The International Society of Business, Economics, and Ethics Book Series

Maria Cecilia Coutinho de Arruda
Boleslaw Rok *Editors*

Understanding Ethics and Responsibilities in a Globalizing World

ISBEE
International Society of Business, Economics, and Ethics

Springer

The International Society of Business, Economics, and Ethics Book Series

Volume 5

The International Society for Business, Economics and Ethics book series publishes books on ethics in the international arena of business. Included are comparative studies and has a focus on research on the responsibilities, values and behavior of business people and organizations as they interact with stakeholders including shareholders, employees, suppliers, customers, competitors, communities and governments. This book series draws from the research of the worldwide membership of The International Society for Business, Economics and Ethics -a global association for the study of social and ethical aspects of business and the economy- and beyond with the goal of presenting truly international research and scholarship. The primary objective of the International Society for Business, Economics book series is to promote business ethics by giving a voice to scholars from around the world and reaching a similarly global audience. It is our particular aim to ensure the inclusion of perspectives from developing and emerging economies. Since the series Incorporates a macroeconomic perspective, the editors are especially interested in considering new works dealing with globalization of business, business in developing economies, environmental questions, ethics and global communication, global economic growth, and sustainable development. The series embraces research and scholarship on all organizational forms relevant to business including but not limited to multinational corporations, small business, social enterprises, non-governmental organizations or public sector.

More information about this series at http://www.springer.com/series/8074

Maria Cecilia Coutinho de Arruda • Boleslaw Rok
Editors

Understanding Ethics and Responsibilities in a Globalizing World

Springer

Editors
Maria Cecilia Coutinho de Arruda
ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil

Boleslaw Rok
Business Ethics Centre
Kozminski University
Warsaw, Poland

ISSN 1877-3176 ISSN 1877-3184 (electronic)
The International Society of Business, Economics, and Ethics Book Series
ISBN 978-3-319-23080-1 ISBN 978-3-319-23081-8 (eBook)
DOI 10.1007/978-3-319-23081-8

Library of Congress Control Number: 2015959950

Springer Cham Heidelberg New York Dordrecht London

Printed on acid-free paper

Springer International Publishing AG Switzerland is part of Springer Science+Business Media (www.springer.com)

Contents

Contributors

Elena Artemenko Faculty of Economics, Department of Banking and Insurance Business, Ivan Franko National University of Lviv, Lviv, Ukraine

Dorothea Baur Institute for Business Ethics, University of St. Gallen, St. Gallen, Switzerland

Paulina Bednarz-Łuczewska Kozminski University, Warsaw, Poland

Julija Bulatova Riga International School of Economics and Business Administration, Riga, Latvia

Marilena Lino de Almeida Lavorato Instituto Mais, São Paulo, Brazil

Maria Cecilia Coutinho de Arruda ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil

Orlando de la Vega Escuela de Ingeniería Comercial, Facultad de Ciencias Económicas y Administrativas, Pontificia Universidad Católica de Valparaíso, Valparaíso, Chile

Christine W. Gichure School of Humanities and Social Sciences, Strathmore University, Nairobi, Kenya

Howard Harris School of Management, UniSA Business School, Adelaide, SA, Australia

Juljan Krause Affiliate at the Center for Corporate Governance and Business Ethics, University of Applied Science, Vienna, Austria

Klaus M. Leisinger President, Foundation Global Values Alliance, Basel, Switzerland

Karolina Lewestam Boston University, Boston, MA, USA

Jorge Mendoza Instituto de Ciencias Religiosas, Facultad Eclesiática de Teológía, Pontificia Universidad Católica de Valparaíso, Valparaíso, Chile

Ganesh Nathan Institute of Management, University of Applied Sciences and Arts Northwestern Switzerland (FHNW), Windisch, Switzerland

Business School Lausanne (BSL), Chavannes, Switzerland

David Rönnegard INSEAD Social Innovation Centre, Fontainebleu, France

Boleslaw Rok Business Ethics Centre, Kozminski University, Warsaw, Poland

Markus Scholz Endowed Chair of Corporate Governance & Business Ethics, University of Applied Science, Vienna, Austria

Francis J. Schweigert College of Management, Metropolitan State University, Minneapolis, MN, USA

Ulyana Shtybel Faculty of Economics, Department of Banking and Insurance Business, Ivan Franko National University of Lviv, Lviv, Ukraine

N. Craig Smith Ethics and Social Responsibility, INSEAD, Fontainebleu, France

Imre Ungvári Zrínyi Department of Philosophy in Hungarian, Babeş-Bolyai University Cluj, Cluj-Napoca, Romania

Cheng Wang Postdoctoral Research Associate, Department of Sociology, Cornell University, Ithaca, NY, USA

Jessica McManus Warnell Department of Management, Mendoza College of Business, University of Notre Dame, Notre Dame, IN, USA

Florian Wettstein Institute for Business Ethics, University of St. Gallen, St. Gallen, Switzerland

Part I
Introduction

Chapter 1
Ethics and Responsibilities

Maria Cecilia Coutinho de Arruda and Boleslaw Rok

Ethics is not only a matter of convenience, but a condition of survival in society. The lack of moral values seems to afflict the current social tissue, according to critics. As a cancer that spreads in the body, amorality destroys the climate of trust that should guide social relationships, leading to sometimes unsustainable situations. Beyond a certain point, jungle law begins to be the only possible rule for social and economic relationships. Of the many available ways to find the importance of ethical values, the bitterest is that of experience. But the goal of responsibility toward the future is what mostly moves forward citizens and corporations and government leaders. This book focuses on many aspects to help understand ethics and responsibilities in a globalizing world.

Angel Rodriguez Luño (1982) defines ethics as a part of philosophy that studies the morality of human action, that is, considers human acts, whether good or bad. The etymology of the term ethics helps explain the concept. From the Greek, *éthos* (with epsilon) can be understood as customs, uses, and principles that guide a community, evoking the value of conscience in each person living in the polis.

Aristotle (1995, 1103a) uses the term *êthos* (with eta), referring himself to the character of an individual, to his/her usual way of being, which is more personal than social. He speaks about personality, meaning a set of qualities that distinguish a person in his/her acting. He stresses that ethics is not so much related to *knowing*, but to knowing *how to live*; to act well, to live a *good life*.

M.C. Coutinho de Arruda (✉)
ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil
e-mail: heticabrasil@gmail.com

B. Rok
Business Ethics Centre, Kozminski University, Warsaw, Poland
e-mail: brok@kozminski.edu.pl

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_1

If a person acquires and cultivates good habits throughout his/her life, and if these habits come to make him/her a better person, such habits constitute virtues. If they are bad habits, and pervert the person, they are vices. This perspective coincides with the translation of *mos*, *moris*, of Latin origin, identified as moral, meaning customs. Therefore, one can say that the study of morality is the science of the customs (Debeljuh 2003).

For that reason, here the terms derived from the two origins can be considered as identical, even if throughout history different interpretations have emphasized distinct meanings, even perhaps contrasting meanings, as authors in this book emphasize. In summary, in this book ethics means to think and act well.

According to Robert C. Solomon (1999), an important philosopher of the twentieth century concerned with and dedicated to business ethics, responsibility is a virtue to be pursued practically in all contexts, but mostly in any special position where a person is or must be responsible. It would be interesting to notice how he focuses on doing what can and must be done, on doing the right thing. Considered practically, responsibility is useful to others: it is possible to know who is in charge of what, and that what is important will be done. For some people, inaction can be easily rationalized, while others find it mandatory to act in some contexts, to assume responsibility for what others do not or cannot do.

In this book, responsibility will also be considered an essential trait of character, not only in the business or governmental arenas, but in any initiative, decision, or activity. With this connotation in mind, assuming responsibility is something so natural as to be "second nature" to some people, whereas to others it will require some struggle against one's temperament, aiming to acquire a virtue that is crucial for life in society.

Wicks et al. (2010) assert that it makes no sense to talk about business without talking about ethics. They suggest that there is a universal principle implicit in most reasonably comprehensive moral views, and that is the responsibility principle: "Most people, most of the time, want to and do accept responsibility for the effects of their actions on others" (p. 73).

For this reason, organizations in general, for profit or not, are here studied by a number of approaches, including their reason to exist: means to create wealth or added value, development of persons who work for them, or service to the social community where they are settled. Thinking of these three aspects, corporations have responsibilities toward society, mainly with the communities that they serve most directly.

According to Carlos Llano Cifuentes (2004), the corporation is responsible because it improves products and services provided, makes efforts to expand its employees' highest qualities, satisfies not only wishes, but the effective needs of those who serve, and inspires good will and trust from society.

Corporate responsibilities have been expanded to cover societal issues, including social concerns as part of corporation goals (Crane et al. 2008). Then, strategic plans define what to be done, where and when to operate, and managerial aspects of the action taken to comply with this responsibility. The continuous assessment aims at sustainability of the process, and the assurance of a culture or a conduct expected in all the organization.

Domènec Melé (2007) states that a corporation is an intermediary institution between the person and global society, together with many other intermediary institutions, such as family, culture, religion, sports, beneficents, and city associations, all of which mediate to cooperate the creation of interpersonal and social bonds.

Broadening the spectrum of themes, terms, and concepts, the global corporate social responsibilities perspective covers impacts, challenges, analysis, criticism, consequences of important topics of real life, sustainability, international economy and regimes, corruption, poverty, and violence, among others (Hooker and Madsen 2004; Arruda and Enderle 2004). Interestingly, in the early 1970s, Walter Schulz (1972) already seemed to foresee all this development, when he defined responsibility as "self-commitment out of freedom in worldly relationships" (pp. 631–632). He wisely included three components: subject (who is responsible?); content (for what is one responsible?); and addresses (toward whom is one responsible?).

Freeman (1984), considered the author of the stakeholder theory, emphasized two decades later that if a company affects individuals or groups to reach its objectives, these groups also have a legitimate interest – or 'stake' – in the corporation, proportional to the power and influence in the decisions (Mitchell et al. 1997). Based on this, it would make more sense to speak of responsibilities to stakeholders, not only of responsibility in general.

Thus, in this book, ethics and responsibilities are contemplated in a large range of meanings, consequences, and impacts, reflecting the feelings and reasoning of 24 authors from all continents. This global view has a special value in itself, as we found no other work with such a perspective. All chapters constitute original papers presented at the Fifth World ISBEE Congress (International Society of Business, Economics, and Ethics), a wonderful experience that took place in Warsaw, Poland, at the Kozminski University, on 11–14 July, 2012.

Each chapter was selected for its relationship with the central focus: ethics and responsibilities, but in different dimensions, directly or indirectly, such as in a personal aspect, in management, or at a macro-level, pointing out current concepts, situations, or impacts on humankind as a whole. As editors, we respect the authors' points of view, which does not mean that we necessarily agree with them, nor are we responsible for their statements. Our main goal was to allow the authors to raise new issues, as well as to reflect upon already known matters, but in a diverse manner.

We – editors and authors – are deeply grateful for the reviewers' comments and suggestions. They were important to improve the book as a whole.

The chapters are presented in the following structure:

Part I: Introduction

Part II: Responsibility as a Key Concept of Ethics

Roennegard et al.	begin with shareholder primacy as an impediment to corporate (social) responsibility and delineates interesting research perspectives.
Zrinyi	provides a philosophical foundation of responsibility.
Krause et al.	broaden the rationality of self-interest and provide legitimacy of norms required by "we-reasoning" (or sharing responsibility).

Part III: Healthy, Fair, and Sustainable Business Cultures

Bulatova	advocates healthy cultures for business organizations.
Lewestam et al.	embrace the "work culture" by emphasizing the intrinsic value of "life."
Arruda et al.	emphasize the professional culture and the culture of sustainability
Nathan	explains the purpose of the company as the pursuit of well-being and social justice.

Part IV: Business Engaging in Politics

Baur et al.	discuss corporate political advocacy as a new challenge for corporate (social) responsibility (particularly) in the United States
Mendoza et al.	address Chile's ethical challenges as a country in transition
Shtybel et al.	analyze Ukraine in moving toward a social-oriented market economy

Part V: Business Ethics Education

Schweigert	calls for teaching social responsibility as a matter of justice.
Harris	develops a virtue ethics approach to justice and sustainability.
McManus et al.	compare moral reasoning and learning outcomes in undergraduate business education in the United States and Brazil.
Gichure	discusses business ethics teaching in Africa with a focus on Kenya.

Conclusion

Rok et al.	comment on the United Nations - Principles for Responsible Management Education - (UN-PRME) and the role of educational institutions for ethics and responsibilities

In Part I, *Introduction and Corporate Leadership*, Klaus M. Leisinger (2016) opens the book with a wide-ranging discussion of issues that are faced by business leaders. As a congress keynote speaker, Leisinger (2016) reminds us that, in the past, trust in business and government tended to move in different directions, but recently distrust in business and government have "moved in the same direction: downward." This very simple comment calls our attention to how intensely the lack of responsibility has been felt. Trust is directly related to responsibility. The lack of trust results in higher costs, as social and professional relationships suffer a reduction of willingness to cooperate and help. Leisinger stresses that business leaders can help to create trust in their spheres of influence, by doing no harm and doing good. To do so, they should face and handle issues related to normative pluralism, differences in axiomatic assumptions, pluralism of interests, transcultural challenges, unavoidable dilemmas, distrust of "size" per se, and complexity. Corporate leaders will need a societal intelligence and competence to win hearts and souls, not just minds, acting through: participation in public discourse of strategic relevance to the corporation; listening to and learning from constituencies outside the business silo; talking explicitly about value premises and axiomatic assumptions; creating transparency and explaining complexity; sharing dilemmas; raising awareness about the opportunity costs of not acting; striving for "inclusive" solutions; and, finally, putting corporate leadership in context.

Many excellent presentations enriched the Parallel Sessions of the 2012 ISBEE Congress in Poland. The selected papers in this book mainly discuss issues related to concepts of ethics and responsibilities; healthy, fair, and sustainable business cultures; business engaging in politics; and business ethics education.

The content of the chapters can be summarized as follows.

Part II, *Responsibility as a Key Concept of Ethics*, gathers three important chapters for the contemporary theoretical discussion of ethics and responsibilities, written by David Rönnegard and N. Craig Smith (2016); Imre Ungvári Zrínyi (2016); and Juljan Krause and Markus Scholz (2016).

Rönnegard and Smith (2016) examine the Shareholder Primacy Norm (SPN) in the light of its widely accepted role as an impediment to Corporate Social Responsibility (CSR). They start by explaining the SPN and then look at its status under U.S. and UK law and show that it is not a legal requirement of corporate managers. This finding is in contrast to the assertion that managers are legally constrained from addressing CSR issues if doing so would be inconsistent with the interests of shareholders. Nonetheless, although the SPN might be muted as a legal norm, they argue that it is very much evident as a social norm among managers, perpetuated in part by shareholders' sole voting rights for the board of directors. The authors offer descriptive research propositions regarding the role and justification of the SPN among managers and then turn to its implications for prescriptive research directions, both normative and instrumental. By shining light on the hindrance to CSR resulting from the SPN as a social norm, this chapter contributes to the "basic debate" in business ethics, regarding whether managers should focus on shareholder interests or the interests of a wider constituency of stakeholders.

Zrínyi (2016) understands that, despite the widely disseminated idea of corporate social responsibility (CSR), today's economic and moral thinking confronts an unprecedented challenge, that of the wide questioning of social responsibility in business activity and its corporate actors, as well as the inflation of the moral terms and demands, which eludes any standards and sense of personal duty for a diffuse 'free-floating responsibility' of the buck-passing from everybody to nobody. *Responsibility* (mostly in CSR terminology) is a buzzword nowadays, but no time is in greater need of genuinely responsible behavior than the present. In public discourse everybody speaks about ethics but is intensely preoccupied with how to avoid its demands. Many of the most notorious public figures of business, politics, and the everyday media world seem to be perfect examples of the Aristotle's "clever man" or *deinos*, meaning both wonderful and terrible, "a man who has all the natural prerequisites and gifts for moral knowledge, (…) with remarkable skill, to get the most out of any situation (…), but who uses his skills to any purpose and is without inhibition, …He is *aneu arete*," that is, without virtue (Gadamer 2006). The greatest challenge for recent ethical thinking is how to stop the *inflation of ethical terms* in media and in the everyday life of people and to recover the credibility of ethics in the public sphere. Therefore, the author's central thesis is that Responsibility is a part of the authenticity of the Self. In its genuine meaning, it can only be thought of as a person's Self-responsibility. The basic question should not be put in terms of "What is responsibility?" but rather "What kind of responsibilities do I have? "To whom am I responsible?" What am I responsible for? "Which interpretation should become the core of my outlook on life to keep me aware of these responsibilities?"

Krause and Scholz (2016) discuss how, in a globalized economy, rules, norms, standards, and guidelines increasingly emerge outside the traditional democratic framework: rather than be deliberated on and passed in parliament, new forms of business standards are the result of intercorporational efforts, which prompts urgent questions about their legitimacy. These new ways of establishing norms are often referred to in terms of multi-stakeholder initiatives (MSI), clubs, private authority regimes, private law, or private regulation. A key requirement for assessing the legitimacy of MSI guidelines is a thorough assessment of the procedural nature by which these norms emerge: only if this process is fair can one speak of a legitimate norm as the result. Hence, the analysis of this process of norm emergence is the focus of this chapter. In particular the question how norms arise out of negotiations among a limited number of stakeholders is unclear. The authors draw on recent advances in social philosophy and argue that 'ethics guidelines' that emerge outside sovereign control are better understood if read against recent literature on 'collective intentionality' and 'team game theory.'

In Part III, for *Healthy, Fair, and Sustainable Business Cultures*, Julia Bulatova (2016); Karolina Lewestam and Paulina Bednarz-Łuczewska (2016); Maria Cecilia Coutinho de Arruda and Marilena Lino de Almeida Lavorato (2016); and Ganesh Nathan (2016) argue that people, either as individuals or as professionals, are called to responsibility as a matter of well-being, justice, and competence.

Bulatova (2016) links independent concepts such as ethical leadership, creativity, and culture as business resources. She argues that the linkage of these concepts in practice leads to a normal, healthy, and adaptive development of an enterprise. Organizational health is connected with healthy leadership and diverges from the organizational 'psychopathy' with its narcissist leaders and their aloofness to ethics. Other aspects of organizational mental health are observed in relationship with a health-integrated organizational culture. She questions the organizational responsibility toward culture. Creative solutions are addressed as important indicators of mental maturity, and the regulatory role of shame in the moral growth process is emphasized. This study is part of a broader project and will be more deeply investigated at other opportunities. Therefore, this chapter focuses on different aspects of business ethics and its links to the theories of creativity, psychiatry, psychophysiology, and economy.

Lewestam and Bednarz-Łuczewska (2016) provide a normative, non-consequentialist grounding for the claim that life–work balance is morally valuable and should be promoted. Their argument is based on the extrapolation of the established theories into the field of theoretical extension (Snow et al. 2003). They claim that given the universal recognition of the intrinsic value of harmonious life there is a prima facie duty not to hinder the life–work balance. They focus on the search for agents responsible for bringing it about. They state that the structure of responsibility allocation in this case mirrors that of other structural injustices in situations of bounded rationality, and take the oppression of women as a model of the distribution of blame. Using Claudia Card's 'complicity' criterion, they conclude that agents should gradually opt out from the oppressive scheme that renders work–life balance difficult, or even impossible. Finally, they emphasize that the question of allocation of moral responsibility for work–life balance seems to be insufficiently and not properly addressed in the literature yet. Because of the explicitly noninstrumental approach of the work–life balance issue, their perspective can be original.

Arruda and Lavorato (2016) point out the challenges of developing a culture of sustainability, given pressures in organizations. The worldwide planned use of scarce natural resources leads to responsibility and to a new order of decisions: international policies and agreements, technology development, innovation in processes and products, research, and reports, among others. In a concrete international joint effort, sustainability should not mean fear to any stakeholder in the organizations. The authors analyze sustainability officers' responsibilities and perspectives to enforce a sustainable culture in the enterprises, compared to the experience of business ethics officers.

Nathan (2016) attempts to provide some directions for re-theorizing the firm from a sociopolitical perspective to underscore how the purpose of the company is rooted in our societal life, and hence a notion of well-being and social justice of stakeholders gains significance rather than the creation of wealth for shareholders as the sole purpose of the firm. This chapter concludes that such an approach has some implications for responsible governance through stakeholder deliberation for social justice.

In Part IV, interesting reflections on *Business Engaging in Politics* were raised in three chapters presented by Dorothea Baur and Florian Wettstein (2016); Jorge Mendoza and Orlando de la Vega (2016); and Ulyana Shtybel and Elena Artemenko (2016).

Baur and Wettstein (2016) analyze an emerging problem area in CSR and the ongoing debates on corporations as political actors of the so-called corporate political advocacy. They understand that advocacy denotes the phenomenon of corporations taking a stance, politically, by showing explicit and public support for certain ideals or values with the aim of convincing others to embrace them as well. An example of advocacy presented is Ben and Jerry's active support of a law legalizing gay marriage in Vermont. Yet, such behavior raises normative challenges: what, if any, notion of moral responsibility can account for corporate political advocacy? Under what circumstances and from what perspective can it be considered legitimate or even desirable? The authors argue that although advocacy overlaps with existing debates on the political role and responsibility of corporations (e.g., political CSR and corporate political activity), none of these debates succeeds in making conceptual and normative sense of the phenomenon.

Mendoza and De La Vega (2016) developed their chapter as an exploratory study based upon two main ideas: to clarify whether Chilean society is moving toward democracy, and to analyze whether this movement (transition) is performed simultaneously in all aspects and variables. They use the concept *transitions of the transition*. Not just one transition exists, but many of them are occurring at different rates: political-institutional, political power in itself, social reconciliation, civil–military relationships, cultural and ethical, and economic transitions. They consider that an effective transition toward democracy in all areas places particular emphasis on the relationship between cultural environment and its ethical derivations, particularly in relation to economy. The authors discuss the so-called value crisis or crisis of values. Although both terms indicate a similar direction, the first points of distinction between them are related either to the behaviors in the society (this would correspond to the term "value crisis") or to a more academic discussion about the origin and recognition that should promote some values and value systems in the society. As to Chile and its economic system, this can be seen in the gap between values proclaimed at a public level and through companies' ethical codes, as well as actual behaviors qualified as criminal acts and, finally, violations that have been revealed to the public by the press, both from businessmen and from political authorities. In this sense, the authors find it necessary to analyze a factor that has been relegated to the political thought, the *transition* subject. They discuss how people have tried to end the transition since the 1990s, and for that purpose, there have been attempts of closure, especially with regard to political issues and, particularly, human rights. However, the authors conclude that transition is not just one but several processes; for this reason, it is more appropriate to speak of "*transitions*."

Shtybel and Artemenko (2016) consider the globally important issues of poverty and economic inequality. They argue that today's standards of living across the world are a direct result of economic progress over the years. Threats of global poverty and economic inequality particularly occur as obstacles to the development process. A democratic, smart, civilized world requires the transformation toward a social-oriented market economy and pro-social mentality. The objective of this chapter is to explore economic inequality in European and non-European countries by the Gini coefficient, to analyze the causes of the problem, and to present the problem-solving answer: eradicate economic injustice by developing an alternative model of financial and fiscal policy, in accordance with global social challenges and main future priorities, including specific objectives of the "Europe 2020" Strategy, for "smart, sustainable, and inclusive growth." First, a theoretical background and measurement of economic inequality in European and non-European countries are presented. Then, economic equality and justice within the frame of economic security are discussed. Some aspects of behavioral economics indicate the growing impact of corporate social responsibility (CSR) management and the logical need of community involvement with the International Social Justice and Economic Justice Initiative. There is an attempt to prove the idea of social capital development as a precondition for economic development, achieving social and economic equality in society. The authors emphasize the needs to intensify global policy toward achieving economic equality in developing countries, to adopt the new social-oriented model of financial system and responsible public financial management development, and to legalize the concepts of corporate social responsibility (CSR), ethical banking, and increasing pro-social impact of businesses and financial institutions, to reorient the ordinary taxation system to the system of tax incentives on the basis of ethical criteria. The authors conclude that the contemporary liberal market economies are obviously exhausted and that other options for socioeconomic development, based upon moral and ethics values, safe economic behavior, and human security, should prevail.

In Part V, concerning *Business Ethics Education*, Francis J. Schweigert (2016); Howard Harris (2016); Jessica McManus Warnell, Maria Cecilia Coutinho de Arruda, and Cheng Wang (2016); and Christine W. Gichure (2016) offer different perspectives and comparative studies in four chapters that invite important reflections.

Schweigert (2016) proposes to expand business ethics education, considering social responsibility a matter of justice. For him, business ethics education has focused primarily on the moral formation of individual leaders and managers in the context of ethical codes, organizational culture, and legal compliance. Even if such an approach is so important, it fails to generate a sufficient level of business responsibility to satisfy legitimate social concerns regarding the use of natural resources, environmental sustainability, reasonable limitation of systemic risk in capital markets, and fair allocation of goods and services. In this chapter, Schweigert (2016) describes the ordinary moral hazards of the workplace that call for external accountability in addition to internal moral values and conscience. He also reviews the current approaches to moral education in business ethics and proposes adding the pragmatic pursuit of the good. He provides the rationale and direction for this expanded approach to business ethics education, establishing business responsibility for the social good as a matter of justice; distinguishing public accountability on matters of justice from personal moral accountability to one's conscience; and preparing business leaders to engage in public deliberation to determine the legitimacy, priority, and just resolution of social claims.

Harris (2016) states that the argument most frequently used to justify the call for sustainability in business and life generally is based on notions of distributive justice. This chapter sees a strong link between sustainability and justice, but in a different way, concerned more with the development and exercise of the virtue of justice by individuals. For Harris (2016), sustainability is thus more personal, and is something involving personal effort. It is a work of justice. The first section provides a short restatement of the conventional view that sustainability is principally about intergenerational justice, and introduces some alternative positions. In the second, three main approaches to justice – utilitarian, rights, and virtue – are outlined. The third section is concerned with the argument that justice is a virtue, that it is a quality of character as well as a measure of distribution, and that this personal virtue can be developed in the community. The fourth considers the interrelationship between the virtue of justice and sustainability, and shows that both sustainability and justice require personal effort. In conclusion, Harris (2016) reinforces the argument that sustainability is something to be worked at now. A commitment to sustainability is not a wish for the future but an action in the present.

Warnell, Arruda, and Wang (2016) explore findings of an assessment of moral reasoning and learning outcomes associated with undergraduate business ethics courses in schools from two diverse contexts, the United States and Brazil, including a required course in conceptual foundations of business ethics and optional elective courses. Findings of the longitudinal study indicate empirical support for applied curricula and the Four Component Model of Morality (Rest and Narvaez 1999) are presented as one promising and productive framework. The chapter explores approaches with potential for developing emerging business leaders with proclivity toward and capacity for ethical leadership, and discusses the role of institutional support for student development in the area of business ethics.

Gichure (2016) understands that a practice of management relevant to the African situation seems to require a reexamination of the relationship between philosophy and management within African cultures. She states that, to date, there is a dearth of substantial African business ethics literature and substantive courses that can address the root cause of what is perceived to be corruption in African institutions. Much of the material in use and the management theories taught are far removed from the reality of African society and its setting. As a consequence, the author sees that the impact of these ethical theories on the practice of management in Africa is still negligible. Some scholars front the African worldview now commonly called *Ubuntu* philosophy as a relevant basis for an African business ethics. However, the viability of *Ubuntu* as a basis for a leadership or management theory presents several difficulties in modern Africa. This chapter presents an overview of the efforts and achievements gained in ethics research and teaching in the last two decades by different stakeholders. These actions include some philosophical inquiries regarding the existence and the concept of ethics and the moral character in Africa, the debate regarding the opinion that a viable business ethics for Africa would have to take into consideration the general African cultures and practices, and the efforts gained so far in ethics and corporate governance. The chapter also looks at the efforts and gains made toward entrenching a value system in Kenya by a broad array of stakeholders, from government, private sector, civil society, and academia. In conclusion, the author proposes that to imbue a more rationalized understanding of why it makes good sense to observe ethics in business and public life, there is need for education based on the idea of general human good and universal human dignity.

As our conclusion, we recognize a future with ethics and responsibility in the heart of all chapters. It has become crucial to understand ethics and responsibility in a globalizing world.

References

Aristotle, 1103a. Aristóteles (1995). *Ética Nicomáquea. Ética Eudemia*. Madrid: Editorial Gredos.

Arruda, M. C. C., & Enderle, G. (Eds.). (2004). *Improving globalization*. Rio de Janeiro: Editora FGV.

Baur, D., & Wettstein, F. (2016). CSR's new challenge: Corporate political advocacy. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 171–187). Cham: Springer.

Bulatova, J. (2016). Morality as an index of mental health of the organisation: Building a model of healthy leadership. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 105–122). Cham: Springer.

Crane, A., Matten, D., & Spence, L. J. (2008). *Corporate social responsibility. Readings and cases in a global context*. New York, NY; Abingdon, Oxon: Routledge.

de Arruda, M. C. C., & de Almeida Lavorato, M. L. (2016). Sustaining the sustainable: Creating the culture of sustainability. In M. C. C. de Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 135–145). Cham: Springer.

Debeljuh, P. (2003). *El desafio de la ética*. Buenos Aires: Temas Grupo Editorial.

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

Gadamer, H. G. (2006). Wahrheit und Methode. Grundzüge einer philosophischen Hermeneutik. Tübingen, Germany (Original:1960).

Gichure, C. W. (2016). Effort & achievement of two decades of business ethics teaching and research in Africa with a special reference to Kenya. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 283–296). Cham: Springer.

Harris, H. (2016). Sustainability, justice and virtue. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 247–255). Cham: Springer.

Hooker, J., & Madsen, P. (Eds.). (2004). *International corporate responsibility: Exploring the issues*. Pittsburgh: Carnegie Mellon University Press.

Krause, J., & Scholz, M. (2016). Beyond the grip of the sovereign: Deliberation, 'We-reasoning' and the legitimacy of norms and standards in a globalized world. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 83–101). Cham: Springer.

Leisinger, K. M. (2016). Corporate leadership in times of public distrust. In M. C. C. de Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 15–40). Cham: Springer.

Lewestam, K., & Bednarz-Łuczewska, P. (2016). Do you believe in life after work? A non- instrumental defense of work-life balance. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 123–134). Cham: Springer.

Llano Cifuentes, C. (2004). Prólogo. In M. Paladino (2007) (Ed.), *La Responsabilidad de la Empresa en la Sociedad*. Buenos Aires: Emecé.

Melé, D. (2007). La relación empresa-sociedad como base para la responsabilidad de la empresa en la sociedad. Cap. 5. In M. Paladino (Ed.), *La Responsabilidad de la Empresa en la Sociedad* (pp. 153–170). Buenos Aires: Emecé.

Mendoza, J., & De la Vega, O. (2016). Countries in transition: Ethics is not the key on their success. Analysis of Chilean experience. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 189–199). Cham: Springer.

Mitchell, R., Agle, B., & Wood, D. (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.

Nathan, G. (2016). Towards re-theorizing the firm in pursuit of well-being and social justice. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 147–167). Cham: Springer.

Rest, J., & Narvaez, D. (1999). DIT2: Devising and testing a revised instrument of moral judgment. *Journal of Educational Psychology, 91*(4), 644–659.

Rodriguez Luño, A. (1982). *Ética*. Pamplona: Ed. Universidad de Navarra.

Rok, B., & Arruda, M. C. C. (2016). The future for responsibility. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 297–308). Cham: Springer.

Rönnegard, D., & Smith, N. C. (2016). Shareholder primacy as an impediment to corporate social responsibility. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 43–57). Cham: Springer.

Schulz, W. (1972). *Philosophie in der veränderten Weelt*. Pfullingen.

Schweigert, F. J. (2016). Social responsibility as a matter of justice: A proposal to expand business ethics. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 229–246). Cham: Springer.

Shtybel, U., & Artemenko, E. (2016). Economic inequality as an obstacle to development. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 201–225). Cham: Springer.

Snow, D. A., Morrill, C., Anderson, L. (2003, January). Elaborating analytic ethnography linking fieldwork and theory. *Ethnography, 4*(2), 181–200. doi:10.1177/14661381030042002

Solomon, R. C. (1999). *A better way to think about business*. New York, NY: Oxford University Press.

Warnell, J. M., Arruda, M. C. C., & Wang, C. (2016). Moral reasoning and learning outcomes in undergraduate business education: A cross-cultural exploration. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 257–281). Cham: Springer.

Wicks, A. C., Freeman, R. E., Werhane, P., & Martin, K. E. (2010). *Business ethics: A managerial approach*. Upper Saddle River: Prentice Hall.

Zrínyi, I. U. (2016). From "Free-floating Responsibility" to self-responsibility CSR as theoretical and practical context for ethics. In M. C. C. Arruda & B. Rok (Eds.), *Understanding ethics and responsibility in a globalizing world* (pp. 59–81). Cham: Springer.

Chapter 2
Corporate Leadership in Times of Public Distrust

Klaus M. Leisinger

Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone
If your time to you is worth savin'
Then you better start swimmin' or you'll sink like a stone
For the times they are a-changin'

Bob Dylan

Part I: Modern Societies: A Landscape of Distrust

The analysis of global surveys such as the Edelman Trust Barometer[1] or GlobeScan[2] reveals that throughout the world today people have less trust than ever. This is so with regard to governments' ability to effectively manage economic, social, and environmental problems and with regard to the trustworthiness of the media. Even (Christian) churches – traditionally sources of moral orientation and normative guidance – are suffering from a long-term trend of decline in trust.[3]

"Business" is also suffering from a pronounced low level of trust. The Edelman Trust Barometer 2012 finds on average less than 50 % of the population trusting that business is "doing what is right," that is, that corporations are working in the best interests of society.[4] In some countries trust in "business" is at historic lows – for

---

Klaus M. Leisinger is President of the Foundation Global Values Alliance (www.globalvaluesalliance.ch) and Professor of Sociology at the University of Basel (subject areas: business ethics, corporate responsibility). He served as U.N. Secretary-General Kofi Annan's Special Advisor for the U.N. Global Compact and holds advisory functions in several U.N. committees and institutions.

K.M. Leisinger (✉)
President, Foundation Global Values Alliance, Basel, Switzerland
e-mail: klaus.leisinger@globalvaluesalliance.ch

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_2

example, in France (28 %), Spain (32 %), Germany (34 %), and the United Kingdom (38 %) – whereas in the United States it is at 50 %. Confidence in capitalism in general and support of free enterprise has fallen too.[5] In some countries, the perceived legitimacy of the market system is fading,[6] with no credible alternative in sight.

Traditionally, trust in business and government tended to move in different directions: decreased trust in business was associated with increased trust in government. During the past few years, however, distrust in business and government moved in the same direction: downward. Yet, despite the fact that government leaders are less trusted than business leaders, nearly half of the global respondents of the Edelman Trust Barometer want more government regulation of business. And the acceptance of nongovernmental organizations (NGOs) as critical "watchdogs" is more pronounced than ever: NGOs are today's most trusted institutions throughout the world.[7]

Societal distrust in business is accompanied by a new phenomenon that could be perceived as a tidal change in judgment of economic issues. Major "keepers of the capitalist grail" go on record with critical statements and unfamiliar signals. Old certainties about capitalism, markets, and managements seem to be crumbling. Bill Gates used a speech at the World Economic Forum to request a reformed capitalism, one that not only yields profits for those who can benefit from market forces but also improves the lives of those who do not benefit because they do not have the purchasing power to participate in markets.[8]

The *Harvard Business Review* (HBR) made a diagnosis that "Trust in Business is Running Out" and gave the therapeutic advice that a "strategic imperative for most companies is to do what they can to regain the trust of stakeholders and to more effectively manage relationships with them."[9] The reform process, said the HBR, "starts at the top. Corporate leaders need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, board oversight, and the treatment of employees facing layoffs. Regaining trust also means dispensing with the view that the only objective of management is to increase shareholder value."[10] A few pages later, the HBR asked "Shareholders First? Not so fast…" and gave the following answer: "Shareholder capitalism … doesn't motivate or engage the workforce in a way that engenders high performance … [and] customers, for their part, care about the quality of the goods and services they're getting and how they're being treated – not about stock price."[11]

In January 2012 the *Financial Times* published a collection of articles on "capitalism in crisis"[12] and provided its readers from the business community with rather unexpected insights. Among them were a questioning of the theory that wealth is "trickling down," the labeling of economic growth as "meaningless" unless it has a broad positive social impact, the diagnosis that "business's license to operate" is eroding, and – last but not least – a reminder of John Maynard Keynes's observation that the businessman is "only tolerable as long as his gains can be held to bear some relation to what, roughly and in some sense, their activities have contributed to society."

The Economist joined the new chorus by no longer ruling out that "the era of free market triumphalism" that started with Ronald Reagan and Margaret Thatcher "has come to a juddering halt."[13] Jeffrey Sachs has diagnosed a "value crisis" behind the economic crisis: "Self-interest, without morals, leads to capitalism's self-destruction."[14] If capitalism is no longer embedded in moral values, Sachs says, consumerism constitutes self-interest detached from the common good and will result in unacceptable inequality and environmental unsustainability.

Last but not least, the common denominator of the civil society events at the Corporate Sustainability Forum organized by the UN Global Compact (Rio de Janeiro, June 2012) was the view that business is much more part of the problem than of the solution, a view seemingly shared by the "50+20 Agenda Management Education for the World."[15]

All of a sudden, the core institution of contemporary capitalism as well as its main protagonists – multinational corporations and their business models – and management practices are in the middle of broad discontent.

Part II: The Lack of Trust and Its Social Costs

Trust is the up-front reliance that one's expectations of individuals' or institutions' attitudes and patterns of actions are justified.[16] People trust as a result of personal experiences and lessons learned in the past, and they have confidence that the future actions of these people and institutions are carried out within a corridor of shared values and common ethical norms. Trust of this kind allows for a reduction of complexity: one does not have to fully understand and control everything and yet can rely on a predictable pattern of behavior of the related persons or institutions. The future always contains contingencies, but for a trusting person, these changes are within a predictable corridor. This is why people in a trusting environment have more possibilities and freedom to act: because of their trust, they can anticipate future actions and reactions in their social environment.

People rarely have *full trust* or *no trust at all*. As Niklas Luhmann formulated it, it is always a "yes/but" trust,[17] as a minimum of control is wise even in trustful and friendly relationships. Total control, however, would suffocate initiative and motivation and eliminate individual accountability. What a person or institution would want to strive for is "robust" trust, that is, the ascription of legitimate action as the "normal" course of conduct, and being granted the benefit of doubt under unclear circumstances. Trust, as is loyalty or truth-telling, notes Economics Nobel Laureate Kenneth Arrow, an "important lubricant of a social system" – a positive "externality" that has real practical and economic value and increases the efficiency of the system.[18]

Where different societal actors cooperate and support each other in mutual trust, decisions are no longer based on narrow self-interest but on a broader commitment to the common purpose and common good.[19] Trust in each other's honesty permits the pooling of resources and risk-taking, which in turn reduces transaction costs and allows technical, economic, and social change, which again opens new opportunities. With the presence of a high degree of trust and the belief in each other's basic honesty, says Francis Fukuyama, "there is less need to spell things out in lengthy contracts; less need to hedge against unexpected contingencies; fewer disputes, and less need to litigate if disputes arise. Indeed, in some high-trust relationships, parties do not even have to worry about maximizing profits in the short run, because they know that a deficit in one period will be made good by the other party later."[20]

Loss of trust usually develops over a longer time and is often unnoticed by the public. Preexisting but diffuse uneasiness can become suddenly publicly manifest by unexpected negative events such as scandals, gross misconduct, or spectacular accidents. What was an unnoticed uneasiness all of a sudden becomes substantiated and exemplified and gets generalized. This is true for the political system, the clerical system, and the economic system with its corporations and their leaders. Different actors in different societal subsystems need different ways and means to restore or build up trust. The common denominator for all actors – be they priests, politicians, or managers – is that "freedom to act" and the "license to operate" are only granted by society if and when all actors live up to what is expected with regard to responsibility and accountability.

But this is not easy at all. Trust cannot be purchased or traded on open markets. It can also not be mended through rectification and compensation after having been lost. Being a complex matter, trust building is also not reducible to professionally well done communications. Trust is bestowed upon people and institutions as a reward for the recognition that they have performed coherently and consistently on the basis of commonly shared norms and codes of behavior. Living in times of globalization and its social change as well as economic uncertainties, people all over the world want to have at least a few solid pillars of reliable conduct.

The loss of trust reduces one of the most valuable societal assets: *social capital*, which is roughly understood as the "goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action."[21] This goodwill includes sympathy, willingness to cooperate, and help for others by letting them benefit from social and professional relationships as well as from networks of friends. The terms of exchange are not petty minded and calculating inasmuch as a favor done or assistance provided is expected to be returned promptly. The tacit understanding is that it will be returned eventually at a time yet to be determined. Communities only thrive in an atmosphere of mutual trust. The decline of social capital as a result of a decrease in the level of trust has dramatic social and economic costs.

Distrust or a "trust vacuum" leads to free-rider attitudes, populism, protectionism, and other political aberrations.

Under conditions of distrust, all social and economic activities are burdened with much higher transaction costs:

- A high level of freedom to operate is a precondition for making best use of the economic and social opportunities available. Fukuyama points to the fact that in a social environment devoid of trust, one will have "to approach every contract with the assumption that our partners would try to cheat us if they could, then we would have to spend a considerable amount of time bulletproofing the document to make sure that there were no legal loopholes by which we could be taken advantage of. Contracts would be endlessly long and detailed, spelling out every possible contingency and defining every conceivable obligation. We would never offer to do more than we were legally obliged to in a joint venture, for fear of being exploited, and we would regard new and possibly innovative proposals from our partners as tricks designed to get the better of us. Moreover, we would expect that, despite our best efforts in the negotiations, a certain number of people would succeed on cheating us or defaulting on their obligations. We would not be able to resort to arbitration, because we would not trust third-party arbitrators sufficiently. Everything would have to be referred to the legal system for resolution, with all its cumbersome rules and methods, or potentially even to the criminal courts."[22]

- Where subjective judgments based on trust resulting from a common understanding of what is the right thing to do are replaced by anonymous bureaucratic rules and legal procedures, everything becomes more costly and time-consuming to implement. "Widespread distrust in a society … imposes a kind of tax on all forms of economic activity, a tax that high-trusted societies do not have to pay."[23]

This is not to say that the modern system of contracts, intellectual property, and comprehensive legal systems are of a secondary importance or can be replaced by informal trust-based arrangements. Modern legal and enforcement mechanisms are necessary for the development of modern enterprises and economic growth. But they are not sufficient for sustained prosperity and broad societal well-being if they are not complemented by a common bond of accepted social arrangements, reciprocal obligations, a sense of duty toward the community, and ethical habits. Such habits, based on common values and not on explicit rational calculation, are, as Fukuyama puts it, "not anachronisms in a modern society but rather the *sine qua non* of the latter's success."[24]

Trust also protects. Although corporate "fame" from excellence in conduct has a shorter half-life than corporate "shame" resulting from misconduct, a trustful relationship between society and corporations is rewarded by diminishing the impact that bad news has on a company. Companies that are distrusted and facing an onslaught of negative news will have a harder time changing opinions after the storm than they would have had if they had been trusted at the outset. These findings, the Edelman Trust notes, "send a strong signal that corporate leaders would be well advised to create a trust foundation so that positive information has an echo chamber in which to resonate."[25]

Last but not least, actual and potential customers rate trust-related issues much higher today than they did 5 to 6 years ago. "Quality of products and services," "attentiveness to customers," or "strong financial performance" were at the top of the factors that shaped the trust in a company in 2006, but the picture was very different in 2011. Now factors such as "transparent and honest business practices," "a company I can trust," or "honest communication" and "good citizenship" were the leading points.[26]

Business enterprises and their leaders are inextricably interconnected with the societies in which they are engaged ; they are part of the same network of values, rights, and obligations. Sustainable corporate success is not achievable if the corporate practices are perceived to be in conflict with societal norms. In a fair societal distribution of labor, the business sector has different duties and responsibilities than, for example, the church, scientific institutions, or NGOs, but corporations have to remain in the common corridor of norms that shape the society as a whole. From shared values and consistent conduct comes the trust that reduces transaction costs and thereby increases economic efficiency.

As trust allows for an intuitive reduction of complexity, shareholders and stakeholders do not have to understand complicated technical characteristics, sophisticated scientific contexts, or other complexities behind the products or services offered by a company. They do not have to hire a specialist to make a quality analysis every time a product or service is needed; they are willing to buy and use the goods and services provided by the company because of the implicit ascription of integrity on the side of the provider. Small- and medium-size companies have an advantage here: trust develops more easily in a small, group-oriented, culturally homogeneous moral community.[27] Large companies, being engaged in different legal, social, cultural, and economic environments, are confronted with a pluralism of understanding about "good," "responsible," and therefore "trustworthy," and yet, there is no alternative for the structured endeavors to create trust.

Part III: What Can Corporate Leaders Do to Create Trust in Their Sphere of Influence?

Trust "does not fall from heaven." Companies and their leaders must work in such a way that it is bestowed upon them. In their core competence they still must ensure that the goods and services offered meet customers' demands, have the highest possible quality, and can be sold at prices that are competitive and in the best interest of the corporation. They must still strive to contain costs, make wise strategic decisions, and comply with law. But that is no longer sufficient to create trust. Today multinational corporations not only must respect the laws and regulations of the countries in which they operate: they are also expected to live up to the spirit of international norms, such as those underlying the corporate responsibility platform of the Global Compact.[28]

First Things First: "Doing No Harm"

No matter how different human beings' views of the world may be, no matter how different their goals and expectations in life, people everywhere largely agree on what is harmful or what should be avoided. This concept defines "responsible corporate conduct" first and foremost as the nonnegotiable duty "to do no harm" (*primum non nocere*). Enlightened managers know that unfair labor conditions, harmful environmental standards, and, at worst, "collateral damage" in the form of human rights violations are not acceptable. They will organize their companies accordingly. As insufficient laws or deficits in enforcement are no excuse for shortcomings in corporate environmental, social, or other performance, enlightened managers are also aware that inadequate national laws and regulations cannot "legitimize" inappropriate corporate standards. In this context, the difference between a compliance-based and an integrity-based strategy becomes relevant. A business performance that strives to save on costs or exploit opportunities by going to the edge of what is legally permissible instead of living up to the spirit of a Global Compact-based corporate responsibility philosophy may look better in the short term but is likely to create much higher risks of accidents or perceived misconduct. When faced with dubious legal standards, good management practices wisely exercise self-restraint and avoid morally ambivalent business practices.

Economic success achieved with collateral social or ecological damages or, even worse, human rights violations offends human dignity (including the dignity of those responsible for such a conduct) and destroys public trust. One does not have to study moral philosophy and make complex ethical analyses to come to the conclusion that corporate activities should do no harm and that international norms ought to be respected: these *minima moralia* simply represent good management practices and mere decency.

