co-author of 20 monographs and over 250 research papers.

Grzegorz Żmuda Doctor of Philosophy in Psychology, with Master's degrees in both psychology and sociology. He is a member of the Strategy Implementation Monitoring Team at the Jagiellonian University (JU) and a Managing Director at the Interdisciplinary Centre for Organisational Research and Development. As a researcher, he co-operates with the Centre for Evaluation and Analysis of Public Policies. He cocreated the "Sector Skills Balance Sheet" research programme for the

BPO/SSC, IT/ITO, life science, power supply, creative industries, and the passive and low-energy building construction sectors. He is a co-owner and partner at 313 Consulting, a consulting company specialising in the development of simulation games for business and nongovernmental organisations. Between 2009 and 2013 he created and coordinated the “Organizational Psychology” study programme at the JU. He co-authored “Total Participation Management” and “Situational Judgment Tests,” and wrote numerous articles on organisational psychology and management.