"Doing Good:" An Increasing Part of Society's Expectation

For an increasing number of citizens in modern societies, "doing no harm" is no longer sufficient to earn trust. Competing with integrity and minimizing corporate misconduct through value management remains nonnegotiable, but it does not ensure that all stakeholder expectations are met. There will always be interest groups whose demands are rejected and that therefore remain disappointed. Disappointment of expectations leads, as already discussed, to loss of trust. The roots of this problem are partly in different understandings of what the role of a corporation in society should be, and to whom and for what management ought to be accountable. Although many industry leaders continue to be convinced that their role is to "mind their business," defined in the traditional way, leaders of civil society and United Nations bodies consider this to be too myopic a view. Differences in judgment about these issues are usually rooted in differences in the underlying values, premises, and axiomatic assumptions of the people debating.

Corporate activities to promote socioeconomic development in low-income settings and to increase the company's positive impact on society beyond their direct business sphere have for many years been regarded by academia[29] and enlightened firms to be an integral part of corporate responsibility. Recently, the Global Compact's *Blueprint for Corporate Sustainability Leadership* enlarged the 10-principles-based corporate responsibility concept by requesting companies to also take "Action in Support of Broader UN Goals and Issues,"[30] for example, by supporting the achievement of the Millennium Development Goals. The LEAD initiative of the Global Compact encourages companies "to undertake more outward-oriented actions to increase their positive impacts in society" and, among other things, to pursue social investments and philanthropic contributions that tie in with the core competencies or operating context of the company.[31]

The many different ways that companies can create value for society, in addition to their financial returns and the positive externalities created by profitable business activities, form a *continuum* that covers new business models at the bottom of the pyramid, strategic social investments, strategic philanthropy (used as an incentive and not as a handout), and different forms of humanitarian assistance.[32] All such activities are likely to increase the positive corporate impact on society; all of them can make companies "part of the solution" in a wider sense, and all of them are therefore desirable.

The atmospheric change caused by the change in expectations of civil society and international bodies resulted in an enlarged portfolio of stakeholder requests on companies. The "rules" within which corporate profits are expected to be generated have changed fundamentally. They are today significantly more complex than the "rules" Milton Friedman was referring to 60 years ago in his book *Capitalism and Freedom* and in a widely read *New York Times Magazine* article.[33] That alone makes the nature of corporate leadership much more complex – but with multinational companies, things are even more challenging.

Issues Nurturing Distrust Against "Big Business"

Doing no harm and doing (some) good are the two main pillars upon which trust is built. In many instances, however, there are additional obstacles standing in the way of trust building.

Normative Pluralism

A company that is engaged in many parts of the world has to live with the fact that people's perceptions of what is "good" or "bad," "fair" or "unfair," and thus "desirable" or "undesirable" can differ vastly between cultures and religions. The underlying reason for such differences is not necessarily a conscious rational choice between undisputed normative alternatives but a consequence of differences in religious and cultural traditions, socialization, and the "inherited ethical habits"[34] that go with them. It is part of human nature to make self-referenced (and self-serving!) judgments that lead us in a specific situation to different conclusions about what a fair solution to a problem would be.[35]

Issues are likely to arise when a company is engaged in different countries with different cultures and therefore confronted with a significant pluralism of norms, values, and expectations. To be locally successful, multinational corporations have to be aligned with the (most important) *local* norms, values, and expectations, but at the same time be perceived to compete with integrity and work with legitimacy *internationally*. Such corporations must find a "middle path," making them prone to criticism from a local as well as an international normative perspective.

We learn from centuries of philosophical disputes that there is a significant difference between people's perception of reality and an "objective" reality in the sense of a neutral "view from space." Human beings construct their individual "realities." An individual's "reality" is not the objective representation of given facts and clear issues but the *subjective* result of personal preferences, value judgments, worldviews, and "lessons learned" from past experiences of assimilation, accommodation, and adaptation that the person went through in his or her life.[36] Human beings all over the world tend to mistake their own subjective certainties for objective truth – this is true for "people from the business sector" as well as "people from civil society" or other societal subsystems. The *objective* validity of all empirical knowledge still rests upon the arranging of the given reality according to categories that are *subjective*.[37] Once human beings are convinced that they have defined a problem accurately and found the "appropriate" solution, they tend to focus on this solution at the expense of other approaches that might be equally or even more effective.

Last but not least, and of significant importance to complex businesses, the "truth" as perceived by people is not only the result of a logical and rational process. There is not only a "truth of the brain" but also a "truth of the heart" and a "truth of the gut." The latter two come into being where the complexity of the issue to judge is beyond the layman's grasp. In contrast to natural science studies, where a result is determined to be "right" or "wrong" by mathematical deduction or experimental verification, conclusions derived from personal experience depend to a large extent on *personal values* concerning, for example, justice, equity, property rights, and other issues. All decent people will easily agree that as an idea, "justice" is most important, but if asked to explain what this means in a concrete context, they are likely to have differences of opinion.[38] What might be "rational" from an economic perspective is therefore not necessarily perceived to be "right" from a different perspective.

Differences in Axiomatic Assumptions

Also of importance are often (implicit) *axiomatic assumptions*, such as on the legitimacy of market mechanisms versus a "rights-based" approach. Such prejudgment issues influence an individual's point of view about whose interests should be pursued and with what priority, and who should pay for it in what kind of a time frame.[39] Judgments on the role of business in society depend on axiomatic assumptions made by people consciously or unconsciously and often kept implicit. Someone who assumes that the *business of business* is to create ever-growing results with the legal minimum as the guiding principle will define the role of a business enterprise structurally differently than someone who sees a business enterprise as an "organ of society" as described in the Preamble of the Universal Declaration of Human Rights. A corporate leader who sees profits not as an isolated corporate objective but rather as the aggregate indicator that a company is successful in a comprehensive sense and over time will define the company's role in society (made up of employees, customers, civil society stakeholders, and shareholders of companies) and hence the corporate strategy differently than a leader who considers short-term profit maximization as an end in itself.

If one assumes that there are problems the market can solve and problems it cannot, then not everything can be reduced to market processes. Economic success – driven by successful corporate performances – remains a necessary but not a sufficient precondition for sustainable human development. Different values and axiomatic assumptions result in different views of the world and different perceptions about the "right" corporate roadmap.

Pluralism of Interests

Modern societies are characterized by a pluralism of "special interest groups" that campaign for specific environmental, social, political, cultural, and other issues. Subjectively convinced of the overriding importance of their specific issues, they use all possible opportunities to campaign for their causes and make requests to other actors in society. When people have vested interests in seeing a problem in a certain manner, they are no longer capable of objectivity. We all pay (more) attention to goals for which we receive (material and intangible) rewards and often ignore those for which we do not. In a fair societal division of labor, the business sector has to take care of different tasks and perform different duties than, for example, an NGO. Conflicts over, for example, social, ecological, and economic priorities are part of normality in pluralistic societies, but they can undermine trust in each other.

Transcultural Challenges

During the past 10 to 15 years, economic globalization has been driven by different actors than those driving the globalization of the 1980s and 1990s. China, India, Brazil, Russia, Vietnam, South Africa, and other emerging markets were gaining not only "market shares" but also normative power to shape "the rules." Transcultural issues have gained importance. Judging normative issues from an exclusively "White Anglo-Saxon Protestant" perspective, insinuating that a Eurocentric or U.S.-American view is what is good for the "rest of the world," would be not only inappropriate but also unproductive and inefficient.

The fact that "western" values are acceptable to those living in the West does not necessarily make them universally binding. It certainly does not make other ethical cultures irrelevant. The claim that the set of today's western values is the only direction in which good-hearted (or ideologically correct) men and women can possibly march is, in the words of the Czech novelist Milan Kundera in *The Unbearable Lightness of Being*, "leftist kitsch" and "also an example of philosophical high-mindedness."[40] Moral righteousness based on normative imperialism was always a nuisance: it is especially inappropriate today. Innovative approaches are necessary, with value management that works with common fundamental ideas on the subject of law, justice, and fairness and is based on moral principles and values that have been used by all cultures since ancient times and supported by common experience.[41]

Unavoidable Dilemmas

Many corporate decisions are not between "right" and "wrong" but are the result of a complex corporate dilemma management in which different options with different risks and benefits are weighed against each other. The underlying reasons for the eventual decision as well as the complexity of the decision process remain usually unexplained and therefore not understood. Societal actors whose status quo is affected by such decisions are likely to challenge them as a result of different interests, different value premises, or diverging axiomatic assumptions. Under these conditions, many decisions appear arbitrary. If difficult decisions, such as a reduction of the workforce, have to be made, they appear antisocial.

As a result of all this, the societal context within which corporate activities and corporate leaders are perceived to deserve trust in modern societies has become enormously complex. The situation is comparable to what Francis Fukuyama once said about neoclassical economic theory: neoclassical economics (or, in this context, the management theories taught in MBA courses) constitutes a vast improvement from earlier decades and has uncovered important truths about the nature of money and markets: its fundamental model of rational, self-interested human behavior is correct about 80 % of the time. "But there is a missing twenty percent of human behavior about which neoclassical economics can give only a poor account. As Adam Smith well understood, economic life is deeply embedded in social life, and it cannot be understood apart from the customs, morals, and habits of the society in which it occurs."[42]

Distrust of "Size" Per Se

The regrettably low trust levels in "business" and its leadership also have to do with the fact that a significant part of the population of high-income countries seems to perceive "size" as such (that is, of a large corporation's turnover, profits, or number of employees) as threatening. The global turnover of a multinational corporation engaged in low-income settings is often compared with the gross national product of the poor country, triggering a "threat by power" association.

Complexity

The complexity of international economic activities often remains enigmatic to the common "person on the street" if the corporate business model depends on complex scientific or technical processes that are only understood by specialists. In combination with "size," perceived or actual power, and lack of transparency or understanding, uneasiness flourishes. With this background, even isolated examples of obvious corporate misconduct have disastrous consequences for the trust in corporate actors: the misconduct seems to prove the distrust right.

As context always matters in all relevant decisions and actions, the nature of corporate leadership needs adaptive changes as a result of the changed societal environment of business.

Societal Intelligence and Competence: Win Hearts and Souls, Not Just Minds

The "business of business" remains "business," and that business is to compete with integrity to create value by solving problems and meeting customers' demands at a competitive profit on a consistent and sustainable basis. People across the world continue to expect companies to maintain a good financial performance in their core responsibilities, while meeting responsible standards about product safety, environmental integrity, responsible supply chains, and employee treatment.[43] Innovation, effectiveness, and efficiency – keywords in the past – will remain keywords in the future.

Corporate leadership profiles will therefore also in future contain a high *cognitive intelligence (IQ)* and appropriate *technical intelligence* to master the particular challenges of particular businesses, to understand issues of strategic importance, and to run a complex organization. These features of intelligence will continue to be "threshold competencies" without which there is no admission to the leadership ranks.[44] On top of this, corporate leaders are expected to be equipped with the *emotional and social intelligence* to perceive, assess, and manage their own emotions and those of the people with whom they work.[45] They also should have *social competence* to get along with people regardless of social class or hierarchical rank. Last but not least, ideal leaders are blessed with *moral intelligence* – that is, the mental capacity to determine how universal normative principles should be applied to their personal values, goals, and actions – as well as *moral competence* to practice what they know are the right things to do.[46]

Given the current trust crisis, however, an additional kind of intelligence becomes crucial: *societal intelligence*, the capacity to perceive, understand, assess, and deal with societal expectations and people's fears. Discontent and lack of trust as a consequence of negative externalities of corporate activities or differences in worldviews, perspectives, and opinions are seldom blamed on abstract institutions or the world as such. Negative perceptions are usually linked to the real human beings who represent the institutions: the corporate leaders. Therefore, only visible and "touchable" human beings with convincing argumentation and interpersonal competence can make a difference: formal, written statements with lawyer-controlled language issued in the name of the company are no substitute.

The current trust crisis cannot be solved – to use the wisdom of Albert Einstein – "on the same level of consciousness and with the same thinking that was prevalent when the problem was created." Societal intelligence changes the consciousness about societal discontent and helps to understand its roots. It prepares the mental ground for possible counteractions within corporate leaders' sphere of influence. Societal *intelligence* – more knowledge about, higher awareness of, and greater sensitivity toward societal expectations, fears, and hopes – is a necessary but not a sufficient condition. Corporate leaders also need societal *competence* to become actively engaged in the following activities.

- ***Participate in public discourse of strategic relevance to the corporation***

The solution to complex issues requires more than self-referential reflection; their analysis and eventually their management makes a pluralism of perspectives an "ethical imperative."[47] Obviously, there is not *the one and only* correct answer to the questions that confront today's business enterprises. Simple and clear-cut answers and unambiguous solutions work for simple systems and simple problems only.[48] Complexity as we face it in international business necessitates open inquiries that enable those searching for solutions to escape the confinements of a specific discipline and professional silo to become aware of all aspects that are necessary to *satisfyingly* solve the problem. Corporate leaders should therefore participate in the societal debate about selective issues of strategic relevance to their company's future.

The direct, personal exposure to different worldviews, value premises, and interests is likely to raise the level of understanding of the situation and the issues at stake, on both sides of the argument. Such communication processes – the participation in public discourse and "providing good reasons and accepting better reasons" – could be seen as a "step towards the politicization of a corporation."[49] The "electoral process," however, is not one of a formal co-determination of corporate decisions but an indirect process coming in through the campaign for "votes" in the "court of public opinion."

Personal encounters with important stakeholders are likely to result in better comprehension of their motivation and personality, again allowing for a richer understanding of different views and providing better insights into the key drivers of social uneasiness and opportunities of change. It also offers the opportunity to bring in enlightened corporate points of view and thereby enrich the intellectual debate about different aspects of a disputed matter. Such discussions are usually not blessed with absence of conflict, but the clash of ideas and arguments provides a unique learning opportunity for all participants.[50] Top management's participation is not a substitute for the work of the corporate communication and public affairs departments – it complements it.

- ***Listen to and learn from constituencies outside the business silo***

Efforts to overcome the current lack of trust toward business should not end up in a generalized moralistic message "that we all should become better human beings." Most of us behave ethically most of the time. There are, however, unconscious but empirically proven constraints on our morality that favor our self-interest at the expense of the interests of others.[51] The important message ought to be that all of us must become more aware of and recognize our specific blind spots and the resulting bounded awareness and biases that influence our judgment and hence decisions. Many decisions on complex matters in natural and social sciences, for instance, but also in a business context are based on beliefs concerning the likelihood of uncertain events. "Hard" facts lead us only part of the way, not all the way. At some point human judgment is needed to interpret the findings and determine their relevance. Most of these judgments are based on data of limited validity that are processed according to heuristic rules.

The work of Daniel Kahneman, Paul Slovic, and Amos Tversky and the lessons learned by many practitioners and academics demonstrate how people's intuitive inferences, intuitive probability assessments, and self-referential predictions lead to judgmental biases that are large, persistent, and serious in their implications for decision making.[52] Even in the most carefully controlled scientific work, misconceptions of change, illusions of validity, or biases caused by the retrievability of instances can lead to faulty judgments and wrong decisions.

When laypeople are evaluating risks, they are usually not applying complex theoretical analysis but making inferences based on what they remember hearing about the risks in question and reducing complexity according to the trust they project in the actors involved. Such assessments are inherently subjective and are valid in some circumstances and not in others.[53] Issues "on the other side of the coin" involve the overconfidence of experts, vested interests, and an inability to see moral implications in seemingly "technical" issues.

There is much evidence that all groups hold a variety of implicit biases, and such cognitive biases and blind spots can have serious consequences. A McKinsey Quarterly report writes about "the significant body of research indicating that cognitive biases affect the most important strategic decisions made by the smartest managers in the best companies."[54] To counter them, so the authors say, a profound cultural change is necessary, one that relies on the judgment of a number of executives and on "orchestrating a decision-making process that will confront different biases and limit their impact," promote "out-of-the-box" thinking, and limit the impact of "silo thinking."

In an ever more complex world, however, corporate leaders should not rely just on the "judgment of a number of executives:" such an "out-of-the-box" approach may enlarge the box but remain "in the same building." What is helpful to improve the social quality of economic decisions is listening to credible voices that put corporate points of view into a wider perspective and a societal context. Listening and talking to people from other "silos," getting exposed to different worldviews and sometimes uncomfortable insights, and reflecting on them in good faith can be very revealing if not sobering.[55] Such encounters of corporate leaders with civil society activists are similar to an institution the Catholic Church has taken advantage of over many centuries: the *advocatus diaboli*.

It was (is?) the task of the *advocatus diaboli* to put forward well-founded arguments to examine in meticulous and critical detail the "case" for which a beatification or canonization is sought according to canon law. The "devil's advocate" had the task of disputing the "holiness" of candidates. He did this with questions that, in light of the quality of the candidates who had "made it" this far, no one else would dare to ask, and he raised "counterarguments" without having to display the courage of alienating colleagues or superiors. The quality of his performance was positively measured by how "at odds" and "radical" his thoughts and questions were.

Similar to the *advocatus diaboli*, critical voices from civil society sharpen the perception of actual or potential ethical risks and inadequately elucidated ambivalences with the use of exaggerated arguments. Their pleadings can help apply the brake to enthusiasm that is based on a motivated urge to act and to avoid self-deception and blind alleys. It is precisely on decisions in which a deep knowledge is required that the perspective for sorting things into an ethical whole can become submerged by delving into the depth of the subject matter. Of course, not all arguments and points of views from civil society are right and helpful for better corporate decisions – but then, neither are all from the corporate sector. Harry Frankfurter's famous essay is recommended to all who seek help to distinguish between constructive criticism and not-so-constructive deliberations.[56]

The exposure to voices from outside one's own professional and personal silo is also helpful in another way. In 2002 U.S. Secretary of Defense Donald Rumsfeld said: "There are things we know that we know. There are known unknowns. That is to say there are things that we now know we don't know. But there are also unknown unknowns. There are things we don't know we don't know." Corporate leaders' dialogues with external experts and members of civil society help to mitigate this last category by exposing them to issues that are not and have never been part of their own and their family's daily lives. People with different life histories and lifestyles, professionals with different duties to perform and roles to play as well as interests to defend, will assess and judge the legitimacy of one and the same corporate action portfolio very differently.

The less exposure that corporate leaders (or civil society leaders!) have to people who are different from themselves, whether in terms of worldview, culture, normative priorities, or something else, the more likely they are (as are all of us) to view them through a narrow, biased lens.[57] Because of the "in-group bias," which all of us have without being aware of it, we tend to favor valuations, opinions, or stereotypical judgments coming from those who are members of our professional silo or societal group. Different people are paying attention to different parts of the reality puzzle – and they act rationally with regard to their perceived realities and interests. It would be convenient to presume that those who see the world differently act irrationally – but it would not be at all helpful. In my experience, often the mere fact that a corporate leader is physically present and part of the communicative community changes the atmosphere and outcome of a discourse. Standing up for what one believes in, explaining one's own points of view and defending legitimate interests as rationally as possible and in a convincing manner, is likely to make a huge difference. In the best case it will lead to mutual personal and professional respect and to negative stereotypes fading away in the presence of real people.

- ***Talk explicitly about value premises and axiomatic assumptions***

Paul Streeten pointed out many years ago that no one can be objective, pragmatic, and idealistic all at the same time. A view presupposes a point of view based on values and assumptions that are often kept implicit.[58] To make value premises explicit is a first step in better understanding differences in judgments about what "the right thing to do" ought to be. To work in a slum in Southeast Asia or sub-Saharan Africa for the improvement of primary health care of poor patients does not per se make a human being morally superior to a manager in the C-Suite of a large corporation. The two persons have different jobs to do, different goals to reach; they draw their self-esteem from different achievements, and may have different value hierarchies. And yet, both are needed at their places to do what has to be done; both contribute to the common good, although in different ways. Creating a framework where both kinds of competence can complement one another improves the likelihood of being able to "tame" wicked problems.

However, someone who benefits from market mechanisms and financial incentives will look at a corporate roadmap in a different way than someone who is confronted with uninsured patients earning irregular and low incomes in the informal economy and not able to pay out of pocket for the medicine that his or her child may need to survive. Whether one likes it or not, these two prototypical human beings will, as a consequence of their different life situations, have a different consciousness about many things and make different axiomatic assumptions about "the market," "the necessity of corporate profits," and "the government." Different things seem "right" and thus different courses of action are advocated. And yet, they are part of one world, and if and when their life paths cross professionally they ought to be able to respect each other as human beings. Making implicit value premises and axiomatic assumptions explicit, explaining the rationale of one's actions and non-actions, will lead to a better mutual understanding and in some instances pave the way for joint, innovative, and socially intelligent solutions that one "side" alone could not bring about.

- ***Create transparency and explain complexity***

Trust and therefore reduction of complexity can only develop in an environment where someone knows the basic actors and understands what they are doing and why. The larger a business enterprise and the more complex its activities, the higher the need to explain what a company is doing and why – and what a company is not willing to do and why. Sometimes this will have to be done by the President of the Board, sometimes by the CEO, and sometimes by experts with "T-Intelligence," deep knowledge about specific subject matters combined with broad "orientation knowledge" (and good people skills). They must make themselves available to explain the not-so-easy-to-understand matters. Just as the journalists producing the science sections of great newspapers are able to explain complex matters in a language that is understandable by "normal" people, corporate leaders must become ambassadors for the causes for which they stand. They must be able to explain social, economic, legal, technical, and transcultural complexity in a way that at least tames fears. Even supposedly "simple" concepts such as market economics need to be explained and understood to become acceptable by a majority of the population. Markets do not create distributional justice but in many cases disparities, and despite that they are the basis for prosperity that so many people enjoy today, even in emerging countries.

The objectives of such communication (not information!) are similar to but not the same as that of the "discourse ethics" suggested by Jürgen Habermas,[59] in which participants are engaged to talk and listen to each other as long as it takes for all to "yield to the power of the better argument." In a pluralistic interest society, it would be an excessively idealistic demand to achieve consensus on all aspects of the pursuit of corporate activities. The goal of getting corporate leaders involved in ambassadorial roles, in strategic communication and personal interaction, is to better understand the societal context of their decisions and to be better understood. Exposing competent, honest, and compassionate corporate leaders to public discourse gives the company a human face.

- ***Share dilemmas***

Many complex questions do not have "yes or no" answers, and most complex problems do not have "black versus white" solutions. Serious approaches to handling complexity necessitate looking into all costs and benefits and all risks and opportunities of all available alternatives and weighing several cost–benefit ratios and risk–opportunity relationships with regard to their short-term and long-term impacts. The eventual decision might well constitute a temporary "lesser evil" instead of the best-ever solution, but, as progress is incremental, this will be good enough in most instances. Such dilemmas have to be explained and shared with stakeholders who feel they are affected by the decision. The handling of dilemma situations has to be explicated, the underlying rationale made transparent. Transparency and honesty are also needed in part to explain which of the many stakeholder expectations can be met – and where the limits are and why.

An important part of the communication from the business side remains drawing attention to the positive social and economic impacts of corporate activities, reminding people of the value of innovation (so often taken for granted) and thereby putting controversies over social and economic externalities into perspective. And if there are annoying problems and inconvenient issues that cannot be solved with today's knowledge or under the given economic circumstances, one should say so: put them on the top of the priority list and report back regularly on the progress made or the obstacles found. Commitments in this respect (and all others) have to be honored.

Such interactions will not eliminate conflicts, and, as effective and innovative solutions often result from a clash of opinions, they do not have to. Explaining one's stand and its background, however, can smooth and may reduce controversies. Whenever differences cannot be reconciled, they can at least be put candidly on the table and disputed, with the result that each side better understands what the other side is talking about.

- ***Raise awareness about the opportunity costs of not acting***

In many cases time and efforts invested by civil society representatives is focused on shedding light on potential risks or unplanned side effects of potential (corporate) endeavors. The fact that there can be substantial risks from *not* doing something is usually not part of the argument. Only fools, however, take risks for the sake of risk-taking. Normally risks are taken in the expectation to reach a certain beneficial objective. What is therefore needed in a rational decision process is a weighting of risk *and* benefits. The "heuristics of fear"[60] might lead to an overvaluation of potential risks; the neglect of the potential benefits certainly leads to them being undervalued. Many of them can only be measured many years later. Imagine if today's 7.3 billion people had to be fed with the agricultural technology and seed varieties on the productivity level of the early 1950s. Or think of the progress made in combating one of the deadliest plagues of modern history in the developing world: contrary to popular belief, it was neither government nor academia that discovered the principal medicines necessary to treat and prevent AIDS, transforming it from an inevitably fatal illness to a chronic, manageable disease. Despite this being one of the great success stories in modern medical history, it remains largely untold.[61] So the pharmaceutical industry's insistence on intellectual property rights remains a source of immense and in many cases moralistic criticism, and yet without that protection, privately financed research would not take place.

- ***Strive for "inclusive" solutions***

Creative solutions do not often result from an "either–or" approach. Especially with regard to complex issues, successful approaches are often the result of a coevolutionary process. If the right partners are chosen, such processes are carried by a spirit of collaboration that is more comprehensive than a balancing of each other's interests and the addition of individual efforts. Wherever this is the case, corporate leaders are likely to benefit from a different set of skills, experiences, and resources from alternative actors and their – from a corporate silo point of view – unorthodox ideas.

It is not my intention to portray cooperation with stakeholders from civil society as the general new way of doing business, but from my field experiences it seems that future business success, especially in the context of the 2030 Agenda for Sustainable Development, is likely to be based to a much larger extent on collective action and more extensive cooperation with actors from civil society. Similar to political coalitions, such cooperation is not an alliance forever, but it will in many instances be a successful, innovative, and time-bound pact to solve a specific problem. The most important precondition for success shared values, a common vision and a robust willingness to collaborate despite all remaining differences to achieve a specific result. There is no "one size fits all," nor are there ready-made solutions. Successful partnerships depend on mutual trust, and that needs to be developed over time.

Explaining complexity, creating transparency, and sharing dilemmas is not only valuable to the people for whom the communication is meant, it also benefits the "communicators" as it forces them to (at least mentally) step out of their personal and professional silo, to reflect their position on the issues at stake, anticipate contradiction, and be introduced with arguments, worldviews, and values that they otherwise would not get to know. They enter an immensely interesting learning curve not open to those who stay "at home."

Part IV: Putting Corporate Leadership in Context

People in modern societies have lost trust in a massive way, be it in business, governments, churches, or other societal pillars. This loss results in high costs to society as a whole and to the business sector in particular: a lack of trust that corporations are working in the best interests of society constitutes an obstacle, or at least raises the bar, for future corporate success. The demand for "more regulation" despite a historically low trust in government should be a reason for grave concern of corporate leaders.

Ideological arguments are not helpful here: the discontent and lack of trust did not appear out of the blue, nor did it develop overnight. "Something" has gone wrong with capitalism and the business models driving it in the past few years. A performance pattern that was sufficient to earn trust in the past is no longer sufficient to earn trust today and in the years to come; operational excellence and competing with integrity no longer suffice; societal expectations on business are in transformation globally.

But capitalism is not immutable – all *-isms* are socially constructed. Capitalism has changed before and will change again: it is "only what capitalists believe and do. And it changes when the bulk of capitalists start doing something different."[62] Corporate leaders are hugely important actors in this reform process. The collective mode of behavior in enterprises depends to a decisive degree on corporate leaders – on their values, their decision patterns, and their credibility.

In times of missing trust, the nature of corporate leadership becomes even more complex. It includes on top of the conventional "*operational responsibilities*" (product safety, social and environmental integrity, responsible supply chain, etc.) more and more comprehensive "*citizenship responsibilities*" – "those that are more socially oriented and not necessary part of normal business operations."[63] Citizenship responsibility presupposes societal intelligence and competence. To build up trust, corporate leaders will, to a much greater extent, have to listen to and learn to understand the background of requests from "the people," or at least from all stakeholders of strategic relevance. They will have to participate in the public discourses of strategic importance to the company's future and explain what the corporate activities are, what its contribution to society is, and where the limits of corporate responsibilities are reached if sustainable success is not put into jeopardy.

Great business leaders have always been recognized for doing the right things in more than just economic understanding. The most admired leaders have always contributed to the social capital and public welfare through more than just the accumulation of economic wealth. Not to be misunderstood: economic success will remain the most important parameter of managerial success. An excellent social and environmental record achieved at the expense of economic success is not sustainable, nor does it serve society (and certainly not the responsible management) or raise societal acceptance. So, again here, the search is on for the "golden middle."

But then, requesting additional obligations from corporate leaders in response to a theoretical analysis is not difficult at all. Considering the enormous workload of corporate leaders to successfully run a complex organization and cope with the steadily increasing number of requirements from the regulation and compliance aspects, does such an academic request stand a fair chance of being taken up? Why should corporate leaders take on additional responsibilities and be exposed to additional risks? What is the return on their investment of time and personal exposure to public debates?

These questions are very relevant as engagements along the lines discussed here are likely to have, at least in the short term, a contingent outcome: Trust does not come easily and fast. One accident or one case of misconduct from one irresponsible person in a 100,000-person workforce becoming public can expose corporate leaders assuming an ambassadorial role to malicious remarks and cynical comments. Die-hard corporate critics who have made up their mind about business being part of the problem will feel confirmed in their negative judgments, and peer business leaders who continue to define the business of business in a much more limited way will feel assured in their positions. Leaving the convenience of one's own silo always creates inconvenient situations for those who dare to stand up for their convictions. Taking up issues that others prefer not to discuss means always to run the risk that one gives inconvenient discourses a personal face. And last but not least: if the target setting and the performance evaluation remain focused on economic parameters only, there are few if any incentives in the short term to become involved in potentially risky societal issues. So there is a clear downside to adding an ambassadorial role to the conventional leadership profile.

Leaders almost by definition must have the courage to do things differently and dare innovative ways of acting. Corporate leaders accepting a more comprehensive job profile are provided with opportunities to participate in the shaping of public opinion with arguments that would otherwise not be heard. In this way they have a unique opportunity to defend legitimate interests. But this aspect is probably still too diffuse to be convincing to the majority of corporate leaders. The amendment of the corporate leadership profile has to be put into context.

For business to master a societal transformation such as the one discussed here, even the most courageous and bold corporate leaders cannot achieve much in isolation. Strengthening our societies by creating a more trusting atmosphere is not just a task for corporate leaders. Every one of us has a respective obligation, be it as consumer, shareholder, or political citizen, to contribute to a stronger, more trusting society. The societal intelligence and competence that we request from corporate leaders has its equivalent in a *citizen intelligence and competence* for all of us. Keeping critical distance, complaining and moralizing about others, is not sufficient to make the world a better place. What is needed is a parallel development of civil society leaders' profiles: giving recognition to responsible and open corporate leaders, donating reputation capital to their companies for superior socioeconomic performance, and in all other possible ways making differential judgments and giving incentives to those that act in line with one's own values and convictions are important facilitators and accelerators for the transformation process needed to create more trustful societies. This intention includes also the willingness to pay extra for products that are made in a socially responsible and environmentally sustainable way.

Differential judgment of different corporate societal performance as well as public acknowledgement for corporate leaders who make a difference for society is very important. It is not only a personal reward for the risks taken by those who define corporate leadership in a more complex way; differential judgment and reputation capital are an important incentive to other corporate leaders to act in the same way: "[R]ecognition enhances a company's reputation and appeals to customers; above all, it attracts good people to an organization. As such, recognition triggers a market-based reward for good behavior. In markets where profits are not possible, recognition is a proxy; where profits are possible, recognition is an added incentive."[64]

Polls about trust in society such as the Edelman Trust Barometer and Globescan find evidence that a more ambassadorial role for corporate leaders has a business case and ought to be part of a "new architecture for earning trust." It does not make conventional managerial duties irrelevant; it complements them. The new architecture is based on the expectation that companies act collaboratively to benefit society, not just shareholders, and that they are transparent about their operations.

The future of the market system and the societal support of corporations shaping it are to a substantial degree encapsulated in corporate leaders. It is they opening up to a broader mission of business, it is they giving their companies a human face, it is they adapting business policies to the new rules set by people in modern societies. Defining corporate value creation in a broader way than just in terms of shareholder value might be "out of the box" from the perspective of old-fashioned managers: sticking to the old paradigm may let them stay inside their box but it keeps them out of the modern world.

Initially there will only be a few corporate leaders actively developing and sustainably investing societal competence for the benefit of trust building, and they are likely to run into a headwind over what they do. But then, change always originates from minorities and is always initiated by intellectual or spiritual elites and charismatic leaders who take the risk to challenge the status quo and test unchartered territory. Great values, notes Romano Guardini, are always associated with a small number.[65]

> It is not the strongest of the species that survives,
> nor the most intelligent, but the one most
> responsive to change.
> (Attributed to) Charles Darwin

Notes

1. www.edelman.com/trust/2011/
2. www.bsr.org/reports/BSR_Globescan_State_of_Sustainable_Business_Poll_2011_Report_Final.pdf
3. www.drs.ch/www/de/drs/sendungen/perspektiven/2724.sh10173471.html, see also www.spiegel.de/politik/deutschland/0,1518,680693,00.html

4. Edelman: Trust Barometer Executive Summary. *Annual Global Study 2012*, p. 3.
5. www.informationclearinghouse.info/article27948.htm
6. www.welt.de/wirtschaft/article2247445/Warum-das-Vertrauen-in-die-Marktwirtschaft-sinkt.html.
7. Edelman, op. cit. note 4, p. 2 ff. Polls were done in the following countries: Argentina, Austria, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Ireland, Japan, Mexico, Netherlands, Poland, Russia, Singapore, South Korea, Spain, Sweden, United Kingdom, United Arab Emirates, and United States. In most emerging countries, trust in business and government is generally higher than in most industrial countries.
8. www.microsoft.com/presspass/exec/billg/speeches/2008/01-24wefdavos.mspx
9. *Harvard Business Review*, July-August 2009, p. 57.
10. Ibid.
11. Ibid., p. 91.
12. aboutus.ft.com/2012/01/09/financial-times-launches-capitalism-in-crisis-series/#axzz1rG3SYmcx.
13. www.economist.com/node/21542931 (January 21, 2012).
14. jeffsachs.org/2012/01/self-interest-without-morals-leads-to-capitalisms-self-destruction/.
15. 50plus20.org/5020-agenda, p. 9.
16. A more complex definition is given by Michelle Greenwood and Harry J. Van Buren III: “Trust is the reliance by one person, group, or firm upon a voluntarily accepted duty on the part of another person, group or firm, to act in a manner that is ethically justifiable; that is, undertake morally correct decisions and actions based upon ethical principles of analysis towards all others engaged in a joint endeavor or economic exchange.” See: Trust and Stakeholder Theory: Trustworthiness in the Organisation–Stakeholder Relationship. In: *Journal of Business Ethics*, Vol. 95 (2010), No. 3, pp. 426.
17. Luhmann N.: *Vertrauen*. Lucius & Lucius (UTB), 4te Auflage, Stuttgart, 2000, p. 1.
18. Arrows K.J.: *The Limits of Organizations*. W.W. Norton, New York, 1974, p. 23.
19. See in this context the brilliant analysis of Francis Fukuyama: *Trust. The Social Virtue and the Creation of Prosperity*. Simon & Schuster (Free Press Paperback Book), New York, 1996.
20. Ibid., p. 150.
21. An excellent working definition for our purpose is given by Paul Adler and Seok-Woo Kwon: “Social capital is the goodwill available to individuals and groups. Its source lies in the structure and content of the actor’s social relations. Its effect flows from the information, influence, and solidarity it makes available to the actor.” See Adler P.S./Kwon S.-W.: Social Capital: Prospects for a New Concept. In: *Academy of Management Review* Vol. 27 (2002), No. 1, pp. 23; see also Portes A.: Social Capital: Its Origins and Applications in Modern Sociology. In: *Annual Review of Sociology* Vol. 24 (1998).

22. Fukuyama, op. cit. note 19, p. 152f. Stewart Macauly drew attention to the importance of non-contractual relations in business; see Macaulay St.: Non-Contractual Relations in Business. In: *American Sociological Review* Vol. 28 (1963), No. 1, pp. 55–67.
23. Fukuyama, op. cit. note 19, p. 27f.
24. Ibid., p. 11.
25. Fifty-seven percent of the people asked in the poll believe negative information about a company they do not trust after hearing it just once or twice. When a company is trusted, however, only 25 % will believe negative news about it after hearing the news once or twice. The same holds true for positive information, with far fewer believing good news about a distrusted company. www.edelman.com/trust/2011/, p. 7.
26. Edelman Trust Barometer 2011.
27. To put this in perspective, a family-owned or kin-related business context where one knows each other for a long time and where, for example, fraud is less likely because "one sees each other again soon" has certainly distinct advantages – and at the same time distinct disadvantages when family loyalties and kin obligation (or, in a less friendly formulation, nepotism and cronyism) take precedence over what is the right thing to do from a sustainable business success point of view. Gunnar Myrdal's *Asian Drama* is still one of the best references for digging deeper into the mixed blessing of family affairs and socioeconomic development. Penguin Books, Harmondsworth, U.K., 1968, 3 volumes.
28. The Global Compact is a corporate responsibility initiative of the United Nations that asks companies to respect and support human rights, assure humane labor conditions, protect the environment, and fight against corruption in all its forms; see www.unglobalcompact.org
29. See Carroll A.B.: A Three-Dimensional Conceptual Model of Corporate Social Performance. In: *Academy of Management Review* Vol. 4 (1979) No. 1.4, pp. 497–505; see also The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders. In: *Business Horizons* (Elsevier), July-August 1991, pp. 39–48.
30. Referring to an "array of global issues – based on the most acute or chronic global challenges – including Peace & Security; the Millennium Development Goals; Human Rights; Children's Rights; Gender Equality; Health; Education; Humanitarian Assistance; Migration; Food Security; Sustainable Ecosystems and Biodiversity; Climate Change Mitigation and Adaptation; Water Security and Sanitation; Employment and Decent Working Conditions; and Anti-Corruption." See U.N. Global Compact: *Blueprint for Corporate Sustainability Leadership*, New York, 2010, p. 4f.
31. Ibid., p. 7.
32. See Leisinger K.M.: *Corporate Responsibility Leadership and Corporate Philanthropy*. Working paper for the Global Compact LEAD initiative. New York, 2012.

33. Friedman M.: The Social Responsibility of Business is to Increase its Profits. In *New York Times Magazine*, September 13, 1970, p. 32f (www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html).
34. For Fukuyama's definition of "culture," see Fukuyama, op. cit. note 19, p. 34. To a certain extent, normative differences are also a function of the socioeconomic stage of development: The Edelman and GlobeScan polls show significantly higher trust in the business sector and government in emerging economies such as China, India, and Brazil.
35. Even learning happens most often in a biased context: our memory is selective; we tend to remember behaviors that support our self-image and conveniently forget those that do not, and we are masters at deflecting the blame. See Bazerman M.K./Tenbrunsel A. E.: *Blind Spots, Why We Fail to Do What's Right and What to Do About It*. Princeton University Press, Princeton/Oxford, 2011, p. 73.
36. This, in a nutshell, is the crux of the plurality of constructivist philosophies and sciences. For a survey, see Riegler A.: Editorial. The Constructivist Challenge. In: *Constructivist Foundation*, Vol. 1 (2005), No. 1, pp. 1–8; for details, see Watzlawick P. (ed.): *The Invented Reality: How Do We Know What We Believe We Know?* Norton, New York 1984; von Glasersfeld E.: *Radical Constructivism. A Way of Knowing and Learning*. Falmer Press, London 1995; Maturana H./Vaerla F.: *Autopoiesis and Cognition.* Reidel, Boston 1979; von Foerster H.: *Understanding Understanding*. Springer, New York, 2003.
37. Weber M: Die "Objektivität" sozialwissenschaftlicher und sozialpolitischer Erkenntnis. In: *Gesammelte Aufsätze zur Wissenschaftslehre*. J.C.B.Mohr/UTB Tübingen, 7th Edition 1988, p. 212f.
38. See Walzer M.: *Thick and Thin. Moral Argument at Home and Abroad*. Notre Dame University Press, Notre Dame, 6th reprint 2011, p. 5.
39. To make things even more complicated but also more realistic, one has to acknowledge that different time horizons also play a significant role in what looks to be the right thing to do. Determining, for example, what is in the public interest (as opposed to what is assumed to be) will vary significantly, depending on whether *short-term* interests are given precedence over *long-term* interests. It is relatively easy to look good as a company in the short term and according to financial terms only – it is much more challenging to be successful in a triple-bottom-line perspective and over many years.
40. Walzer, op. cit. note 39, p. 9 – I also owe the Kundera quote to Walzer's book.
41. See, in this context, Küng H./Leisinger K.M:/Wieland J. (eds.): *Manifesto Global Economic Ethic. Consequences and Challenges for Global Businesses*. dtv, München, 2010.
42. Fukuyama, op. cit. note 19, p. 13. This is also the place to remind us that the foundation of Adam Smith's *Wealth of Nations*, with its praise of the "invisible hands" that regulate most things for the best, was his prior opus "The Theory of Moral Sentiments," where he describes his presumptions about the basic moral setting that he ascribes also to the economic actors and their self-interest.
43. Edelman, op. cit. note 4.46. See Lennick/Kiel, op. cit. note 45.

44. See Lennick D./Kiel F.: *Moral Intelligence. Enhancing Business Performance & Leadership Success*. Wharton School Publishing. Upper Saddle River, NJ, 2008.
45. See in this context Daniel Goleman's work, danielgoleman.info/topics/emotional-intelligence/.
46. See Lennick/Kiel, op. cit. note 45.
47. "Act always so as to increase the number of choices." von Foerster, op. cit. note 37, p. 227.
48. Riegler, op. cit. note 37.
49. See Palazzo G./Scherer A.G.: Corporate Legitimacy as Deliberation: A Communicative Framework. In: *Journal of Business Ethics* vol. 66 (2006) pp. 71–88, especially pp. 79ff. (But different from the concept described by Matten D./Crane A.: Corporate Citizenship: Toward an Extended Theoretical Conceptualization. In: *Academy of Management Review* Vol. 30 (2005) pp. 166–170, and by Matten D./Crane A./Chapple W.: Behind the Mask: Revealing the True Face of Corporate Citizenship. In: *Journal of Business Ethics* Vol. 45 (2003), pp. 109–120.
50. It can be seen as an extended albeit rougher version of the team learning recommended by Peter Senge: *The Fifth Discipline. The Art and Practice of the Learning Organization*. Random House, New York, 1990.
51. Bazerman/Tenbrunsel, op. cit. note 36, p. 19ff.
52. Kahneman D./Slovic P./Tversky A. (eds.): *Judgment under Uncertainty: Heuristics and Biases*. Cambridge University Press, Cambridge, 24th printing 2008, see also Kahneman. D.: Thinking, Fast and Slow. Penguin New York 2011.
53. Slovic P./Fischhoff B./Lichtenstein S.: Facts versus Fears: Understanding Perceived Risks. In: Kahneman/Slovic/Tversky, op. cit. note 53, pp 463ff.
54. Lovallo D./Sibony O.: The Case for Behavioral Strategy. In: *McKinsey Quarterly* March 2010. Common pattern-recognition biases include saliency biases (which lead us to give more weight to recent or highly memorable events) and the confirmation bias (the tendency, once a hypothesis has been formed, to ignore evidence that would disprove it). Particularly imperiled are senior executives, whose deep experience boosts the odds that they will rely on analogies, from their own experience, that may turn out to be misleading.
55. See Goulston M.: Just Listen. AMACOM (American Management Association), 2010.
56. Frankfurter H.G.: *On Bullshit*. Princeton University Press, Princeton, 2005.
57. See in this context the fascinating analysis of Bazerman/Tenbrunsel, op. cit. note 36, pp. 48–51.
58. Streeten P.: Vorwort. In: Myrdal G.: *Das Wertproblem in der Sozialwissenschaft*. 2nd edition, Neue Gesellschaft, Bonn 1975, p. 13.
59. See Habermas J.: Theorie des kommunikativen Handelns. Bd. 1Handlungsrtionalität und gesellschaftliche Rationalisierung und Band 2 Zur Kritik der funktioinalistischen Vernunft. Suhrkamp, Frankfurt a. M. 1981; qne Habermas J.: Erläuterungen zur Diskursethik Suhrkamp, Frankfurt a. M., 2te Auflage, 1992.

60. See, for this approach, Jonas H.: *The Imperative of Responsibility*. University of Chicago Press, Chicago 1984. The appropriate approach, of course, would be a balanced one in between the "heutistics of fear" and the "Promethean Euphoria."
61. Bloom J. 2011: www.acsh.org/publications/pubID.1937/pub_detail.asp
62. Meyer C. (with Julia Kirby): *Standing on the Sun. How the Explosion of Capitalism Abroad Will Change Business Everywhere*. Harvard Business Review Press, Boston 2012, p. 16.
63. GlobeScan Radar 2011, Toronto, November 2011 Key Findings.
64. "Bill Gates: World Economic Forum 2008," Microsoft News Center, January 24, 2008.
65. Guardini R.: *Das Ende der Neuzeit. Die Macht*. Grünewald/Schöningh, Mainz/Würzburg, 1986, p. 56.

Part II
Responsibility as a Key Concept of Ethics

Chapter 3
Shareholder Primacy as an Impediment to Corporate Social Responsibility

David Rönnegard and N. Craig Smith

Introduction

The Shareholder Primacy Norm (SPN) is the part of a manager's legal fiduciary duty that requires managers and company directors to make decisions on behalf of the corporation which further the interests of shareholders. It has been treated as a major obstacle to Corporate Social Responsibility (CSR) because it is said to hinder managers from considering the interests of other corporate stakeholders besides shareholders (Boatright 1994; Campbell 2007; Dodd 1932; Evan and Freeman 2003; Hinkley 2002; Phillips et al. 2003; Testy 2002). More recently, in light of the 2008 global financial crisis, the legitimacy of managerial focus on shareholder wealth maximization has also been questioned from quarters not usually associated with the advocacy of CSR (Financial Times 2009).

Although there are many definitions of CSR, the European Union (EU) has advanced a widely disseminated definition of CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. It is about enterprises deciding to go beyond the minimum legal requirements and obligations stemming from collective agreements in order to address societal needs" (COM/2006/0136/final). It is clear from this base definition that CSR can be at odds with the SPN, at least if managers act to meet obligations to nonshareholder stakeholders (beyond legal requirements and collective agreements) and in doing so are acting contrary to shareholders' interests. Accordingly, the legitimacy of the SPN is at the core of

D. Rönnegard (✉)
INSEAD Social Innovation Centre, Fontainebleu, France
e-mail: David.Ronnegard@insead.edu

N.C. Smith
Ethics and Social Responsibility, INSEAD, Fontainebleu, France
e-mail: craig.smith@insead.edu

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_3

what has been called the "basic debate" in business ethics: whether corporations should be managed for the primary benefit of shareholders or for a wider constituency of stakeholders (Agle and Mitchell 2008; Smith 2003).

The SPN most typically finds expression in shareholder value maximization (SVM). If one starts from the assumption that the interests of shareholders lie in maximizing their return on investment, then this results in a prescription to managers to maximize shareholder value; this does not necessarily preclude CSR, but it does make it conditional on SVM. Accordingly, van Marrewijk (2003, p. 102) offers five distinct and specific interpretations of CSR, of which his "profit-driven" interpretation is clearly the most compatible with the SVM: "the integration of social, ethical and ecological aspects into business operations and decision-making provided it contributes to the financial bottom line." In contrast, his "caring" interpretation of CSR "consists of balancing economic, social, and ecological concerns, which are all three important in themselves." Similarly, Garriga and Mele (2004, p. 53) identify four categories of CSR theories (instrumental, political, integrative, and ethical), of which instrumental includes those theories under which SVM "is the supreme criterion to evaluate specific corporate social activity."

The SPN does not necessarily preclude attention to CSR that would not be maximizing shareholder value. If the interests of shareholders are primary, then their interests will decide what goal the corporation should pursue, whether it is SVM or something else. In this vein, Vermaelen (2011) has observed that absent a "business case" for CSR, a company should make it clear in advance to investors that its objective is not simply to make money but also to do good and thereby attract the right investor clientele. He has proposed "CSR equity carve-outs" (e.g., Exxon forming an alternative energy subsidiary that can attract investors interested in alternative energy for noneconomic as well as economic reasons).

Clearly, the legitimacy of the SPN has an important bearing on the goal of the corporation and whether it should be a vehicle for the pursuit of shareholder interests (Friedman 2001; Jensen 2002) or for managing stakeholder interests (Freeman et al. 2007, 2010). Walsh (2004, p. 349) has highlighted the critical importance of this question: "Since the rise of the first corporations 2000 years ago, we have been trying to develop a theory of the firm that explains and guides firm behavior… This is arguably the most important theoretical and practical issue confronting us today." Events leading up to the 2008 financial crisis lend yet more weight to this claim.

The large-scale destruction of shareholder value accompanying the financial crisis casts doubt on the extent to which managers in practice give shareholders primary consideration, at least in financial institutions. Former U.S. Federal Reserve Chairman Alan Greenspan (2009) has recognized that the risk management of these institutions rested on the premise that the enlightened self-interest of their managers and owners would ensure their long-run health, and this premise clearly proved false. Some commentators blamed the crisis on SVM specifically; Jack Welch, former General Electric CEO, called it the "dumbest idea in the world" (Financial Times 2009). Skapinker (2009), noting that people like simple stories, observed: "A common justification for the shareholder value movement was that it provided managers with a clear view of what their purpose was. Suggesting that they serve other stakeholders too… was held to be too vague and confusing." Although multiple explanations have been offered for the crisis, the legitimacy of shareholder primacy certainly has come into question, as well as the system of regulation and constraints on the pursuit of shareholder interests.

Long before the crisis, business ethics as an academic field was disapproving of the shareholder primacy of the so-called shareholder theory of Milton Friedman, who asserted that the social responsibility of business is "to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (2001, p. 55). Instead, stakeholder theory (Freeman 1984; Freeman et al. 2010; Phillips 2003), the dominant theory in business ethics, if not a paradigm for CSR (McWilliams and Siegel 2001), views the primary purpose of the corporation as being a vehicle to manage stakeholder interests, with profit as one consideration among others. Shareholder theory and stakeholder theory are not necessarily incompatible, but is the SPN a dominant norm among managers? Should it be?

Descriptively, if shareholder primacy expressed as SVM (i.e., consistent with Friedman's shareholder theory) is the dominant model of practice, it is of little surprise that CSR advocates are disappointed with corporate social performance and charging companies with "greenwashing" (New Scientist 2010; Polaris Institute 2007). Accounts of the financial crisis included socially irresponsible and opportunistic behavior contrary to society's best interest, as we have long observed (Campbell 2007). To a large extent, we know this model often predominates. The view that the purpose of the firm is something other than maximizing shareholder value has yet to gain widespread acceptance within the academy, let alone within business (Jones 2010).

Arguably more interesting is the basis for the predominance of this model, where it originates, and the conditions under which the alternative stakeholder model might become ascendant. In answer to the prescriptive question, if the SPN expressed as SVM is the better, more legitimate model, this has profound implications for CSR. This shift need not be understood as a death blow to CSR, but it does mean that CSR should be seen primarily from a strategic perspective rather than a moral perspective, and that CSR activities should be justified through "business case" reasoning (Porter and Kramer 2006). Caring, synergistic, and holistic interpretations of CSR (van Marrewijk 2003) would have little practical import in most business contexts.

Thus, the purpose of this chapter is to explore the role of the SPN as a legal and social norm for management. We maintain that it is mute as a legal norm while operative as a social norm. Our analysis points to this conclusion, but we also propose three empirically testable propositions that would settle the matter more conclusively. We then identify a prescriptive research agenda from both normative and instrumental perspectives with regard to the desirability of the SPN. Finally, we suggest a research agenda for examining how the norm might assume a more diminished importance to further (nonshareholder) stakeholder interests.

Explication of the SPN

We investigated the influence of the SPN on corporate behavior; in particular, whether it inhibits managers from engaging in CSR. We first consider the SPN as a legal norm in the common law systems of the UK and the USA. We maintain that the SPN is no longer legally enforceable because of the business judgment rule as well as legal enactments that specifically allow managers to consider the interests of a wider group of stakeholders. Second, we consider whether the SPN is a social norm among mangers. We maintain that even though normative pressures are mounting on managers from several nonshareholder constituencies, the SPN is still relied upon by managers because it is reinforced by the *structure* of corporate law (i.e., the sole voting rights of shareholders), as well as systems of remuneration to tie managerial incentives to shareholder interests. We conclude that although the SPN has its origins in corporate law, the SPN today is not a legally enforceable norm, but is still very much alive as a social norm among managers. Managers are no longer legally prohibited from engaging in CSR, but the incentive structures that guide corporate behavior are still geared toward shareholder primacy.

The SPN as a Legal Norm

Corporate law in the U.S. and UK, comprising both common law and statutory law, is structured to ensure that corporations work in the interest of shareholders. However, this primacy of shareholders has not been formally identified in statutory law (Fisch 2006). Thus the SPN is a development of common law and debate about its efficacy is as a norm stemming from judicial decisions. Common law provides the clearest articulation of shareholder primacy in court cases specifying that managers and directors owe fiduciary duties to shareholders and must make decisions that are in their best interests (Smith 1998). The most famous articulation of the norm comes from the 1919 case of Dodge v. Ford Motor Co., wherein Chief Justice Ostrander said:

> A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among shareholders in order to devote them to other purposes.

This fiduciary duty in part consists of a duty of loyalty and a duty of care to shareholders (Clark 1985). “Loyalty” implies that managers should promote the interest of shareholders but also that they should not put themselves in a position wherein their interests might conflict with those of the shareholders. An example would be if a director stood to benefit directly from a corporate contract. “Care” implies that managers are expected to make decisions that ordinary, prudent individuals in a similar position would make under similar circumstances for the benefit of shareholders (Clark 1985; Paine 2006). The primacy of shareholders is manifest in that they are, in the normal course of business, the sole corporate constituency to be granted fiduciary protection by the courts (Fisch 2006).

Dodge v. Ford is often cited by advocates of shareholder primacy. However, Cornell law professor Lynn Stout (2012) suggests that the case is widely misunderstood because it was primarily about the minority oppression of shareholders in a closely held corporation (rather than a public corporation). The court found that majority shareholder Ford had no right to disregard the financial interests of minority shareholders, the Dodge brothers. Furthermore, and perhaps most importantly, Justice Ostrander's remark was "mere dicta," that is, a remark that was not necessary to reach the court's decision.

The judicial development of the SPN has a long history, dating back well before it became operative in the courts in the 1830s (Smith 1998). Much current interest in the SPN stems from the flourishing advocacy of CSR, with progressive legal scholars, as well as business ethicists and corporate directors, viewing the SPN as a major impediment to managers including the interests of stakeholders other than shareholders in their decision making (Testy 2002). For much of the nineteenth century, this analysis was probably correct. However, with the subsequent development of the business judgment rule in common law and more recent statutory developments, managers today have significant discretion in addressing nonshareholder interests. Thus, Smith (1998, p. 280) concludes that "application of the shareholder primacy norm to publicly traded corporations is muted by the business judgment rule."

The business judgment rule is the presumption that directors have not breached their fiduciary duty of care, so-called because it relieves the court of any duty to make evaluations of the business judgment of a director. For example, if a board of directors decides to donate a million dollars of corporate resources to the Japanese Earthquake Relief Fund of the Red Cross, shareholders might try to sue the directors personally for using corporate funds in a manner that does not further shareholder interests. But the business judgment rule relieves the court from considering whether the donation is a good business decision (and it might be, if favorable publicity were to result): evaluating the quality of business decisions is difficult and this is not the primary competence of the courts. In effect, the rule makes the fiduciary duty of care unenforceable because courts will not consider the quality of business decisions that would otherwise be the primary evidence for lack of care (Cohn 1983).

Shareholders rarely succeed in derivative suits against directors on claims of a breach of care. It is generally only the duty of loyalty that courts will consider when derivative suits are brought against directors. However, evaluating whether directors acted in bad faith is also difficult to determine because most business decisions seen as unfavorable to shareholders can be rationalized to seem reasonable at the time they were made. Thus, courts primarily consider whether any self-dealing has occurred when evaluating breaches of loyalty.

Fiduciary duties developed in common law have been explicitly defined by the incorporation statutes of most states in the U.S. For example, the Model Business Corporation Act (2002) prepared by the American Bar Association and adopted by 24 states (but not Delaware) says (Section 8.42: Standards of Conduct for Officers):

"An officer, when performing in such capacity, shall act: (1) in good faith; (2) with the care that a person in a like position would reasonably exercise under similar circumstances; and (3) in a manner the officer reasonably believes to be in the best interests of the corporation."

Item (1) states the duty of loyalty, (2) states the duty of care, and (3) can be interpreted as referring to the SPN. Whether "the best interests of the corporation" include nonshareholder interests is not entirely clear. Millon (1991, p. 228) writes that "corporate law has avoided such puzzles by, for the most part, equating the duty to the corporation with a duty to act in the best interest of its shareholders." But this does not per se exclude directors from considering the interests of nonshareholders. In Delaware, where 56 % of U.S. corporations are registered (Eisenberg 2000) and which is generally considered to have the most shareholder-friendly statutes, there is no explicit statutory requirement that managers should only consider the interests of shareholders in their decision making. Moreover, most states have adopted "nonshareholder constituency statutes" that explicitly allow managers to consider the interests of nonshareholder constituencies when making decisions (McDonnell 2004). Pennsylvania was first to adopt such a statute in 1983; states such as New York and Nevada have followed suit (Delaware, however, has not). These statutes do not *require* managers to consider the interests of nonshareholders, but they make explicit that managers are not prohibited from doing so.

The American Law Institute's (1994, p. 55) *Principles of Corporate Governance* also provides considerable latitude for managers to act beyond the apparent dictates of the SPN. Section 2.01 states: "Even if corporate profit and shareholder gain are not thereby enhanced, the corporation, in the conduct of its business: (1) Is obliged, to the same extent as a natural person, to act within the boundaries set by law; (2) May take into account ethical considerations that are reasonably regarded as appropriate to the responsible conduct of business; and (3) May devote a reasonable amount of resources to public welfare, humanitarian, educational and philanthropic purposes." This consensus document has been regularly cited and relied upon by U.S. courts.

The UK has also seen the introduction of statutes that explicitly allow managers to consider the interests of multiple stakeholders. The 1985 Companies Act stated that directors must take into account the interests of employees when performing their functions for the company and that this is to be regarded as a fiduciary duty owed to the company. Under the 2006 Companies Act, directors are further required to take into account the interests of other stakeholders such as suppliers, customers, the community, and the environment. However, as in the U.S., the act does not give nonshareholder stakeholders the right to challenge decisions of directors in court if they feel their interests have not been taken into account. Although this suggests directors still only have fiduciary duties to shareholders, they are now also at liberty to take into consideration the interests of a wider constituency of stakeholders.

Thus potential common law restrictions on managerial discretion for considering nonshareholder interests have largely disappeared; the SPN is muted by the business judgment rule, and recent statutory provisions in most U.S. states and the UK explicitly allow managers to consider nonshareholder constituencies in their decision making. We may then justifiably question the claim that managers are legally bound to disregard nonshareholder interests that conflict with those of shareholders. Progressive legal scholars and others are correct in pointing out the importance of the SPN, but not as a *legal* norm. There are good reasons to think that managers follow the SPN, not because they are legally bound to do so, but because the SPN is a *social* norm in the business community.

The SPN as a Social Norm

Anderson (2000, p. 170) defines a social norm as "a standard of behavior shared by a social group, commonly understood by its members as authoritative or obligatory for them." We maintain that managers as a social group, both within and between corporations, are generally guided by a social norm of shareholder primacy. Business schools teach as part of the "Theory of the Firm" that profit maximization is the purpose of the corporation in society and that it is the duty of managers to pursue this end on behalf of shareholders as their agents (Gentile 2004; Goshal 2005). Consequently, when their students get jobs in the corporate world they are working to an implicit assumption of shareholder primacy—an assumption often reinforced by compensation packages tied to the share price. Dobson (1999, p. 69) suggests they "will have had drummed into them that the ultimate objective of all activity within the firm is the maximization of shareholder wealth." Various commentators (e.g., Gardiner 2009; Holland 2009) have suggested that a disproportionate focus on SVM by business schools was a contributory factor in the 2008 financial crisis.

There are signs of change. Four of five executives surveyed by the consulting firm McKinsey (2006, p. 1) thought that "generating high returns for investors should be accompanied by broader contributions to the public good." However, almost 90 % of respondents said they were motivated to champion social or environmental causes by profitability or improving public relations. Although many executives think that they should consider the interests of nonshareholders, this appears to mostly hold true when they do not conflict with shareholder interests and in particular when both go hand in hand.

Although the SPN is prevalent among managers, there may be other, potentially countervailing norms. For example, championing CSR and environmental friendliness may be emerging as a social norm among managers in many corporations. Nonetheless, some surveys suggest that U.S. managers believe the law requires them to maximize shareholder wealth and hinders them from pursuing interests that conflict with shareholder interests (Gentile 2004; Rose 2007). Managers may believe they are following a legal norm, but it would seem that they are following a social norm which they believe is legal because of its pervasiveness in business.[1] Nevertheless, we maintain that the social norm of shareholder primacy is reinforced by the *structure* of corporate law, which is geared toward shareholder primacy: shareholders exert control over the corporation primarily through their legal right to elect and dismiss directors.

The fiduciary duties imposed on managers in common law are the result of early judicial depictions of their relationship with shareholders as one of trust (Berle 1931, 1932). Managers were considered *trustees* for the shareholders who were the *owners* of the corporation. However, the corporation was legally separated from its shareholders in the mid-nineteenth century and considered to own itself, whereas shareholders were considered to own shares as a separate form of property (Pickering 1968). Despite the legal separation of the corporation from its shareholders in terms of ownership, important features of the structure of corporate law that came with the earlier depiction remained, both in terms of fiduciary duties and more importantly in terms of voting rights of shareholders.

Because shares generally confer voting rights to shareholders, which gives them the power to elect and dismiss the board of directors, there is a real sense in which the directors of the corporation act as agents representing the interests of the shareholders; quite simply, if they do not they may be dismissed (Kraakman et al. 2004). Shareholders may not have the type of direct control necessary for a legal characterization of a principal–agent relationship, but they do have sufficient indirect control for that characterization to be made more generally. For example, the academic literature on agency costs typically describes managers as agents of the shareholders (Clark 1985). Although the threat of dismissal/non-reelection to the board is real, it should be acknowledged that it rarely happens in practice in large public corporations (Benz and Frey 2007). However, there are usually other incentive structures in place that aim to align shareholder interests with those of top management; for example, the issuing of shares or stock options and payment of bonuses tied to corporate financial performance. Voting rights matter even in this context because it is common practice for shareholders to approve top management's remuneration by voting. The legal power of shareholders to vote for the board of directors and their remuneration helps perpetuate the SPN as a social norm, not as a principle of law likely to be upheld in court.

Empirical Research Direction

Our preceding analysis of the SPN as a social norm suggests three empirically testable propositions:

1. Managers believe that they are legally obliged to primarily pursue the interests of shareholders/owners.
2. Managers believe that their primary moral obligation is to pursue the interests of shareholders/owners.
3. Managers work in the primary pursuit of shareholder/owner interests because (a) they believe it is their legal duty, and/or (b) they believe it is their moral duty, and/or (c) they fear being dismissed by the board if they do not, and/or (d) they are incentivized by remuneration that is tied to shareholder/owner interests.

Propositions 1 and 2 are to establish the existence and basis for the SPN. Proposition 3 assumes the existence of the SPN and explores the primary motivation for adhering to it. Empirical research addressing these questions would serve to confirm that, as we strongly suspect, the SPN is in fact an impediment to CSR. Nonetheless, regional variations regarding the role of the SPN should be noted. For example, a study by Witt and Redding (2009) that investigates senior executive perceptions of why firms exist, found that U.S. executives cited shareholders as the primary reason for the firm's existence whereas German and Japanese executives placed more importance on employees and less importance on shareholders.[2]

Establishing the *descriptive* reality of the SPN as an impediment to CSR is a precondition for evaluating its *prescriptive* desirability in relationship to CSR. And establishing its justifications is a precondition for evaluating how the SPN can be attenuated on the assumption that this is considered desirable. We now turn to the research implications from a prescriptive perspective.

Normative Research Directions

If the SPN (as a social norm) is a hindrance to CSR activities, a first question to ask is how the SPN informs/affects the basic debate in business ethics between managerial focus on shareholders vs. stakeholders. The normative debate between whether managers should primarily focus on the interests of shareholders or broaden the scope of interests that they pursue to include a broader group of stakeholders is usually couched in terms of stakeholder rights (e.g.: Crane et al. 2004; Gibson 2000; Evan and Freeman 2003; Freeman and Phillips 2002). These rights tend to have Kantian/deontological foundations of self-determination, of never treating anyone merely as a means to an end, with the implication that stakeholders should participate in decisions that affect them. If we recognize that a major reason for the SPN influence is that the structure of corporate law is geared toward shareholder primacy because of the sole voting rights of shareholders, then the shareholder-versus-stakeholder debate can be seen to turn on whether voting rights should be extended to a broader group of stakeholders.

As mentioned, moral grounds, often couched in Kantian terms, have been put forward for stakeholder participation more generally. Those arguments should remain unaffected by a focus on voting rights as a participatory method. However, by focusing on stakeholder voting rights this makes political philosophy particularly relevant to the normative shareholder versus stakeholder debate. Business ethics has long been considered a branch of applied ethics to the exclusion of political philosophy, but some business ethicists are now advocating the importance of political philosophy to the field (Kaler 2000; Heath et al. 2010; Moriarty 2005).

Political philosophy in part is concerned with issues of distributive justice, that is, when a benefit (e.g., a resource/right) or a burden (e.g., a tax) needs to be distributed among the members of a group. This understanding makes political philosophy a particularly appropriate normative branch of philosophy for handling stakeholder rights (including shareholders) rather than looking at the entitlements of individual stakeholders absent the group context. The relevance of political philosophy is further enhanced when we recognize that all corporations operate in a political context (i.e., within the borders of sovereign countries) that have the power to regulate the just entitlements of stakeholders (e.g., minimum wages, antidiscrimination laws, labor representation on the board of directors, voting rights for stakeholders). Thus, political philosophy can either be applied to the corporation itself (organizational justice) for devising fair distributions of voting rights, or the corporation is seen as part of a national political context in which rules of fairness apply to all corporations for which stakeholder voting rights may also be extended. If one draws on different traditions within political philosophy, such as the Liberal and Libertarian traditions, what are the analytical implications for the SPN as a legitimate norm of corporate governance as opposed to extending voting rights to a wider constituency? How is the SPN relevant to these political theories and would they endorse or reject the SPN?

Instrumental Research Directions

Another prescriptive perspective is whether the SPN or some alternative norm of governance is instrumentally most desirable from the perspective of economic efficiency. Economic efficiency requires that as much output as possible is produced with a given set of inputs. The output in a market economy is economic value which can be measured by consumers' willingness to pay for the goods and services that they receive. What norm of corporate governance will produce the most value for the economy? The efficiency of a macroeconomic system is composed of the efficiency of the corporations (micro-economic systems) within in it. Our question then becomes: is the SPN or some alternative norm of governance encompassing a wider constituency of stakeholders economically more efficient?

By considering the factors that perpetuate the SPN, such as the sole voting rights of shareholders and remuneration that is tied to shareholder interests, one can investigate whether these are mechanisms that are economically efficient. Although much more can be done, some arguments have already been put forward for and against the efficiency of the SPN. For example, in favor of the superior efficiency of the SPN (generally construed as SVM), Jensen (2002) has argued that economic efficiency requires governance with a single objective function, profitability being such an objective and that managerial remuneration should be tied to that objective; Sundaram and Inkpen (2004a, b) have argued that control (and thus voting rights) is best exercised by shareholders as residual claimants because they have the most to gain from an efficient organization that produces a residual; and Williamson (1984, p. 1215) has argued that public (i.e., stakeholder) representation on the board "would come at a high cost if the corporation were thereby politicized or deflected from its chief purpose of serving as an economizing instrument." On the other hand, Freeman has argued that corporate management according to stakeholder theory would be more efficient. Freeman (2008, p, 18) observes that "If a business tries to maximize profits, in fact, profits don't get maximized, at least in the real world." Freeman et al.

(2010, pp. 11–12) say: "We believe that trying to maximize profits is counterproductive because it takes attention away from the fundamental drivers of value: stakeholder relationships. There has been considerable research that shows that profitable firms have a purpose and values beyond profit maximization." The central idea here is that members of an organization will not be sufficiently inspired or motivated simply by an explicit goal of profit maximization.

Claims have been made both for and against the profitability of CSR (Peters and Mullen 2009; Vogel 2005). If the SPN (as a social norm) impedes CSR more research can be conducted on how the factors that perpetuate the SPN influence corporate efficiency/profitability. In other words, do sole voting rights for shareholders and/or managerial remuneration tied to financial performance lead to more profitable corporations in the short or long run?

Research on How to Attenuate the SPN

If the foregoing prescriptive research concludes that the SPN is not normatively and/or instrumentally desirable, we may then ask how do we attenuate it—and what do we replace it with? Only by understanding the aforementioned factors that perpetuate the SPN can we start to address how to temper it. We make the following suggestions for research to explore the possibility of attenuating the influence of the SPN:

Legal Structural Extension of Voting Rights to a Wider Set of Stakeholders, or Alternatively Removing Shareholder Voting Rights Legally extending voting rights to all/some stakeholders or removing shareholder voting rights would remove the SPN but would open up numerous other questions that need to be answered. If one extends the voting rights to a wider group of stakeholders then who are the relevant stakeholders? Are voting rights extended to stakeholder groups or to individuals? How would stakeholders' right to vote be administered in practice? Alternatively, if one removes shareholders' right to vote, then who decides who sits on the board of directors? Who holds the board of directors accountable? Would there be any incentive for firm owners to incorporate if it implies losing control over the corporation?

Legal Statutory Change Mandating Stakeholder Consideration Today, U.S. law does not prohibit stakeholder consideration, but it does not require it either. UK law does require it but does not give nonshareholder stakeholders the legal right to challenge the decisions of directors. A statutory change that mandates corporate stakeholder consideration could be introduced that extends managerial fiduciary duties to all/some stakeholders and allows them to challenge decisions in court the same way as shareholders. This idea opens up numerous questions, such as who are the relevant stakeholders and what managerial consideration can they legitimately expect?[3]

Implementing Management Remuneration Incentives That Are Aligned with a Wider Group of Stakeholder Interests Constructing remuneration incentives that are aligned with stakeholder interests should be fairly straight forward per se, but unless stakeholders have some means of holding management accountable (such as expanding managements' fiduciary duty, or extending voting rights to stakeholders), then it is unclear with what stakeholder interests that remuneration should be aligned.

Conclusion

The SPN is the part of the legal fiduciary duty of managers that obliges them to consider primarily the interests of shareholders in their decision making. Yet they are allowed to consider the interests of other stakeholders (but do not have a duty to do so except under statutes specifically directing such an obligation) and, furthermore, the SPN is virtually unenforceable because of the business judgment rule. Therefore, the view of CSR advocates that the SPN legally prohibits managers from considering the interests of multiple stakeholders lacks credence. However, we have maintained that the SPN is still very much alive as a social norm. Managers find it in their best interest to please shareholders because of the shareholders' legal right to elect the board and dismiss its directors (even if this rarely occurs) and because their remuneration is often tied to corporate financial performance. Managers wish to please shareholders and keep their jobs, and these needs perpetuate the SPN as a social norm. So long as shareholders have the sole right to vote for the board of directors, then it seems likely that the SPN will continue to be an operative prescription for managers.

We have suggested three empirically testable propositions to establish the existence and justification for the SPN as a social norm. On the descriptive assumption that the SPN does exist, we have suggested prescriptive research directions of both a normative and instrumental nature. Finally, on the prescriptive assumption that the SPN is undesirable, we have suggested research avenues for how the SPN might be attenuated. Research into these three domains is paramount for those who regard the SPN as an empirical hindrance to CSR, for those who wish to prescribe CSR, and for those who wish to facilitate CSR. All three domains lie at the heart of the basic debate in business ethics regarding whether managers should focus on shareholder interests or the interests of a broader constituency of stakeholders.

Notes

1. That managers *believe* that the SPN is legally enforceable might be interpreted as something more than a social norm. Although legal action against corporate management for breaching the SPN is unlikely to be successful, the threat of such action might act as a reinforcement of the SPN. This does not make the SPN a legal norm as such: managerial belief is based on a misinterpretation of the law. However, this misinterpretation reinforces the SPN as a *social norm* because managers *believe* that they are legally required to follow the SPN.

2. This corroborates the view that U.S. executives hold the SPN as a social norm. It also supports our argument regarding the significance of the structure of corporate law in perpetuating the SPN as a social norm because both Germany and Japan have corporate governance systems that are less shareholder centric than the U.S. model.
3. This seems to be the most feasible augmentation to corporate governance for weakening the SPN (as a social norm) as it does not extend voting rights but only fiduciary duties to nonshareholder stakeholders. Extending stakeholders rights to legal remedy suffers from the same problem as extending voting rights to stakeholders with regard to identifying who are the relevant stakeholders. There is, however, an important difference. Decisions about how and to who board voting rights should be extended needs to be done before such a scheme is implemented, while decisions regarding relevant beneficiaries of fiduciary duties can be delegated to the courts to decide on a case-by-case basis. Courts in the common law system need not tackle the insurmountable problem deciding who all stakeholders are with relevant stakes for all corporations, but can instead address each specific concern for each stakeholder, for each company, as they arise in court cases. In this manner, who the relevant stakeholders are and what their relevant concerns are will be settled as substantial case law is built up over time.

References

Agle, B. R., & Mitchell, R. K. (2008). Introduction: Recent research and new questions. In Dialogue: Towards superior stakeholder theory. *Business Ethics Quarterly, 18*(2), 153–159.

American Law Institute. (1994). *Principles of corporate governance: Analysis and recommendations*. St. Paul: American Law Institute Publishers.

Anderson, E. (2000). Beyond homo economics: New developments in theories of social norms. *Philosophy and Public Affairs, 29*(2), 170–200.

Benz, M., & Frey, B. S. (2007). Corporate governance: What can we learn from public governance? *Academy of Management Review, 32*, 92–104.

Berle, A. A. (1931). Corporate powers as powers of trust. *Harvard Law Review, 44*, 1049–1074.

Berle, A. A. (1932). For whom are corporate mangers trustees: A note. *Harvard Law Review, 45*(7), 1365–1372.

Boatright, J. R. (1994). Fiduciary duties and the shareholder–management relation: Or, what's so special about shareholders? *Business Ethics Quarterly, 4*(4), 393–407.

Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review, 32*(3), 946–967.

Clark, R. (1985). Agency costs versus fiduciary duties. In J. W. Pratt & R. J. Zeckhauser (Eds.), *Principals and agents: The structure of business* (pp. 55–79). Boston: Harvard Business School Press.

Cohn, S. R. (1983). Demise of the director's duty of care: Judicial avoidance of standards of sanctions through the business judgment rule. *Texas Law Review, 62*(4), 591–613.

Crane, A., Matten, D., & Moon, J. (2004). Stakeholders as citizens? Rethinking rights, participation, and democracy. *Journal of Business Ethics, 53*(1/2), 107–122.

Dobson, J. (1999). Is shareholder wealth maximization immoral? *Financial Analysts Journal, 55*(5), 69–75.

Dodd, M. E. (1932). For whom are corporate managers trustees? *Harvard Law Review, 45*, 1145–1163.
Eisenberg, M. A. (2000). *Corporations and other business organizations*. New York: Foundation Press.
Evan, W. M., & Freeman, R. E. (2003). A stakeholder theory of the modern corporation: Kantian capitalism. In T. L. Beauchamp & N. E. Bowie (Eds.), *Ethical theory and business*. London: Prentice Hall.
Financial Times. (2009, March 15). Shareholder value re-evaluated. Editorial. *Financial Times.*
Fisch, J. E. (2006). Measuring efficiency in corporate law: The role of shareholder primacy. *The Journal of Corporation Law, 31*, 637–674.
Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.
Freeman, R. E. (2008). Ending the so-called "Friedman-Freeman" debate. In Dialogue: Towards superior stakeholder theory. *Business Ethics Quarterly, 18*(2), 153–190.
Freeman, R. E., Harrison, J. S., & Wicks, A. C. (2007). *Managing for stakeholders: Survival, reputation and success*. New Haven: Yale University Press.
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.
Freeman, R. E., & Phillips, R. A. (2002). Stakeholder theory: A libertarian defense. *Business Ethics Quarterly, 12*(3), 331–349.
Friedman, M. (2001). The social responsibility of business is to increase its profits. In T. L. Beauchamp & N. E. Bowie (Eds.), *Ethical theory and business*. London: Prentice Hall.
Garriga, E., & Mele, D. (2004). Corporate social responsibility theories: Mapping the territory. *Journal of Business Ethics, 53*, 51–71.
Gardiner, B. (2009, March 27). B-schools rethink curricula amid crisis. *The Wall Street Journal Europe*, p. 10.
Gentile, M. C. (2004). *Corporate governance and accountability: What do we know and what do we teach future business leaders?* The Aspen Institute Business & Society Program.
Gibson, K. (2000). The moral basis of stakeholder theory. *Journal of Business Ethics, 26*(3), 245–257.
Goshal, S. (2005). Bad management theories are destroying good management practices. *Academy of Management Learning & Education, 4*, 75–91.
Greenspan, A. (2009, March 27). We need a better cushion against risk. *Financial Times*.
Heath, J., Moriarty, J., & Norman, W. (2010). Business ethics and (or as) political philosophy. *Business Ethics Quarterly, 20*(3), 427–452.
Hinkley, R. (2002). How corporate law inhibits social responsibility. *The Humanist, 62*(2), 26–28.
Holland, K. (2009, March 15). Is it time to retrain B-schools? *The New York Times.*
Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly, 12*(2), 235–256.
Jones, T. M. (2010). The future of business ethics research: Reflections on the twentieth anniversary of *Business Ethics Quarterly. Business Ethics Quarterly, 20*(4), 746–747.
Kaler, J. (2000). Positioning business ethics in relation to management and political philosophy. *Journal of Business Ethics, 24*(3), 257–272.
Kraakman, R. R., Davies, P., Hansmann, H., Hertig, G., Hopt, K. J., Kanda, H., & Rock, E. B. (2004). *The anatomy of corporate law: A comparative and functional approach*. New York: Oxford University Press.
McDonnell, B. H. (2004). Corporate constituency statutes and employee governance. *William Mitchell Law Review, 30*(4), 1227–1259.
McKinsey. (2006). Global survey of business executives: Business and society. *McKinsey Quarterly, 2*, 33–39.
McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review, 26*(1), 117–127.
Millon, D. (1991). Redefining corporate law. *Indiana Law Review, 24*, 223–277.

Moriarty, J. (2005). On the relevance of political philosophy to business ethics. *Business Ethics Quarterly, 15*(3), 455–473.

New Scientist. (2010, February 20). Editorial: Time for another green revolution; A fog of unreliable information and confusion is hampering efforts to weigh up eco-credibility. *New Scientist*, p. 3.

Paine, L. S. (2006). *The fiduciary relationship: A legal perspective. Note prepared for class discussion*. Boston: Harvard Business School.

Peters, R., & Mullen, M. (2009). Some evidence of the cumulative effects of corporate social responsibility on financial performance. *Journal of Global Business Issues, 3*(1), 1–14.

Phillips, R. (2003). *Stakeholder theory and organizational ethics*. San Francisco: Berrett-Koehler.

Phillips, R., Freeman, E. R., & Wicks, A. C. (2003). What stakeholder theory is not. *Business Ethics Quarterly, 13*(4), 479–502.

Pickering, M. A. (1968). Company as a separate legal entity. *Modern Law Review, 31*, 481–511.

Polaris Institute. (2007). *Coca-Cola Company wins corporate greenwashing award*. Polaris Institute. Available at: http://www.polarisinstitute.org/coca_cola_company_wins_corporate_greenwashing_award. Accessed 21 Mar 2011.

Porter, M., & Kramer, M. (2006). The link between competitive advantage and corporate social responsibility. *Harvard Business Review, 84*(12), 78–92.

Rose, J. M. (2007). Corporate directors and social responsibility: Ethics versus shareholder value. *Journal of Business Ethics, 73*, 319–331.

Skapinker, M. (2009, March 31). Dangers in a world of disillusionment. *Financial Times*.

Smith, D. G. (1998). The shareholder primacy norm. *The Journal of Corporation Law, 23*, 277–323.

Smith, H. J. (2003). The shareholders versus stakeholders debate. *Sloan Management Review, 44*(4), 85–90.

Stout, L. (2012). *The shareholder value myth: How putting shareholders first harms investors, corporations and the public*. San Francisco: Berrett-Koehler.

Sundaram, A. K., & Inkpen, A. C. (2004a). The corporate objective revisited. *Organization Science, 15*(3), 350–363.

Sundaram, A. K., & Inkpen, A. C. (2004b). Stakeholder theory and "The corporate objective revisited": A reply. *Organization Science, 15*(3), 370–371.

Testy, K. (2002). Linking progressive corporate law with progressive social movements. *Tulane Law Review, 76*, 1227–1252.

Van Marrewijk, M. (2003). Concepts and definitions of CSR and corporate sustainability: Between agency and communion. *Journal of Business Ethics, 44*, 95–105.

Vermaelen, T. (2011). *Reconciling shareholder value with CSR: The case for CSR equity carve-outs*. CSR Wire. Available at: http://csrwiretalkback.tumblr.com/post/3750265973/putting-a-price-tag-on-corporate-social-responsibility#. Accessed 21 Mar 2011.

Vogel, D. (2005). *The market for virtue: The potential and limits of corporate social responsibility*. Washington, DC: Brookings Institution Press.

Walsh, J. P. (2004). The corporate objective revisited. *Organization Science, 15*(3), 349.

Williamson, O. (1984). Corporate governance. *Yale Law Journal, 93*, 1197–1230.

Witt, M. A., & Redding, G. (2009). *The spirits of capitalism: German, Japanese, and US senior executive perceptions of why firms exist* (Working paper, 2009/61/EPS/EFE). Fontainebleau: INSEAD

Chapter 4
From "Free-Floating Responsibility" to Self-Responsibility CSR as Theoretical and Practical Context for Ethics

Imre Ungvári Zrínyi

Introduction

Despite the widespread idea of Corporate Social Responsibility (CSR), today's economic and moral thinking faces an unprecedented challenge, that of the wide questioning of social responsibility in business activity and its corporate actors, as well as the inflation of the moral terms and demands, which eludes any standards and sense of personal duty for a diffuse "free-floating responsibility" of the buck-passing from everybody to nobody.

Responsibility (mostly in CSR terminology) is a buzzword of our time, but at no time has there been a greater need for genuinely responsible behavior than today. In public discourse everybody speaks about ethics but is intensely preoccupied with how to avoid its demands. Many of the most notorious public figures of business, politics, and the everyday media world seem to be perfect examples of Aristotle's "clever man" or *deinos*, meaning both wonderful and terrible "a man who has all the natural prerequisites and gifts for moral knowledge, (…) with remarkable skill, to get the most out of any situation (…), but who uses his skills to any purpose and is without inhibition, …He is *aneu arete*", that is, without virtue (Gadamer 2006, p. 320).[1] The greatest challenge for recent ethical thinking is how to stop the *inflation of ethical terms* in media and in the everyday life of people and to recover the credibility of ethics in the public sphere. Therefore my central thesis is: Responsibility is a part of the authenticity of the Self. In its genuine meaning, it can only be thought of as a person's Self-responsibility. The basic question should not be put in terms of "What is responsibility?," but rather "What kind of responsibilities do I have?," "To

I. Ungvári Zrínyi (✉)
Department of Philosophy in Hungarian, Babeş-Bolyai University Cluj, Cluj-Napoca, Romania
e-mail: iungvari@gmail.com

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_4

whom am I responsible?," What am I responsible for?, "Which interpretation should become the core of my outlook on life to keep me aware of these responsibilities?"

Between Responsibility and Irresponsibility in Business

This chapter aims to be a contribution to an ongoing debate concerning interpretations of the concept of *responsibility* and its practical implications in questioning the dominance of the present day neo-liberal economic thought on the role of individuals in economy and their motivations. Neo-liberals with their conception of 'Homo oeconomicus' and free-market fundamentalism who reject all regulations and other incentives except maximization of the profit seem to accept that people could live in a systematically produced and calculated state of virtual irresponsibility, which is occasionally transformed into responsible acts solely to increase the actors' benefits. Thus, being a free and self-interest maximizing (virtually nonresponsible or responsible only for himself) economic subject and accepting the same 'risk' on behalf of "thy" fellows and the system, both actors are part of would be considered an unavoidable and to some extent even fruitful trait of individual and collective human behavior.[2] But this model of collaboration, which celebrates human greed as a manifestation of rationality and the only source of wealth and benefits, has been proven many times and recently once more as ineffective and vulnerable. In this way many risks were created, among them also one of the most common risks of our time, *the risk of ignoring the problems of responsibility*, and what is more, *the risk of talking about the morality and ethics without taking them seriously enough*. This problem with its philosophical and social implications was analyzed by many philosophers at a societal (systemic) level, for example, in the well-known moral diagnosis of the "post-modern" as "*postmoralist*" society by Gilles Lipovetsky.[3]

The recent subprime crisis has provided a lot of proof about the riskiness of talking about responsibility without being aware of its conditions of possibility and without being convinced that we really want to be responsible. This is even more dangerous when talking about it is not just a part of the business anymore but the business itself, as in the case of expertise firms (e.g., credit-rating agencies) and public relations firms, especially those specializing in consultancy and reporting on corporate social responsibility (CSR). Nowadays, the problematic character of talking about responsibility in CSR derives not only from an increasing uncertainty of the meaning of the overall responsibility missing in our post-modern societies, but also from the harsh debate between those in favor and those against CSR, an opposition of views and convictions that tends to characterize contemporary societies in terms of a "two-faced capitalism," as it appeared in an article in *The Economist* on 22 January 2004 (*The Economist* 2004).

Despite the fact that many of the world's biggest companies and many politicians have embraced the notion of *corporate social responsibility* [e.g., the United Nations has a "global compact" for CSR; in 2001 in Europe the European Environmental

Agency worked out the *Green Paper Promoting a European Framework for Corporate Social Responsibility* (European Commission 2001); *Britain's 2006 Companies Act* requires businesses to report on their CSR records; similarly, on October 6, 2010, the German Federal Government adopted the *"CSR in Germany" Action Plan* (German Action Plan for CSR 2010) – all these being confirmed by the *Renewed EU strategy 2011–14 for Corporate Social Responsibility* (European Commission 2011)], the issue of whether businesses should promote CSR is hotly debated (*The Economist* 2011). As the aforementioned article states: "the world's Friedmanites have waged a relentless guerrilla war against the idea, denouncing it as a farrago of value-destroying nonsense." Edelman, an American firm, has asked members of the "informed public" from all over the world whether they agree with Milton Friedman's famous assertion that "the social responsibility of business is to increase its profits" and found that between new Friedmanite champions such as the United Arab Emirates, Japan, and Sweden, "the world's striving nations tend to disdain CSR. The top ten Friedmanite countries include four emerging markets (India, Indonesia, Mexico, and Poland) and two recently emerged ones (Singapore and South Korea). But there are important exceptions to the rule. Well-informed folk in China and Brazil almost match their peers in Germany and Italy in their enthusiasm for corporate do-gooding." (*The Economist* 2011)

The term "different faces of capitalism" mentioned there consists of two basic orientations concerning the actors, the sources, and the motivations of social and environmental care and their policy priorities as well. One of these orientations considers that CSR is a dubious and immoral proposition, "philanthropy at other people's expense", a tendency of managers and NGOs to decide social policy priorities among themselves, instead of voters and elected politicians, that bereaves shareholders of their income. The other orientation considers that CSR – or "compassionate capitalism," as some call it – is necessary because government actions are often inadequate, and at least from such actions shareholders, employees, and the needy all benefit at the same time. Marc Benioff (ofsalesforce.com), in his book written with Karen Southwick, demonstrates that corporate philanthropy, if done correctly, transforms the culture of the firm concerned, so any interference from the government side would be undesirable because it would neutralize gains for corporate culture. As he wrote: "Employees seeking greater levels of fulfilment in their own lives will have to look no further than their workplace." As well as doing the right thing, the firm will attract and keep better employees, and they will work more productively. (*The Economist* 2004).

From all the problems mentioned here, it seems that the idea of corporate social responsibility in a practical corporate situation is far from being clear and accepted enough by all those involved to have an effective solution. People are confronted with far more complicated situations than they can manage and consequently they lack a clear responsible attitude toward them. They do not know what the responsible behavior would be in their situation, or who is entitled to decide what is to be done, and so they think they should merely comply with their position in a scheme where the questions about right or wrong are simply beyond their means.

What Could Result from the Lack of a Responsible Attitude?

We would like to demonstrate why this way of thinking is not acceptable. For everybody who lived in Central and Eastern Europe in the past 90 years, an entire set of extensively lived experiences (dictatorial regimes, the Holocaust, ethnic wars, ecological disasters, financial and economic crises) is familiar, which demonstrates the tragic consequences of *shared irresponsibility*, consequences for freedom and human life (e.g., the assumed "thoughtlessness"?[4] of those who adhere to an "ethic of obedience"; Zygmunt Bauman). The effect of the generalized irresponsibility in producing and maintaining the Holocaust machinery was comprehensively described by Arendt and Baumann. Using the idea of *shifting responsibility*, that is, the case when responsibility is shifted away by the actor's consent to the superior's right to command (Milgram: *Obedience to Authority*), Bauman shows how the overall effect of shifting responsibility would be a *free-floating responsibility*, a situation in which all members of an organization are ready to comply with the wishes or commands of their superior, who is considered to be the bearer of responsibility, but who in their turn passes the buck to someone else again (Bauman 1989, p. 163). I think that the description fits many other cases of organized behaviour and bears an important part, for example, in the devastating consequences of fascist and communist regimes, in the escalation of the ethnic wars in the Balkan region, but also in accepting the constraint to live with a long-continued threat in the case of Chernobyl, or in the case of appealing to unorthodox financial practices in nonprime mortgage lending at the beginning of the current financial and economic crises.

So it is highly risky both rejecting responsibility, or hiding it in the back of a formalistic-deceptive treatment of CSR, which is what many entrepreneurs and politicians in our countries are ready to do now. We must delineate the real importance of CSR for society and its role for the company's benefits as well as show that we have real opportunities to reach a solid ground for responsible action in the corporate environment and a set of means to discern conscientious (as opposed to fake) CSR.

What Is CSR and Which Are Its Dimensions?

The idea is that corporate social responsibility at a basic level is a result of the recognition of the social effect of the corporation's activity: business, as a producer of economic wealth, does not have only economic impacts. As corporations are called upon to take responsibility for the ways their operations impact societies and the natural environment, all those people involved in such operations will be able to imagine their direct or indirect contribution to that impact. This means that CSR, far from being a mere public relations (PR) tool, is more than an idea about the role of the corporation, but rather instead it is also a possible moral framework within which the responsibility of corporate actors can be conceived, discussed, and made effective.

CSR, as it was defined in 2001 in *The Green Paper of the European Commission Promoting a European Framework for Corporate Social Responsibility*, was conceived as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission 2001, p. 6). In a comprehensive study *How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions*, Alexander Dahlsrud identified five dimensions of CSR that seemed to be common for the majority of definitions: (1) the environmental dimension; (2) the social dimension; (3) the economic dimension; (4) the stakeholder dimension; and (5) the voluntariness dimension (Dahlsrud 2007, p. 4). These five dimensions were characterized as follows: the *environmental dimension*, expressing the corporation's preoccupation with the natural environment, covering all those concerns in business operations that aim to contribute to 'a cleaner environment,' operations subsumed by the term 'environmental stewardship'; the *social dimension*, involving all the relationships between business and society, aiming to 'contribute to a better society' (this is the level of the corporation taking responsibility for 'integrating social concerns in its business operations); the *economic dimension* that included socio-economic or financial aspects, involving CSR in terms of business, enabling managers either to protect firms from external threats (e.g., risk management) or to benefit from external opportunities; the *stakeholder dimension*, that referred to the quality and effectiveness of the manner in which organizations interact with their employees, suppliers, customers, and communities, the way they treat the stakeholders of the firm; and last, the *voluntariness dimension* which referred to all those actions of the corporation that are not prescribed by law, but are based on ethical values and performed freely by the actors.

It is true that these dimensions are largely present in the definition of CSR and there are discernible common elements in managing it; they significantly influence how companies view their responsibilities. However, this does not imply that there is a consensus about what CSR is or should be.

Among the papers that had contributed to the clarification of this issue I think we should agree with Michael Blowfield and Jedrzej George Frynas that "There is no agreement among observers (…) on the definition of what companies should be responsible for and how" and we also agree with them that CSR, "can (…) mean different things to practitioners seeking to implement CSR inside companies and to researchers trying to establish CSR as a discipline; it can also mean different things to NGOs and to companies. Although these differences are an inevitable and potentially fruitful element of the innovation process, they can be frustrating, not least to company managers who might prefer a bounded concept similar to quality control or financial accounting" (Blowfield and Frynas 2005, pp. 500–501). As we can observe in recent publications (Reynolds and Yuthas 2008, p. 50), corporate social responsibility is addressed in current business, accounting, and ethics literature in a new focus that includes social, environmental, and ethical reporting by corporations. Mary Ann Reynolds and Kristi Yuthas have shown in their study that voluntary international organizations, The European Commission and corporate investors as well, have called corporations for reporting on issues of broad societal interest and developed implementable models for reporting and auditing, e.g. Eco-Management and Audit Scheme (EMAS 1995, 2001), the Internationally recognized environmental management certification ISO14000 series, Social Accountability International labour standard SA8000, International accountability assurance reporting standard AA1000, the Global Reporting Initiative's International sustainability report GRI 2000, and International standard involving stakeholder communications named the Copenhagen Charter. In the authors' opinion these initiatives should be correlated with a relational view of stakeholders because under such a perspective, CSR reporting becomes part of an ongoing discourse between a corporation and its stakeholders. We also consider that this discursive process with its regulative opportunities is of paramount importance – we have already discussed the philosophical bases and tasks of a dialogic ethical relationship between corporate stakeholders in a former study entitled *Dialogic Ethics for Business* (Ungvári Zrínyi 2009). This is one of the reasons why we consider that we need a renewal of ethical thought and discourse about responsibility in general and especially in CSR, for restoring its authenticity.

Albeit the afore-examined studies all presented important aspects of the issue, the current point of view of the problem of CSR is largely defined by the third communication on CSR of the EU Commission. In October 2011, the EU Commission proposed a broader and simpler definition of CSR: "Corporate Social Responsibility is the responsibility of enterprises for their impact on society." In this 2011 EU Commission document, respect for applicable legislation and for collective agreements between the social partners is a prerequisite for meeting sustainability. The new definition of CSR constitutes a paradigm shift in EU policy on the topic because the voluntary engagement of companies is no longer seen by the Commission as a key feature of CSR. Instead, the new European model stresses that corporate responsibilities are derived from legislative but also wider societal requirements. The document could be considered a synthesis of the most important former contributions on the subject and supports many current initiatives, including a set of internationally recognized principles and guidelines, for example, the 2011 OECD Guidelines for Multinational Enterprises, the principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights (European Commission 2011).

Even as seen in this rough sketch, the recent resurrection of the CR case is one of the most important frameworks for discussing the ethical problems of responsibility in business and also in everyday life, but we must admit that this issue is at the same time subject to much criticism. Aside from the kind of criticism that principally rejects any case of CSR, reducing its normative demands to mere legal relations [e.g., the case of Theodore Levitt, Milton Friedman, and most recently Jessica Ludescher (Ludescher 2009)], which presuppose an entirely different conception than mine and which could not be addressed in detail here, we must accept those provocations that could help us to improve the relevance of the CSR theory.

After a thorough overview of the essential features of CSR and its presence in many of the company's practices of these days, we could ascertain that even in corporate action and long-standing activities we must, on every occasion, engage the circumstances of a practical situation by our own choice and decision. Corporate activity is neither a realm of purely technical (amoral) operations, procedures, or routines, nor a military drill that supposes commands and blind obedience. This type of activity needs not only the professional, but also the moral, personality of all those involved in it. So for the improvement of the corporate social responsibility of all stakeholders, we shall rethink the essential features of responsibility itself.

Rethinking the Philosophies of Responsibility

We consider that the problem of responsibility in its core meaning even in everyday life situations still remains a subject of philosophical reflection, of questioning our sense of moral relations and our presupposition about what the possibility of our 'being responsible' means. Individuals and corporate actor, although they are not philosophers, as professionals with a vocation concerned with the consequences of their work should learn, as part of their vocational training, to handle the responsibilities their work implies both within and beyond the legal framework. This concern may and should be a case of conscience. If we want to reconsider the aspects of responsibility in our thought, the best way is to focus our attention on the most relevant conceptions of responsibility as they appear in the views of the key representatives of the phenomenological philosophy. The works of the most relevant twentieth-century European thinkers (Husserl, Heidegger, Roman Ingarden, Sartre, Lévinas, and Hans Jonas) are excellent examples of theoretical positions in thinking of responsibility that could be insightful departure points in developing a new, more reliable perspective on responsible action in everyday life and in corporate activity.[5] We do not intend to present a history of phenomenological thinking, neither works nor chapters in the development of contemporary ethics, just some basic ideas about responsibility, which, instead of their distinct basis, nevertheless are in a certain way connected in a certain tradition of thought: phenomenology.

Edmund Husserl, the founder of phenomenology and one of the twentieth century's most important philosophers, published no major work on ethics during his lifetime, but as Ulrich Melle, director of the Husserl Archives in Louvain, suggests: "Husserl devoted considerable time and effort to developing the foundation of a phenomenological axiology and ethics" (Melle 2002, p. 230).[6] From the vast corpus of his lecture courses and research manuscripts on axiology and ethics, edited by Dr. Melle and also by professor Henning Peuckert, in the following we will consider Husserl's contribution to a theory of responsibility mostly based on his lectures from his 1920 *Introduction to Ethics* in which he turns his attention from the problems of axiology to questions related to *duty*, *will*, and *norm-conscious life*. As he remarks in this context, the question of duty shows itself in the words: "What should I do?," and, he continues, "What I should do, that is the *ought to* [*das*

Gesollte] for me. The claim is addressed to me, and hereby always is directed to a certain I and to what should be done or is done by the I." (Husserl 2004, p. 245). As Husserl observes, the ethically really valuable will is not directed merely toward the value or the quality of a single act, nor toward what is norm like, but it is the will that exceeds the will in accordance with the norm that is directed toward the acting person's best possible life as "the life that is the absolute ought/imperative for him." What is peculiar to this will that exceeds the norm-like will is a *norm-conscious* or *conscientious life* instead of a naïve (unconscious) life of the will (Husserl 2004, p. 247).

The analogue of norm-conscious life for Husserl is a life dedicated to a vocation. In this sense he considers that man's life should become not only in his specific interest or work but also in his universality a "life of vocation," a life the universal scope of which is to "be human, the most complete, most real, most proper, most authentic human beings" (Husserl 2004, pp. 251–252). According to this ideal the unavoidable moment of becoming ethically conscious includes, as Husserl states, submitting ourselves to a kind of general imperative: "I – I want to live my life, my entire life from now on, in all its acts and in its entire experiential content (Erlebnisgehalt), live so as to live my best possible life; i.e. the best possible that I can live. This is for me the life that is the *ought to* – and the absolute *ought to* – life. The ought to (das Gesollte) is the correlate of the will, specifically of a rational will, the ought to is the truth of the will (Willenswarheit)" (Husserl 2004, p. 252).

Husserl's idea of the "truth of the will (Willenswarheit)," which he considers to be "truth only in the universal contiguity of the will (Willenszusammenhang) of the concerned subject of the will (Willensubjekt), only in reference to his entire individual life, we can speak about the truth of any will, as also about what it is that the subject ought to [do]" (Husserl 2004, p. 252). This belief has nothing to do with mere voluntarism but could be read, as we show further, as a preliminary to Heidegger's concept of authenticity and Sartre's idea of absolute personal responsibility. As we have seen earlier, Husserl introduces the universal categorical imperative of doing the best that is attainable, including the dedication to our best possible life as a basis for an absolute ought in morality, but instead of a pure universalistic and formalistic solution, his option is for a totally individualistic material content. It is important to see how Husserl develops the unavoidably individual content of the general obligation, transforming it into personal responsibility. Therefore, it is worthwhile to examine more closely his train of thought on this: "The I ought to [do] – wrote Husserl –, is determined by the "I can," and the "I can" is different from what somebody else can. The I can, after all, does not reside in circumstances of the moment, but my present will grasp my entire future horizon, because what "I can" extends over its more or less determined dimensions. To put it more exactly, my best is determined by my past and present, and my future is not without advancement. But the decisive advancement is made by my will. I have my entire life before me and I have before me my entire environment as my environment, oriented on me. What I am able to achieve here is up to my consideration, and the best that I am able to achieve from this now and in my entire future life, that is for me – for me as an individual – the ought to" (Husserl 2004, pp. 252–253). The idea of being accountable not only for subjecting oneself to a general rule and the subsequent rules that follow, but also for all acts and for total experiential contents of an absolute individual life, could be a valid starting point for revitalizing any nonformal conception of responsibility, including CSR.

Responsibility, as are other essential features of Husserl's phenomenology, is submitted to a profound reconsideration in Heidegger's thought. "That Heidegger's work entails a major thinking of responsibility – wrote Francois Raffoul – is a fact that has perhaps not been sufficiently recognized" (Raffoul 2010, p. 220). As many of his interpreters warn us, Heidegger's thinking of ethics needs to be approached in terms of what he calls, in the *Letter on Humanism*, an "originary ethics," namely ethics understood not as a normative or an applied discipline, but rather as an originary phenomenon in conceiving the ontology of the human. Accordingly, we need to discuss here Heidegger's interpretation of responsibility exactly because of his endeavour to capture ethics no longer in the tradition of subjectivity, will, and agency, but in relationship to the being itself, in the very event of being and its givenness. In this more originary sense Heidegger understands ethics as "authentic dwelling" and "standing-in" the truth of being, that is, in terms of being and the human being's relationship to being itself, what he calls Dasein. This way Heidegger resituates ethics in the midst of factical existence itself.

Dasein, as it is conceived in *Being and Time*, could be considered an ethical being in the sense that it is not a given "present-at-hand" being, but a task of being, as potentiality-for-being, or as Being-free in which one's being is at issue for oneself.[7] Precisely because Dasein has each time to be its own being, there is the possibility to choose itself in its being and *being authentic*, and also the possibility to flee itself in its being, or *being inauthentic.* Dasein's authenticity is characterized by Heidegger in terms of responsibility. Dasein's authentic being means being responsible in the sense of *responding authentically* to the "call of conscience." In relationship to choosing himself in resoluteness, the choosing and the being accomplished is considered by Heidegger *the choice of responsibility for itself* that Dasein takes on and that consists in the fact that *in each instance of its acting it makes itself responsible through its action*. "Choosing responsibility for oneself," wrote Heidegger in a later work, "means to choose one's conscience as a possibility that the human being authentically is" (Heidegger 2002, p. 168).

As we can see, responsibility defines the essence of Dasein as a concern for being; according to Heidegger, Dasein comes to itself in a response to a call; in *Being and Time* this call is the call of conscience and in his later writings (e.g., in the *Contributions to Philosophy*, in which Heidegger's thinking increasingly turns toward the truth of being as such), this will be the call or address (*Anspruch*) of being. A key feature of the turn in conceiving ethics as "originary ethics" is the reconsideration of freedom, away from the subjectivity and causality of the will. Accordingly, decision for Heidegger will no longer be the decision of a willful subject, but the "decidedness" of being. Decidedness is the site of being itself. Being as the decisive, being as the matter of decision, is one of the main features of the "ethicality" of being according to which Heidegger's conception could be interpreted in terms of ethics. Being is thus a matter of a decision, of what we might call a responsible decision. But this responsibility in Heidegger is entirely de-subjectivized; it is no longer the accountability of the subject. Heidegger's thinking passes over the horizon of subjectivity to engage in thinking for the sake of the truth of being itself. In this manner his thinking provides key features that allow for a rethinking of what being-responsible as such could mean, namely, an ontological sense which is overlooked in the thought of accountability (Raffoul 2010, pp. 238, 242).

The ontological sense of responsibility just presented, which seeks to capture responsibility in relationship to the being in its being, involves a slightly different conception from searching for the ontic conditions (foundations) determining the possibilities of responsibility, which proved to be Roman Ingarden's contribution to the study of this topic. Ingarden is Husserl's brilliant Polish disciple from his Göttingen and Freiburg period, who became an especially forceful critic of Husserl's transcendental idealism from a realist ontological standpoint (Ingarden 1975). In his late work *On Responsibility. Its Ontic Foundations* (Ingarden 1970), Ingarden aims to reveal the conditions that make possible, as he states, "the meaningful talk about responsibility." At the beginning he distinguishes four basic ways in understanding responsibility as *bearing responsibility* (somebody is responsible for something); *assuming responsibility* for something; *imputed responsibility* (somebody is called to account for something); and *acting responsibly* (Ingarden 1970, pp. 5–7). As Jerzy Kowalsky observes, for Ingarden "Being responsible is a matter of fact that imposes itself somehow automatically upon an author of a specific act and presses upon him irrespective of his will. Thereto we can talk about responsibility after all we need that certain conditions being materialized." After all, in the clear and accurate description of such conditions there lies the excellence of Ingarden's work. In considering it we should review these conditions as follows: (a) the author should be aware of the action and also its effects, including its relation to positive and negative or non-values [Unwert]; (b) he should also have the opportunity of keeping the situation under control, because there is responsibility for an act – or the neglect of doing something – only if somebody acts of his own (namely, the source of act lies in the directing center of the individual) from where results the creation or the destruction of a certain value (Kowalski 1973, pp. 631–632). Considering all implications, Ingarden thinks that there are some major moments that constitute the responsibility of an act and its results: becoming guilty or meritorious through its contribution to negative or positive values; being in front of a double demand: repairing the damage and deleting the negative value by an act of contrition of positive value and finally having the obligation of submitting the exigencies mentioned before or (in the case of merit), having right to recognition (Ingarden 1970, pp. 29–30). Whatever be the effective content of a case involving human responsibility, it will be materialized and identified through six basic ontic conditions, that lead us to understanding its possibility: (1) the existence of values; (2) the self-identity of the agent; (3) the reality of personhood; (4) the (effective) reality of freedom grounded in the nature of personal agency; (5) the causal structure of the world in which relative systemic closure occurs; (6) the reality of time. By establishing well-defined ontic conditions of responsibility, the discussion about responsible practice gets its grounding in the alternative possible structures of the world. From among the 'real' (not just *idealistically presupposed*) conditions of responsibility, for Ingarden the most important is the existence of those objective and universal values without which any case of responsibility and any aim of the person would be meaningless.

Jean-Paul Sartre, freedom activist, public figure, writer, and philosopher, understands responsibility contrarily to Ingarden's position in considering that values and the other conditions of the human agency are never objective. For Sartre, one's ethical values are not given "in a transcendent and objective sphere," but must be invented in the motion proper to existence. Ethics thus becomes the praxis of one's very freedom, and its justification ultimately lies in such a praxis. In his conception freedom consists of having to make choices, and not being able to avoid making them. In such context, freedom has no objective grounds: "One chooses values, and one also chooses how one chooses values" (Raffoul 2010, p. 124). In Sartre's conception ethics itself is an exercise of responsibility because he considers that human beings freely invent who they are and the values they live by, all of these having meaning only in and through their project. This sort of responsibility is considered by him to be universal and absolute. As he remarks in his work entitled *Being and Nothingness*: "man being condemned to be free carries the weight of the whole world on his shoulders; he is responsible for the world and for himself as a way of being. We are taking the word "responsibility" in its ordinary sense as "consciousness (of) being the incontestable author of an event or of an object." In this sense the responsibility of the for-itself is overwhelming since he is the one by whom it happens that there is a world; since he is also the one who makes himself be, then whatever may be the situation in which he finds himself, the for-itself must wholly assume this situation with its peculiar coefficient of adversity, even though it be insupportable. He must assume the situation with the proud consciousness of being the author of it…" (Sartre 1956, pp. 553–554).

As Stephen Priest, editor of a comprehensive topic-based Jean-Paul Sartre volume entitled *Basic Writings*, considers, "Sartre's moral philosophy opens a conceptual space between absolute God-given morality on the one hand and naive relativism on the other. He insists that values belong only to the human world, and that we are uncomfortably free to invent them, yet he provides us with strict criteria for deciding between right and wrong. The essential concept in the establishment of this middle path is responsibility" (Priest 2001, pp. 191–192). Sartre's interpretation about people being in this way 'uncomfortably' free, and as a result, the notion of responsibility implying that *people are responsible for what they do*, means that "they do it, they could have refrained from doing it, and they are accountable (answerable) to others for doing it." All this is a consequence of Sartre's idea that, being humans, our *existence* precedes our *essence*. As Priest summarizes: "people have an ineliminable freedom, that we are responsible for what we are. We are nothing else but what we make of ourselves. It follows that everyone is wholly and solely responsible for everything they do" (Priest 2001, p. 192).

Responsibility for Sartre includes also a universal dimension. In choosing for myself I am implicitly choosing for others. All major decisions of a person are implicitly prescriptions, or at least recommendations of the same course of action to the rest of humanity. People cannot perform actions without being examples. Confronted with the full burden of their responsibility to humanity, people become anxious and tempted to escape from this situation by denying their freedom, by adopting hypocritical social roles, certain formalities of value systems and daily routines. This denial of freedom is called by Sartre ‘bad faith’ (mauvaise foi). He considers that despite our tendency to avert the realization of our identities as free conscious subjects we still are free and responsible.

Sartre’s idea about man’s absolute freedom correlated with absolute and unavoidable responsibility is totally the opposite of any kind of “free-floating responsibility” in the sense we have evoked before Zygmunt Bauman’s term for the Nazi era. Many of Sartre’s ideas are oriented against the anomalies of this era. But we shall indicate also his philosophy’s antagonism to the current responsibility-avoiding attitude in business and public life that tends to follow patterns of *bad faith*. This is why we need to reconsider his philosophy today, being ready to assume its consequences for our life.

Émmanuel Lévinas, Husserl’s and Heidegger’s student at Freiburg University, has also significant wartime experiences that influenced his conception of responsibility.[8] Lévinas made personal ethical responsibility to others the starting point and primary focus for philosophy. Assuming the idea that “Ethics precedes ontology,” Levinas in his work *Totality and Infinity* considers that responsibility transcends the primary structure of subjectivity, requiring in his methodical approach a turning “into the reverse of intentionality”. Responsibility always means my ‘responsibility for the Other.’ This existential responsibility is the only meaning of subjectivity. For Lévinas the “ground” of meaning emerges neither in intellect nor in imagination but in the moral responsibilities one person has for another. Accordingly, the ground of meaning and ethical relation have no epistemic or ontological preconditions because their possibility arises only in the encounter with the other, in the phenomenon called “the epiphany of face.”

The importance of the ‘face’ for Lévinas’ conception of responsibility was explained by himself as follows: “The face is always given as countenance. We meet this countenance in the look of the other, and it doesn’t declare itself: but behind it there is the weakness. […] the weakness is in fact unveiled, I would even say it’s naked. There is a nudity revealed: *Enthüllung*, ‘disclosure,’ is a state without shame; there is the moment in the human face which is the most naked and exposed state of human experience. Being is always exposed to consciousness: here it’s the mortal which is shown. Inevitably, together with this, there is also the command, or the imperative: do not leave me in solitude. You can’t abandon the other person. There is a Hebrew expression: ‘Here am I’; it’s used by Abraham. And the word which sums up this positioning is responsibility.” (Mortley 1991, pp. 15–16).

The responsibility understood in this context is of a special type correspondingly to the absolute unique nature of the Other. This specificity of Levinasian account of responsibility is also explained by him in the aforementioned interview as follows: “When I talk about responsibility and obligation, and consequently about the person with whom one is in a relationship through the face, this person does not appear as belonging to an order which can be ‘embraced’, or ‘grasped’. The other, in this relationship of responsibility, is, as it were, unique: 'unique' meaning without genre. In this sense he is absolutely other, not only in relation to me; he is alone as if he were the only one of significance at that moment. The essence of responsibility lies in the uniqueness of the person for whom you are responsible." (Mortley 1991, pp. 16–17).

The idea that makes Lévinas' thinking extremely relevant for today's discussions in business ethics, especially in CSR theory, is his opposition to egoism, to the tendency of reducing the Other to the I. His main finding is that ethics emerges exactly at this point, from our capacity of making the difference: "The strangeness of the Other, his irreducibility to the I, to my thoughts and my possession, is precisely accomplished as a calling into question of my spontaneity, as ethics" (Lévinas 1978, p. 43). As we have shown before, being a subject in this conception has nothing to do with a symmetrical position or a contractual obligation. It has nothing in common either with one's calculation of reciprocal benefit.

Beside Lévinas' conception of responsibility, which becomes very influential through the works of his followers, especially through the works of Jacques Derrida, the topic of responsibility also became notorious in the context of the need for a new ethics for the age of technology through Hans Jonas' work *The Imperative of Responsibility* (Jonas 1984). As a historian of religion interested in Gnosticism, follower of Heidegger, Jonas turned to the philosophy of nature, extending his existential philosophy and phenomenological analysis to include all forms of life. His attempt to search for an ethics for the technological age has its origins in the philosophy of Martin Heidegger, who in his work *The Question Concerning Technology* has been seeking to derive the essence of technology and humanity's role of being with it.

Technology and the technological age need a new ethical interrogation concerning man's responsibility for the very reason that the consequences of human action through technology have been dramatically expanded. The new dimensions of responsibility include the following aspects: (1) man's responsibility extends upon the whole biosphere of the planet because of his power over it; (2) changes in the spatial spread and timespan of the cause–effect structure of action include for now irreversibility, aggregate magnitude, and cumulative character; (3) because of such extension, the effects are much beyond our predictive capabilities, the "recognition of ignorance becomes the obverse of the duty to know" and also a part of our ethical concerns (Jonas 1984, p. 8); (4) man is morally called to adopt an attitude of stewardship and honour toward the biosphere, which makes rethinking the relationship between action (ethics) and being (metaphysics) necessary (Jonas 1984, pp. 6–8).

In his critical analysis, Jonas observes that the changed nature of human action changes not only the context of action but even the actor himself, causing major changes even in man's self-image, self-conception, and being, which should become part of our ethical concerns. Man making "the permanent, self-transcending advance to ever greater things" his vocation, deliberately subordinates his essence to one of his subsidiary parts allowing preeminence to *Homo faber* over *Homo sapiens*. Accordingly, Jonas calls to extend the realm of morality over the realm of making, which presupposes adopting imperatives of a new sort, starting with the imperative of man's presence in the world. Jonas' moral framework of responsibility is summarized in the following imperative including its different versions: "Act so that the effects of your action are compatible with the permanence of genuine human life" (Jonas 1984, p. 11).

Referring to the foundation of ethics that would match the new style of action, Jonas considers that this equally needs a doctrine of moral principles and a doctrine of their application. The first is a kind of "ideal" truth, but the second is a matter of scientific knowledge "about predictable future conditions of mankind and the Earth, on which those first, philosophic verities are to pass judgement" (Jonas 1984, p. 26). This "science of hypothetical prediction," or "comparative futurology" as Jonas has named it, has the role to provide "a heuristics of fear," making it easier to apprehend the values that are at stake. The idea behind this presupposition is stated later as what we must avoid at all cost is determined by what we must preserve at all cost. That is why Jonas considers that the first duty of an ethics of the future is visualizing the long-range effects of technological enterprise and the second is summoning up a feeling appropriate to what has been visualized.

Jonas considers that the new ethics in weighing the possible effects of technological processes on human future must treat scientific forecasts with a certain reserve, affirming as a basic rule that "*bad prognosis should be given precedence over good*" (Jonas 1984, p. 31). Therefore, all such decisions are attempts to set their rules according to the basic ethical imperative of preserving the future of humanity and may be treated as analogous to a risky game or a wager. This term calls us to ask ourselves in all human actions concerning their goals and side effects: for what stake is it ethically permissible to gamble with the interests of others? Jonas' answers are very enlightening in establishing rules for strategic decisions considering as follows: (1) levity and unscrupulousness are inadmissible (e.g., the disproportion between the partial nature of the interests pursued (my own) and the total nature of the interests risked (by others) should be a matter of serious concern); (2) there never is a good reason for the alternative of *win all or lose all*, so such a decision should never be made to gain a supreme good but only to prevent a supreme evil; (3) meliorism does not justify total stakes because "never the whole of the interests of others must be staked in the wager." (Jonas 1984, p. 36); (4) mankind has no right to suicide; (5) the existence of man must never be put at stake. This latter expresses the basic ethical axiom which validates all of those formulated by Jonas as follows: "Never must the existence or the essence of man as a whole be made a stake in the hazards of action." (Jonas 1984, p. 37). The "ought-to-be" ("ought-to-not") here expresses a binding obligation to man, guardian of being, that is, a responsibility toward it as the condition of future generations.

The insights presented in Jonas' work have substantially changed our sense of 'self-responsibility' because they demonstrate that responsibility today, even assumed, is grounded in collective and technological conditions that exceed our capabilities; therefore, being genuinely responsible requires dealing with these conditions, too. Such a circumspection based on the rule that "bad prognosis should give precedence over good" is highly recommended in any real case of CSR.

Examining the ideas of Husserl, Heidegger, Ingarden, Sartre, Lévinas, and Jonas in searching for features of a common moral idea, that is, responsibility, we can consider that the commitment to this idea is one of the spiritual undercurrents of the fairly different sorts of phenomenological philosophies, and it is also present in their concerns for methodically accountable procedures in any interpretation of our experiences. If the periodic review of the philosophical bases of our responsibility were included in the business teaching program, its outcomes certainly would change the idea, and as a result, even the practice of CSR, and would also raise the question whether the business environment is ready to accept these changes.

The Hardships of Genuinely Responsible Practice in CSR

The final purpose of rethinking the social role, the idea, and the practical situations of manifestations of responsibility is to promote ethical conduct by creating a valid conceptual framework for understanding all those intellectual and moral elements that are involved in a responsible and sustainable professional (business and economic) practice, including all the social impacts, the cases of attributing, bearing, or assuming responsibility, and their motivations. This requires first of all clear theoretical insights, logically and ethically correct reasoning about the problems that are at stake, and the values that are involved and our position toward them; that means searching and facing the truth with all its consequences setting aside any impediment. But at the same time we must not forget to make our ideas operational enough to be turned into practice in concrete cases. As one of today's business ethics specialists showed: "In the applied sciences, scholars have to analyze the interfaces between the world of theory and the life-world, too. During the last decades, business economics have gained remarkable influence on the knowledge bases of life-world actors, especially on those who are employed by organizations or conducting their own business. Life-world actors can choose between theories that seem to be suited to guide their strategies and actions. Actors are further guided by everyday theories, preferences, attitudes, beliefs, and values. Business economics cannot neglect the whole array of motivations that have an impact on actors' decisions; it has also to reflect on valuations that actually do or may permeate its concepts, applications intentions, and so on" (Haase 2004, p. 198).

Theoretical insights, although they are valuable assets in long-term vocational preparation, do not directly influence professional behavior in day-to-day practical situations. As we have shown in the introduction by referring to Aristotle's 'clever' man or *deinos*, being a specialist does not necessarily involve a genuinely responsible practice. It is so in the case of CSR, too, where the intentions and their perception do not always converge, and where being a specialist in CSR does not necessarily involve a genuinely responsible practice, or that you will reach the consensus of all parties involved.[9] This conflict has been proven in many concrete situations, and this seems to be true once again recently in Romania in the case of a well-known CSR specialist, John Aston.[10]

Mr. Aston is chief executive of the firm Aston Eco Management. His name in Romania is associated with expertise in sustainable development, CSR project implementations, conferences, courses, and training, but also with his participation as an organizer of the local population's protest against the hill excavation by Austrian Company Strabag in Banpotoc village, Hărău Communa, Hunedoara County.[11] After such antecedents it was a deception for people sensitive to environmental questions that he has accepted the position of Vice-President for Responsible Development at Roşia Montana Gold Corporation (in the following, RMGC), a company that is in charge of leading the controversial cyanide-based gold mining project in the Romanian region Roşia Montana. The project involves several threats to the local cultural heritage and the ecosystem.[12] As a result, until his resignation from this position, Mr. Aston has been subject to severe criticism from the adversaries of the project. Here we do not discuss in detail the whole issue of the open-cast gold mining and cyanide mining technologies, with their destructive and endangering effects for people in the surrounding area and on the natural environment, or the multiple questions raised by the relocation of population, neither the arguments for and against the whole project, which also includes the destruction of settlements and elements of local cultural heritage; but they cannot remain unnoticed in any discussion about CSR in this real case. Of course the company has its own arguments, such as profit, new workplaces, rehabilitation of the environment that is already affected by earlier mining activities, etc., arguments that also cannot be discussed here. We simply ask the question of what does CSR mean exactly in such conditions and how shall we understand the relationship between Mr. Aston's ideas as a specialist about CSR and his position as a member of the staff of RMGC.

This relationship is a really complex and problematic case which for a detailed philosophical analysis provides elements from every conception of responsibility discussed previously: (1) for many people who are stakeholders of the case, the way they feel responsible is part of a special vocation, but those who want to adopt a coherent position toward it should examine their more general 'conscious will' that guides all their life (Husserlian position); (2) the whole situation and everyone who is engaged in it is confronted with a difficult but also an unavoidable decision that will result in their gaining a new status and becoming accountable for it after adopting it, or even after declining it (Heideggerian but also Sartrean position); (3) the decision which is required is determined by objective conditions and universal values (an Ingardenian position); (4) some of the people involved consider that it is of crucial importance to hold their position because their decision will be considered an example by others, whereas some consider that it does not matter at all if they hold their position because the stakes are so high that they simply have no influence upon the course of events (Sartrean position); (5) although everybody speaks about interest in guiding the decisions, there are also those who consider that they should make their decision not according to their own interest but according to the interest of the Other, who is more affected by the situation and has no means to stand for his own interest. Among those who make decisions for the benefit of the others, some are mostly guided by their experience with local people whose hopelessness is a kind of Levinasian encounter with the Other (Levinasian position);

(6) an important perspective of conceiving responsibility in the decisions related to the project is that according to its effective and potential destructiveness for health but also for the natural and cultural environment it seems to be a perfect example for the apocalyptic possibilities inherent in modern technology and also for anthropocentric exclusiveness that can endanger the permanence of genuine human life on Earth (a Hans Jonasian position). A more profound analysis of the situation and the possibilities of people involved in it from the afore-presented ethical positions certainly would result a much articulate view, higher awareness of all problems, and a better perspective of the magnitude of stakes of such a project and would help in making more responsible decisions.

We think that the specificity of this case resides exactly in the discrepancy between a theoretically clear position and a controversial decision by the same person. In one of his articles, entitled "CSR is dangerous," Mr. Aston states that it is risky to talk about CSR because the careless and idealistic speech could be misleading and distract people's attention from the really important problems. Exactly this is the point of his article in which he affirms that, "just talking, writing reports or keeping discourses about CSR, as well as adding CSR departments and formal programmes without any influence or more, to just provide acceptance for a business lead "as usual" could cloak irresponsible business practices with the mask of responsibility and could undermine economy because of inappropriate business practices, unwise uses of the human, social, financial, natural and built capital" (Aston 2012). We have to ask here whether there is not any discrepancy between words and deeds. Many of his critics consider that in spite of Mr. Aston's declarations during his time as a RMGC representative, his real position concerning the multiple threats of the project has not been clear enough (including environmental disasters and eventually possibilities for RMGC to quit his contractual obligations if their cost became too high). We should also ask to what extent was his participation in the RMGC staff compatible with a coherent conviction about responsibility? It is not clear either how we should interpret another statement in the same article that affirms: "Anything we do, business, education, NGO's, governance or simply survive – we do share all of us equally the fault of permitting society to become unsustainable. And if we choose to mobilize ourselves, we can start a march together toward sustainability tomorrow. But will tomorrow ever come? Probably not, if we continue to modulate words instead of becoming determined and firm in our acts." (Aston 2012). Is this a call for really responsible (that means also cautious) action, or one for dismissing some responsibilities for the sake of others in a sort of simple utilitarian deal? We admit that it is not easy to answer the question whether the evoked facts are irreconcilably contradictory or not. If we accept the idea of Blowfield and Frynas that CSR, "can (…) mean different things to practitioners seeking to implement CSR inside companies and to researchers trying to establish CSR as a discipline; it can also mean different things to NGOs and to companies" (Blowfield and Frynas 2005, p. 501), then we do not necessarily consider this a case of moral corruption, but a good example that CSR in any of its real cases deals with complex and often contradictory situations, with conflicting interests. In any interpretation of CSR it is a morally relevant claim that, albeit CSR has a mere voluntary basis (beyond the legal requirements), it is authentic if and only if it means that the company will respect and guarantee up to its best capacities the relevant stakeholders' interests. CSR in this sense starts with the corporation's concerns to the interests expressed by the stakeholder groups in a *nonhierarchical*, *nondeceptive*, and *nonrepressive* open dialogue. In the case of any major investment, especially in the mining industry, in any situation when there is an acceptable (both socially and environmentally inoffensive) basis to start a corporate activity, an authentic business–government–society partnership is needed, which in the aforementioned case failed to be established, causing a conflicted, polarized situation.

For a better understanding of such situations we could rely on a normative but realistic model of responsible choice presented by László Zsolnai in his study *Moral Responsibility and Economic Choice* (Zsolnai 1997), which is an alternative to the utility maximizing rational choice model. In this conception moral responsibility emerges in complex choice situations when the outcome affects wide-ranging other parties more than the decision maker itself. Creating the model of responsibility relationship, Zsolnai uses Hans Jonas' idea that this relationship involves power, and asymmetry between the actor and the subject of his action as it is in the case of the parent (bearer of natural responsibility) and the statesman (bearer of contractual responsibility). "The economic decision maker – as Zsolnai put the case –, is somewhere in between the role of the parent and the role of the statesman. For example, while corporate managers have a number of stakeholders (customers, employees, suppliers, creditors) with whom their company has contractual relationships, there are usually other stakeholders (the local community, the natural environment) who are affected by the company's operations but towards whom the company has no contractual, only a natural responsibility." (Zsolnai 1997, p. 356).[13] Interpreting this vision from the perspective of Kenneth Goodpaster's concept of responsibility, which combines *rationality* and *respect for others*, will result in a model with three basic elements: applying ethical norms, promoting the achievement of our goals, and showing respect for affected parties (Zsolnai 1997, p. 357). We consider that the vital elements indicated by Zsolnai in his model of responsible decision making never could be attained at once in a mere legal or contractual basis, but their reconciliation is an unavoidable challenge to every moral actor who makes a case of self-responsibility of this in the sense that Husserl, Sartre, Levinas, or Jonas mean it. This would be (if possible) a reliable way to adopt a really responsible attitude in CSR in real-life situations. The question is whether a really responsible attitude with the financial interests of RMGC or any other company could be reconciled.

As a conclusion we consider that if CSR means that we are really concerned with the natural environment, we aim to 'contribute to a better society,' we can obtain extra opportunities to succeed in business, become able to treat the stakeholders of the firm in a more fair and effective manner and all of this is based on ethical values and performed freely – then we must recognize that we see real opportunities in CSR to reach a solid ground for responsible action in the corporate environment. Then there would be a chance that the conscientious CSR will revitalize our moral reasoning and will be a new theoretical and practical context for ethics.

Notes

1. "the *deinos* is a man who has all the natural prerequisites and gifts for this moral knowledge, a man who is able, with remarkable skill, to get the most out of any situation, who is able to turn everything to his advantage and finds a way out of every situation. But this natural counterpart to *phronesis* is characterized by the fact that the deinos is "capable of anything"; he uses his skills to any purpose and is without inhibition. He is *aneu aretes*. And it is more than accidental that such a person is given a name that also means "terrible". Nothing is so terrible, so uncanny, so appalling, as the exercise of brilliant talents for evil" (Gadamer 2006: 320).
2. In a paper dedicated to dismiss any sense of corporate social responsibility, Jessica Ludescher expresses a common attitude in this sense toward the idea of corporation and toward the idea of the market as well. According to her, "In corporations, nobody, not even the nominal owners who control the use of capital, bears full responsibility for the effects of contractual commitments on the profitability of the corporation as a whole, to say nothing of the effects of contractual commitments on all other (contracting and non-contracting) parties." and further on in another large section she expresses exactly the same attitude towards the market relations characterized by the same lack of any responsibility as follows: "We might hold all market participants ethically responsible for how they deal with one another, but we would not hold any one participant fully responsible for the effect of their contracts on the system as a whole. When a market crashes, we do not blame a single individual – though the recent financial meltdown has revealed a tendency to blame certain stakeholders, corporations, industries, governments, and even cultures. It might be more reasonable to hold them all responsible to some degree: in a sense, all market participants bear limited liability for the flourishing or failures of markets. It is the institution of limited liability that makes corporations functionally equivalent to markets and dissimilar to business enterprises." (Ludescher 2009).
3. The *postmoralist* society described by Gilles Lipovetsky is a tendency in ethical culture of Western societies characterized by post-modern individualism and ethics of personal well-being. For this ethical culture is a peculiar transfer from unconditional duties towards self, towards others, towards the collectivity, to individual rights and autonomy, to desire and happiness without any major sacrifice that do not have direct returns for oneself. So the *postmoralist* society does not relinquish all ethics, but admits only a painless ethic to which all austere duty is repugnant (Lipovetsky 1992. p. 14–15).
4. Hannah Arendt discussed 'the banality of evil' in her book about Nazi war criminal Adolf Eichmann, *Eichmann in Jerusalem* (1963). "Arendt consistently used the word "thoughtless" to explicate Eichmann's banality. As she stated, he could recite moral rules; he could even, when asked to do so in court, recite Kant's famous categorical imperative. But for him all rules referenced "the Führer's will", they were all the Führer's commandments. Eichmann could

neither ask himself nor think through the question that Arendt considered essential to moral experience, one that she (very challengingly) held was not at all a matter of following rules or serving any leader's will: "Could I live with myself if I did this deed?" She was prompted to a question by Eichmann's careerism and his thoughtless conformity: can banal motives block or stifle human fellow feeling and make a person inhumanly thoughtless, that is, unable to think?" (Young-Bruehl 2011).

5. In business ethics an attempt to build such a position grounded on phenomenological philosophy has Dag G. Aasland in his *Ethics and Economy After Levinas* (2009), where he wrote the following: "Instead of introducing a normative approach through telling others what is right and wrong, I shall instead introduce the normative by considering how the subject – the I – becomes responsible. In this I shall to a large extent lean on the works of the French-Jewish philosopher Emmanuel Levinas.", Dag G. Aasland: *Ethics and Economy After Levinas*, MayFlyBooks, London, 2009, p. 4. Our position is more comprehensive considering several aspects of responsibility in the philosophies of the major twentieth century European phenomenologists.
6. Dr. Melle considers that we cannot speak about Husserlian ethics as such; instead we should discern three periods with their relevant conceptions of ethics: (1) the pre-war ethics (the lectures on ethics up to 1914) with a strong parallel between ethics and logic; (2) the second period's ethics (from around 1919 to 1924), based on the genetic phenomenology of the life of the person and his role in history and culture; and (3) Husserl's latest ethics in which ethical considerations are mixed with metaphysical and theological reflections. (Melle 2002).
7. As Heidegger wrote: "*The "essence" of Da-sein lies in its existence*. The characteristics to be found in this being are thus not objectively present "attributes" of an objectively present being which has such and such an "outward appearance," but rather possible ways for it to be, and only this. The thatness of this being is primarily being. Thus the term "Da-sein" which we use to designate this being does not express its what, as in the case of table, house, tree, but being. 2. The being which this being is concerned about in its being is always my own.", and further: "Da-sein in my own, to be always in this or that way. It has somehow always already decided in which way Da-sein is always my own. The being which is concerned in its being about its being is related to its being as its truest possibility. Da-sein is always its possibility," (Heidegger 1996, p. 40).
8. Lévinas has spent a period as a French officer, prisoner of war in a German labor camp, while his wife and daughter were hidden and saved from deportation with the help of a French friend, Maurice Blanchot.
9. But as we have shown earlier, specialists may and should make a case of conscience of the awareness of their own responsibility including the study of the major aspects of responsibility in philosophical works.
10. As Romanian CSR-sites inform us, John Aston is a chartered member of the Institution of Civil Engineers in London, the British Hydrological Society and a registered European Engineer with FEANI in Brussels, who has implemented

complex multidisciplinary natural resource based projects in the UK, Ireland, Romania, France, Zimbabwe, South Africa, and Turkey and other countries. See: Saga Business & Community: "The Power to Change", CSR'07 – The Second International CSR Conference in Romania, 22nd–23rd of October 2007, http://www.csr07.ro/speakers.html, (Accessed 01 May 2012); see also: European CSR Lessons 2013, at ResponsabilitateSociala.ro, http://www.csrlessons.eu/en/speakers.html, (Accessed 25 July 2013); Aston Eco Management, http://astoneco.com/about-us%281-14%29, (Accessed 25 July 2013).

11. Sorina Popa: Lucrările la autostradă riscă să se blocheze, Mesagerul Hunedorean, 17 August 2011, http://www.mesagerulhunedorean.ro/lucrarile-la-autostrada-risca-sa-se-blocheze, (Accessed 01 May 2012); Sorina Popa: La Banpotoc, interesul bate autostrada, Mesagerul Hunedorean, 18 August 2011, http://www.mesagerulhunedorean.ro/la-banpotoc-interesul-bate-autostrada, (Accessed 01 May 2012); see also The Banpotoc Non-permitted Destruction. A Case Study, Center for Corporate Citizenship Romania, http://cccro.org/resurse/?lang=en, (Accessed 25 July 2013).
12. The Rosia Montana project, if realized, would be Europe's largest open-cast gold mining operation. Gabriel Resources' plan, to be economically feasible, would transform the valley of Rosia Montana, one of the oldest documented settlements in Romania, into four open-pit mines. The neighboring valley of Corna would be converted into an unlined cyanide storage 'pond' covering a surface of up to 600 ha, held back by a 180-m high dam. The pits would generate roughly 196.4 million tonnes of cyanide-laced waste. (…) To make way for this mega-project, more than 2000 people would have to be relocated. Many are subsistence farmers who do not wish to leave their lands. The IFC had projected that the mine would employ a workforce of 250–300 people over the mine's estimated lifespan of 15 years. (Source: Stopping the Rosia Montana Gold Mine, Mining Watch (2003), Canada, http://www.miningwatch.ca/stopping-rosia-montana-gold-mine). (Accessed 01 May 2012).
13. In Jonas' view, although the statesman represents an artificially created officium, the parental relation is natural, although they show similarities, too, namely, neither of them can allow themselves a vacation or pause in their care. (Jonas 1984, p. 105).

References

Aasland, D. G. (2009). *Ethics and economy after Levinas*. London: MayFly Books.

Arendt, H. (1963). *Eichmann in Jerusalem: A report on the banality of evil*. New York: Viking Press.

Aston, J. (2012). CSR-ul e periculos [CSR is dangerous], *ResponsabilitateSociala.ro*. Retrieved March 4, 2012. http://www.responsabilitatesociala.ro/editoriale/csr-ul-este-periculos.html

Bauman, Z. (1989). *Modernity and the holocaust*. Cambridge: Polity Press.

Blowfield, M., & Frynas, G. J. (2005). Setting new agendas: Critical perspectives on corporate social responsibility in the developing world. *International Affaires, 81*, 499–513.

Center for Corporate Citizenship Romania. *The Banpotoc non-permitted destruction. A case study.* Center for Corporate Citizenship Romania. Retrieved July 25, 2013, from http://cccro.org/resurse/?lang=en, *Companies Act 2006* – Legislation.gov.uk. Retrieved March 4, 2012. http://www.legislation.gov.uk/ukpga/2006/46/contents

Dahlsrud, A. (2007). How corporate social responsibility is defined: An analysis of 37 definitions, Wiley Inter Science (www.interscience.wiley.com). *Corporate Social Responsibility and Environmental Management, 15*(2007), 1–13.

European Commission. (2001). *Green Paper Promoting a European framework for Corporate Social Responsibility*, Brussels. Retrieved March 4, 2012. http://ec.europa.eu/rapid/press-release_DOC-01-9_en.pdf

European Commission. (2011). *A renewed EU strategy 2011–14 for Corporate Social Responsibility*, Brussels. Retrieved March 4, 2012, from http://ec.europa.eu/enterprise /policies/sustainable-business/corporate-social-responsibility/index_en.htm

European Union: Eco-management and audit scheme, Regulation (EC) No 1221/2009 of the European Parliament and of the Council, 25 November 2009, on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS). http://ems.iema.net/downloads

Gadamer, H.-G. (2006). *Truth and method* (2nd, rev. ed.). London/New York: Continuum.

German Action Plan for CSR – Federal Ministry of Labour and Social Affairs: National Strategy for Corporate Social Responsibility – Action Plan for CSR – of the German Federal Government Berlin, 6th October 2010, Bonn, 2010. Retrieved March 4, 2012. http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a398-csr-aktionsplan-englisch.pdf ?__blob=publicationFile

Haase, M. (2004) Business ethics: Between normativism, illusion and responsibility. In L. Zsolnai (Ed.), *Ethics in the economy. Handbook of business ethics*, Oxford et al: Peter Lang 2002, xiii+331 pp., Zeitschrift für Wirtschafts- und Unternehmensethik, Jahrgang 5 (2004), Heft 2., pp. 193–198.

Heidegger, M. (1996). *Being and time: A translation of Sein und Zeit*. Albany: State University of New York Press.

Heidegger, M. (2002). The struggle for a historical worldview. In M. Heidegger (Ed.), *Supplements: From the earliest essays to being and time and beyond*. Albany: State University of New York Press.

Husserl, E. (2004). Einleitung in die Ethik. Vorlesungen Sommersemester 1920–1924, *Hussetrliana. Edmund Husserl Gesammelte Werke Band XXXVII*. Dordrecht/Boston/London: Kluwer.

Ingarden, R. (1970). *Über Verantwortung. Ihre ontischen Fundamente*. Stuttgart: Reclam.

Ingarden, R. S. (1975). *On the motives which led Husserl to transcendental idealism*. The Hague: Martinus Nijhoff.

Jonas, H. (1984). *The imperative of responsibility: in search of an ethics for the technological age*. Chicago: University of Chicago Press.

Kowalski, J. (1973). Roman Ingarden, Über die Verantwortung. Ihre ontischen Fundamente [Review]. *Revue Philosophique de Louvain, 71*(11), 631–635.

Lévinas, É. (1978). *Totality and infinity: An essay on exteriority* (A. Lingis, Trans.). The Hague/Boston: Martinus Nijhoff.

Lipovetsky, G. (1992). *Le crépuscule du devoire*. Paris: Gallimard.

Ludescher, J. (2009, April 7). Corporate social responsibility. *Harvard International Review*. http://hir.harvard.edu/archives/1856#respond

Melle, U. (2002). Edmund Husserl: From reason to love. In: J. J. Drummond & L. Embree (Eds.), *Phenomenological approaches to moral philosophy* (pp 229–248). Dordrecht/Boston/London: Kluwer.

Mining Watch Canada. (2003, Autumn). Stopping the Rosia Montana gold mine Samedi. *Mining Watch Canada Newsletter*, *14*. Retrieved March 4, 2012. http://www.miningwatch.ca/fr/node/4868

Mortley, R. (1991). *French philosophers in conversation*. London: Routledge.

Popa, S. (2011, August 17). *Lucrările la autostradă riscă să se blocheze, Mesagerul Hunedorean*. Retrieved March 4, 2012, from http://www.mesagerulhunedorean.ro/lucrarile-la-autostrada-risca-sa-se-blocheze

Popa, S. (2011, August 18). *La Banpotoc, interesul bate autostrada, Mesagerul Hunedorean*. Retrieved March 4, 2012, from http://www.mesagerulhunedorean.ro/la-banpotoc-interesul-bate-autostrada

Priest, S. (2001). *Jean-Paul Sartre, basic writings*. London: Routledge.

Raffoul, F. (2010). *The origins of responsibility*. Bloomington: Indiana University Press.

Reynolds, M. A., & Yuthas, K. (2008). Moral discourse and corporate social responsibility reporting. *Journal of Business Ethics, 78*, 47–64.

Sartre, J. -P. (1956). *Being and nothingness: An essay on phenomenological ontology* (trans: Hazel, E. Barnes). New York: Philosophical Library.

The Economist. (2004, January 22). *Two-faced capitalism. Corporate social responsibility is all the rage. Does it, and should it, make any difference to the way firms behave?* Retrieved March 4, 2012. http://www.economist.com/node/2369912

The Economist. (2011, January 27). *Milton Friedman goes on tour. A survey of attitudes to business turns up some intriguing national differences*. Retrieved March 4, 2012. http://www.economist.com/node/18010553

Ungvári Zrínyi, I. I. (2009). Dialogic ethics for business. In L. Zsolnai, Z. Boda, & L. Fekete (Eds.), *Ethical prospects: Economy, society and environment* (pp. 19–40). Dordrecht: Springer.

Young-Bruehl, E. (2011, August 19 Friday). The capacity for evil can spread like an epidemic. *guardian.co.uk*. Retrieved March 4, 2012. www.guardian.co.uk/commentisfree/2011/aug/19/the-banality-of-evil-arendt

Zsolnai, L. (1997). Moral responsibility and economic choice. *International Journal of Social Economics, 24*(4), 355–363.

Chapter 5
Erosion of Sovereign Control: Deliberation, 'We-Reasoning,' and the Legitimacy of Norms and Standards in a Globalized World

Juljan Krause and Markus Scholz

Introduction

In a globalized economy, rules, norms, standards, and guidelines increasingly emerge outside the traditional democratic framework: rather than deliberated and passed in parliament, new forms of business standards are the result of intercorporational efforts, which prompts urgent questions about their legitimacy. These new ways of establishing norms are often referred to in terms of multi-stakeholder initiatives (MSI), clubs, private authority regimes, private law, or private regulation (see Brammer et al. 2012; Cashore et al. 2004; Coglianese and Nash 2001; Dingwerth 2007; Fransen 2012; Hahn 2011; Mattli and Büthe 2003; Potoski and Prakash 2009; Prakash and Potoski 2006a, 2006b; Scherer et al. 2006; Windsor 2004). A key requirement for assessing the legitimacy of MSI guidelines is a thorough assessment of the processual nature by which these norms emerge: only if this process is fair, we are inclined to consider a norm legitimate. The analysis of this process of norm emergence is the focus of this chapter. In particular, the question how norms arise out of negotiations among a limited number of stakeholders is unclear. We draw on recent advances in social philosophy and argue that 'ethics guidelines' that

The authors appear in alphabetical order.

J. Krause (✉)
Affiliate at the Center for Corporate Governance and Business Ethics,
University of Applied Science, Vienna, Austria
e-mail: juljan01@yahoo.co.uk

M. Scholz
Endowed Chair of Corporate Governance & Business Ethics, University of Applied Science, Vienna, Austria
e-mail: markus.scholz@fh.wien.ac.at

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_5

emerge outside sovereign control are better understood if read against recent literature on 'collective intentionality' (Gilbert 2006; Searle 1995; Tuomela 2007) and 'team game theory' (Bacharach 1999, 2006 and Sugden 2000, 2008; cf. Hakli et al. 2010).

Building on Hakli et al. (2010),[1] we present a team game theoretical model in which actors switch between an 'I-mode' that is only concerned with what is best for the corporation, NGO, or stakeholder they represent, and a 'we-mode' that is genuinely concerned with what is best for the MSI as a whole. In 'we-mode' thinking, actors take a meta-perspective and reflect on what is best for them as a team or group. There is a trade-off between maximizing one's own expected payoff, that is, seeing a guideline agreed upon that is only optimal for oneself or the group or institution one represents, and maximizing the expected outcome of the group by agreeing on a standard that considers all positions at the table fairly. We show that actors who are not concerned with the payoff of the whole group are indeed better off if they follow egoistic strategies.

However, actors who are willing to reason along the lines of what is best for the group should cooperate and deliberate so that they eventually pass a guideline that has been subject to honest deliberation. This result deviates from the standard prisoners' dilemma in that it is not rational for individual actors who have a strong inclination toward thinking in a 'we-mode' to defect and behave egoistically. The important point is that it is not sufficient for a new norm or standard to simply be passed by a sufficient number of actors for it to be legitimate: legitimacy requires more than the simple fact that some kind of agreement has been reached. Only if the inclination toward 'we-reasoning' is sufficiently strong, the newly found standard or norm is a truly legitimate one. Hence, legitimacy turns into an endogenous factor in norm-setting processes that is intrinsic to the dynamics of the MSI in question. Only if important conditions of processual fairness and minimal coercive power are met, a standard that emerges outside traditional democratic frameworks can be labeled legitimate (Hahn 2011; Fransen 2012; Quack 2010a, b).

This chapter proceeds as follows. The next section discusses in some detail new forms of MSI and the ways in which the emergence of new standards and norms can be approached by team game theory. It reviews some of the important work that has recently been done in this field and argues that the issue of legitimacy has not yet received the attention it deserves. The third section introduces a game theoretical model that aims to capture the key issues in MSI negotiations. Actors can switch between two kinds of reasoning ('I-modes' and 'we-modes'). The degree to which they are inclined to genuinely reason from the point of view of the group will have an impact on the kinds of agreements that can be reached. One of the insights the model generates is that it is in the rational self-interest of 'we-reasoning' stakeholders to cooperate and deliberate fairly, hence deliberation is not simply a moral issue: legitimacy is a question of rationality. The final section concludes.

The Legitimacy of Multi-Stakeholder Initiatives

In a globalized world, national governments are increasingly losing the power to regulate business practices, in particular those of transnational corporations (TNC), for example, in terms of labor standards that prevent human right abuses or environmental standards. The emergence of a democratically constituted global institution that would regulate TNC, that is, a world government, is quite unlikely a prospect. This issue is commonly referred to as the 'governance gap' (Dingwerth 2007; Djelic and Quack 2010). It is, however, widely acknowledged that economic activity requires rules (e.g., property rights, contractual rights and obligations), and the necessary enforcement mechanisms for stable markets to be possible at all (Scherer et al. 2006, p. 505). Importantly, such 'rules of the game,' as Milton Friedman (1962, 1970) would have put it, are beneficial for corporations in the sense that they, for instance, render legal decisions less volatile, balance different levels of bargaining power, and generally reduce transaction costs. In addition, TNC face increasing pressure from nongovernmental organizations (NGO) to follow certain business practices. In an attempt to fill the governance gap, many regulatory guidelines, as well as their enforcement mechanisms, are now being worked out and implemented by corporations themselves (Windsor 2004).

Two kinds of approaches are being discussed in the literature in this respect. Attempts to draw up regulatory guidelines with little or no participation of other stakeholders such as NGOs or representatives from national governments are usually referred to as 'business-driven programs' (BDP).[2] Because BDP oftentimes systematically exclude a wider audience of stakeholders from developing new regulatory frameworks, the legitimacy of these programmes is often questioned (Fransen 2012). In this paper, therefore, we focus on multi-stakeholder initiatives. MSI bring together noncorporate stakeholders and businesses to discuss and eventually develop adequate regulatory frameworks that hope to solve pressing social and environmental issues. Although MSI have received some scholarly attention, primarily from fields such as business ethics, political theory, and international relationships, the question of the legitimacy of these new regulatory frameworks remains an urgent one. These new regulatory frameworks have a great impact on both public perception of business behavior as well as decision-making processes within corporations (Hahn 2011, pp. 123–124; cf. Potoski and Prakash 2009; Prakash and Potoski 2006b). For this reason, a thorough analysis of the complex ways by which these guidelines emerge is needed.

An increasing number of authors suggest drawing on international political theory to investigate the legitimacy of these new norms and standards (Djelic and Quack 2010; Dingwerth 2007; Hahn 2011; Klinke 2009; Quack 2010a, b). In particular, deliberative political theory (also known as discursive policy) informs much of the debate. Deliberative political theory considers authentic, sincere, and honest deliberation the primary source of legitimacy. In its traditional approach, the ideal form of deliberation is concerned with pursuing one shared token goal. "Democratic processes are oriented around discussing [the] common good rather than competing for the promotion of the private good of each. Instead of reasoning from the point of view of the private utility maximizer, through public deliberation, citizens transform their preferences according to public-minded ends, and reason together about the nature of those ends and the best means to realize them" (Young 1996, pp. 120–121; see Mansbridge et al. 2010, pp. 66–67). The legitimacy of a norm or standard can be assessed by comparing the dynamics of its emergence to this idealized scenario. However, as we argue next, legitimacy does not exclude some degree of self-interest among the stakeholders involved.

Deliberative political theory is already being applied to the analysis of the legitimacy of forest certification schemes (Overdevest 2010), for instance, or the regulation of financial markets (Morgan 2010). Usually, the analysis of the processes by which new laws, rules, and norms come about is broken down into three levels: the input, throughput, and output dimensions (Hahn 2011, pp. 126–128; cf. Risse and Kleine 2007; Klinke 2009). The analysis of the input dimension provides information about the participants in decision-making processes and whether these processes are sufficiently inclusive, that is, whether relevant stakeholders have been considered. The so-called throughput dimension, which is the focus of this chapter, looks (in its descriptive form) at the characteristic features of the decision-making process itself, namely, the distinctive character of discursive processes (modes of communication, bargaining power, preference aggregation, transparency, underlying motives of the actors involved, etc.). Finally, the output dimension investigates if the newly found laws, rules, and norms provide efficient solutions to the problems at hand (Hahn 2011, pp. 126–128).

There are many reasons why corporations voluntarily participate in such programs. They hope to reduce transaction costs (thereby reducing legal and moral uncertainties), avoid calls for tougher regulation on a national level or pressure from NGOs (in the worst case consumer boycotts), or work towards a new understanding of extended global corporate citizenship with its respective rights and responsibilities (corporate citoyens). (For an overview, see Matten and Crane 2005; Scherer et al. 2006). Although these reasons may differ from case to case and TNC to TNC, it is reasonable to assume that some corporations participate for instrumental reasons. MSI primarily aim to prevent negative externalities and create positive ones (Potoski and Prakash 2009, p. 2). Positive and negative externalities result from market failures, as market mechanisms alone do not promote the socially optimal output levels (Pigou [1920] 1960). Generally, market failures are caused by asymmetrical information among the actors involved, which entails uneven levels of bargaining power. For instance, it might be the case that producers continue to use environmentally damaging input factors (e.g., palm oil), because they are unaware that their customers would be willing to pay more for less damaging and harmful ingredients. Conversely, even if TNC reassure their customers that they use environmentally friendly input factors exclusively, such announcements may fall on deaf ears if consumers do not consider a TNC trustworthy. As Potoski and Prakash argue, '[i]nformation asymmetries coupled with the lack of assurance mechanisms prevent actors from transacting business. In such situations the market has "failed," and the gains from win-win exchanges have not been realized' (Potoski and Prakash: 2009, p. 4).

Typically, the solution for these kinds of market failures is for governments to intervene in market transactions (Pigou [1920] 1960; cf. Coase 1960). National governments could, for instance, put in place laws that prevent negative externalities (e.g., to protect the environment) or introduce labels and certificates that inform consumers about the origins of ingredients (e.g., nongenetically modified organisms). However, in a globalized world, the capacity of national governments to implement norms and standards (which could prevent the creation of negative externalities) or certify certain practices (that could inform customers about a producer's trustworthiness) is steadily decreasing. Hence, if society is burdened with negative externalities that result from corporative actions, and when corporations face strong pressure from stakeholders (e.g., in the form of NGO protests), and when national governments are not powerful enough to provide adequate solutions to these problems, then a new form of governance is needed. This is why voluntary programs such as MSI can be useful. As Potoski and Prakash explain: "[voluntary programmes] seek to reconfigure the institutional space between the potential exchange participants by providing new rules and new mechanism to facilitate exchange. In effect, they create a new market for corporate reputation – one could perhaps call it a 'market for virtue'" (Potoski and Prakash 2009, p. 4; Vogel 2005).[3] Recent contributions in business ethics confirm this view: although some corporations consider themselves corporate citizens, others primarily seek a license to operate, that is, they seek legitimacy (Conzelmann 2012, p. 194; Palazzo and Scherer 2006; Scherer et al. 2006; Suchman 1995; Vogel 2005). TNC are looking for a kind of moral legitimacy that "refers to conscious moral judgments on the organization's output, procedures, structures and leaders. Moral legitimacy is socially constructed by giving and considering reasons to justify certain actions, practices, or institutions" (Palazzo and Scherer 2006, p. 73). To gain such moral grounding, these authors argue that corporations should engage in processes of public communication, that is, in deliberative and inclusive processes that are conducive to building up a level of legitimacy which turns them into trustworthy actors. "And the more active citizens in their different stakeholder roles become, the greater the need to deal with their demands in a discursive way. Stating this we are able to conceptualize the process by which corporate moral legitimacy must be reproduced: by placing corporations into public communication network [sic]" (p. 81).

Hence, a thoroughgoing analysis of the very structure by which new forms of legitimacy emerge in deliberative processes is a pressing issue: legitimacy has turned into an endogenous factor in corporate strategy. Rather than a desirable attribute that is awarded by an external credible source, such as a sovereign national government, the problem of legitimacy is now a constructive one in that it is generated from within. The issue of legitimacy no longer pertains to the output dimension of standard-setting procedures but is inseparable from input and throughput dimensions. As Fransen argues: "Inclusiveness, expertise-based effectiveness and procedural fairness thus contribute in different ways to the notion that the institutional design of multi-stakeholder-governed voluntary programmes, in normative-theoretical terms, can be considered more legitimate than the institutional design of business-driven programmes that exclude societal stakeholders; or, in empirical social science terms, is likely to be granted more legitimacy by relevant actors" (2012, p. 169). Fransen concludes that "the evidence presented suggests that there is indeed pressure in voluntary programme policy fields to organize governance with inclusion of various stakeholders in order to be seen as legitimate by an outside audience of governmental, intergovernmental and non-governmental organizations" (2012, p. 165). Moreover, there is an explicit "normative pressure on voluntary programmes to adhere to what is understood *as appropriate*" (2012, p. 170; emphasis added). It is the emergence of this kind of endogenous normative pressure on which the following section focuses.

What is to be understood as 'appropriate' may have been subject to deliberation: we follow Mansbridge et al. and define deliberation broadly as 'communication that induces reflection on preferences, values and interests in a non-coercive fashion' (2010, p. 65), but often coercion will play a role. It is the sometimes subtle, sometimes obvious forms of guiding the formation of attitudes of others in the throughput dimension that requires more attention. The fact that a new standard or norm is agreed upon by an inclusive number of stakeholders does not in itself render it legitimate. Legitimacy requires coercion in the throughput dimension to be kept at a minimum. Only if there is an actual 'we-reasoning' among a sufficiently large number of stakeholders that takes into account the perspective of the entire group, the norm can be a legitimate one.[4] A dominant stakeholder (e.g., a powerful corporation or popular NGO) that gets others to sign up to their preferences may push through a norm that has been agreed to by all, but one would hesitate to call it legitimate. We believe that it is reasonable to assume that stakeholders do not enter negotiations from a neutral perspective. It is this interplay of vested interests and concerns for the entire group in MSI that is modeled in the following section.

'We-Reasoning' in Deliberative Processes: A Team Game Theoretical Approach

Business guidelines regulate business activity: they are a special case of what Searle (1995) calls 'regulative rules.' In our context, the norm or standard counts as a definite rule (or soft law, as it is sometimes called) that enables doing business in a sustainable way in certain countries and/or industries; for example, the Forest Stewardship Council's deliberations aim to regulate the issue of deforestation in a global context; bringing together, among others, Kingfisher, Faber-Castell, the WWF, and the ICCO (see Fransen 2012 for an overview of recent MSI initiatives).

It is a necessary but not sufficient condition for a new standard to pass that all stakeholders intend the standard to pass. This is by no means a trivial issue, as recent advances in social philosophy on this matter attest. Searle's (1995) account has proved highly influential among social philosophers who aim to analyze the ways in which collectively shared intentions serve as preconditions for collective action. For collective action to be possible, actors must be intending to do the same thing; for example, the collective action to paint a house together requires (and supervenes on) the intention to paint a house together. Matching intentions, formed individually in the minds of actors and unobservable by others, are the preconditions for acting successfully together. "With consciousness comes intentionality, the capacity of the mind to represent objects and states of affairs in the world other than itself" (p. 7). If intentionality is so intimately tied to consciousness, it is unlikely that there can be any bargaining situation in which intentions play no role. This is to say that intentions and intentionality will always be a factor in dynamic negotiations, whether or not they are subject to debate or self-reflection. It is extremely implausible to conceptualize negotiations as entirely free of individual, and perhaps egoistic intentions on the part of the actors involved. Hence it is plausible to assume that actors arrive at the negotiating table with certain ideas, belief, desires, and hopes: the bargaining situation is not 'tabula rasa.'

MSI are no exception. Actors do not enter the arena of debate without having some pre-formed intentions or expectations on some baseline level; they do not sit down at the table without having formulated a notion of the outcome they would welcome given their preference sets. This is especially true, when, for instance, the delegates at the table are representatives of large trade organizations who obviously represent a larger institution whose interest may or may not coincide with the preference sets of individual actors that act as their agents. In short, we assume here that there is no such thing as an 'innocent' deliberative bargaining situation. As far as the regulation of business activity is concerned, the move toward increasingly endogenous forms of regulation complicates the relationship between deliberation, collective action, and rule-making. It should be notes that we are taking a descriptive point of view here. From a normative standpoint one could argue that the organizers of MSI must provide mechanisms that keep status asymmetries and uneven levels of bargaining power in check. For the purposes of this chapter, however, we assume that such asymmetries in power, status, and intentions exist.

Actors enter negotiations with certain strategies in mind and expect certain outcomes. They have preferences about the kinds of norms they would like to see implemented when they represent specific industries or corporations. In this sense, the arena of deliberation is no neutral space in which power was distributed evenly. Furthermore, as Krause (2012) argues, even in nondeliberative collective action problems in which agents do not come together to deliberate at length about a problem at hand, power and status issues play a role: agents can be brought to give up on their own position and join in on collectively intending to pursue a certain action that is actually against their interests, all things considered. The coercion toward agreeing to a wage or pension cut if other employees have agreed to do the same is a prominent example. The fact that actors are empathic agents who are forward-looking means that some agents adopt the views of a dominant actor in the group even *before* deliberation begins: expecting their position to be untenable given the distribution of bargaining power, they conclude that to avoid punishment in the future, it is best to agree to contribute to an action which is actually not optimal for them. The puzzling insight is that in some situations agents actually act against their interests but do so voluntarily. It is precisely because of the anticipation of future losses that attitudes are being aligned in subtle processes in which lengthy deliberation and honest communication do not matter.

We follow Bacharach (1999) and Hakli et al. (2010) to illustrate the key issues in strategic deliberations on a new norm in the following team game theoretical framework.[5] In this model actors have a choice between strictly following their own interests and only aim for what is best for the organization they represent regardless of the outcome for others. The alternative is that players can adopt a genuine concern with the outcome for the whole group. If they adopt the view of the group, the aim is to secure an outcome that is best for the group as a whole but perhaps not optimal for themselves as individual players. Essentially, players can switch between an 'I-mode' that aims to maximize individual payoffs and a 'we-mode' that aims to work out what is best for the entire group. Hence the trade-off is between optimizing a payoff for oneself (as a representative of a specific cooperation, NGO, or other stakeholder) and contributing to an optimal group payoff that is the best plan for the entire MSI. If actors adopt the view of the group, they adopt its preference structure expressed as a share of it. This strategy ensures that although groups have a preference as a group, a group only 'lives' through and is defined by its members. Hence there is no supra-human group agent or otherwise implausible entity.[6]

At the negotiating table, actors pursue either of two strategies. They can deliberate (D). This state is characterized by an honest and sincere approach to deliberation; one is willing to actively participate, listen to the points other players make, and compromise if necessary. Alternatively, they can follow an entirely egoistic strategy (E) that is only concerned with pushing through one's own agenda. This is a strategy of skillful agents who may come across as actively and openly participating but manage to get their way at the expense of other actors.

For simplicity, assume that there are only two agents who negotiate on a norm on behalf of an NGO (player 1) and a large cooperation (player 2). For the moment we ignore the possibility of taking a group's perspective, so players can only act in the I-mode. Both players can choose to either deliberate in good faith (D) or play egoistically (E). If they both deliberate, they find a genuine compromise that yields a result (payoff) which is lower than what they could have achieved had they pushed through their own agenda at the expense of the other player. If one player manages to skilfully persuade others to follow their lead, the payoff of the dominant player is higher than what she or he could ever have achieved under a compromise as she did not have to give up on anything. It is zero for the other player who negotiated in good faith and did not realize that the dominant player actually followed her own agenda. In this case, a norm will be issued that only represents the preferences of the dominant player.

Players can avoid falling into this trap by insisting on their own individual, egoistic strategies. If both players behave egoistically, no genuine deliberation is taking place. To save their faces, the players quickly agree on a watered-down agreement that does not really do much justice to anybody but is of no harm either. This outcome still secures a positive payoff for everybody as it is better than to leave with nothing at all, and actors can still defend their actions to the stakeholders they represent as having managed to agree on at least something. But the payoff in this case is of course lower than what they could have achieved had they found a compromise that considered all positions in a balanced way. This gives the following matrix, which is functionally and logically equivalent to the well-studied Prisoners' Dilemma (PD):

	D	E
D	3,3	0,4
E	4,0	2,2

The rows of the table represent player 1's options, the columns represent player 2. If both players agree to deliberate, they take each other's views into account, compromise, and reach an agreement. Assuming that they meet halfway, they both secure a payoff of 3 (DD in the upper-left corner of the matrix). However, if player 1 plays egoistically and pushes her ideas through while player 2 believes that actual deliberation is taking place (the lower-left cell of the table), player 1 secures the highest payoff of the game as she manages to get player 2 to agree to a norm or guideline that actually only serves player 1's interests (the payoff for player 2 is therefore 0, as argued above). The game is symmetrical, so the same rationale holds for the situation in which player 1 is willing to deliberate but player 2 behaves egoistically.

Such an outcome is typically the result of significantly uneven levels of bargaining power. Each player's bargaining power depends on a large number of factors. "Every feature that could affect the cost of leaving or not entering the negotiation affects bargaining power, including one's best alternative to a negotiated agreement and the effects of the status quo of one's position. Possessing information and the resources to gather information, having ample time to wait, and many other factors all affect bargaining power" (Mansbridge et al. 2010, p. 91). Bargaining power can also entail that both players insist on their egoistic strategies: when they play egoistically and no one is willing to compromise, both players agree to pass a poor norm and leave with a payoff of 2 (the lower- right cell of the table).

The combination (2,2) is the only equilibrium of the game. If the players act rationally so as to maximize their payoffs (and we assume they do), then they will both decide against sincere deliberation and pursue an egoistic strategy. Consider the decision problem player 1 faces: if player 2 decides to deliberate (we are in the left column of the table) then it is optimal for player 1 to be egoistic (a payoff of 4 is better than a payoff of 3). But if player 2 decided to negotiate egoistically (now we have moved to the right column of the table), player 1 is also better off if she is egoistic (2 is better than 0). Hence, regardless of player 2's choice, player 1 will choose E. Because the game is entirely symmetrical, the same holds for player 2, who will also choose E irrespective of player 1's choice: this makes (E,E) the only equilibrium of the game. Both secure a payoff of 2. The perplexing result is that both players would have been better off had they chosen (D,D). (D,D) is strictly better than (E,E) but not available to them; only a pseudo-norm passes that has not been subject to sincere deliberation.

Moving away from traditional game theory, consider the case in which both players can switch between an 'I-mode' and a 'we-mode'. In the I-mode, they reason according to what is best for them individually. In the we-mode they reason according to what is best for the group as a whole. This introduces a group preference to the game matrix (here to be taken the average of both players' individual payoffs):

	D	E
D	3,3,3	0,4,2
E	4,0,2	2,2,2

Again, the first figure in each cell denotes the payoff of player 1, the second figure that of player 2, and the third figure represents the group preference as the average share each player holds if the group is considered as a whole. So in the case of (D,D), the group payoff is necessarily the same as in the individual cases. In both (D,E) and (E,D), one player takes it all (4) and the other player leaves with nothing. From a group's perspective, both players still hold an average share of 2 over the total payoff for the group. It is obvious that (E,E) is still the best strategy if all players are in the I-mode (the game collapses to the standard form of the Prisoners' Dilemma). When the entire group is in the we-mode however and concerned with optimizing the group pay-off, (DD), deliberation, is the best response: only (DD) secures a share of the group's payoff of 3, all other forms of interaction (one actor deliberates and the other one behaves egoistically, or both insist on egoistic strategies) secure only a share of 2. Note that this is not the outcome of the standard PD game in which it is beneficial for actors to deviate from a socially optimal plan and play 'egoistically.' In the augmented game above where actors reason in a we-mode that takes a reflexive position on a meta-level, it is desirable to deliberate and really work together. This solution is not just a question of 'being nice' to each other, or only morally desirable: it is rational to deliberate honestly as it maximizes one's share of the overall payoff. In contrast to the standard PD case, deliberation is the optimal strategy.

However, it is not realistic to assume that all actors simply adopt a fully fledged we-mode: some may do so, others may not. More importantly, some may be more *inclined* toward we-mode thinking than others but would not let others at the negotiating table know this; otherwise they would compromise their bargaining position. The actual inclination of other actors to adopt a group-level perspective cannot be observed, despite what actors may say. But if it is not known whether players operate in the we-mode, four different scenarios are possible: (1) Both players are in the we-mode and aim to maximize the group payoff. (2) Player 1 is in the we-mode but player 2 is in the I-mode. (3) Player 1 is in the I-mode and player 2 is in the we-mode. (4) Both players are in I-mode. Let δ denote the inclination of each player to deliberate, expressed in terms of probability, that is: $0 \leq \delta \leq 1$, which means that if $\delta = 1$, both players deliberate; if $\delta = 0$, both pursue egoistic strategies and play in the I-mode. If, for instance, $\delta = 0.5$, then there is a 50 % chance that both players will deliberate.

Given this, the expected utilities of each player and that of the group can be calculated as the sum of payoffs across the matrix multiplied by the likelihood of their occurrence. The expected payoff *E(P)* of the whole group, $E(P_{1,2})$, for (DD) under the assumption that (E,E) is still the best response for players in the I-mode can therefore be calculated as follows:

$$E(P_{1,2})(DD \mid E, E) = \delta^2 P_{1,2}(D, D) + \delta(1-\delta) P_{1,2}(D, E) + \delta(1-\delta) P_{1,2}(E, D) + (1-\delta)^2 P_{1,2}(E, E) \tag{5.1}$$

The first term captures the expected outcome for deliberating with a like-minded player, the second term denotes the expected payoff of player 1 deliberating but player 2 is egoistic, the third term captures the chance of player 1 being egoistic but player 2 deliberates, and finally, the fourth term captures the outcome of both players pursuing their egoistic strategies.

If the entire group is in the we-mode, four different cases emerge as far as possible and potential group strategies are concerned. (1) Both players choose to deliberate (this is the best response if $\delta = 1$ as argued above). (2) Player 1 deliberates, player 2 is egoistic (DE). (3) Player 1 is egoistic, player 2 deliberates (ED). (4) Both players are egoistic (EE). In the following, we give the expected payoffs for individual players for case (1); the calculations of the remaining payoffs are easily done by manipulating the terms according to which scenario the group is in. The expected payoff of player 1, $E(P_1)$, can therefore be calculated as follows. Under deliberation (DD), we obtain:

$$E(P_1)(D \mid E, DD) = \delta^2 P_1(D, D) + \delta(1-\delta) P_1(D, E) + \delta(1-\delta) P_1(D, D) + (1-\delta)^2 P_1(D, E) \tag{5.2}$$

In (5.2), player 1 deliberates regardless of what the second player does. When she is in the we-mode (the first two terms), she pursues D anyway. Similarly, for egoism follows:

$$E(P_1)(E \mid E, DD) = \delta^2 P_1(D, D) + \delta(1-\delta) P_1(D, E) + \delta(1-\delta) P_1(E, D) + (1-\delta)^2 P_1(E, E) \tag{5.3}$$

In this case, player 1 chooses E regardless of player 2's actions but plays D if in the we-mode.

The expected payoff of player 1 for playing E if player 2 chooses D (and DD is the best response of the group) is

$$E(P_1)(E \mid D, DD) = \delta^2 P_1(D, D) + \delta(1-\delta) P_1(D, D) + \delta(1-\delta) P_1(E, D) + (1-\delta)^2 P_1(E, D) \tag{5.4}$$

And finally, if player 1 pursues D, given that player 2 does the same and the group plays DD:

$$E(P_1)(D \mid D, DD) = \delta^2 P_1(D, D) + \delta(1-\delta) P_1(D, D) + \delta(1-\delta) P_1(D, D) + (1-\delta)^2 P_1(D, D) \tag{5.5}$$

The following tables give calculations for $\delta = 0.8$; that is, there is an 80 % chance that actors operate in the we-mode.

DD	D	E
D	3, 3, 3	2.4, 3.2, 2.8
E	3.2, 2.4, 2.8	**2.64, 2.64, 2.64**

DE	D	E
D	0.6, 3.8, 2.2	0, 4, 2
E	0.96, 3.36, 2.16	0.4, 3.6, **2**

ED	D	E
D	3.8, 0.6, 2.2	3.36, 0.96, 2.16
E	4, 0, 2	3.6, 0.4, **2**

EE	D	E
D	2.04, 2.04, 2.04	1.6, 2.4, 2
E	2.4, 1.6, 2	2, 2, **2**

The upper-left cell in the corner denotes the strategy combinations the actors choose when they find themselves in the we-mode: DD means that both players deliberate, DE means that player 1 deliberates but player 2 plays egoistically, etc. To find the equilibrium of the game, consider the outcome of (D,D,DD), the upper-left cell of the first matrix. In this case, it would still be beneficial for player 1 to switch tactics and play E, as it yields a higher payoff: 3.2 > 3. But the incentive to do so is now much lower than in the standard PD case: the relative advantage of playing egoistically decreases sharply. The same is true for player 2, which again leaves the lower-right corner as the only possible equilibrium for individual strategies. But is it an equilibrium as far as the group strategy is concerned? Indeed it is. The group payoff under DD (2.64) is higher than any other group payoff under different strategies (2): for instance, if actors are in the we-mode and follow a strategy (DE), meaning that player 1 deliberates and player 2 is egoistic, the group payoff could only ever be 2. The same holds for the two remaining potential group strategies (ED) and (EE). Hence the strategy (DD) – 'if you are in the we-mode, then deliberate' – is the only equilibrium of the game even when δ is uncertain.

In the standard PD game where there is no we-mode thinking, that is, no concern for the group at large, one's share of the overall payoff can only ever be 2. But once we allow for the fact that actors can be motivated by what is best for the group, even when the inclination to do so is uncertain, the share of all players increases regardless of their actual strategies of either being egoistic or deliberate: in the case of $\delta = 0.8$, this relative advantage of a group's perspective is 0.64 (2.64 > 2). It is advantageous to consider the group's perspective, if only imperfectly so: for any $\delta < 1$, it is still rational for I-mode players to be egoistic just as in the standard PD game. However, their share is higher thanks to group thinking. In the case of actual we-reasoning among everybody, that is, $\delta = 1$, the standard PD equilibrium holds no longer.

Hence the central insight of this game that produces the strategy (E,E,DD) as the only equilibrium is the following: 'If you operate in the I-mode, be egoistic. But if you are in the we-mode, then be serious and really deliberate with others.' The important point here is that this is not a *moral* message. To argue in favor of deliberation, and hence cooperation, is not an appeal to an ideal, perhaps utopian, state of deliberation actors should aspire to for the sake of a greater social good, for example, human rights, social cohesion, or sustainable economic and environmental development. Such appeals may or may not fall on deaf ears. Rather, the above model illustrates that a call for honest and sincere deliberation can be made *solely by appealing to actors' rational self-interests*. If players aim to maximize their payoff, it is in their own best interest to deliberate if they are in the we-mode. Importantly, the more actors are inclined to reason in the we-mode, the less beneficial individual egoistic strategies become. To illustrate this, consider the following tables that represent payoffs for $\delta=0.9$.

DD	D	E
D	3, 3, 3	2.7, 3.1, 2.9
E	3.1, 2.7, 2.9	**2.81, 2.81, 2.81**

DE	D	E
D	0.3, 3.9, 2.1	0, 4, 2
E	0.49, 3.69, 2.09	0.2, 3.8, **2**

ED	D	E
D	3.9, 0.3, 2.1	3.69, 0.49, 2.09
E	4, 0, 2	3.8, 0.2, **2**

EE	D	E
D	2.01, 2.01, 2.01	1.8, 2.2, 2
E	2.2, 1.8, 2	2, 2, **2**

If the we-mode is more likely ($0.9>0.8$), the relative advantage of deliberation as the group's strategy also increases: $2.81>2.64$. If the chance of encountering actors who sincerely deliberate is high, then expected payoffs are high. If I make a commitment to deliberation myself, then the chance that others at the negotiating table interact with a committed deliberator increases, which in turn increases the expected payoff for the whole group as well as my share of it. This should be enough of an appeal to actors to commit to honest deliberation. Again, this is not a moral appeal, nor an appeal to good conscience. It is an appeal to the actors' own interest, which will probably not fall on deaf ears.

Importantly, even those stakeholders who still pursue their egoistic strategies because they are in the I-mode and egoism is their best response now have an interest to push up the overall inclination toward honest deliberation. Under $\delta=0.8$, the expected payoff for individual egoists is 2.64. If $\delta=0.9$, their payoff is 2.81. So even egoistic players who are committed to their I-mode have a rational interest in getting as many stakeholders as possible to operate in the we-mode. They are relatively better off following their egoism if more stakeholders are in the we-mode because then the relative gains from defecting from an optimal group scenario are higher.

To sum up the dynamics of this game: in the standard PD case, actors at the negotiating table can only act in the I-mode and maximize what is best for the organization they represent. Being egoistic and refraining from honest deliberation is the equilibrium of the game. With the introduction of we-reasoning, actors can differentiate between what is optimal for their organization or the MSI as a whole. In the ideal scenario that all actors are genuinely willing to reason in the we-mode ($\delta = 1$), 'deliberation' is the dominant strategy and DD the equilibrium of the game: this equilibrium generates a higher payoff for each player involved ($3 > 2$) and is not possible to achieve in the standard PD case. If δ is unknown, it is optimal for players in the traditional I-mode to behave egoistically just as the traditional PD game suggests but optimal for players in the we-mode to deliberate. Now, for any $\delta < 1$, the strategy combination (E,E,DD) is the dominant one.

However, the payoff for each actor regardless of their motivation rises in δ. A higher inclination toward we-reasoning δ increases both the payoff of deliberating and that of egoistic players, as explained and illustrated for $\delta = 0.8$ and $\delta = 0.9$. If the payoff for all players rises in δ, and the structure of the game is common knowledge, it is desirable for rational actors to move toward $\delta = 1$, even if they have initially preferred an egoistic strategy under a pure I-mode. Only $\delta = 1$ secures a payoff of 3 for everyone, which is the highest of all strategy combinations. This payoff is not possible to gain under the standard PD case. The important point is that $\delta = 1$, that is, a real commitment to honest deliberation, maximizes the payoff of all actors involved and *it is therefore rational to convince the group to think as a group*. An appeal to morality or fairness is not required.

Discussion

The foregoing findings have important implications for the discussion of legitimacy: the fact that a norm or guideline passes the throughput dimension and is therefore agreed upon does not automatically render it legitimate. In line with the emerging body of literature with a critical focus on collective intentionality, the fact that agents agree to join in on collectively intending to a certain path of action does not necessarily make the action 'theirs'. In our case, norms can be issued as the result of strategy combinations of the game that are not optimal: the lower-right corners of the matrices above produce norms that constitute a suboptimal payoff.

Hence, the central insight of this model is the following: *only norms that are issued under the strategy combination (E,E,DD) are legitimate*. Only (E,E,DD) is an equilibrium of the game, and it captures the intuitive understanding that legitimacy requires a norm to have come out of a robust process of deliberation so that legitimacy actually "can be understood as the conformation with social norms, values, and expectations" (Palazzo and Scherer 2006, p. 71). The higher actors' inclination toward sincere deliberation, the higher the expected payoff of the entire group will be (and hence each actor's or representative's share of it). At the same time, the norm's degree of legitimacy will increase. Moreover, for $\delta \rightarrow 1$, the group payoff approaches 3 and amounts to a possible yield that is unattainable in the I-mode scenario of the standard PD game. For $\delta = 1$, everybody reasons in the we-mode and egoistic concerns play no role.

We find support for our findings in recent contributions to deliberative theory. Mansbridge et al. consider the traditional definition of deliberation as entirely free of coercive power and vested self-interests untenable. Rather, they argue that even if agents have their own agendas, their discussions can still meet the criterion of good deliberation (and hence legitimacy) if they adhere to standards of processual and procedural fairness. What is required for what they term 'fully cooperative distributive negotiations' is that "participants enter a deliberation with conflicting interests, but, after deliberating on the content of those interests and on the principles of fairness appropriate to adjudicating them, adopt a distributive agreement that all consider fair. Distributive negotiations differ from integrative negotiations in having zero-sum outcomes. That is, although the parties reach an agreement that is better for each than the status quo or the other alternatives available, they give up some part of what they want to get an agreement" (Mansbridge et al 2010, pp. 71–72).

This scenario is exactly what happens in (E,E,DD). Players who operate in the we-mode 'adopt a distributive agreement that all consider fair' and genuinely deliberate about a new standard or norm. This new standard or norm is legitimate. They 'reach an agreement that is better for each than the status quo or the other alternatives available'. Indeed, if stakeholders operate in the we-mode then their best choice is deliberation: the expected payoff under DD is larger than that of either ED, DE, or EE. At the same time, however, 'they give up some part of what they want to get an agreement' as they could secure, at least theoretically, a payoff of 4 in the individual mode when they play egoistically with actors who negotiate in good faith. The equilibrium norm under (E,E,DD) is legitimate but it does still allow for diverging interests to come into play as actors in the I-mode behave egoistically. Hence legitimacy does not require the utopian state of perfect deliberation among all stakeholders involved as the classical approach suggests. But it does require a sufficiently large number of stakeholders to reason in the we-mode and choose sincere deliberation as their approach to negotiations.

This is why the strategy combinations (E,D) and (D,E), regardless of what players choose in the we-mode, are unable to produce a norm that can be called legitimate: these payoffs do not reflect what one would like to call good deliberation. Again, we find the results of the foregoing model confirmed in recent deliberative theory where it is precisely argued that 'the use of threats in addition to promises moves the negotiations in question from "fully cooperative" distributive negotiations, a form of *deliberative* negotiation in which parties stand up for their interests and seek a fair outcome that incorporates those interests fairly, to distributive negotiations among "cooperative antagonists," a form of *non-deliberative* negotiation in which the parties deploy threats, a form of coercive power, to achieve their ends" (Mansbridge et al. 2010, p. 90; emphasis in original).

Interestingly, recent studies observe an increasing alignment or similarity in procedural reasoning by which new guidelines emerge (Bernstein and Cashore 2007; Overdevest 2010; Fransen 2012). It seems that participants develop a 'feel for the game' (Bourdieu 1977) and that indeed δ is increasing.

Conclusion

With the demise of government institutions as actors in the formulation of norms and guidelines, legitimacy has turned into an endogenous factor that must be established within the deliberative process itself; legitimacy can no longer be granted ex post by an outside authority. Our approach models legitimacy as such an endogenous factor. It establishes a direct link between the issues of legitimacy and rationality in collective action: *it is rational for payoff-maximizing agents to seek as much legitimacy as possible*. This goal can be achieved by committing to as much of a we-reasoning approach as possible to secure an outcome that is impossible to achieve in the standard PD game.

We hope that our analysis will help steer the discussion away from a focus on idealized discursive practices toward a realist approach that considers norms and guidelines as fundamentally shaped by asymmetrical interests and statuses. The question of power cannot simply be ignored but needs to be addressed from a normative perspective. If power is constitutive of the state of affairs in negotiations, it needs to be considered. Our argument is exactly that power and sincere, honest deliberation are anything but mutually exclusive. Stakeholders can switch between modes of reasoning and (their bargaining power in negotiations notwithstanding) be persuaded that fair deliberation is beneficial for all. Neither do we claim that representatives from NGOs and corporations enter negotiations with eternally fixed sets of preferences. As Manin et al. argue in an early paper on political decision making, individuals who participate in such processes 'only partially know what they want' (1987, p. 364). We believe the same is true for decision making in MSI. The representatives involved are not necessarily complete antagonists. They can be: this is the case when each and every player operates in the I-mode. It is more likely, however, that there is a variety of interests and strategies. Some wish to cooperate and deliberate sincerely from the start, some will be persuaded to do so as negotiations continue, and others will stick to their principles and only do what is best for them. We hope our findings here put participants in MSI in a better position to reflect on the dynamics of their task. For participants who wish for a strong norm to pass upon which everybody can agree, a strong inclination toward 'we-reasoning' is to be recommended. For corporations, this means to renew their 'licence to operate' thanks to participating in a process that is truly legitimate (and be championed as such by various social groups).

Our findings should be of some interest to organizers of MSI. As recent contributions to the debate suggest (Mansbridge et al. 2010, p. 90) and as argued above, some participants enter MSI negotiations for instrumental reasons and actors involved differ in terms of status and bargaining power. Our model shows how instrumentally rational agents should behave to secure a legitimate outcome. However, for some participants it might be difficult to switch to the we-mode as outlined. In this case, negotiations may stall or a watered-down norm may be passed. The best organizers of MSI can do is to stimulate actual we-reasoning among participants by setting corresponding rules of the game to keep coercion to a minimum. The ways in which organizers of MSI can achieve this is a normative question and cannot be addressed within the scope of this paper.

Notes

1. We are grateful to Raul Hakli from the University of Helsinki for his help with the calculation of the matrices.
2. For an overview of BDP and MSI see Fransen 2012, p. 167, Table 1.
3. See Vogel (2005) for the "market for virtue."
4. A good example is ISO 26000, which brought a large number of stakeholders together (see Hahn 2011 for an analysis).
5. We apply Hakli et al.'s (2010) insights about different kinds of modes of reasoning in collective action problems to the issue of formulating a norm. The following is an illustration of Bacharach's (1999) 'unreliable team interaction' (UTI). See Bacharach (1999) for a generalized approach to team game theory and the formal requirements for UTI equilibria to exist.
6. For an overview of recent debates on whether collective intentions constitute a collective subject see Krause (2012).

References

Bacharach, M. (1999). Interactive team reasoning: A contribution to the theory of co-operation. *Research in Economics, 53*, 117–147.

Bacharach, M. (2006). *Beyond individual choice: Teams and frames in game theory*. Princeton: Princeton University Press (ed. by Gold, N. and Sugden, R.).

Bernstein, S., & Cashore, B. (2007). Can non-state global governance be legitimate? An analytical framework. *Regulation and Governance, 1*, 247–371.

Bourdieu, P. (1977). *Outline of a theory of practice*. Cambridge: Cambridge University Press.

Brammer, S., Jackson, G., & Matten, D. (2012). 'Corporate social responsibility and institutional theory: New perspectives on private governance', *Socio-Economic-Review*, Special issue: Corporate social responsibility and institutional theory: New perspectives on private governance, *10*, 3–28.

Cashore, B., Auld, G., & Newsom, D. (2004). *Governing through markets: Forest certification and the emergence of non-state authority*. New Haven: Yale University Press.

Coase, R. H. (1960). The problem of social cost. *Journal of Law and Economics, 3*, 1–44.
Coglianese, C., & Nash, J. (Eds.). (2001). *Regulating from the inside: Can environmental management systems achieve policy goals?* Washington, DC: Resources for the Future.
Conzelmann, T. (2012). A procedural approach to the design of voluntary clubs: Negotiating the responsible care global charter. *Socio-Economic Review, 10*, 193–214.
Dingwerth, K. (2007). *The new transnationalism: Transnational governance and democratic legitimacy*. Basingstoke: Palgrave Macmillan.
Djelic, M. L., & Quack, S. (Eds.). (2010). *Transnational communities. Shaping global economic governance*. Cambridge: Cambridge University Press.
Fransen, L. (2012). Multi-stakeholder governance and voluntary program interactions: Legitimation politics in the institutional design of corporate social responsibility. *Socio-Economic Review, 10*, 163–191.
Friedman, M. (1962). *Capitalism and freedom*. Chicago: University of Chicago Press.
Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits, *New York Times Magazine*.
Gilbert, M. (2006). Rationality in collective action. *Philosophy of the Social Sciences, 36*, 3–17.
Hahn, R. (2011). Internationale standardisation and global Governance'. *Die Betriebswirtschaft, 71*, 121–137.
Hakli, R., Miller, K., & Tuomela, R. (2010). Two kinds of we-reasoning. *Economics and Philosophy, 26*, 291–320.
Klinke, A. (2009). Deliberative Politik in transnationalen Räumen – Legitimation und Effektivität in der grenzüberschreitenden Umweltpolitik zwischen Kanada und USA. *Politische Vierteljahreszeitschrift, 50*, 774–803.
Krause, J. (2012). Collective intentionality and the (Re)production of social norms: The scope for a critical social science. *Philosophy of the Social Sciences, 42*, 323–355.
Manin, B., Stein, E., & Mansbridge, J. (1987). On legitimacy and political deliberation. *Political Theory, 15*, 338–368.
Mansbridge, J., et al. (2010). The place of self-interest and the role of power in deliberative democracy. *The Journal of Political Philosophy, 18*, 64–100.
Matten, D., & Crane, A. (2005). Corporate citizenship: Toward an extended theoretical conceptualization. *Academy of Management Review, 30*, 166–179.
Mattli, W., & Büthe, T. (2003). Setting international standards: Technological rationality or primacy of power? *World Politics, 56*, 1–42.
Morgan, G. (2010). Legitimacy in financial markets: Credit default swaps in the current Crisis' special issue on Law and legitimacy in transnational governance. *Socio-Economic Review, 8*, 17–45.
Overdevest, C. (2010). 'Comparing forest certification schemes: The case of ratcheting standards in the forest sector', Special issue on law and legitimacy in transnational governance. *Socio-Economic Review*, *8*, 47–76.
Palazzo, G., & Scherer, A. (2006). Corporate legitimacy as deliberation: A communicative framework. *Journal of Business Ethics, 66*, 71–88.
Pigou, A. (1920, 1960). *The economics of welfare* (4th ed.). London: Macmillan.
Potoski, M., & Prakash, A. (2009). *Voluntary programs – a club theory perspective*. Cambridge: The MIT Press.
Prakash, A., & Potoski, M. (2006a). Racing to the bottom? Trade, environmental governance, and ISO 14001. *American Journal of Political Science, 50*, 350–364.
Prakash, A., & Potoski, M. (2006b). *The voluntary environmentalists: Green clubs, ISO 14001, and voluntary environmental regulations*. Cambridge: Cambridge University Press.
Quack, S. (2010a). Law, expertise and legitimacy in transnational economic governance, Special issue on law and legitimacy in transnational governance, *Socio-Economic Review*, *8*, 3–16.
Quack, S. (2010b). Law, expertise and legitimacy in transnational economic governance: An Introduction. *Socio-Economic Review, 8*, 3–16.

Risse, T., & Kleine, M. (2007). Assessing the legitimacy of the EU’s treaty revision methods. *Journal of Common Markets Studies, 1*, 69–80.

Scherer, A., Palazzo, G., & Baumann, D. (2006). Global rules and private actors: Toward a new role of the transnational corporation in global governance. *Business Ethics Quarterly, 16*, 505–532.

Searle, J. R. (1995). *The construction of social reality*. London: Penguin Press.

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*, 571–610.

Sugden, R. (2000). Team preferences. *Economics and Philosophy, 16*, 175–204.

Sugden, R. (2008). Nash equilibrium, team reasoning, and cognitive hierarchy theory. *Acta Psychologica, 128*, 402–404.

Tuomela, R. (2007). *The philosophy of social reality: The shared point of view*. Oxford: Oxford University Press.

Vogel, D. (2005). *Market for virtue*. Washington: Brookings Press.

Windsor, D. (2004). The development of international business norms. *Business Ethics Quarterly, 14*, 729–754.

Young, I. M. (1996). Communication and the other: Beyond deliberative democracy. In S. Benhabib (Ed.), *Democracy and difference*. Princeton: Princeton University Press.

Part III
Healthy, Fair and Sustainable Business Cultures

Chapter 6
Morality as an Index of Mental Health of the Organization: Building a Model of Healthy Leadership

Julija Bulatova

Introduction

In this article, parallels are drawn between the organization and the morally healthy, mature personality. The psyche is a self-regulating adaptive system. Evolutionarily, the psyche of the human was developed in the process of work and social life and is a product of brain activity. To be healthy, the psyche must reflect the real world adequately. In psychotic conditions, determination of brain activity by the real world becomes deviated; mental disorders disrupt almost all cognitive and emotional spheres, such as learning skills, employment capabilities, abilities to sustain relationships, and hygiene (Nebylitzyn 1991). Human psyche abilities for moral comprehension slow down from inability to experience shame; primitive concerns gradually substitute for the highest human qualities, if such could be developed in the first place (Pavlov 1955, 2001; Gannushkin 1964; Gilchrist et al. 2012). As by McCuire et al. (1994), mental illnesses decrease moral virtues and tend to increase selfishness; this seems especially true for the severe psychological disorders, such as schizophrenia and psychopathy (Nesse 2001; Shaner et al. 2004).

To function properly, the psyche needs certain conditions, which balance its work of arousal and inhibition (Pavlov 1955). The studies of stress by Selye (1974) confirmed Pavlov's statements on arousal of the nervous system, linking that to the idea of homeostasis. It was proved that stress is needed for adaptive functioning (Aldwin 1994; Selye 1991), and it is important to find its optimal individual level both, brain activity's understimulation (no problems to solve) and its overstimulation (too many tasks, task diversity, time constraints, conflicting motives, lack of resources, etc.) in the long run lead to disruptive personality changes and are therefore dangerous. Attention to the physiology of the psyche is stressed here to

J. Bulatova (✉)
Riga International School of Economics and Business Administration, Riga, Latvia
e-mail: julija.a.bulatova@gmail.com

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_6

underline that the psyche is absolutely crucial and at the same time a very vulnerable product of evolution. It requires careful and responsible attitudes on individual and societal levels.

Balancing different aspects of life and work–rest as well as work–play is emphasized in many schools of thought (e.g., Buddhism and other religions, ancient philosophy, medicine, classical psychophysiology), but some business environments continue to ignore this need for a healthy brain.

In work, the phrase 'no rest for the weary' (meaning there is no rest for the already overworked and tired person because there is still work to be done) describes tragic reality and a certain ignorance of such organizations. The amoral part appears in the negative impact of such businesses for society, as they are contributing to its 'psychopatization.' Recent studies of medical and management research (Amanzhol et al. 2011) that concentrated on sleep and work balance concluded that mental health is in danger if the organism does not receive sufficient rest. It was found (Christian and Ellis 2011) that sleep deprivation correlates with reduced self-control (particularly of the emotional sphere) and increased hostility. As pointed out, this can have serious implications in terms of safety, antisocial behaviors, deviance, and customer service.

According to the WHO Ottawa Charter for Health Promotion, health "is a positive concept emphasizing social and personal resources, as well as physical capacities." (http://www.who.int/healthpromotion/conferences/previous/ottawa/en/). Health means not only being free from illness, injury, or pain, but is "a state of complete physical, mental, and social well-being" (WHO 2006). Mental health, too, is understood as something more than the absence of mental illness: although the majority of the population does not suffer from a diagnosable mental disorder, it is clear that some individuals are mentally healthier than others, and often mental health is meant as a synonym for psychological maturity.

Grimak (1987), concluding his studies of the human brain reserves, states that stability of the human psyche (in critical situations) depends on a person's will, his/her awareness of the directedness of life, and its intentionality. Also, other studies of psychological maturity include the concept of life purposefulness and awareness of moral duties (starting from Freud 1937; Jung 1991; and the more contemporary studies of Taylor 1977; Miller 2007). It is within human abilities to predict the situations in a sequence, and this has its moral implication: we are responsible for our actions (De George 1999).[1] Being able to respond for the consequences of the actions and choose tasks corresponding to our capacities, time constraints, context, etc. is therefore a sign of psychic maturity. The Selye analysis of endocrine and nervous system activities was summed up in his "code of behavior," which stresses the importance of enlightenment for human life: the search for the sense of life and a need for work. Emptiness of existence results in mental disaster, and together with other factors causes distress, which is toxic (Selye 1991).

As to biological perspective, it is argued that moral traits are sexually attractive (Miller 2007) and serve as indicators of mental fitness: they are judged as reliably revealing good mental health, brain efficiency, genetic quality, and capacity for sustaining cooperative sexual relationships as well as investing in children (Gurven et al. 2000). A social psychology study of moral virtues indicates the presence of a halo effect: information that a person is morally virtuous (e.g., honest) increases ratings of his/her mental health and physical attractiveness (Paunonen 2006).

This chapter argues that to have a healthy business, leaders should consider the physiological peculiarities of the psyche and think about proper conditions for its functioning. Not only stress balance is emphasized: attention to creativity and establishing the environment for moral growth to occur are also within the focus of the argument. The idea of proper functioning is connected with a stakeholder theory, and the concept of shame and its role in moral growth are addressed.

Psychological Factors Causing Unhealthiness of the Organization

Among the factors contributing to unhealthiness, "bad" or "poor" leadership should be mentioned first. Several studies (Morris et al. 2008) emphasize that the leader must be recognized as a 'change agent' who has a vision of what the future holds for the organization. The transformational leadership approach (Bass and Steidlmeier 1999; Burns 2003) had to be revised soon after its introduction, as it became clear that not all the transformations lead to positive changes and followers' self-actualizations, but a large number of such 'transformations' cause withdrawals and emptiness because of the short-term, selfish, and manipulative character of some charismatic leaders, who initially attract followers with their visions and creativity; to distinguish among them, the "pseudo-transformational" concept of leadership has appeared (Barling et al. 2008). Howell and Avolio (1992), in analyzing charismatic leadership, suggest separating ethical and unethical charismatic leaders (Ciulla 2005; Brown and Mitchell 2010).

Indeed, the business scandals of various iconic companies, such as Bear Stearns, Enron, Allied Irish Bank, WorldCom, AIG, Parmalat, Barclay Bank, and many others, practically demonstrate how the ability to motivate and charm, combined with intelligence, can be a concise tool in the generation of personal wealth. Boddy (2011) states the problem of financial crisis is observed in the light of leaders-psychopaths who continue to make decisions that shake world financial stability and longevity. Psychopaths have no empathy to others, are prepared to lie, and are very disorganized in their management (Boddy 2010).

Kellerman (2004) uses the term "toxicity" and mentions seven different key points of toxic leaders: (1) incompetence, (2) rigidity, (3) intemperance, (4) callousness, (5) corruption, (6) insularity, and (7) evil. "Corporate narcissism" is another close concept; its psychoanalytical roots claim that narcissists are able to make people fall in love with them by manipulating others in a charming manner, and followers (who gradually become codependents) are blind to notice that such leaders are driven by self-absorption, arrogance, and the need for admiration (Lubit 2004; Lipman-Blumen 2005; Kets de Vries 2009). Symington (1993) believes that pathological organizations are not able to differentiate narcissistic characters and instead of excluding them from key positions are promoting them. A success factor of 'good-enough organizations,' according to Symington, is linked to the ability of sensing shameless and egocentric personalities and 'keeping them under control.'

Lack of shame, low anxiety, lack of empathy, magnetic superficial charm, and manipulativeness are among the qualities of psychopathic leaders (Gannushkin 1964; Lipman-Blumen 2005; Lubit 2004). Their selfish leadership attracts similar narcissist or dependent personalities (Lipman-Blumen 2005; Allio 2007; Kets de Vries 2009) and ruins others around them by implementing intrigues, mobbing, and despotism (Kellerman 2004), which destroys the organization in the long run.[2]

Another factor of unhealthiness is the resistance to change, which is discussed broadly in managerial literature (Schein 2010; Strebel 1998; Anderson and Ackerman-Anderson 2010). Fears of the unknown, fears of being scorned, of losing the comfort zone, codependency, and habits (Maurer 1996) are factors that are often mentioned in these regards. Speaking of habits from a physiological point of view, it is a neuron connection, distinguished by enhanced readiness to action (Grimak 1987), an acquired pattern of behavior that often occurs automatically (Pavlov 2001). Automatic actions facilitate the work of the nervous system: it saves time (Grimak 1987; Iljin 2005). Work routines, procedures, and other organizational culture artefacts form and follow from the automatic reactions of the participants (Shein 2010); people solve dilemmas, manage conflicts, and meet new tasks because of their habits, that is, their neuronal connections.

That connection may explain the difficulties of introducing ethics in business environment: the habitual way of thinking about the organization is financial perspective with its efficiency maximization paradigm (profit gains, minimization of expenses, etc.), which automatically judges ethics from the prospects of numbers: will the company encur extra costs or will it gain? and if gain, how much and in how "short" a period? Business, however, is just a part of the societal system with its cultural traditions, education, art, religion, history, law, morality, healthcare, communication systems, etc… and not the center for which everything is a resource or context with their threads and opportunities. Further study is needed to investigate this statement, but it seems business is moral in the societies and in the hands of leaders who do not pathologically exaggerate its self-worth in societal life (see also Collins 2001).

Returning to behavior, it connects the organism to the environment in three main ways: instinctively, habitually, and consciously (Hayes 2000). To break the habits of unhealthy routines of working communication, mobbing, bossing, etc. and to build a platform for collaboration and trust, conscious control and moral strengths for so doing are required, as breaking the habit is enormous work for the system (for the individual psyche, and much greater on the group level).

Stress, for example, can be also observed as a matter of habit; stress tolerance level increases with training and time (Selye 1974), and distress (negative stress) to a certain degree transforms into stress required for a 'normal' functioning (Bodrov 2006). Moreover, it often results in obsession with being stressed by those who constantly experience it, an "ego-protective" useful habit: it permits a person to be aloof, evil, un-caring, un-patient, tough, tired, lonely. Also, stressing others becomes a habit. It is a habitual self-permission to test other people's psychological limits, to play psychological games, to use violence (Kantor 2006; Kets de Vries 2009). According to cognitive dissonance theory (Festinger 1957), it is enough to cross only once the borders of morality for the attitude toward this action to change. If the action is repeated (Nebylitzyn 1991; Pavlov 1955), and especially if it is rewarded (Bandura, in Hayes 2000), this leads to normalization of such an act of behavior and thus to the habit.

The next argument is the role society plays in the ‘unhealthiness problem’ in business. Here, three main interconnected questions can be posed: values of consumerist society, extremes of values in business, and lack of education. To Lipman-Blumen (2005), toxic leadership is the fault of everybody; she discovered there is a continued tendency among contemporary society to seek authoritative characteristics among corporate and political leaders, and she connects it with emotional weaknesses of the public and lack of education regarding what leadership really means (see also Lawrence 2006). For the same reason, Allio (2007) calls this era ‘a poor leadership epidemic.’

To be healthy often means to be in harmony, to be able to balance different life aspects, psychological skills (Taylor 1977), it means not to be ‘either–or’ on any of the scales (Leonhard 1989; Eizenck 1976; Cattell, in Tucker 2009). Plato, in brief, called it: “Avoid excesses.”[3] Thus, if any end of a continuum is exaggeration, unhealthiness, but an organization selects the profile of assertive, confident, task-oriented, extraverted, field-independent individuals, such an organization becomes slightly pathological (Quinn et al. 2007). If these are the values of society, after a while such a society becomes sick. Such an image of success causes pressures on and also standardizes individuals, causing depression, fears, anxiety on the one side (Schwab 1986), and simplification of the motive system on the other (Saad 2007).

Consumerism is culpable in this direction; it inspires short-term ego gratifications for those who can afford the luxury and creates frustrations for those who cannot, sometimes, when commodities are difficult to acquire, causing a criminogenic struggle for social distinction (Hall et al. 2008). ‘Homo consumericus’ (Saad 2007), despite all the possibilities the market provides, has restricted freedom and is, in reality, controlled by the market. The ability to buy and own equals self-worth, and one’s relationships with a product or brand start to substitute for the lack of healthy human relationships.

The role of psychology and ethics in a consumerist society is a search for the maximization of psychological comfort, similar to the friendship and marriage services offered on the Internet. The efforts of the person become minimal: all you need to do is to provide a ‘desired’ profile of the person by clicking the options and continue to work for the corporation. As a result of electronic digestion, one can be connected with other profiles: depending on the payment agreement the contact information is provided with the suggested phrases for starting the conversation, leading to the desired 100 % happy life! Sleepless nights, deep thoughts, and doubts are not needed: simplicity and saved time are what are wanted as these allow us ‘to buy’ happiness/freedom. Consumerist society cares for the circulation of money and not for the ethical doubts on the individual level that are needed for personal growth and moral maturity.

The highest aim in consumerist society is to achieve a condition such that one does not need to work and one's money starts working 'by itself.' The internal conflict on the individual level of the middle class arises: the will toward work is dictated by the motive of hate of this very work. According to Jung and other psychotherapists, schisms and splits form complexes and maladaptations (Jung 1991). To exist, the healthy education of society must be provided (Krznaric 2008; Lawrence 2006). The role of state and collaboration between different societal institutions and business becomes crucial (Iarskaia-Smirnova 1999; Maak and Pless 2006; The Economist Intelligence Unit 2007).

Mental Health and Moral Concerns of Organizations

As argued by Lawrence (2006), the ineffectiveness, unethicality, and autocratic tendencies of leaders, and the hubris of leadership, are rooted in the lack of humility (Collins 2001). Greenleaf (1997) has proposed the servant leadership principle, according to which a leader must serve others so that they can perform at their highest potentials. The idea of servantship and altruism is expressed in the work of Kanungo and Mendonca, who state that "…organizational leaders are truly effective only when they are motivated by a concern for others, when their actions are invariably guided primarily by the criteria of the benefit to others even if it results in some cost to oneself" (Kanungo and Mendonca 1996, p. 35).

Although Nietzsche already has called it a 'comic idea' to put the happiness of others before one's own interests (1998; original in 1887), and these days Locke (Avolio and Locke 2002) states the question of 'who would wish to be a leader under such circumstances?' and 'whether we would follow such a leader,' practice shows that without balancing the dimension of 'selfishness–altruism' or 'loud heroism–humility,' business becomes pathological and risks- causing danger for society (see also Badaracco 2002).

The internal mechanism for being balanced should be connected with self-control, as external controls dictated by compliance to law, fashion (also for corporate social responsibility), and creation of a good image are diminishing the value of personal choice and moral maturity (Kohlberg 1973; Nesse 2001). Such self-control is realized by self-gratification and shame. The Freudian superego adjusts the individual to culture through shame, guilt, and feelings of pride and satisfaction. Shame, however, is not mentioned in the lists of values and virtues for leadership (Kirkpatrick and Locke 1991); it is not mentioned at all as an operational category for a business.

From the anthropological point of view (Benedict 1934; Fessler 2004), feelings of shame permit us to sustain culture. The concept of shame in psychiatry is not so straightforward; pathological shame and complexes of guilt block the personality from being open and free. At the other extreme is a lack of shame or a fake shame (Freud 1937), which is also a sign of a deviated psyche (Gannushkin 1964). If shame is connected with a self-conscious state in which the self is imagining itself in the eyes of the others (Lewis 1992), then the lack of shame either means the inability to be self-conscious or to be self-critical (Kerbikov et al. 1968) or directs an unwillingness to use the same ethical standards as those existing for 'others' (Marx, in McLellan 2000; DeGeorge 1999; Price 2005). In all cases it does not lead to healthy communication and positive dialogue.

If a business creates its strategies by not being embarrassed for the complications brought to society and culture, this is a signal of degeneration. Some fields are mentioned next in which business sometimes is aloof from expressing shame.

- Shame for not admitting limitations: It is known that some companies claim themselves to be professionals in the sphere, whereas they are lacking competence and the skills needed. The quality of their product does not correspond to the advertised statements; they promise more than they actually can deliver. Some companies are constantly unable to produce or deliver a service or product in time, etc. This problem happens because of overestimation of capacities or just from deliberate lies, which on the personal level is associated with self-esteem problems.
- Shame for polluting the environment: Not mentioning the U.S. story with the Kyoto protocol, many businesses do not consider as their responsibility to care for the ecology and planet. They continue to produce toxic pollutants and just dump them for others to worry about. On the individual level this can be compared with a person living in dirty, anti-hygienic conditions, which is a symptom for a psychiatrist.[4]
- Shame for using cultural resources and being unpatriotic, disrespectful to this culture and its inhabitants: This arrogance is compared with selling members of one's own family, which only a degenerated mind can do.
- Shame for losing common sense: When a company is guilty it continues to fight in the courts and demonstrates a condition similar to a lost of orientation (Ford Motor with their Pinto model, the Enron scandal, etc…).
- Shame for ignoring the golden rule: On the individual level it is ego-centrism, which according to Piaget (1969) must end by the age of 7 to 8.
- Shame for being too far from the needs of the rest of the population or the world poverty.

These examples do not imply that business should experience constant shame or remorse to be healthy. What it means is that business should be self-critical and responsible toward its culture and should collaborate with other culture agents to have a healthy communication with society, healthy development, and to avoid shame pressures. Lack of shame on the level of the organization finds itself in habits of intrigue-making, discrimination, prejudiced attitude, arrogance, creation of distrust, dishonesty, over-usage of natural and human resources, in other words, low social morale.

The ability to experience remorse of conscience or, simply, shame is crucial in personal and organizational growth. Roberto (2005) states that often leaders are trying to deny negative emotions caused by guilt, and, scared, they continue to make their personal decisions, keep all the answers, ignoring the hints of remorse. Instead, the environment where these 'threads' (of self-awareness) are turned into strengths can be created by admitting weaknesses, encouraging and facilitating good group decision making within the company. The study of Sauer and Ropo (2006) of the theatrical setting proves that shame can be used as a leadership tool for enhancing professional and personal development and organizational performance. Study of leadership shame has to take place to test further its connection with responsibility, the creation of trust, and effectiveness.

To build an ethical culture usually means to balance business desires for profit with ethical responsibilities toward employees and customers. A good example is the study of Keller and Price (2011) on 'Organisational Health,' which argues that focusing on the health of employees is a crucial competitive advantage of the company. After a decade of studies, these authors found that companies caring for organizational health are 2.2 times more likely than lower-quartile companies to have an above-median EBITDA margin, and they are 2 times more likely to have above-median growth in enterprise value to book value. The authors claim that 50 % of any organization's long-term success is driven by its health.

There has appeared a formulation of health-integrated organization: "is [such] an organization that strategically integrates employee health and well-being into its culture and business objectives through collaborative and comprehensive initiatives, policies and practices to achieve positive organizational and employee outcomes."[5] Although the focus is on creating *a culture of health*, which would minimize risk factors and encourage employees to be aware of their health and not on developing *the morally healthy culture*, which should stimulate members of the organization to have habits of 'bringing out the best' in each other; this is an important step forward for the business. The *culture of health* stimulates employees to realize their self-worth and experience that their health is an asset for the company.

Speaking of mental health, Taylor (1977), on the basis of 25 years of experience as a clinical psychologist, distinguishes the following aspects: the ability to enjoy life; resilience, the ability to bounce back from adversity or copying well with stress; balance of time spent socially and alone, work and play, sleep and wakefulness, time spent indoors and outdoors; flexibility; and self-actualization. Another study (Taylor and Brown 1988) suggests that perceptions of control of one's own mastery together with optimism are indicators of a healthy mind.

Among the other indicators of mental health, humor (Martin 2006), the ability to form relationships (Gannushkin 1998; McGuire et al. 1994; Kets de Vries 2009), and empathy (Decety and Moriguchi 2007) are often mentioned in the literature. The model of Witmer and Sweeny (1992), and Myers (Myers et al. 2000) links Adlerian individualistic psychology of its five major life tasks – work, friendship, love, self, and spirit – with wellness in contemporary society. These authors argue that realization of subtasks, such as sense of worth, sense of control, realistic beliefs, emotional awareness, problem solving, creativity, sense of humor, coping, nutrition, exercise, self-care, stress management, and cultural identity, leads to healthy functioning. A large amount of research is dedicated to the importance of balancing the work of the two brain hemispheres (Cropley and Cropley 2005) and by involving employees in different activities (business and art, for example), which would actualize rational and irrational, logical, and emotional modes of perceiving and processing the information and by so doing enhance psychic abilities and develop opportunities for learning, which is in the core of mental health (McCarthy 1996; Dolyatovsky and Gamalej 2011). Some studies concentrate on mixing people with different professional skills (Kakko and Inkinen 2009; TilltEurope Report 2009) and demonstrate successful implementation of this approach and its impact on creativity, self-worth, humor, general well-being, and the enjoyment of life, as well as the well-being of the whole society (Hutter and Throsby 2008).

To have *a morally healthy culture*, the question of purpose and moral aim of business should be primarily addressed: “What is the meaning of *its* life?” The leader must ask whether the organization with its morale, added values, and image is contributing toward societal health or causes psychopatization and degradation of society by its existence?

The utmost importance of a vision is emphasized in managerial literature (Kottler 1998). Statement of the mission, the basic beliefs and values of leaders (Shein 2010), and the mechanism of transmission of these beliefs are discussed; the concept of trust as a fundamental component of any successful organization is underlined (Hart et al. 1986; McAlister 1995; Kaptein 2008). Creativity is understood as another strong factor for organizational success (Amabile 1998; Darso 2004) and even its major survival skill (Porter 1991; DeMiranda et al. 2009). It is argued that for creativity to occur the environment should be intellectually stimulating and emotionally warm (Whitebread 2000; Mayer 1999). Studies of the creation of an atmosphere of challenge (Zhou and George 2003; Heller 2004) and of acceptance and involvement (Schoorman et al. 2007; Jones 2006) demonstrate that these factors are important in employee job satisfaction and their self-reported well-being. As was mentioned, studies on well-being observe health as an organizational asset (Keller et al. 2011). Mutual recognition of intrinsic worth, sincerity, and respect (Clampitt 2001) is another important element, which actualizes the Kantian perspective of treating other as an aim and not (merely) as a means for realization of one’s own goals. It seems that transformational leadership (Bass and Steidlmeier 1999; Burns 2003) and ‘responsible leadership’ models correspond to the major parts of these demands toward organizational setting (Pless 2007; Groves and La Rocca 2011; Maak and Pless 2006).

The literature however does not link directly three components: individual ethical choices, managing of creative drives, and awareness of cultural context in one united block of thinking.

CSR, for example, with its responsibility toward culture and its relationship with the sustainability of organization, is another focus of attention of the scholars, but being not tied up with creative drives and fundamental beliefs, it is not really incorporated in the strategy; organizations do not know (as seen in Latvian reality) as to when, how, and for how long should it be socially responsible. Literature on cultural studies is concerned with creativity and innovation (e.g. Trompenaars and Hamphden-Turner 2010; Livermore 2010), and ethical aspects of business are observed separately (Demuijnck 2015).

The model of leadership, which is illustrated in the next paragraph, is an attempt to link together three main pillars of healthy organizational development and strong psychological functioning: awareness of culture, creativity, and ethics (of individual choice).

Building a Model of Healthy Leadership

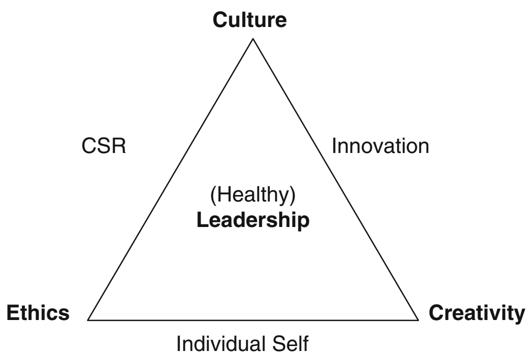
The model is a work in progress; it requires further elaboration. It is built upon the following main beliefs: (1) business exists in a cultural context and it has to be aimed toward culture; (2) business is a creative process and creativity is its survival skill; (3) business is a manifestation of ethics of all the parties involved and is therefore all about forming ethical relationships; and (4) leadership is a constant work of mastering the skills and habits for bringing out the best in people and adding values to society.

In other words, leadership of a healthy organization is culture oriented, built upon creative solutions and ethical doubts (see Image 6.1).

"Healthy" leadership is a realization of psychic maturity with its ability to be self-aware and self-conscious (meaning to be able to judge one's own actions by using mechanisms for self-control); it is a balanced leadership in regard to stress management (permitting individual and professional growth and not overusing of human abilities); it challenges with tasks and emotionally accepts individuals, it celebrates diversity and is not aimed at only one type of personalities, it provides an environment that actualizes the work of both brain hemispheres so that new creative solutions necessary for healthy human functioning can be born; it is a hard and self-fulfilling process, which requires personal discoveries and does not search for easy and fast steps, ready to be implemented for any organization; and it is optimistic in its base.

The model argues that culture is an aim of the business and is not just its context; culture is a highest judge; it gives directedness for business, the feeling of a sense of life. Willingness to contribute to culture in a positive way enlightens leadership

Image 6.1 Healthy leadership model



(Treviño et al. 2003; Maak and Pless 2006) and at the same time is acting in accordance with the moral rules: that is where shame has to function.

Culture is a union of individuals with their personal problems, ideas, and goals; it is artefacts created by human activity (Matsumoto 2000); it is a meeting point in the geographic and historical sense, which enables us to share similar beliefs and fears and exchange values (Hofstede 2001; Livermore 2010), to solve the dilemmas of daily life (Trompenaars and Hamphden-Turner 2010). Culture has to be nurtured and loved as a highest treasure. The problem is that culture is not a static ideal, but it manifests itself in everyday context, with its market competitors, 'limited resources,' and different obligations.

The decision of how to meet the highest aims of cultural responsibilities and balance them with "fights" for the market share and profits are addressed on the ego level, which finds support in individual creativity and ethics (two corners in the basis). The leader balances these forces inside the organization. Respect, mutual acceptance, knowledge, trust, and other organizational virtues (based upon a 'cardinal' set of temperateness, courage, justice, and wisdom) refer to *ethics* (e.g., Moberg 1999).

Creativity studies show that to be creative one must force oneself, must work and train (Cropley and Cropley 2005, 2006); also, theories of ethics suggest that wisdom does not arrive by itself (DeGeorge 1999). To create (including also an ethical solution) means to be involved in a risk-taking process (Christensen 2010); to take courage (Plato, in Lombardo 1992; May 2001), and to allow to look, think, and act differently, is nonconformistic action (Sternberg 2003), and is even destructive (Socrates, in Carey and Mullan 2004, Nitzhsche 1998, original 1887; Shumpeter, in Christensen 2011) in its nature. But there is an internal barrier, which states how far ethics of culture (settled way of living, common rules, tradition) can be 'disrupted' and in what way. When this balance resulting from internal doubts (individual responsibility) and heavy decisions is found, then perspectives open up and creative potentials receive 'highest power supports' for realization of ideas, an overwhelming condition of flow (described by Czikszentmihalyi 2003), the highest realization of human capacities, the eudemonic stage.

But creativity does not mean only revolutionary and heavy decision making: the parallel between playfulness of creativity and humor, stress release, self-worth, diversity, flexibility, adaptability, and emotional intelligence is often mentioned (Goleman et al. 2002; George 2000; Bodrov 2006; Amabile 1998; Czikszentmihalyi 2003; Sternberg 2003), the major part of these components being crucial for mental health (see Kerbikov et al. 1968).

Other aspects of the model involve meeting of internal creative resources with culture, which results in innovativeness, a driving force for the organization (e.g., Christensen et al. 2010), and concrete innovations (on the first place of the business model, Zott et al. 2010). Another strategic force is CSR, which 'organically' connects beliefs and values of those involved in organization with organisational purpose of existence in this world (Bhattacharya et al. 2011).

Studies on organizational health (e.g., NHS Institute for Innovation and Improvement,[6] Canadian National Quality Institute[7]) state that healthy organizational culture means trust, openness, and engagement of all the organizational members to be enrolled in continuous learning and improvement. Further research should take place to fully answer the implications for leadership (healthy leadership?), but it seems that the proposed model does not contradict the logic of previous studies.

Afterword and Further Research

Although it is impossible in one article to bring into focus the aspects of psychiatry, physiology, economics, ethics, psychology, and management, the attempt was made to address the issue of leadership from the perspective of its moral obligation toward health and societal life.

It was argued that to provide a healthy environment, a business should learn to see itself as a part of culture, as a partner among other societal pillars, and not as the main or the only possible 'end in itself.' Organizations should be aware of 'toxic' or narcissistic leadership phenomena and try to avoid promotion of false people. Developing the habits of thinking and behavior from a physiological point of view has its moral implications, and leadership therefore should be cautious on the matter of choice of thoughts and actions. This chapter has also addressed the issue of stress and importance of balancing activities, as well as discussing the danger of selecting only a certain profile of individuals. Diversity of tasks and ways of thinking has also been addressed in the light of healthy mental functioning.

The model of healthy leadership with focus on responsibility toward culture and the self-awareness of leaders was proposed. It links creativity, ethics, and culture in one united block of leadership directedness. By so doing, creative, ethical, and cultural concerns naturally reinforce each other, providing a platform for healthy development. Although mental health and maturity is a multidimensional phenomenon, it demands a diverse set of responsibilities on the part of organizations and their leaders, in the core of a healthy leadership process, which empowers others to realize their sense of being and the power of their moral decisions.

The study is a work in progress, and it requires further elaboration and detailed observation of the components of the model proposed. Adaptive and healthy functioning from physiological and psychological perspectives needs to be addressed profoundly to verify all the major elements and validity for the model. Further studies are needed for understanding the meaning and the role of culture for the business leaders: how does it differ cross-culturally? This could also shed the light on the 'capitalism shift problem' and diversity of business ethics among cultures. Studies of the role of shame in leadership in different cultural contexts should take place to test the hypothesis of its connection with leaders' cultural awareness and responsibility of business as well as its impact on morale in organizations. This chapter did not dwell upon the theoretical foundations of the concepts of culture, ethics, and creativity because its aim was to draw the rationale for future research.

Notes

1. Antoine de Saint-Exupery in *The Little Prince* has stated: "You become responsible, forever, for what you have tamed."
2. It seems the pathological process will continue until there are admirers, codependents, and money to share with those who help to build "the empire of lies."
3. His classical four virtues: Wisdom – ability to judge between actions with regard to appropriate actions at a given context, Justice – proper moderation between self-interest and the rights and needs of others, Temperance – practicing self-control, abstention, and moderation, and Courage – endurance and ability to confront fear and uncertainty (Platon Protagoras. In: Lombardo et al. 1992) explain the formula.
4. A recent on-line poll among young employers in Canada has demonstrated the tendency that "most would consider leaving their current job for a more environmentally friendly employer." The site argues that "it is time to expand the triple bottom-line view of "people, planet, profits" by including how organizations can renew their human systems" and succeed in optimization of solutions satisfying all stakeholders. (http://creatinghealthyorganizations.ca/blog/2010/06/).
5. (http://creatinghealthyorganizations.ca/index.php)
6. http://www.institute.nhs.uk
7. through this site: http://www.peelregion.ca/health/workplace/employers/cwh/

Appendix

Literature

Aldwin, C. M. (1994). *Stress, coping, and development*. New York/London: Guilford Press.

Allio, R. J. (2007). Bad leaders: How they get that way and what to do about them. *Strategy & Leadership, 35*(3), 12–17.

Amabile, T. M. (1998). How to kill creativity. *Harvard Business Review, 76*(5), 76–87.

Amanzhol, I. A., Onayev, S. T., Balayeva, E. A., Shadetova, A. G., & Kurmangaliyeva, D. S. (2011). Health level of the operators working in shifts. *Archive Euromedica, 3*, 6–10.

Anderson, D., & Ackerman-Anderson, L. S. (2010). *Beyond change management. Advanced strategies for today's transformational leaders*. San Francisco: Jossey-Bass/Pfeiffer.

Avolio, B. J., & Locke, E. E. (2002). Contrasting different philosophies of leader motivation: Altruism versus egoistic. *The Leadership Quarterly, 13*, 4.

Badaracco, J. (2002). *Leading quietly*. Cambridge, MA: Harvard Business School Press.

Baldoni, J. (2004). *On leadership communication: Humility*. Darwin Online. Available at: www.darwinmag.com/read/060104/baldoni.html

Bandura, A. (1986). *Social foundations of thought and action: A social cognitive theory*. Englewood Cliffs: Prentice-Hall.

Barling, J., Christie, A., & Turner, N. (2008). Pseudo-transformational leadership: Toward the development and test of a model. *Journal of Business Ethics, 81*, 851–861.

Bass, B., & Steidlmeier, P. (1999). Ethics, character, and authentic transformational leader behavior. *The Leadership Quarterly, 10*(2), 181–217.

Beckmann, H., & Lanczik, M. (1990). Preface. *Psychopathology, 23*, 191–192. doi:10.1159/000284659.
Benedict, R. (1934). *Patterns of culture*. New York: Houghton Mifflin.
Bhattacharya, C. B., Sen, S., & Korschun, D. (2011). *Leveraging corporate social responsibility: The stakeholder route to business and societal value*. Cambridge: Cambridge University Press.
Boddy, C. R. (2010). Corporate psychopaths and productivity. *Management Services, 54*, 26–30.
Boddy, C. R. (2011). The corporate psychopaths theory of the global financial crisis. *Journal of Business Ethics, 102*, 255–259.
Bodrov, V. A. (2006). Psihologicheskij stress: razvitije I preodolenije. Orig: Бодров, В.А. Психологический стресс: развитие и преодоление. Москва: PerSe. [Psychological Stress: development and coping.]
Brown, M. E., & Mitchell, M. S. (2010). Ethical and unethical leadership: Exploring new avenues for future research. *Business Ethics Quarterly, 20*(4), 583–616.
Burns, J. M. (2003). *Transforming leadership*. New York: Atlantic Monthly.
Carey, T. A., & Mullan, R. J. (2004). What is socratic questioning? *Psychotherapy: Theory, Research, Practice, Training, 41*(3), 217–226.
Christensen, C. M. (2010). How will you measure your life? *Harvard Business Review, 88*, 7–8 (July–August), 46–51
Christensen, C. M. (2011). *The innovator's dilemma*. New York: Harper Collins Publishers.
Christensen, C., Grossman, J., & Hwang, J. (2008). *The innovator's prescription: A disruptive solution for health care*. New York: McGraw Hill.
Christian, M., & Ellis, A. (2011, October). Examining the effects of sleep deprivation on workplace deviance: A self-regulatory perspective. *The Academy of management Journal*, *54*(5), 913–934.
Ciulla, J. B. (2005). The state of leadership ethics and the work that lies before us. *Business Ethics: A European Review, 14*(4), 323–335. Blackwell Publishing Ltd.
Clampitt, P. G. (2001). *Communicating for managerial effectiveness* (2nd ed.). Thousand Oaks: Sage.
Collins, J. (2001). Level 5 leadership: The triumph of humility and fierce resolve. *Harvard Business Review, 79*(1), 67–77.
Cropley, A. J. (2006). In praise of convergent thinking. *Creativity Research Journal, 18*, 391–404.
Cropley, D. H., & Cropley, A. J. (2005). Engineering creativity: A systems concept of functional creativity. In J. C. Kaufman & J. Baer (Eds.), *Faces of the muse: How people. Think, work and act creatively in diverse domains* (pp. 169–185). Hillsdale: Lawrence Erlbaum.
Czikszentmihalyi, M. (2003). *Good business. Leadership, flow, and the making of meaning*. New York: Viking.
Darso, L. (2004). *Artful creation: Learning tales of arts-in-business*. Denmark: Samfundslitteratur.
de George, R. T. (1999). *Business ethics* (5th ed.). Upper Saddle River: Prentice Hall.
Decety, J., & Moriguchi, Y. (2007). The empathic brain and its dysfunction in psychiatric populations: Implications for intervention across different clinical conditions. *BioPsychoSocial Medicine, 1*, 22–65.
Demuijnck, G. (2015). Universal Values and Virtues in Management Versus Cross-Cultual Moral Relativism: An Educational Strategy to Clear the Ground for Business Ethics.
DeMiranda, P. C., Aranha, J. A. S., & Zardo, J. (2009). Creativity: People, environment and culture, the key elements in its understanding and interpretation. *Science and Public Policy, 36*(7), 523–535.
Dolyatovsky, L. V., & Gamalej, N. J. (2011). Kreativnyje metody v razvitiji predprijatija. Orig: Долятовский, Л.В., Гамалей, Н.Ю. Креативные методы в развитии предприятия. *Креативная экономика №7 (55).* [Creative methods in the development of the organisation]
Eizenck, H. J. (1976). The rearing model theory of neurosis – A new approach. *Behavior research and therapy, 14*(4), 251–267.

Fessler, D. M. T. (2004). Shame in two cultures: Implications for evolutionary approaches. *Journal of Cognition and Culture, 4*(2), 207–262.

Festinger, L. (1957). *A theory of cognitive dissonance*. Evanston: Row, Peterson.

Freud, A. (1937). *The ego and the mechanisms of defense*. London: Hogarth Press and Institute of Psycho-Analysis.

Gannushkin, P. B. (1964). Izbrannyje trudy. Orig: Ганнушкин П. Б. *Избранные труды)*. Москва [Gannushkin, P.B. Selected Works, Moscow.]

Gannushkin, P. B. (1998). Sladostrastije, zhestokostj I religija. (Сладострастие, жестокость и религия) В: Ганнушкин П.Б. Избранные труды/Под ред. проф. О.В. Кербикова. Ростов-на-Дону: "Феникс". Orig. 1901: "La volupté, la cruauté et la religion" Annales medico-psychologiques, t. XIV, Novembre.

George, J. (2000). Emotions and leadership: The role of emotional intelligence. *Human Relations, 53*, 1027–1055.

Gilchrist, G., Blázquez, A., & Torrens, M. (2012). Exploring the relationship between intimate partner violence, childhood abuse and psychiatric disorders among female drug users in Barcelona. *Advances in Dual Diagnosis, 5*(2), 46–58.

Goleman, D., Boyatzis, R., & McKee, A. (2002). *Primal leadership: Realizing the power of emotional intelligence*. Boston: Harvard Business School Press.

Greenleaf, R. K. (1997). *Servant leadership: A journey into the nature of legitimate greatness*. New York: Paulist Press.

Grimak, L. P. (1987). Rezervy chelovecheskoj psihiki. [Reserves of the Human Psyche] Orig: Гримак, Л.П. Резервы человеческой психики. Москва: Издательство политической литературы.

Groves, K. S., & LaRocca, M. A. (2011). Responsible leadership outcomes via stakeholder CSR values: Testing a values-centered model of transformational leadership. *Journal of Business Ethics, 98*, 37–55.

Gurven, M., Allen-Arave, W., Hill, K., & Hurtado, M. (2000). "It's a wonderful life:" Signaling generosity among the Ache of Paraguay. *Evolution and Human Behavior, 21*, 263–282.

Hall, S., Winlow, S., & Ancrum, C. (2008). *Criminal identities and consumer culture*. London: Routledge.

Hart, K. M., Capps, H. R., Cangemi, J. P., & Caillouet, L. M. (1986). Exploring organizational trust and its multiple dimensions: A case study of general motors. *Organization Development Journal, 4*, 31–39.

Hayes, N. (2000). *Foundations of psychology* (3rd ed.). London: Thompson Learning.

Heller, R. (2004). Balance discipline and creativity to make innovation work for you. Business Source Premier: Computer weekly; 10/19/2004.

Hofstede, G. (1983, December). Culture's consequences: International differences in work-related values. *Administrative Science Quarterly* (Johnson Graduate School of Management, Cornell University), *28*(4), 625–629.

Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations* (2nd ed.). Thousand Oaks: Sage.

Howell, J. M., & Avolio, B. J. (1992). The ethics of charismatic leadership: Submission of liberation? *Academy of Management Executive, 6*, 43–54.

Howkins, J. (2001). *The creative economy: How people make money from ideas*. London: Allen Lane.

http://creatinghealthyorganizations.ca/index.php. Retrieved: 20.04.2012.

http://www.peelregion.ca/health/workplace/employers/cwh/. Retrieved: 08.06.2012.

http://kriic.lv/kat/radosa-industrija/par-radoso-industriju KEA *Kultūras ietekme uz kreativitāti* [Culture influence on creativity]. Retrieved: 29.04.2013.

http://www.institute.nhs.uk NHS Institute for Innovation and Improvement, resource visited: 12.06.2012

Hutter, M., & Throsby, D. (2008). *Beyond price: Value in culture, economics, and the arts*. New York: Cambridge University Press.

Iarskaia-Smirnova, E. (1999). Social work in Russia: Professional identity, culture and the state. In B. Lesnik (Ed.), *International perspectives of social work* (pp. 31–44). Brighton: Pavilion Publishing.
Iljin, J. P. (2005). Orig: Ильин, Е. П. *Психофизиология состояний человека.* Санкт-Петербург: Питер. [Psychophysiology of the conditions of the man]
Jones, M. D. (2006). Which is a better predictor of job performance: Job satisfaction or life satisfaction. *Journal of Behavioral and Applied Management, 15*(6), 77–97.
Jung, C. G. (1991). *Psyche and symbol*. Orig. 1958–1967 (R. F. C. Hull, Trans.). Princeton.
Kahneman, D., & Deaton, A. (2010). High income improves evaluation of life but not emotional well-being. *Proceedings of the National Academy of Sciences, 107*(38), 16489–16493. doi:10.1073/pnas.1011492107.
Kakko, I., & Inkinen, S. (2009, August). Homo creativus: Creativity and serendipity management in third generation science and technology parks. *Science and Public Policy*, *36*(7), 537–548.
Kantor, M. (2006). *The psychopathology of everyday life*. London: Praeger.
Kanungo, R., & Mendonca, M. (1996). *Ethical dimensions of leadership*. Thousand Oaks: Sage.
Kaptein, A. (2008). Developing and testing a measure for the ethical culture of organizations: The corporate ethical virtues model. *Journal of Organizational Behaviour, 29*(7), 923–947.
Keller, S., & Price, C. (2011, June). Organizational health: The ultimate competitive advantage. *McKinsey Quarterly, 2*, 94–107.
Kellerman, B. (2004). *Bad leadership: What it is, how it happens, why it matters*. Harvard: Harvard Business School Press.
Kerbikov, O. V., Korkina, M. V., Nadzharov., & Snezhnevsky, A. V. (1968). *Psychiatry.* Orig: Кербиков, О.В., Коркина, М.В., Наджаров, Р.А., Снежневский, А.В. Психиатрия. Москва: Медицина.
Kets de Vries, M. F. R. (2009, September). *The shadow side of leadership. Human capital review and Etdonline*, South Africa.
Kets de Vries, M. F. R., & Miller, D. (1985). Narcissism and leadership: An object relations perspective. *Human Relations., 38*(6), 583–601.
Kirkpatrick, S. A., & Locke, E. A. (1991). Leadership: Do traits matter? *Academy of Management Executive, 5*(2), 48–60.
Kohlberg, L. (1973). The claim to moral adequacy of a highest stage of moral judgment. *Journal of Philosophy (The Journal of Philosophy)*, *70*(18), 630–646.
Kottler, J. P. (1998). *Leading change: Why transformation efforts fail*. Boston: Harvard Business Review on change.
Krznaric, R. (2008). *You are therefore I am: How empathy education can create social change*. Oxfam GB research report.
Lawrence, P. G. (2006). Neo-humility and business leadership: Do they belong together? *Journal of Business and Leadership, 2*(1), 116–126.
Leonhard, K. (1989). *Accentuated Personalities* (trans: Леонгард, К.). Акцентуированные личности. Москва: Феникс.
Lewis, M. (1992). *Shame: The exposed self*. New York: The Free Press.
Lipman-Blumen, J. (2005). *The allure of toxic leaders: Why we follow destructive bosses and corrupt politicians – and how we can survive them*. New York: Oxford University Press.
Livermore, D. (2010). *Leading with cultural intelligence*. New York: American Management Association.
Lubit, R. (2004). *Coping with toxic managers, subordinates and other difficult people*. Englewood Cliffs: Prentice Hall Financial Times.
Maak, T., & Pless, N. (2006). Responsible leadership in a stakeholder society – A relational perspective. *Journal of Business Ethics, 66*, 99–115.
Martin, R. A. (2006). *The psychology of humor: An integrative approach*. London: Elsevier.
Matsumoto, D.R. (2000). *Culture and psychology. People around the world*. Delmar: Wadsworth Thomson Learning.

Maurer, R. (1996). Using resistance to build support for change. *Journal for Quality & Participation, 19*(3), 56–66.
May, R. (2001). *The courage to create.* (trans: Мэй, Р.). Мужество творить. Львов: Инициатива.
Mayer, R. E. (1999). Fifty years of creativity research. In R. J. Sternberg (Ed.), *Handbook of creativity*. Cambridge: Cambridge University Press.
McAlister, D. J. (1995). Affect- and condition-based trust as foundations for interpersonal cooperation in organisation. *Academy of Management Journal, 38*(1), 24–59.
McCarthy, B. (1996). *About learning*. Barrington: Excel Inc.
McGuire, M. T., Fawzy, F. I., Spar, J. E., Weigel, R. M., & Troisi, A. (1994). Altruism and mental disorders. *Ethology and Sociobiology, 15*, 299–321.
McLellan, D. (Ed.). (2000). *Karl Marx: Selected writings* (2nd ed.). Oxford: Oxford University Press.
Miller, G. G. (2007). Sexual selection for moral virtues. *The Quarterly Review of Biology, 82*(2), 97–125.
Moberg, D. J. (1999). *Business Ethics Quarterly, 9*(2), 245–72.
Morris, J., Hassard, J., & McCann, L. (2008). The resilience of 'Institutionalised Capitalism': Managing under 'Shareholder Capitalism' and 'Managerial Capitalism'. *Human Relations, 61*, 687–710.
Myers, J. E., Sweeney, T. J., & Witmer, J. M. (2000). The wheel of wellness counseling for wellness: A holistic model for treatment planning. *Journal of Counseling and Development, 78*(3), 251–266.
Nebylitzyn, V. D. (1991). *Osnovnyje svojstva nervnoj sistemy*. Orig. Небылицын В.Д. Основные свойства нервной системы. [Main Principles of the Nervous System] М.: Педагогика.
Nesse, R. M. (Ed.). (2001). *Evolution and the capacity for commitment*. New York: Russell Sage Foundation.
Nietzsche, F. (1887). *Zur Genealogie der Moral: Eine Streitschrift*. Leipzig (Germany): G Navmann [Translated and edited by M Clark and A Swensen as *On the Genealogy of Morals*. 1998. Indianapolis: Hackett.]
Paunonen, S. V. (2006). You are honest, therefore I like you and find you attractive. *Journal of Research in Personality, 40*, 237–249.
Pavlov, I. P. (1955). *Selected works*. Moscow: Foreign Languages Publishing House.
Pavlov, I. P. (2001). *The freedom reflex*. Orig: Павлов, И.П. *Рефлекс свободы*. Питер.
Piaget, J. (1969). *The psychology of the child*. New York: Basic Books.
Plato *Protagoras* In: Lombardo, S., & Bell, K. (1992). *Plato* Protagoras, Hackett Publishing.
Pless, N. (2007). Understanding responsible leadership: Role identity and motivational drivers. *Journal of Business Ethics, 74*, 437–456.
Porter, M. (1991). Towards a dynamic theory of strategy. *Strategic Management Journal, 12*, 95–117.
Price, T. L. (2005). Abuse, privilege, and the conditions of responsibility for leaders. In J. B. Ciulla, T. L. Price, & S. E. Murphy (Eds.), *The quest for moral leaders: Essays in leadership ethics*. Cheltenham/Northampton: Edward Elgar Publishing, Ltd.
Quinn, R., Faerman, S., Thompson, M., McGrath, M., & St. Clair, L. (2007). *Becoming a master manager: A competing values approach* (4th ed.). Hoboken: Wiley.
Roberto, M. (2005). *Why great leaders don't take yes for an answer: Managing for conflict and consensus*. Upper Saddle River: Wharton School Publishing, Pearson Education Inc.
Saad, G. (2007). *The evolutionary bases of consumption*. New York: Routledge.
Sauer, E., & Ropo, A. (2006). Leadership and the driving force of shame: A social constructionist analysis of narrative. In N. M. Ashkanasy, W. J. Zerbe & C. E. J. Hartel (Series Eds.) & W. J. Zerbe, N. M. Ashkanasy & C. E. J. Hartel (Vol. Eds.), *Research on emotion in organizations: Vol. 2. Individual and organizational perspectives on emotion management and display* (pp. 57–80). Amsterdam: Elsevier.
Schoorman, D. F., Mayer, R. C., & Davis, J. H. (2007). An integrative model of organisational trust: Past, present, and future. *Academy of Management Review, 32*(2), 344–354.

Schwab, J. J. (1986). Stress from a psychiatric epidemiological perspective. *Stress Medicine, 2*, 211–220.

Selye, H. (1974). *Stress without distress*. Philadelphia: J. B. Lippincott Co.

Selye, H. (1991). Psihofiziologija stressa. (Селъе Г. Психофизиология стресса, М., Медицина, 1991) [Psychophysiology of Stress].

Shaner, A., Miller, G., & Mintz, J. (2004). Schizophrenia as one extreme of a sexually selected fitness indicator. *Schizophrenia Research, 70*, 101–109.

Shein, E. (2010). *Organisational culture and leadership* (4th ed.). San Francisco: Jossey-Bass Publisher.

Sternberg, R. J. (2003). Creativity is a decision. *Monitor on Psychology, 34*(10), p. 5.

Strebel, P. (1998, orig.1996). Why do employees resist change? Harvard Business review on change.

Symington, N. (1993). Narcissism: *A new theory*. London: Karnac Books Ltd.

Taylor, S. E., & Brown, J. D. (1988). Illusion and well-being: A social psychological perspective on mental health. *Psychological Bulletin, 103*(2), 193–210.

The Economist Intelligence Unit. (2007). *The 2007 e-readiness rankings. Raising the bar*. A white paper from The Economist Intelligence Unit in co-operation with The IBM Institute for Business Values. http://www.unoon.com/docs/2007Ereadiness_Ranking_WP.pdf

TilltEurope. (2009). Transforming organizations with the arts. Research report. [on-line]. Available: http://www.creativeclash.eu. Retrieved: 05.05.13.

Treviño, L. K., Brown, M., & Hartman, L. P. (2003). A qualitative investigation of perceived executive ethical leadership: Perceptions from inside and outside the executive suite. *Human Relations, 55*, 5–37.

Trompenaars, F., & Hampden-Turner, C. (2010). *Riding the waves of innovation: Harness the power of global culture to drive creativity and growth*. New York: McGraw-Hill.

Tucker, W. H. (2009). *The Cattell controversy: Race, science, and ideology*. Urbana: University of Illinois Press.

Tylor, J. (1977). *Secret of life album: Professional experience of 25 years as a practicing clinical psychologist*. Author Copyright: JT.

Witmer, J. M., & Sweeney, T. J. (1992). A holistic model for wellness and prevention over the lifespan. *Journal of Counseling and Development, 71*, 140–148.

Whitebread, D. (Ed.). (2000). *The psychology of teaching and learning in the primary school*. London: RoutledgeFalmer.

World Health Organization. (2006). *Constitution of the World Health Organization – Basic documents* (45th ed.), Supplement. Available: http://www.who.int/healthpromotion/conferences/previous/ottawa/en. Retrieved 12.05.2012.

Zhou, J., & George, J. (2003). Awakening employee creativity: The role of the leader. *Leadership Quarterly, 14*, 545–560.

Zott, C., Amit, R., & Massa, L. (2010). *The business model: Theoretical roots, recent developments, and future research*' IESE, June, 2010 – revised September 2010 http://www.iese.edu/research/pdfs/DI-0862-E.pdf

Chapter 7
Do You Believe in Life After Work? A Noninstrumental Defense of Work–Life Balance

Karolina Lewestam and Paulina Bednarz-Łuczewska

Research Problem and the Outline of Argumentation

Would you rather work round the clock, or have time to spend with your family and friends? The answer is rather obvious—it *is* nice to have life after work. But the fact that *x* is desired—even *universally* desired—does not imply that *x* has moral value. What if the time spent with family and friends would make one more efficient at work and less likely to quit a job or take a leave from severe burnout? Would that prove that work–life balance actually does have moral value? To show that life–work balance is valuable in this way, we would have to first determine that whatever it results in (efficiency, happiness, or else), is in itself morally valuable. Say we succeeded—the so-established moral value of life–work balance would be unsatisfactory, as it would be of the contingent, instrumental sort. Anything can be instrumentally valuable, if it is used to bring intrinsic value about; thus the day when research proves that either military regime in the workplace or wearing yellow hats at work is *more* conducive to the end value, would be the last day of the moral argument for work–life balance. It is puzzling, therefore, that the main way in which proponents of the work–life balance have been defending it in the business community is utilitarian. To legitimize the demand for a balanced life, it has been presented as a booster to employee efficiency or a stimulus that furthers the business goals of companies (Galinsky and Bond 1998; Beauregard and Henry 2009; Galinsky and Johnson 1998; Kodz et al. 2002; Yasbek 2004 cf.McDowell 2004; Caproni 2004). But those who argue along these lines should ask themselves: are we

K. Lewestam
Boston University, Boston, MA, USA
e-mail: karolina.lewestam@gmail.com

P. Bednarz-Łuczewska (✉)
Kozminski University, Warsaw, Poland
e-mail: pbednarzluczewska@kozminski.edu.pl

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_7

ready to drop life–work balance in cases where it is neutral toward, or even counters, the values of efficiency or increased revenues? We think that the natural intuitive commitment to the value of a balanced life makes the utilitarian argument too dangerous; a new, better one, therefore, should be found.

This chapter does exactly that. It attempts to speak of work–life balance from the perspective of nonutilitarian moral philosophy. The question we pose is this: if we cease to focus on practical consequences, is it still the case that one *ought* to promote a harmonious life? And, because moral worth tends to generate moral burdens, if that turns out to be the case, who is that *one*—the company, the worker, the society—that is responsible for the loss of 'life' from the work–life balance? Who are the players in the moral game of the good life in its modern incarnation?

We end up claiming that (a) harmonious life has a moral value and hindering it can be considered moral wrongdoing, (b) that, consequently, there exists a prima facie duty not to render life–work balance impossible, and (c) that the structure of responsibility allocation in the case of inhibiting life harmony mirrors that of systematic injustices such as the oppression of women, where the blame rests not only with explicit agents, but is spread among all complicit individuals. We want, therefore, to speak for the gradual dropping out of the scheme that reinforces the 'naturalness' of the lack of such balance. In other words: yes, the feeling that you have been wronged when there is no way your work schedule could permit you showing up at your daughter's fifth birthday party detects a factual moral violation; and although your superiors might carry most of the moral burden here, your quiet acceptance of these rules is also a part of the problem.

Methodology

Ethics is a discipline with a long history of providing solutions to convoluted issues, with fairly sophisticated methods and focus, ready to be recycled and used in contexts of the changing social life. Explicitly classifying our problem as moral allows us to tackle it *as a moral problem*, treatable from within the discipline of ethical inquiry—not as a business problem with a moral tint. To allocate moral responsibility in the context of life–work balance, we should, therefore, treat moral philosophy as a source of valid methods for issues arising in business. We are following the road frequently traveled—we extrapolate a well-established theory, in this case a moral one, from one field to another, justifying this "theoretical extension" (Snow et al. 2003) in two ways: first, by focusing on the strictly moral aspect of the balanced life issue, and second, by providing a meaningful analogy between this very problem and another problem traditionally tackled by ethics, that is, the issue of embedded opression.

A few disclaimers have to be added. First, this chapter is *not* empirical. It has to be stressed again that we are not interested in offering practical solutions that would result in giving people more balance in their lives. Neither do we examine the consequences that concern for work–life balance has for companies. Second, we do not engage in (admittedly important) notion analysis. We gloss over the exact definition of the 'balance' in question, accepting its somewhat ambiguous usage of a metaphorical term (Guest 2002; cf. Thompson and Bunderson 2001; Lewis et al. 2007) in both academic discourse and natural language (although we do try to shed some light on the concept of 'life'). Our chief concern is to figure out whether work–life balance can be defended *normatively*, and who should (morally, not empirically speaking) carry the burden of its implementation. Third, we refer to "life-work balance" as a metaphor, because it is a conceptual structure that is very general and does not, as a model, purport to mirror the vastly complicated nature of the target system (i.e., an actual life of a person). Such a conceptualization is also present in the literature (Thompson and Bunderson 2001; Halpern and Murphy 2005; Hacker and Doolen 2003).

Is Life–Work Balance Valuable?

From the point of view of a capitalist organization, it is the "life," not the "work," component of the work–life problem that is contentious and needs justification. Work is what lies at the very core of such organizations; the value of "life," although universally recognized outside this framework, has to yet be defined and present an argument for itself.

The "life" component in the metaphor of the work–life balance has been differently understood in various contexts. On the one hand, there is a procedural understanding of "life:" it is a residual category that equals the whole bulk of human activity except for the paid work, or whatever happens to remain when all working time is subtracted from one's total activity time. Life, in this fairly formal view, is simply "not work"—this perspective makes a proverbial "couch potato" a master of living, provided that she sits on the couch in question for a long enough time after work. On the other hand we have two substantive grasps of "life." The first one is associated with the *private sphere*: family, interpersonal bonds, intimacy, activities that are emotional and spiritual, various forms of Aristotle's *vita passiva.* One can, on this view, "have life" behind closed doors, if, so as to speak, one's 'soul' is nourished. The second substantive concept of "life" denotes forms of *public* self-expression that are unrelated to paid work. This category can include art, sports, education, education, participation in civil society, and political activity—the Aristotelian *vita activa*. "Living," so conceptualized, is something granted to citizens of the *polis* and requires that one has rights, freedoms, opinions, and goals.

Each of these conceptualizations of "life" is widely recognized as value per se, although the justifications provided for them are different. They are each a part of a different 'network' of values, and they are grounded within distinct Western currents of moral reflection. In analyzing these categories, it is helpful to turn to Charles Taylor, who discriminates three main traditions that establish sources of moral reasoning: theism (Judeo-Christian tradition); the Enlightment tradition of the disengaged reason, and the romantic tradition of self-expression associated with Rousseau and his heirs. (Taylor 1989). Each of these can be used to elucidate one of the conceptions of 'life' already mentioned.

The first, procedural understanding of "life" might be associated with the value that Isaiah Berlin would call "negative liberty" (Berlin 1958). The concept is strongly embedded in the tradition of the Enlightenment and describes a situation when an individual is free from direct external coercion or immediate external restraints. As in the famous quote from Hobbes' *Lewiathan*, "…a free man is he that in those things which by his strength and wit he is able to do is not hindered to do what he hath the will to do" (ed. 1972, p. 145). Negative understanding of liberty is also embedded in concepts and practices of contemporary liberal democracies, which gives it additional structural legitimacy. Now, living in a democratic system one should not be (too much) limited by the state and its agencies, yet the value of democratic freedom might also be violated on the labor market when a citizen is enslaved and left without a "life"—an undefined sphere where he or she might pursue their own goals (cf. Joas 1996). Thus, to have 'life' might mean nothing more than being able to mind one's own business. A person with such freedom can use it to sit on couches, make castles out of matches, or defend world peace—what matters is that no one interferes.

The first substantive meaning of "life" consists in interpersonal commitment, building sustainable interpersonal bonds. Here, the freedom from work is demanded *not* for its own sake, but in the name of the valuable content with which it can be filled; it relies on the concept of *positive liberty*. The "intimate life" set of values is today linked mostly with the Judeo-Christian tradition, although some seemingly similar forms are also advocated by the post-Romanticists. Ousted from a large part of public life, the Judeo-Christian tradition still directly informs various forms of private lives, regardless of the personal religiosity of a social actor. Thus, so-understood "life" should be filled with care, commitment, responsibility, fidelity, solidarity, charity, magnanimity, and similar values. The predecessor of the work–life balance metaphor was that of work–family balance, which limited its scope only to the relationship between paid work and the form of "life" discussed here. Such an understanding of "life" is probably most universally recognized, longed for, and adhered to. Despite the popularity of the utilitarian argumentation supporting work–life balance, it is the values just enumerated that are most often found in various surveys as the values that individuals regard as essential to the quality of their existence.

The second substantive understanding of "life" is rooted in the framework of Romanticism. This positive project, similarly to the one above, also recommends the balance of life and work for the sake of activities that can fill the work-free time. It advocates for some freedom from paid labor to allow an actor to "be herself," "express himself," and find "self-fulfillment." Various forms of intimate relationships might also reflect these values so long as they are understood as the expression of the self and not some preestablished (even if self-imposed) duty (Joas 1996). Yet such a view of 'life' is mostly focused on the public domain, where true 'expression' can take place. People, in this view, need time off work, because they must have space to develop their talents; they need to attend to their passions for art, sports, social life, and other socially accepted forms of self-realization. Such an individualistic ideal of self-expression is widely acclaimed and recognized in modern societies (Taylor 1989).

All these three main ways of thinking about the 'life' part of the 'work–life' equation have distinct justifications, and depending on one's prior moral commitments, one of them will be more fitting than others. It might be more of a synthetic a posteriori claim than a conceptual one, but we submit that within the Western tradition any given thinker must find at least *one* of them appealing. In other words, everyone will value 'life,' understood one way or another, because there exists a suitable justification for off-work time for each major tradition of moral thought. *'Life' is important, whether you are a Romantic or a rationalist*.

Why do we insist on presenting all these different justifications for the value of the notion? Because we need to build a consensus that life–work balance is valuable, no matter what your specific ideas about 'life' are. For the purposes of this paper it does not matter in what language the moral worth of harmonious life is expressed; we want to ensure that there is an *overlapping consensus* that it is valuable (Rawls 1999). With the well-grounded assumption that work *and* life have moral value, we might further look for the ethical language that would allow to describe moral obligations that such a claim entails.

Whenever there is more than just one value, there is a threat of moral conflict; this is, naturally, to be most eminent when the two values in question are mutually exclusive (your 'life,' given the meanings of the term we establish, happens exactly when there is no work). What is more, a problem such as work–life balance in the real world will have a vast number of incarnations; most of them will involve other conflicting values (sometimes letting your employee go home early might mean not simply compromising on revenue, but, in addition to that, failing to deliver a promise; this would be a case of three, not two, different obligations in play). For that reason, to tackle the problem we need a framework that can account for obligations in the face of moral complexity. We are, therefore, going to rely on the conception developed by W.D. Ross (1988).

Ross developed the notion of prima facie duty, a duty that one always has—but, given the overall calculation of the moral considerations at play, might have to act against. Here is a suitable example of how prima facie duties work. Say you promised your friend to meet her at noon at the bakery. Delivering a promise is *always* your prima facie duty—but what if on your way to the bakery you witness someone having a heart attack, and there is no one else to help them? Helping one in danger is a prima facie duty as well. Your task now is to weigh the two prima facie duties against each other, and decide what is your *overall duty* in this particular situation. If you decide to help the stranger, that does not, of course, void your duty to deliver promises; it still holds, but given the specifics of your situation, your overall duty is to neglect it at the moment.

Because it would be preposterous to assume that one should care about work–life balance *no matter what*, it is better to conceive of it as one of the necessary moral considerations at play in relevant situations of moral choice—and use Ross' way of speaking about moral obligations, allowing ourselves to simultaneously say that *there is a moral obligation not to hinder work–life balance* that *we are not obliged to act on it every minute of the day*.

It is perhaps important to explain a somewhat quick move from speaking of 'values' to speaking of 'duties.' We assume here, although it does warrant a separate argument (yet one we have no room for here), that establishing something as a value implies the existence of a prima facie duty. It is, however, not necessarily a positive duty (to make X happen), but a duty *not to hinder or destroy X* (if works of art are valuable, that cannot possibly mean that everyone must create one—but it might mean, and so we assume, that one should not destroy it). Thus, given this premise, if 'work–life balance' has value (as we have established), there is a corresponding prima facie duty not to obstruct or destroy such balance.

Collective Responsibility Problem

Assuming the agreement about the existence of a prima facie duty not to hinder individuals from living a balanced life, we should now ask who is the bearer of that duty in business context. Just as the duty to help is not incumbent on those whose hands are tied, this duty can only be active for those who have the power to execute it. Is it a company, a collective entity, the one 'responsible' for the lack of work–life balance of its employees, and thus is to be blamed for its absence? Or perhaps the responsibility can only rest with a particular individual who has the power, say, to let the workers go home earlier?

Disharmonious life could, conceivably, be a question of structural injustice and as such remain the moral business of lawmakers, not CEOs. The issue concerns multiple parties of various orders, embroiled in cultural, social, and legal reality, and for that reason moral responsibility seems to quickly disperse, or even evaporate. We know that the ideal state of affairs involves people who live happily balanced lives, but we cannot conclusively say who is to give it to them, and why.

There are a few debates in ethics that focus on problems structurally resembling the one at hand, and thus could be referenced in this context. Two in particular seem helpful: the discussion of paternalism and of responsibility in cases of structural injustice. They are useful in different ways, however. The examination of the former reveals that the work–life balance problem does not at all resemble the problem of paternalism, and yet is often treated similarly. The latter, on the other hand, seems at first glance far less likely to have anything in common with the issue at hand, and yet, we claim, they actually do share the structure and should share the solution.

Paternalism in policy making can be described as legally prescribing 'moral aid' (or any other aid, for that matter) for 'rationally bounded' subjects, thus influencing their choices without explicit infringement on personal freedom. One of its strongest expressions came from Thaler and Sunstein (Ross 1988), who advocate 'nudging' citizens toward the 'right' choices by designing contexts in which they are more likely to be made. The 'boundedness' of choice (including epistemic limitations, cognitive inefficiency, and strong influence of context), rather than as an epistemic failing, is regarded as a natural condition of the not-always-rational animal. If we want people to act morally right by becoming organ donors, for instance, we should examine the ways agents make this very decision (apparently in this case they do not weigh reasons for and against being a donor, but almost always go for what is presented as the 'default' option) and use this knowledge in the 'architecture of choice'—by making the 'right' choice the default (Johnson and Goldstein 2003). Now, both extreme libertarians and believers in moral autonomy reject this position, because it relieves individuals from the privilege of freedom, devalues the private sphere, and, generally, tends to make people feel less responsible for their well-being, moral standing, and the development of cognitive virtues such as Aristotelian *phronesis* (Furedi 2011).

How does this pertain to the problem of life–work balance? For one thing, the problem of paternalism is set on the intersection of the political sphere and personal morality, thus offering a tempting analogy. The arguments revolve around the nature and function of human autonomy, with nudge-haters mourning the lack of faith in the citizens' capacity for self-governance: "Instead of opting to have a grown-up public debate about the responsibilities that citizens have towards one other, today's ruling elite prefers to treat adults as children who need to be prompted and coaxed to do the right thing." (Furedi 2011).

One of the immediate responses to blaming companies for the loss of private life of its employees nobly associates itself with the faith in self-governance that the nudgers have lost. Why—it is asked—a structure that an individual *voluntarily* enters should make assumptions about this individual's needs and well-being, and, moreover, direct her life in a way that it believes to be 'right'? Surely, those who advocate fewer hours for investment bankers treat these very investment bankers as children, incapable of assessing the consequences of signing the contract. Were the working weekends in fine print? It is one's own burden to bring a magnifying glass. Was one's personal endurance misjudged? It is no one's fault, but that of the employee herself, and hopefully she will avoid the same mistake in the future.

The value of self-governance, in this view, suffers from any engineering of the context of choice for the purpose of the agent's well-being—if there is a prima facie duty not to make such balance impossible, it concerns only instances of explicit coercion (unless I forced you to sign the contract, you have no one to blame but yourself). As employers, we might make our workers' life hell, but *they came to us* and gave us the permission, and thus stated their belief that the benefits will outweigh the costs. Complaining about the hours in investment banking is like dining in a fancy restaurant and crying about getting the check.

Summing up, on the one hand there is the belief that combines (morally) Kantian, (politically) libertarian, and (cognitively) game theoretical elements, where an individual is capable of extracting herself from the intricacies of context to make a rational decision. That assumed capability itself is enough to grant her the sole authority on decision making as the only way respecting autonomy.

On the other hand, however, we have the perspective of interconnectedness of social life, shared by Aristotle, Hegel, American pragmatists, and the advocates of bounded rationality. As Fesmire puts it in his analysis of Dewey on this view:

> Reason is embodied, evolving, and practical, and as such it is subject to physical, conceptual, and historical constraints. Further, reasoning is contingent upon perspectives and is characterized by an educated aesthetic response that can emerge from trust in a situation's potentialities (1999, p. 39).

Now, there is a clear temptation to lead the discussion on work–life balance in exactly the same terms. One side could claim to advocate empowering individuals to choose forms of life for themselves through the trust in their rationality (if they voluntarily decide to work for company *A*, they have decided to take on the kind of life it offers, with all its inconveniences). The other party wants to prevent them from choosing the wrong kind of life by making sure that their needs will be satisfied regardless of what they choose (by forcing all companies to offer paid family leaves, for instance). It is, curiously, the former view that prevails among those submerged in corporate culture: "Well, you (I) could leave" is the common response to the complaint about the predatory attitude corporations tend to have toward time.

Is libertarian (or, alternatively, Kantian) framework appropriate in this very context? We beg to differ. Both Kantian view of autonomy and the libertarian perspective on freedom quite obviously crumble in Cambodian shoe factories, where young children work because they 'choose' to do so, while being 'totally free' to stay home. Their choice might indicate a moral failing, but a moral failing that was chosen: a voluntary sin. It is obviously absurd.

But we do not have to wonder that far. Imagine an average single mother who works as the chief strategist at an advertisement agency. She had to spend the majority of her salary on nannies and most of her dignity on asking her mother to pick up the kids from school when she happens to be late. Is she confused as to *what* constitutes her well-being? It is easy to answer by both herself and her CEO: having a chance to work less. The issue is not the confusion about values, but rather the heavily reliance on the concept of 'voluntariness.' In the post-Foucault or post-Frankfurt School philosophy, we do not have to wander all the way to Cambodia and its manufacturers to find theoretical means to prove that 'voluntariness' in this case is not exactly an expression of Kantian autonomy. First, altogether jobless, our hypothetical woman would not only suffer from a significant loss of material resources, but also give up her social status and all the further opportunity that comes with it. She would inevitably experience emotional problems: guilt for not providing sufficiently for her child, shame for falling out of the privileged group of 'the employed,' and fear for the future of her family. She could, of course, seek alternative employment, another 'voluntary' contractual arrangement. But as her salary goes up, her life–work balance is likely more threatened, whereas its decrease is strongly correlated with the growth of the aforementioned fears and losses. What is more, our agency is 'bounded' not only by the immediate features of the context of choice, but also in a larger way: by the inevitable ossification of our social imagination. Available 'life-forms,' to use a term from Wittgenstein, are a function of the game we are playing together, and you cannot, so to speak, win a game of chess by scoring a goal. Social games might be more open ended than chess, but 'being a respected, well-off mother, running a tiny baking shop in a friendly neighborhood 5 hours a day' is just as much of a stretch to their rules as breaking the opponent's king in half. Even though it is rather impossible to achieve, it is not the main point here. The trouble is that the scope of our possible pursuits of self-determination is quite narrow. Contrary to popular philosophical opinion, our agency is not an all-conquering, unbounded force, operating in the realm of ultimate possibility. A better description is, probably, that it is an adaptive forward-looking force that moves us along the material and social maze, calculating how to get out relatively unscathed.

Aristotle was the first to recognize that, and for that very reason he argued that a good life can only happen if the state is structured properly, in a manner that is in all its aspects conducive to acquiring virtue. An agent born into the state, then, receives proper education, the goals of which match the structure of her adult life. What Kantians would consider 'impoverished' agency is, for Aristotle, a beginning of a subtle task: how to make ourselves fit best into the institutions of a 'perfect state' that is built to provide a harmonious existence to virtue-habituated citizens. The faith in the harmony achievable through wise policy making and education makes metaphysical hope in absolute good unnecessary for the happiness of humanity. But the situation we are facing is that of a tension between the Kantian myth of autonomy, the reality of 'bounded' agency and institutions that are by no means unified by a hierarchy of values. Our choices spring from Aristotelian habituation, are applied to incongruent reality that allocates contradictory virtues to different fragments of life ('being a good mother' and 'being a respected citizen' are an example of such practically disjunctive norms), and yet we feel that we are to be blamed for the choices we make as if we were in fact fully autonomous.

Structural Injustice

The picture we paint, of a bounded agent in a patchwork reality, seems to be at odds with the initial goal of this chapter, namely, allocating moral responsibility for allowing life–work balance. If we are driven by habit, are subject to social forces, including the social imagination-specific lobotomy that comes from living in a cohesive political group, who can ever be blamed for anything? To an extent, the CEO shares this situation with an assembly line worker; both partake in the agential helplessness. Thomas Nagel (1979) describes the effects of taking on this perspective:

> The area of genuine agency, and therefore of legitimate moral judgment, seems to shrink under this scrutiny to an extensionless point. Everything seems to result from the combined influence of factors, antecedent and posterior to action, that are not within the agent's control. Since he cannot be responsible for them, he cannot be responsible for their results—though it may remain possible to take up the aesthetic or other evaluative analogues of the moral attitudes that are thus displaced (1993, p. 66).

Is it, then, possible to combine the 'organic' perspective that 'shrinks' agency with some positive moral program on responsibility allocation? Distributing moral burdens in situations of collectively bounded agency has certainly been attempted in moral philosophy before, in the case of larger political evils (such as genocide), or, more relevantly to our discussion, structural injustices—most prominently, racism or the oppression of women, on which we focus in further analysis.

There is little opposition to the claim that there exists a prima facie duty not to oppress others. And yet fulfilling it proves problematic. If we agree, even just for the sake of the argument, that women are persistently discriminated against in terms of access to resources, opportunities, and power not only through legal, but also symbolic, channels, where do we look for blame?

Certainly, the blame cannot be centered in any particular institution or individual. Oppression unveils itself through everyday acts. Husbands automatically assume their wives will stay home when children are sick, and bosses, knowing it, naturally offer the wives salaries lower than those of the husbands. Acts of aggression in the workplace are taken as signs of determination, but crying shows the criers be unfit for managing positions. Women are humiliatingly dependent on the perception of their bodies, whereas men enjoy the possibility of transcending the contingency of their looks with their brains or wallets. But who is to be blamed: the husbands, the bosses, or the wives? The objectifying or the objectified? Another complication in placing the moral burden comes from the fact that oppression tends to be a crime without victims, as women internalize their inferiority. As Sandra Bartky writes: “The psychologically oppressed become their own oppressors, they come to exercise harsh dominion over their own self-esteem” (2012, p. 22). For that reason, the injustice keeps perpetuating itself even if a woman happens to rise to power. Evil seems to emerge out of nowhere and reach no one, and Kantian-style morality, which depends on clear-cut agency, remains helpless.

The similarities between the problem of balanced living and oppression are easy to spot. In both cases we have agents acting in a preexisting structure (legal and symbolic). They are bounded by being contextualized within that structure and using its popular heuristics. In both cases the alleged victim (a woman and an employee) accept the status quo (staying home or working nights) as fair treatment, eagerly rationalizing the situation (“this is what I chose”). Breaking out of the system is punished—by labeling a woman ‘aggressive,’ ‘manly,’ or ‘unfulfilled,’ or by taking away the respect associated with high salary and employment. Exploited parties, when raised to positions of power, tend to perpetuate exploitative schemes (powerful women adopt ‘male’ strategies, whereas new managers keep asking former colleagues to work long hours, the way they used to resent).

Who is to be blamed, then? Claudia Card offers a promising view in her books *The Atrocity Paradigm* and *Confronting Evil* (2005). Card’s view of moral responsibility arises from her recognition of rational boundedness. We might, Card claims, have to bite the bullet that comes with the rejection of Kantian view on autonomy, and recognize that we might be responsible for evils that we have not intended. What is blameworthy in cases of structural injustice is not just the intentional act of intended oppression (an instance of domestic violence, for example), but also every act of complicity in the structure that makes it a norm. There are different ways in which one can be complicit in structural evils. There is ‘complicity of indifference’ and the complicity flowing from ill will, such as jealousy or the desire to harm. The complicity of group identification, where one lacks the moral resolve to call out her group (males or whites, for instance) on pursuing morally objectionable ends. Another kind of complicity (the most excusable one) comes from giving up one’s agency or sense of self from psychological scarring (Card 2005).

In other words, a portion of guilt goes to the offender, another portion to the onlookers; some responsibility rests on the offender’s parents and caregivers for passing on the sexist norms that help in justifying the act of rape. A share of it goes to everyone who has never protested when a man treated a woman as a sexual object without her specific consent; another part to those who rationalize the inferior position of women to justify their superior (and inferior) position. And, finally, the victim can be blameworthy herself for lacking the moral courage to recognize her subjugated position early in the game and to take steps to regain an equal position.

Such understanding of responsibility in structural cases can, of course, sounds intimidating to those who hope for moral sainthood. The bounded agent is being asked, among others, to carry the moral burden of the consequences of norms that she was socialized to and had no say in creating. Card admits that spreading accountability widely must be accompanied by some formula of self-forgiveness (a 'margin of error and shortcoming'). On the other hand, this conception offers nearly everyone a much larger scope of moral action and calls for vigilance and courage.

What does it mean for work–life balance? Once we recognize that a balanced life is (philosophically speaking) much like life without oppression, it becomes clear that we do not need to seek a particular agent guilty of its lack. In contrast, everyone is responsible: the wives who 'understand' their husbands' working hours and the husbands who feel justified, through working, in not caring for the children. Partners that progressively devalue the time spent together because they give in to associating money with power and respect. On the other end, those who shop in Walmart, through their pursuit of cheap products, are guilty of the long and low-paid working hours of Walmart cashiers and other employees. Those who buy Nike products have their share of moral blame for the lack of balance in the lives of Cambodian workers. Managers who call their teams on Sundays, psychologically coercing them into constant availability. Managers of those managers, who expect this behavior. Friends, who see us less, because they work too much, and teachers who do not shame parents into coming to see a school play. Moral responsibility is, unfortunately, everywhere, and, with enough perceptiveness and courage we must begin accepting it.

References

Bartky Lee, S. (2012). *Femininity and domination studies in the phenomenology of oppression*. Hoboken: Taylor and Francis, 2012. http://msvu.eblib.com/patron/FullRecord.aspx?p=1098974

Beauregard, T. A., & Henry, L. C. (2009). "Making the link between work-life balance practices and organizational performance". *Human Resource Management Review, 19*(1), 9–22. Doi:10.1016/j.hrmr.2008.09.001.

Berlin, I. (1958). *Two concepts of liberty: An inaugural lecture delivered before the University of Oxford on 31 October 1958*. Oxford: Clarendon Press.

Caproni, P. J.(2004, January). "Work/Life balance you can't get there from here". *The Journal of Applied Behavioral Science, 40*(2), 208–218. doi:10.1177/0021886304263855.

Card, C. (2005). *The atrocity paradigm: A theory of evil*. New York, Oxford: Oxford University Press.

Fesmire, S. (1999). Morality as art: Dewey, metaphor, and moral imagination. *Transactions of the Charles S. Peirce Society, 35*(3), 527–550.

Furedi, F. (2011). *On tolerance: The life style wars: A defence of moral independence*. London, New York: Continuum Publishing Corporation.

Galinsky, E., & Bond, J. T. (1998). *The business work-life study, 1998: A sourcebook*. New York, NY: Families and Work Institute.

Galinsky, E., & Johnson, A. A. (1998). *Reframing the business case for work-life initiatives*. New York: Families and Work Institute.

Guest, D. E. (2002, January). Perspectives on the study of work-life balance. *Social Science Information, 41*(2), 255–279. doi:10.1177/0539018402041002005.

Hacker, S. K., & Doolen, T. L. (2003). Strategies for living: Moving from the balance paradigm. *Career Development International, 8*(6), 283–290.

Halpern, D. F., & Murphy, S. E. (2005). *From work-family balance to work-family interaction: Changing the metaphor*. New York: Routledge.

Hobbes, T. (1972). *Leviathan*. London: Fontana.

Joas, H. (1996). *The creativity of action*. Chicago: University of Chicago Press.

Johnson, E. J., & Goldstein, D. (2003). Medicine. Do defaults save lives? *Science (New York, N.Y.)*, *302*(5649), 1338–1339.

Kodz, J., Harper, H., & Dench, S. (2002). *Work-life balance: Beyond the rhetoric. IES report.* Grantham Book Services, Ltd., Isaac Newton Way.

Lewis, S., Gambles, R., & Rapoport, R. (2007). The constraints of a 'work–life balance' approach: An international perspective. *The International Journal of Human Resource Management, 18*(3), 360–373. doi:10.1080/09585190601165577.

Mcdowell, L. (2004, January). Work, workfare, work/life balance and an ethic of care. *Progress in Human Geography*, *28*(2), 145–163. doi:10.1191/0309132504ph478oa.

Nagel, T. (1979). *Mortal questions*. New York: Cambridge University Press; reprint as chapter 3 in: Statman, Daniel. *Moral Luck*. SUNY Press, 1993.

Rawls, J. (1999). *Theory of justice.* (Rev. ed.). Cambridge, Mass: Harvard University Press.

Ross, W. D. (1988). *The right and the good*. Indianapolis: Hackett Pub. Co.

Snow, D. A., Morrill, C., Anderson, L. (2003, January). Elaborating analytic ethnography linking fieldwork and theory. *Ethnography, 4*(2), 181–200. doi:10.1177/14661381030042002.

Taylor, C. (1989). *Sources of the self: The making of the modern identity*. Cambridge, MA: Harvard University Press.

Thompson, J. A., & Bunderson, S. J.(2001, January). Work-nonwork conflict and the phenomenology of time beyond the balance metaphor. *Work and Occupations, 28*(1), 17–39. doi:10.1177/0730888401028001003.

Yasbek, P. (2004). *The business case for firm-level work-life balance policies: A review of the literature*. Wellington: Labour Market Policy Group.

Chapter 8
Sustaining the Sustainable: Creating the Culture of Sustainability

Maria Cecilia Coutinho de Arruda and Marilena Lino de Almeida Lavorato

Introduction

The Rio20 event of June 2012 followed the United Nations Organizations' traditional model of sustainable development: economically viable, socially fair, and environmentally correct. Lélé (1991) and Boff (2012) criticize this *Triple Bottom Line*, as it eases accumulation of wealth, and lack of equilibrium in the ecosystems, and does not alleviate poverty. These pillars are not adequate or sufficient for the complexity of sustainability issues.

The present chapter points out the challenges of developing a culture of sustainability, given pressures in organizations. Sustainability should not be undertaken through either fashion or fear. The authors explore how environmental issues have been treated since early signs of life were recognized. Interacting with nature as an important resource for society is not a new or newly fashionable concern. The global planned use of scarce natural resources leads to a new order of decisions: international policies and agreements, technology development, innovation in processes and products, research, and reports, among others (Sachs 1993, 2004). In a concrete international joint effort, sustainability should not mean fear for any stakeholder in organizations.

Customized strategies and actions should be developed for each group of stakeholders. Creating the culture of sustainability is a responsibility of anyone in an organization, but it has been a concern of leading professionals dedicated to this specific task (Henshaw and Woods 2011). The objective of this chapter is to analyze how to

M.C. Coutinho de Arruda (✉)
ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil
e-mail: heticabrasil@gmail.com

M.L. de Almeida Lavorato
Instituto Mais, São Paulo, Brazil
e-mail: marilena@institutomais.org

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_8

create the culture of sustainability. The concepts of sustainability and culture are discussed with a brief literature review. Then, a survey with a few sustainability officers is presented, and finally some comments and remarks on their role are offered.

Understanding Sustainability

Principles and guidelines are necessary to live in a society with more justice and equilibrium. In this chapter, sustainability implies positioning the human being in its relationship with the traditional pillars of environmental, social, and economic resources, while also broadening the concept. Sustainability embraces values that draw, approve, and adopt these principles and guidelines, building a new model of life in society. For this reason, the cultural pillar, the newest support for sustainability, together with the three traditional pillars, is a conductor cord of this process of social building and transformation. (Lavorato 2012)

Understanding Culture

Back in the 1950s, Kroeber et al. (1952) found more than 167 different definitions of culture. Much has changed, and the concept is broader in the scientific literature, often mixing ideas of development, education, good manners or habits, etiquette, and behavior. Culture is briefly defined for the purpose of this study as a concern emerging from a dynamic context wherein environmental contingencies impact society in different ways. The authors understand the challenge of corporations in leading the transformation in social conscience.

Certo and Peter (1993) focused on social responsibility as the managers' level of awareness of the necessity aiming to protect and enhance society beyond the minimum technical and economic interests of the organization. They consider that corporate social responsibility (CSR) involves the performance of activities that can help society, even if they do not directly contribute to company profits.

Stoner and Freeman (1999) recalled how, in 1899, Andrew Carnegie, founder of the U.S. Steel Corporation, supported the social responsibility of large corporations upon two main pillars: charity and custody. The principle of charity requires that wealthier individuals should help less fortunate members of society, even directly or indirectly through institutions such as churches or homes. Thus, in the early twentieth century, charity was considered an individual's responsibility, not the organizations'. As for the custody principle, Carnegie understood that either companies or wealthy individuals should see themselves as guardians, keeping their properties in custody for the benefit of society as a whole. In this sense, it was the organizations' role to multiply the wealth of society, increasing their own through prudent investments of resources under their custody. The virtue of prudence, mentioned here, recalled the first commitment of business leaders with ethics.

Culture of Social Obligation

The social obligation approach suggests that the main goals of the organization are related to its economic nature: profit maximization and stockholders' assets, not the fulfillment of social obligations, which should be limited to what legislation requires. Nowadays, organizations face a number of laws enforcing companies to control pollution, to create and maintain safe work environments, or to treat employees equally, among others.

Polemical Milton Friedman (1970)'s article "The Social Responsibility of Business Is to Increase Its Profits" emphasized the government's role in caring for societal needs, as he considered the corporations unprepared to successfully manage social programs. The companies should pursue their goal of profit maximization under the rules of society, providing jobs and salaries, and assuring that their taxes provide resources for the government to develop needed social projects. If business leaders turned their attention to defining social interests, they would not be as effective and would strongly jeopardize their competitiveness and results.

Culture of Social Responsibility

In the opposite direction, many other authors and practitioners have understood that it is theoretically in the company's best interest to enhance the conditions of surrounding communities, to avoid little problems that could become large and serious. Doing so would be a matter of ethics, the correct thing to do. Also, showing sensitivity to social issues would avoid unnecessary governmental intervention in the enterprise. Thus, a more generalized value system based upon the Judeo-Christian tradition strongly encourages actions of charity and social concern (Montana and Charnov 2003)

The social responsibility approach aims at both economic and social benefits of organizational decisions. There is concern about maximization of profits and stockholders' assets, but there is serious consideration for the supervision of social programs. The companies adopting this approach actively seek for the community's approval and involvement, to the point that they can be recognized as *politically correct.* Montana and Charnov (2003) stated that these companies will practice reactive or corrective adaptation when they see that their actions are useful to solve current social problems.

According to Campos (1992), an honest organization could only survive in a society if it cooperates for the satisfaction of people's expectations and needs. "This is its main objective. Would this be an assumption the first concern of business administration should be to satisfy the needs of people affected by its existence" (p. 41). Thus, the organizations should meet the expectations and needs of consumers, clients, employees, stockholders, and neighbors of the company, that is, internal and external stakeholders (Billgren and Holmen 2008).

Culture of Ethics

Vanderwall (1999) summarized several years of academic discussion around ethical culture, pointing out that developing a system of moral principles or values was not an easy task and that enforcing such a system can be even harder. The most difficult challenge of all seemed to be developing and enforcing an international code of ethics, because cultures around the world view business ethics differently. Managers should then discover and articulate organizational values, and develop clear ethical codes and policies, to ensure that such codes are clearly communicated and correctly implemented throughout the company. Professionals dedicated specifically to managing ethics programs are now working in corporations and are named ethics officers or ethics and compliance officers.

Culture of the Environment

By the late 1990s the academic literature had started discussing ways in which companies were impacting the environment. Klassen and Whybark (1999) looked for a relationship between business performance and the development of new environmental technologies. A reduction of environmental impact responded to a social demand, to a point that the companies were impelled to define specific corporate policies from the beginning of their strategic planning. Although investments in good environmental practices seemed inconclusive at the time, very soon the concern became crucial to several industries (Hartman and DesJardins 2011).

Culture of Sustainability

Nowadays, a rationale that is similar to the previously mentioned culture of ethics can be used for the culture of sustainability. It is necessary to develop a system of principles or values that assure the enforcement of assumptions, processes, and procedures that benefit economic, socially responsible, and environmental goals of the company and of the society as a whole (Porfilho 2005). A difference in the approach is the focus on the short and long run, a specific concern of sustainability. Even if cultures around the world aim at the future differently, the perspective of sustainability has become mandatory in both business and public policies (Radin 2011). For instance, Norway is considered a developed country in this sense mostly because of its energy plans, whereas Brazil, and other South American and Southeast Asian countries, are also turning their attention to maintenance of natural resources, preserving the diversity and holding reduction of rainforests, and planning the efficiency of agricultural development, so that the population can properly be fed now and in the future.

According to Lavorato (2012), the culture of sustainability will be responsible for needed and expected advancements in issues that challenge society today. Without awareness, involvement, and action (through processes), sustainability will not become a reality and will remain only a desire of consumption to humankind.

Promoting Changes from and Within the Organization

The culture of sustainability embraces perception, understanding, motivation, and final adoption, which is the continuous and perennial action. The process of internalizing values starts with perception, is developed with understanding, is incorporated with practices and perpetuates as a habit. It starts individual and ends collective. It goes from generation to generation. Characterizing diffuse interest, the benefits are for one and for a billion (Lavorato 2012; Boff 2012).

Therefore, it is necessary that actions carry information, concepts, and values to large masses. Topics may diverge, but remain close to reality, in the case of sustainability. Creating critical masses, calling for attention, advertising and motivating people for sustainability values are the great challenges. It may last decades, or it can be accelerated with the support and participation of local leadership.

As occurred in business ethics, professionals focused mainly on sustainability are now managing specific programs in for-profit or non-for-profit organizations, and are often called sustainability officers.

Good Practices for the Culture of Sustainability

In this chapter, the authors consider good practices of sustainability those actions and achievements that bring positive results to the practitioner and his/her environmental, social and economic contexts. When replicated, even if adapted, they enable similar results to their adopters. The importance of sharing and replicating good practices seems unquestionable.

The culture of sustainability leads this transformation process toward a more sustainable and fair model of life. For example, the culture of peace is a social process based upon values and policies that guide people's behavior toward harmony and safety. Similarly, in the culture of sustainability, once its principles are internalized, the practices will drive to the expected results in a cleaner, greener, and fair future. To accelerate this process, critical masses will have to be built, so that these values and practices can be replicated to the whole society. The sustainability officers, together with government agents and civil society organizations, will design projects to reach specific goals.

The culture of sustainability offers a large and necessary contribution for the future. It will be responsible for the expected development of social and environmental issues that challenge society today (Lavorato 2012).

Products and services are offered in a seductive way, and perhaps consumers and customers do not know how they effectively need them. Marketers are then considered unfair, as they persuade and pursue unnecessary consumption. Consumerism is not active enough to encourage changes in lifestyle. The corporations are working to "sell" sustainability, helping people to make lasting changes in their lifestyle through levers: make it understood, make it easy, make it desirable, make it rewarding, and make it a habit (Baker 2011). It is the sustainability officers' role to explain the measurement of this gigantic effort, correcting any wrong image eventually communicated to the public.

Survey with Sustainability Officers

Top managers perhaps drive less attention to sustainability because of the pressure experienced to reach better financial results. Shareholders may be resistant to making changes that in some way might impact the short-term results. They are constantly impelled to discuss new issues and barriers to develop a new behavior toward decision making in issues related to sustainability.

Nevertheless, good practices usually indicate leaders' attitudes toward ideas that are revealed to be right and therefore are worthy of being adopted by other persons or organizations. Benchmarking has been addressed as a positive management tool in Brazilian corporations. For-profit- and not-for-profit organizations, public and private, independent of the size or industry, can assess their processes through benchmarking.

The Brazilian Environmental Benchmarking Program was created to select the best corporate social and environmental practices by considering their effective benefits to society and to the natural environment as well as the competitiveness of the organizations that adopted them. This survey analyzed a few cases of the largest digital bank of social and environmental practices with open access in the Internet in Brazil, focusing on the outstanding performance of the professionals in charge of these sustainability cases. Sharing knowledge and experiences served as good technical and managerial development for a significant group of "sustainability officers," who were not necessarily so named.

An exploratory study with six managers of the 198 best social and environmental corporate cases was selected and reported in the BenchMais1 (2003–2006) and BenchMais2 (2007–2011) Reports. The survey indicated the profile, perceptions, activities, responsibilities, challenges, and acknowledgments of some of the new "sustainability officers." Given the diversity and extension of the geopolitical characteristics of the nation, and the responsibility of all leaders and citizens, the Brazilian government may need to recognize sustainability officers' activities as those of a regular, formal, and legal profession. The experience of ethics and compliance officers has driven good efforts in this sense. Their role is certainly seen as crucial to lead the changes toward a culture of sustainability required in all organizations.

This group of professionals was interviewed using a questionnaire as script [Exhibit 1 (Table 8.1)]. There were two female and four male managers, most of

Table 8.1 As a sustainability manager, how challenging is your role?

Questions/Respondents	1	2	3	4	5	6	Average
Top managers are not aware of our role	5	4	2	5	5	3	**4.0**
Top managers do trust the contribution or value generated with this new competence in the organization	2	2	1	0	6	3	**2.3**
There is prejudice related to NGOs	0	1	2	2	8	5	**3.0**
There is prejudice related to social and environmental issues	2	0	1	0	9	2	**2.3**
There is lack of information about environment, dealing with it as costs, trouble, and fines	0	7	1	6	1	3	**3.0**
Take working conclusion about environment, looking at it as costs, issues, and fines	0	2	1	6	2	3	**2.3**
Lack of qualified professionals in the market	5	6	4	8	7	5	**5.8**
Lack of investment in training	5	4	4	6	3	4	**4.3**
Lack of dialogue of this area with the others in the company	5	2	2	9	10	2	**5.0**
No awareness about the potential of this competence	5	3	3	7	4	5	**4.5**
Average	**2.6**	**2.9**	**2.1**	**4.9**	**5.6**	**3.5**	**–**

Source: Survey with sustainability officers in Brazilian organizations (collected data, 2011)

them occupying the current professional position for less than 10 years. Their companies operate in six different economic sectors.

Concerning their professional legal condition, five respondents were employees and one was a government agent.

Table 8.1 offers a description of some of the respondents' perceptions, opinions and ideas that can be useful for future studies, with no intention of assuming any of the results as conclusive. It is interesting to notice that, among this quite diverse group in terms of age, gender, educational level and experience in the position, the feeling is that there is a lack of qualified professionals in the market. They also believe that the sustainability area seems to need more dialogue with other areas of the company.

Apparently, sustainability professionals have to work hard to get more recognition from top managers and from other departments, which is mainly the result of the existing trust related to this position in the future. These eventual trends may indicate a new and still weak culture of sustainability in Brazilian companies, which is different from what already happens with business ethics.

The lack of qualified professionals, as well as low investment in specific training, suggests that sustainability practitioners, either as officers or as consultants, need special attention from top managers in Brazilian corporations (Table 8.1). Strong motivation for this can doubtless be found in economic reasons, in reputation as benchmarking, in social inclusion, and in an environmental concern translated into processes and procedures that lead the companies from *greenwashing* into *bluewashing*.

Table 8.1 shows that there certainly is lack of information about the environment, in what relates to cost, troubles, and fines. This is a specific aspect in which the sustainability officers can be of significant support to the organization, together with other functional areas. The search for solutions will increase the culture of dialogue between the sustainability area with others in the organization. Potential needs of investment in training may be then identified, and the competence level of the whole organization will improve.

The outstanding performance of sustainability officers attracts other professionals' attention. They can then share their knowledge and experiences, opening access to good technical and managerial development of other areas. Their visibility and reputation will empower them, and this process can be associated to the effort of building a critical mass, crucial to generate social changes, as basis for the sustainability culture.

Sustainability Officer: The Culture Promoter

As ethics and compliance officers, the sustainability officers should be highly responsible professionals. Working directly with the main board of the organization, these professionals explore activities that will make a significant difference to the shareholders' values. To accomplish this important task, they often review the company's management of its impacts and risks to reputation, and therefore they operate with a larger and stronger scope, authority, experience, challenges, and acknowledgments. Several initiatives have been created throughout the world, aiming at adequately qualifying professionals to promote the culture of sustainability in companies.

An example is the Center for Sustainability and Excellence (CSE) that organized the Global Certified Sustainability (CSR) Practitioner Training, designed to support the implementation of effective CSR strategies and reports. The CSE has hosted these training activities for more than 10 years and has certified more than 300 practitioners from leading organizations from all sectors. Of the 5000 professionals who participated, more than 300 professionals from five continents and 25 countries across North America, Europe, the Middle East, and Asia have become Certified CSR Practitioners. As an Approved Training Provider under the Institute of Environmental Management & Assessment, CSE offers intensive learning opportunities for professionals across sectors and industries on CSR and sustainability strategy, design, management, and communication (Sustainability Practitioner Website 2011). This initiative certainly promotes the culture of sustainability in companies and respective countries.

Looking at a more tropical environment, where complex sustainability topics emerge, a variety of issues in different companies demands a qualified professional to manage the specific programs. Independent of their size, the companies have to rely on mature and experienced strategies, methods, and procedures. Multinational companies face one more issue, which is the adaptation of the criteria and policies to the specificities of the region or country. Engagement of the several stakeholders seems to be essential in this process, and the respect to cultures and legislation becomes imperative.

All these challenges end up building excellence in the area and deep changes in the organization's culture. As a result, the brand image is strengthened and the company's reputation is enriched.

Getting to understand the culture of a corporation allows the sustainability manager to better report achievements, challenges, and trends according to global, regional, or local frameworks. The Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP), and indexes such as the Dow Jones Sustainability Index (DJSI) and the Brazilian BOVESPA-ISE (Índice de Sustentabilidade Empresarial) soon have to enter the systems routine in the organization to ensure measurability and control.

Training programs should continuously support the advancements of the sustainability area, aligning the organizational culture and priorities.

Final Comments: Toward a Culture of Sustainability

Principles of logic and coherence are crucial for the success of this area. Sustainability should be governed neither by fear nor by fashion. The challenge is to develop technologies that will enable better results with fewer resources and efforts, which means a change of culture. *Greenwashing* implies changes in communication, which is the first step for culture changes.

Those who act correctly have not sufficiently communicated their good work to society as a whole.

They reach a few people, but the experts can go further. According to social communicators, if 25 % of the population is impacted, the social transformation has started. Today, about 5 % of the critical mass in Brazil is sensitive to sustainable practices. There is still much work to do. The sustainability officer must find ethical, logical, and educational means to communicate the difference of being sustainable because of the *universal value* implicit: "it is worthwhile paying the price" will have to be the rule for opinion leaders.

In this sense, the sustainability officers could never be eliminated. The perpetuity of his/her activities is crucial to the social changes required by international agreements and commitments such as those of Rio20.

The environmental value is built over decades and once it is built it is not easy to destroy. Therefore, what has to be definitively changed is society's lifestyle, which will only happen if communication and educational efforts go intensely together. This process does not go faster because of a loss of moral values throughout the world. The sustainability officer wants to communicate that it is worthwhile being ethical. In this sense, the sustainability officer is reaching what the ethics officer may be never able to get.

The ethics and compliance officer could not make the economy tangible. The sustainability officer can convince stakeholders that the change brings return (around 4 % of the GDP in the United States). For this reason, specific indicators were created: economic, social and environmental. The green economy concept looked more at economic advantages than to the ethical ones. On the other hand, sustainable development assumes the priority of the ethical. The importance for businesses is not so much the discussion around concepts, but the economic result. Therefore, the sustainability officer has to handle numbers with the ability of a finance manager: business ethics implies using economic logic for good.

Logic and coherence provide the ethical basis for sustainability. It goes without saying how mature this professional ought to be. He/she will be the one who continuously builds the legacy of sustainability. They want to reach the 25 % of the population that will make the difference.

As a final consideration, it is curious and interesting to notice that with this rationale, the culture of sustainability will be enforced with a focus on results, which every business leader deeply and sincerely appreciates, that will bring along the business ethics as a bonus.

References

Baker, M. (2011, December 11). Marketing and marketers: Use the dark arts for good. *Ethical corporation*. Posted on Dec 11, 2011 at http://www.ethicalcorp.com/communications-eporting/marketing-and-marketers-use-dark-arts-good?utm_source=http%3a%2f%2fuk.ethicalcorp.com%2ffc_ethicalcorporationlz%2f&utm_medium=email&utm_campaign=1679+North+America+Jan+12+Content+E1&utm_term=CSR+analysis+not+to+be+missed&utm_content=49

Billgren, C., & Holmen, H. (2008). Approaching reality: Comparing stakeholder analysis and cultural theory in the context of natural resource management. *Land and Use Policy., 25*(4), 550–562.

Boff, L. (2012, January 30). Desenvolvimento Sustentável: Crítica ao Modelo Padrão (Sustainable development: Criticism to the standard model.) http://mercadoetico.terra.com.br. Accessed 31 January 2012.

Campos, V. F. (1992). *TQC: Controle da qualidade total (no estilo japonês)*. Belo Horizonte: Fundação Christiano Ottoni.

Certo, S. C., Peter, J. P. (1993). *Administração Estratégica: Planejamento e Implantação da Estratégia*. São Paulo: Makron Books, (Translation).

Friedman, M. (1970, September 14). The social responsibility of business is to increase its profits. *The New York Times Magazine*.

Hartman, L. P., & DesJardins, J. (2011) *Decision making for personal integrity & social responsibility.* 2nd ed. New York: McGraw-Hill, Chapters 4 (Corporate Culture), 5 (Social Responsibility) and 9 (Business and Environmental Sustainability)

Henshaw, T., & Woods, J. (2011). *The emergence of the chief sustainability officer*. London: Acre Resources.

Klassen, R., & Whybark, D. C. (1999). The impact of environmental technologies on manufacturing performance. *Academy of Management Journal, 42*(6), 599–615.

Kroeber, A. L., Kluckhohn, C., Untereiner, W., & Meyer, A. G. (1952). *Culture: A critical review of concepts and definitions* (p. iii). New York: Vintage Books.

Lavorato, Marilena Lino de Almeida. *Cultura de Sustentabilidade: Um Projeto Necessário. 2012 Inteligência com ética.* São Paulo, Brazil: Instituto Mais, p. 12. http://www.youblisher.com/p/213984-Cultura-de-Sustentabilidade/. Accessed 31 January 2012.

Lélé, S. M. (1991) Sustainable development: A critical review. *World Development*, *19*(6), 607–621, Berkeley: Energy and Resources Group, University of California.

Montana, P. J., Charnov, B. H. (2003). *Administração*. São Paulo, Brazil: Saraiva, 2003 (translation).

Porfilho, F. (2005). *Sustentabilidade Ambiental, Consumo e Cidadania* [Environmental sustainability, consumption and citizenship]. Sao Paulo: Cortez.

Radin, T. J. (2011). Taking sustainability seriously: An argument for managerial responsibility. In Hartman L. P., & DesJardins, J. (Eds.), Business ethics: Decision making for personal integrity & social responsibility (2nd edn, pp. 510–517). New York: McGraw-Hill, Irwin, Reading 9–2.

Sachs, I. (1993). *Estrategias de transicao para o seculo XXI* [Strategies of transition for the 21th century]*: desenvolvimento e meio ambiente*. São Paulo: Studio Nobel and Fundação de Desenvolvimento Administrativo.

Sachs, I. (2004). *Desenvolvimento includente, sustentável e sustentado* [Inclusive, sustainable and sustained development]. Rio de Janeiro: Garamond.

Stoner, J. A. F., & Freeman, R. E. (1999). *Edward. Administração*. Rio de Janeiro: LTC.

Sustainability Practitioner Website. (2011). Global Certified Sustainability (CSR) Practitioner training: Designing and implementing effective CSR strategies and reports, 13/Oct. http://www.cse-net.org/contents.aspx? catid=520. Accessed 31 Jan 2012.

Vanderwall, S. (1999, April). Navigating cross-cultural ethics: What global managers do right to keep from going wrong. *Alexandria: HRMagazine*, *44*(4),147–149.

Chapter 9
Towards Re-theorizing the Firm in Pursuit of Well-Being and Social Justice

Ganesh Nathan

Introduction

The recent global financial and economic crisis has prompted calls for more regulation of corporations, even a sort of nationalized capitalism. Moreover, increasing awareness and evidence of climate change caused by human activities also demand eco-sensitive regulation and international protocols. Both these concerns, together with the still ubiquitous poverty in our post-modern society, are challenging the sustainability of global capitalism in pursuit of wealth creation and profit maximization, and questioning the activities and behavior of firms in terms of responsibility, accountability, and the role of leadership. However, opponents of overregulation fear that it may lead to nationalism and protectionism and therefore stunt the innovation, free market enterprise, and competition that are conducive to economic prosperity. Moreover, they claim that overregulation imposes a huge cost of compliance on the state and ultimately on society. Against this background, this chapter attempts to show that we should rethink the purpose of the firm, not only from an economic perspective but also from a sociopolitical perspective to re-theorize the firm for responsible governance. Although the quest to rethink the purpose of the firm and capitalism is not new (see O'Toole and Vogel 2011), this paper attempts to provide some plausible arguments from an interdisciplinary approach to rethink the purpose of the firm and the implications of re-theorizing the firm.

This chapter is an edited version of the paper titled 'Re-theorizing the firm: In pursuit of well-being and social justice,' presented at the ISBEE Annual Conference in Warsaw, Poland, July, 2012.

G. Nathan (✉)
Institute of Management, University of Applied Sciences and Arts Northwestern Switzerland (FHNW), Windisch, Switzerland

Business School Lausanne (BSL), Chavannes, Switzerland
e-mail: gnathan@gmx.net

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_9

I begin by clarifying the relationship between the concepts of corporate responsibility and corporate governance. Although many executives agree that corporate responsibility is 'essential to their business,' there is no singular definition of it (Blowfield and Murray 2008, p. 10) but rather different notions, such as corporate social responsibility (CSR) and corporate citizenship (CC) (Matten and Crane 2005); however, they 'share in the common belief that companies have a responsibility for the public good—but they emphasize different elements of this' (Blowfield and Murray 2008, p. 13). Corporate governance is mainly related to financial accountability and transparency in relationship to how corporations meet, in particular, directors' fiduciary obligations to shareholders. However, especially because of corruption and malfeasance within corporations, some consider that corporate governance is an essential part of corporate responsibility (Blowfield and Murray 2008, p. 35). Hence, an approach to corporate governance should arguably include corporate responsibility and leadership within its framework in determining how corporations should be organized (including the independence and diversity of the board of directors and executive remunerations) and led (through stakeholder engagement and deliberation for justice), as corporations have responsibilities to meet not only the expectations of shareholders but also of other stakeholders. I adopt this concept of corporate governance in this paper to underscore as well as to broaden its scope to meet expectations and interests of stakeholders including shareholders. I argue that corporation legitimacy, public trust, and credibility hinge upon responsible governance and leadership. For example, exorbitant bonus payments that create high disparity between executives and the vast majority of employees, political lobbying to oppose many regulations that are meant for the good of society, corruption, violation of human rights, and irresponsible behavior toward the environment and future generations that affect sustainability in many dimensions, not only economic, but also social and ecological, can all arguably be brought under the scrutiny of responsible governance. Therefore, I briefly critique some theoretical underpinnings of corporate governance based on shareholders' value maximization.

The credibility of agency theory, which underpins contemporary corporate governance by affirming the maximization of shareholder value as the sole purpose of the firm through the principal–agent relationship, is increasingly being challenged. The shareholder value tied to economic value underscores wealth creation. Thereby, firms are expected to perform as engines of wealth creation and the agents are expected to maximize shareholder value. The proponents of shareholder value maximization may argue that shareholders taking into account the negative externalities and adhering to certain human rights while focusing on profits will generate social welfare (Nozick 1974). During the past two centuries, and especially today, this ideology of wealth creation has, arguably, shaped many business practices and corporate culture. However, regrettably, these practices have fostered moral hazard among corporations by leading to market and individual executive excesses with the 'pathological pursuit of profit and power' (Bakan 2004). The short-term incentives of managers and executives have led corporations to take excessive risk, mainly for dysfunctional personal gain. The recent financial crisis and the subprime mortgage lending in the U.S. along with bailout packages for failing corporations, and the many corporate scandals including LIBOR (London Interbank Offered Rate) and environmental damage caused by an irresponsible short-term perspective profit focus of the firms, show that managerial opportunism had and still has a propensity to lead to an unsustainable world order undermining corporation credibility, public trust, and legitimacy. Corporate governance based on the principal–agent relationship has not yielded the expected results. As Ghoshal (2005, p. 80) puts it: "What is interesting is that agency theory, which underlies the entire intellectual edifice in support of shareholder value maximization, has little explanatory or predictive power." As Kochan (2002, p. 139) observed, the root cause of the recent scandals of U.S. corporations is mainly about overemphasizing shareholder value maximization 'without regard for the effects of their actions on other stakeholders.' The foregoing concerns call for an appropriate theory that underpins responsible governance and virtues of leadership for the sustainability of capitalism is open.

Within corporate responsibility and corporate governance scholarship many other theories have been debated, among which are institutional theory, organizational theory, legitimacy theory, and stakeholder theory (Filatotchev and Nakajima 2014). 'Stakeholder theory is increasingly regarded as one of the touchstones of good corporate responsibility management' (Blowfield and Murray 2008, p. 160) as it acknowledges that managers bear a fiduciary relationship not only to shareholders but also to other stakeholders (Freeman 1984, 1994). A stakeholder approach to corporate responsibility has some merits over shareholder value maximization through the principal–agent relationship. However, it is arguable whether a stakeholder approach can effectively address values of indirect and interdependent stakeholders of future generations and the environment and whether it can effectively contend with conflicting values of various stakeholders, as their power relationships are invariably asymmetrical. Moreover, the privatization of social goods and services, undertaken purportedly to increase economic efficiency, tends to amplify inequalities among citizen capabilities to pursue their well-being within our problematic social world constituted by human diversity, ethical pluralism, and interdependency (Nathan 2010), not only among the members of our contemporary society but also among generations and species and with the environment.

The complexity of interdependency is further increased by our interdependency with the firms as legal entities without morality. As Bakan (2004, p. 117) argues, although privatization of services may be effective in certain contexts, it is 'flawed as a general and long-term solution to society's problems,' because basing a social and economic system solely on human traits of 'self-interest and materialistic desire' is 'dangerously fundamentalist'; these human traits are 'parts of who we are, but not all.' Private corporations, unlike public corporations, have a legitimate mandate to operate with profit motive and therefore promote public goods only when it is in their shareholders' interests. Privatizing public goods such as water (Crane and Matten 2010, pp. 85–88) and healthcare can lead to ethical concerns of affordability and accessibility for all citizens of the state. Hence, ethics cannot be bracketed off from the goal of economically efficient resource allocation and distribution. We should be concerned with unjust human conditions rather than gloomy human nature per se (Arendt 1958), and thereby I attempt to show that global social justice concerning human conditions gains significance.

The recent literature on corporate responsibility adopts new approaches to the theory of the firm, arguing, for example, that corporations are like citizens (Crane et al. 2008) and political actors (Palazzo and Scherer 2008). I shall discuss later these concepts in relationship to global justice including social and environmental dimensions. These approaches attempt to justify corporations' responsibility beyond shareholder value maximization, and they challenge our traditional notions of economic and social values of wealth creation and well-being. In the light of the current multiple global crises, as well as the questionable ideology of wealth creation, we need to rethink our social and economic values, the relationship between business, society, and government, and the purpose of the firm. By rethinking these issues, I argue, we can discover how to strengthen the sociopolitical dimension of corporate governance to position corporations as not only economic actors but also responsible sociopolitical actors. The pertinent issue, I propose, in understanding the value of something is not assigning a particular value to it, but rather the approach to valuation and what kinds of actions and attitudes are called for (Scanlon 2000, p. 99; Nathan 2010). This paper attempts to do that through an interdisciplinary approach by adopting some insights on the idea of social justice and well-being from the discipline of political theory to re-theorize the firm and shows what kind of actions and attitudes are called for with regard to responsible governance and leadership to attain a sustainable world order.

First, this chapter argues that the firm's purpose is rooted in our social life in attempting to realize our complex of purposes within a myriad of intersecting systems and institutions that include corporations in the social world. In this respect, I adopt Wilhelm Dilthey's idea of purposive systems and the perspective of the social world in terms of intersecting 'cultural systems' and interacting 'external organizations' of society that publicly manifest institutionalized aspects of social life.[1] The activities of the firm intersect a myriad of systems and interact with many organizations that are not only economic, but also social, political, as well as ecological. This understanding can lead us to show that the firm is not only an economic actor but also a social and political actor.

Second, I argue that stakeholders' complex of purposes differ and cannot be reduced to shareholders' purpose of maximizing their wealth, but rather the firm should be concerned about stakeholders' well-being, without reducing it to any master value (Scanlon 2000; Nathan 2010). I give an account of well-being as being constituted by carrying out our meaningful activities that are in accord with our ethical convictions, within our social world (Nathan 2010). However, our social world is problematic because of the basic social facts of human diversity (we differ in our capabilities and identities), ethical pluralism (we differ in our convictions of what is a good life), and interdependency (we are interdependent not only among ourselves intragenerationally but also intergenerationally and on the environment) (Nathan 2010, p. 4), which can lead to asymmetrical power relationships among ourselves. Because ethical convictions are formed within one's context through lived experience and ideas of a good life, the circumstances of justice are integral to one's well-being. Hence, one's right circumstances gain significance (Dworkin 2000/2002) and citizens' 'capabilities' to pursue well-being matter (Sen 1993). As we are interdependent and interact directly or indirectly through corporations, part of the 'external organizations' in Dilthey's terms, these are also part of the context. Therefore, they are also integral to what I refer, borrowing Dworkin's terminology, as the 'right circumstances of justice.' Although corporations have differing visions and strategies to carry out their convictions, it is arguable that various stakeholders share common concerns for a sustainable world order. In this context, I attempt to show that corporations have the responsibility to ensure that global social justice for the right circumstances prevails.

Rethinking the Purpose of the Firm

The conventional objective of the firm is based on the 'dominant normative mandate' for managers, especially, of U.S. corporations, is 'the maximization of the wealth of company shareholders, primarily through the maximization of profit' (Jones and Phelps 2013, pp. 208–209). Agency theory, which adheres to the foregoing purpose, argues that managers (agents) have an agency relationship with the owners (principals) and that the former are obliged to perform to maximize the return on the invested capital of the latter (Jensen and Meckling 1976). Besides the issues related to ownership, control, and value creation that challenge the agency theory (Blair 1995; Ghoshal 2005), there are two problems associated with the foregoing premise. One is that the agents may misrepresent their ability to perform the tasks agreed – 'adverse selection' – and the other is that the agents may not apply themselves to the tasks in the best interests of the principals but perhaps rather to advance their own interests, resulting in moral hazard (Eisenhardt 1989, p. 58; cf. Sison 2008, p. 3). According to the concept of self-interested individuals, the agents may act in pursuit of their own interests, leading to socially undesirable outcomes (Osterloh and Frey 2003, p. 5; cf. Sison 2008, p. 37). Besides these additional agency costs, economic theories of the firms advocating profit maximization fail to take into account the firms' activities in other dimensions, such as social and ecological, that create negative externalities. Hence, there is a growing interest among management academics as well as civil society organizations including NGOs in advocating corporate social responsibility as voluntary initiatives; the UN Global Compact program is one such initiative. However, I argue next that these voluntary initiatives have normative deficiencies in obliging corporations to be responsible societal actors.

Milton Friedman (1970), a Nobel Prize winner in economics, defends the argument that the only social responsibility of the firm is to maximize profit, conforming to the 'basic rules of the society' that are embedded in law and 'ethical custom.' But there are some issues that need to be addressed. First, it is doubtful that the law and ethical custom completely address all the negative externalities within many dimensions – social, ecological, and cultural. Second, it is questionable whether firms would voluntarily self-regulate in the absence of such laws and regulations when their sole purpose is supposed to be profit maximization; that is, the firm is legally licensed to operate to maximize profit to shareholders. That is, even if the firm engages in socially responsible actions and self-regulation, this can only be justified for instrumental reasons of profit maximization.

Notwithstanding these issues, given the recent global financial crisis along with climate change and global poverty, the notion of wealth creation, in terms of shareholders' monetary value, being the ultimate purpose of the firm within global capitalism is questionable. Recent corporate failures show that corporate activities in pursuit of profit maximization in the short run can lead to the demise of the firm in the long run, and hence it is plausible to argue that the purpose of the firm as being to maximize shareholder value, with short-term incentives for managers without taking into account negative externalities, is unsustainable even in the economic dimension, leading to unsustainable capitalism. Hence we must critically evaluate how we should understand the real 'wealth' of society without simply equating it to profit maximization of shareholders. Such an understanding would help us to reevaluate the purpose of the firm to assess the rights and responsibilities that are shared among different corporate actors.

Stakeholder theory, which may perhaps be considered as a complex and competing theory to shareholder theory, attempts to show that managers bear a fiduciary relationship not exclusively to shareholders, but to stakeholders (Freeman 1984, 1994). That is, it acknowledges the stakes of all interested parties—employees, customers, suppliers, competitors, the government, and the community—and rejects the notion of sole fiduciary obligation toward shareholders (see Sison 2008, p. 75). A stakeholder is considered as 'any group or individual which can affect or is affected by an organization' (Freeman 1998, p. 602; quoted in Sison 2008, p. 75). Stakeholder theory attempts to take into account the interests of all stakeholders and 'reciprocal relations' and attempts to position the firm as a 'socially embedded institution' (Sison 2008, p. 76). Hence it can arguably be considered as 'a necessary process in the operationalization of corporate social responsibility' (Matten et al. 2003, p. 111; cf. Branco and Rodrigues 2007, p. 5). However, it faces problems within our problematic social world constituted by three basic social facts that I have mentioned previously: human diversity, ethical pluralism, and interdependency. Human diversity, the first basic social fact, is inevitable; we differ in our capabilities including our identities. We also differ in our ethical convictions of what is a good or meaningful life and therefore we live in an ethical plural society, the second basic social fact. And the third basic social fact is that we are interdependent within the social world in many dimensions economic, social, cultural, and ecological. Furthermore, we are interdependent not only among ourselves but also intergenerationally.

These three basic social facts lead to stakeholders' differing convictions of what is a good life and therefore their purposes and values within asymmetrical power relationships based on their resources and capabilities in pursuing their purposes differ. These issues set the problem towards re-theorizing the firm, and I address them within the notions of social justice and well-being.

Within stakeholder theory, the foregoing basic social facts lead to two problems as a result of differing convictions of what is a good life and asymmetrical power relationships. First, it is not clear what values those stakeholders value the most, and whether they may be conflicting. For example, employees, customers, suppliers, civil society, and the government as stakeholders of the firm may have interests in ensuring the firm's existence while being affected by the firms' activities directly or indirectly. But each of these stakeholders may value different aspects of the firm's existence according to their differing ethical convictions of what is good, which may come into conflict: employees may value their wages and other welfare benefits; the government may value the tax revenue and job creation; customers may value lower prices and higher quality of products and services; and suppliers may value higher prices for their supplies. These values may conflict with the shareholders' value of maximizing profit. Second, stakeholder theory does not effectively address indirect stakeholders such as future generations and the environment, which are interdependent with the other stakeholders.

One may argue that these indirect stakeholders cannot be engaged by the management of a corporation as can other direct stakeholders (see Jacobs 1997). Although many typologies of stakeholders have been proposed (for example, primary versus secondary), most definitions of stakeholders treat them as groups or individuals; hence, by definition, the natural environment is excluded (Branco and Rodrigues 2007, p. 7; cf. Buchholz 2004, p. 130; Phillips and Reichart 2000). However, all these human stakeholders, whether groups or communities or individuals, as well as future generations, are no doubt affected by negative ecological externalities. From the limitations of human existence, our human needs inherent in human nature are satisfied from what we inherit from previous generations and shared labor, not solely through the isolated activity of the individual (Dilthey 1989, p. 94). Hence, we should be concerned with what we pass on to future generations for the fulfilment of their human needs.[2] Stakeholders, whether human groups or individuals, are interdependent directly or indirectly, even if their ethical convictions of a good or meaningful life may differ. Most critically, because of the asymmetrical power relationships among those stakeholders in many dimensions, they as well as the environment and future generations are vulnerable to any one of the stakeholders' value maximization goals; the power holders among the stakeholders may exert pressure on others to get more consideration in seeking their ends (Frooman 1999). Some scholars (Agle et al. 1999; Mitchell et al. 1997) have proposed that not only 'power potential,' but also the 'legitimacy and urgency' factors of the stakeholders' claims, should be taken into consideration (Scherer et al. 2006, p. 513; see also Sachs et al. 2009, p. 33). But, as Frooman (1999) maintains, the power factor *dominates* the other two (Scherer et al. 2006, p. 513). Hence, within stakeholder theory, these inadequacies of addressing the needs of future generations and our interdependency with the ecological environment and vulnerabilities arising from asymmetrical power relationships among the stakeholders point us to the following key questions: How should we understand the purpose of the firm when its existence is intricately intertwined with varied interests and values of different stakeholders? Is the firm only an economic actor licensed to operate within the economic realm of the private sphere, disregarding externalities in other domains – social, environmental, and cultural—which include the public sphere? And how should we understand governance?

Freeman (1994) argues that we require a *normative core* of ethical principles (see also Donaldson and Preston 1995). Different scholars have approached this issue with different ethical theories (Garriga and Melé 2004, p. 55), but these approaches have led to 'critical distortions' and 'friendly misrepresentations' (Phillips et al. 2003). Despite these normative approaches to stakeholder theory, some scholars (Jones 1995; McWilliams and Siegel 2001; Whetten et al. 2002) argue that the 'stakeholder orientation often has been *instrumentalized* for profit maximization' (Scherer et al. 2006, p. 513); stakeholders' interests that have economic consequences for the firm are recognized (Kern et al. 2007; Phillips 2003; Phillips et al. 2003). Hence, it is arguable there is a normative deficiency in stakeholder theorizing (Walsh 2005). The problem arises, as I have already pointed out, because the core issue is not what is valuable—whether shareholders' value maximization or the well-being of stakeholders—but how to value and what actions and attitudes are called for in pursuing the purpose of the firm in which various stakeholders have a legitimate stake. To this extent, I shall show that the firm is not only an economic, but also a sociopolitical, actor.

According to Dilthey, a purpose is grounded in some aspect of human nature, or in the natural articulation of social life, and purposive systems arise through individual interactions to realize a multiplicity of purposes (1989, p. 94). Hence, it is arguable that purposive systems in our social world arise because of our common purposes that are rooted in our social life. Dilthey shows that we can distinguish two kinds of enduring formations of purposive systems: cultural systems such as language, religion, law, myth, poetry, science, and philosophy within society; and the 'external organizations of society' – social organizations – such as the family, state, church (a religious organization), army (a public organization), corporation (a private organization), and associations. The organizations may be deliberately designed and controlled or they may arise gradually and persist (as a state or church), or be transitory and subject to voluntary dissolution (as a holding company), and are responsive to historical conditions in comparison to cultural systems. These myriad of systems intersect in many dimensions—economic, social, political, and ecological – and interact with a variety of organizations, and individuals stand at the intersection of these systems in carrying out their activities. Hence, a firm's activities rooted in serving societal purposes and needs that arise from human nature and societal life, including those individuals who set up the firm to realize their purpose of wealth creation, invariably intersect with many systems in many dimensions and interact with other organizations. As these dimensions cut across and overlap both public and private realms and interact with various institutions in both spheres, a neat delineation and dichotomy of public versus private is problematic (see Scherer et al. 2006, p. 507); hence, separation of the private from the public sphere for firms to operate to maximize profitability without taking account of externalities is untenable.

From the foregoing perspective, even if the firm's purpose may be to create wealth for the shareholders, we cannot ignore that the firm is not only an economic actor but also a societal one. We cannot separate the economic activities of the firm from the societal activities of stakeholders. The purposes of stakeholders vary. However, the purpose of the firm is rooted in serving the needs of human nature and our societal life; customers' needs are directly or indirectly fulfilling societal needs that arise out of human nature or societal life. In this sense, banks and financial institutions are intermediaries and indirectly serve societal needs. And the shareholders' purpose of making profit from a for-profit firm is a result of meeting the societal purpose of the firm. It is unwarranted to equate the firm's purpose to shareholders' purpose of profit maximization while other stakeholders have different purposes ensuring the firm's purpose in serving the societal needs. I am not stating that profit does not matter; profit matters, but as a result of serving the purpose of the firm rooted in societal needs. Putting shareholders' profit as the sole purpose of the firm is like putting the cart before the horse. The firm's purpose rooted in societal needs should be the driver, and profit should follow that purpose. If profit is going to be the driver for the purpose of shareholder value maximization, then the firm cannot go far making profit as a result of meeting the societal purpose of the firm while engaging all relevant stakeholders with various purposes. Furthermore, profit as the sole purpose of the firm and creating wealth for shareholders tied to fiduciary responsibilities of managers may generate incentives for unethical behaviors, such as creative accounting to boost share prices (e.g., Enron in the US, Parmalat in Italy, and Royal Ahold in the Netherlands), marketing of unsafe products (e.g., the Sanlu melamine scandal), unfair wages and working conditions (offshoring to sweatshop operations), anticompetitive behavior (antitrust lawsuits), etc. Hence, governance can no longer be based on the premise that the firm is organized to perform only as an economic actor in the private realm for the instrumental reason of profit maximization alone. If so, what should be the normative premise of the firm to derive appropriate governance and leadership norms? I show in the following section that this normative premise should be based on our understanding of well-being rather than wealth creation, as activities of the firm intersect with our pursuit of our well-being in many dimensions: economic, social, political, as well as ecological. However, I show that we should understand the structural complexity of well-being without reducing it to a master value.

An Account of Well-Being and the Normative Context

Theories on well-being differ about the utmost value of well-being; the classical accounts of well-being are inadequate to show what makes someone's life more meaningful as they are mainly concerned with what makes someone's life happy, equating happiness with pleasure.[3] They ignore what is meaningful within the whole mental structure in relationship to the social world, including intersubjective relations, and take on a reductionist view of well-being. Many contemporary scholars argue against such a reductionist view of well-being (see Parfit 1984/1987; Dworkin 2000; Scanlon 2000) as equating to happiness or wealth, etc. Dworkin cautions that we must suppress the 'reductionist impulse' of what is a good or meaningful life and 'accept not only the complexity but structure within the idea of well-being' (2000, p. 242). Scanlon also argues that we cannot reduce well-being to a single overarching value of good or solely to the quality of experience. Scanlon emphasizes that one's well-being is constituted by many goods, including such things as friendship and personal relationships as well as pursuing many worthwhile ends in life. The point is that, for Scanlon, it is not the idea of well-being as a 'master value' that matters, but the various moral reasons one gives for one's pursuit of 'meaningful' or 'worthwhile' ends.

I shall provide an account of well-being based on Dilthey's works on worldview without embracing a reductionist view by taking into consideration Dworkin's as well as Scanlon's accounts of well-being (see Nathan 2010). The objective is not to develop a theory of well-being but rather to show the complexity of it and its integral part in the context in which we live. People's worldview (*Weltanschauung*) is based on their lived experience (*Erlebnis*) and the ideas of life interacting within their sociocultural-historical-political-ecological context. As Dilthey argues, 'experience of life' (*Lebenserfahrung*) is 'the coherence of processes through which we explore the values of life and the value of things' (quoted in Ermarth 1978, p. 227). Experience of life includes what Dilthey calls 'life-values' (*Lebenswerte*), which 'have general validity which extends beyond the personal subject' (Ermarth 1978, p. 229). However, as we differ in our lived experiences and our ideas of life, it is plausible that we differ in our worldviews. Hence our ethical convictions of what is a meaningful or good life—what we may value the most—may differ among us; we live in an ethically plural society, which is one of the basic social facts; as I pointed out earlier, we differ in our convictions of what is a good life. However, activities are meaningful when they are in accord with our ethical convictions; therefore, an account of well-being, what makes our life good or meaningful, is engaging in activities that are according to our ethical convictions (Nathan 2010). But, as our ethical convictions are shaped by both ideas of life and lived experience within our context, the context gains normative significance. Hence the question arises: What should be our normative context for us to engage and carry out our activities in accord with our convictions?

In formulating a framework to argue for a normative context of 'right circumstances,' I argue that one's right circumstances, not only for one to genuinely endorse one's convictions, but also to pursue one's meaningful activities accordingly and face 'fair challenges,' should be tied to social justice. This framework then allows us ask the question: Do we have the 'right circumstances' or 'just society' to genuinely endorse our convictions and face 'fair challenges' to pursue our meaningful activities based on our ethical convictions? As the firm is embedded within society and its activities cut across many spheres—social, political, and ecological—this question leads us to rethink the purpose and the social responsibility of the firm in meeting the right circumstances for all stakeholders to pursue their well-being.

The challenges one faces depend on one's situational context, constituted by sociohistorical-cultural-political as well as ecological domains. Our context is also constituted by social organizations (including public and private corporations) and their activities in many spheres—economic, social, political, and ecological. This context provides one, using Dworkin's terminology, with a set of 'parameters' and 'limitations.' Some of one's circumstances provide a set of parameters that 'help define what a good performance of living would be,' and others act as limitations 'on the degree to which the ideal can be achieved' (2000, p. 260). Dworkin's main concern is to arrive at a standard of judgement of a good life on the basis of how well one faces challenges in life. The challenges one faces vary according to one's circumstances, which are, as Dworkin notes, complex and include several factors such as health, physical ability, age, material resources, friendships and associations, commitments, family, traditions, race and nationality, etc. To these factors I add our social organizations (including corporations) and their intersecting activities within many spheres. One can treat some of them as parameters and the others as limitations in light of one's context of life (Dworkin 2000, pp. 260–261). But one cannot count everything as parameters or as limitations without destroying ethics for oneself. As Dworkin points out, we can note that 'many of our parameters are *normative*: they define our *ethical situation* not in terms of our actual situation but in terms of our situation as we suppose it *should* be' (Dworkin 2000, pp. 261–262; emphases added).

> Even if we do the best we can in the circumstances we do face, we do badly measuring our success against the chance we believe we *ought* to have been given, and it is the latter that defines a good life for us (Dworkin 2000, p. 262; emphasis added).

If the normative parameters define how the ethical situation should be, then the question is: What normative parameters ought to be given? Dworkin (2000, p. 262) defines a 'hard parameter' as that without which one is bound to fail, and therefore essential. But it also helps to define one's ethical convictions of a good life. So, which should be the hard or the prime normative parameter?

Dworkin (2000, pp. 263–264) introduces justice as a hard normative parameter and argues that 'a good life is a life suited to the circumstances that justice requires.' It also resolves the puzzling interplay between ethics and morality, between living well versus living a moral life, and the latter is primarily concerned with what is right rather than what is good.

Dworkin's account of well-being allows us to show a normative premise of well-being without succumbing to reductionism and that we must be concerned with the circumstances of injustice that affect human conditions within the problematic social world, rather than with a universal human nature. Based on this premise, social justice is a prime parameter of the 'right circumstances' because unjust circumstances may prevent individuals from pursuing their well-being, which is, as I have argued, constituted by engaging in meaningful activities in accord with their genuine convictions. There are two issues here that call for social justice. One is that one may engage in activities that are in accord with one's convictions but facing unfair challenges from unjust conditions, and the other is that one may adapt or be mistaken about one's convictions because of unjust society and social conditioning. These two issues point to how we should understand social justice, taking into account that our world is interconnected through globalization along with interdependent social institutions including corporations, the environment as well as future generations globally. We can no longer confine our social world to the local, ignoring global aspects that may lead to an unjust society.

It is plausible to consider that environmental and social issues are intertwined. We cannot ignore one over the other: ecological degradation affects the social life of communities and likewise our endeavors to fulfill societal needs invariably have an impact on the environment. For example, deforestation, overfishing, and extensive mining, along with the pollution caused by corporate activities, such as the production of toxic waste, certainly affect the well-being of communities that live in and around the areas affected. Moreover, climate change can bring about extreme droughts and floods that may affect people in developing countries who already have a low standard of living and hence restrict their capabilities to pursue their well-being. Corporations may also exploit powerless members of communities, minorities including women and children, for example, in sweatshop operations. Corporations may also exploit weak or failing or corrupt states with a regulatory vacuum to their advantage (Scherer and Palazzo 2008). As Bakan (2004, pp. 111–112) states:

> No internal limits, whether moral, ethical, or legal, limit what or whom corporations can exploit to create wealth for themselves and their owners…Over the last century and a half, the corporation has sought and gained rights to exploit most of the world's natural resources and almost all areas of human endeavour.

Admittedly, many transnational corporations (TNCs) have been working to remedy, or at a minimum alleviate, some of those unjust conditions, but we lack a normative premise on which to base the social and political responsibilities of corporations. Hence it is important how we should understand global social justice and whether firms, which are actors not only within economic, but also social, political, and ecological spheres, should also deliberate on matters of global social justice. Many corporations engage in lobbying governments, usually to avoid regulation (Bakan 2004, p. 102). However, as I shall briefly discuss, deliberation for global justice is not about traditional lobbying per se but rather about stakeholder engagement to mitigate common vulnerabilities and ethical concerns of stakeholders. And I shall conclude that the preconditions for such deliberation may provide us a direction in which to redesign corporate governance and organizational structure as well as to reshape leadership.

Global Social Justice and Responsibilities

I briefly discuss the concept of corporate citizenship (CC) in relationship to deliberation for mitigating unjust conditions in pursuit of social justice and well-being by corporations. Corporate citizenship (CC) has now become a widely used concept in a firm's annual reports and elsewhere, describing their involvement with, and responsibility and contribution to, the society in which they operate or the world at large (see Baumann-Pauly and Scherer 2012). The idea of CC was popularized with the UN Global Compact (UNGC) initiated by then UN Secretary-General Kofi Annan at the World Economic Forum in 1999 and officially launched in New York in 2000. The UNGC is a ten-principle-based framework that addresses socially responsible business practices in the areas of human rights, labor, the environment, and anticorruption (the latter added in 2004). Although these areas are concerns of social justice, UNGC is a voluntary initiative and responsibilities associated with the concept of CC are neither regulated nor monitored. However, many corporations have voluntarily become members of UNGC and report their initiatives, for example, through the Global Reporting Initiative (GRI), which is again a voluntary reporting scheme. Hence there is criticism by civil society organizations (CSOs) that UNGC does not hold corporations accountable in those areas. More than 1000 companies have been delisted since 2008 for 'failure to meet the Global Compact's mandatory annual reporting requirement, known as the Communication on Progress (COP) policy' (UNGC Bulletin, November 2009). Furthermore, many other areas of corporate governance may be of concern, for example, exorbitant bonus payments for short-term performance that encourage short-sighted high-risk management behavior, and mobbing and unfair dismissal of employees, for example, based on nationality of origin, age, gender and sexuality, and religious or cultural practices. Good corporate citizenship within the UNGC context is a kind of metaphor for expecting 'good behavior' on the part of corporations as citizens of society; there is no normative ground for 'good behavior' within the classical economic theory of the firm other than maximizing profit within the regulatory framework and local customs. Although the ten principles of the UNGC may be grounded on various normative premises for global social justice, the expectation of voluntary socially responsible CC behavior within the current economic paradigm can only be justified for instrumental reasons, for example, improving the corporate brand image. Hence critics argue that membership in UNGC is a promotional ploy, 'bluewash' (wrapping it in the blue UN flag; see Waddock 2005, p. 185). Given these concerns about CC among CSOs, how should we define the concept of corporate citizenship?

Within the management academic discipline, the concept of CC is not well defined. Matten and Crane (2005, pp. 168–169) show that conventional views of CC are limited and define CC in terms of 'strategic philanthropy' (Carroll 1991) and with a recent refocus on 'meeting' responsibilities in four aspects: economic, legal, ethical, and philanthropic (Carroll 1998). Matten and Crane (2005) argue for an 'extended theoretical conceptualization' of CC. They derive their concept of CC from political theories that argue citizenship entails social, civil, and political rights. Social rights enable individual freedom to participate in society whereas civil rights provide freedom from abuses and interferences by third parties (including governments); political rights go beyond 'mere protection of the individual's private sphere and toward his or her active participation in society' (Matten and Crane 2005, p. 171). Although corporations are a legal entity, they do not have individual voting rights. However, it is arguable that corporations are 'powerful public actors that have a responsibility to respect individual citizen's rights' (Matten and Crane 2005, p. 171; cf. Wood and Logsdon 2001).

Taking the foregoing as a point of departure, Matten and Crane (2005) argue that corporations, within the context of liberal citizenship, the state, and globalization, have a social responsibility in administering citizenship rights in social, civil, and political dimensions, taking on the role of 'provider,' 'enabler,' and 'channel,' respectively. Their main argument rests on the premise that globalization has brought about crucial changes and 'corporations enter the area of citizenship in circumstances where traditional government actors fail to be the "counterpart" of citizenship' (Matten and Crane 2005, pp. 172–173). Although within a context of globalization, TNCs have 'already assumed state-like roles when and where state agencies fail or are unwilling to contribute to the public good' (Scherer et al. 2006, p. 508; cf. Matten and Crane 2005; Scherer and Smid 2000), there are limitations and legitimacy issues on how and how far corporations can take on state-like roles (Scherer et al. 2006, p. 515). It is a descriptive account, as Matten and Crane (2005) concede, rather than a normative one (see Oosterhout 2005), and it is debatable whether corporations have legitimacy in administering citizenship rights (Palazzo and Scherer 2006; see also Wolf 2005).

Within the political ideology of liberalism, the private versus public dichotomy is maintained and corporations are formed under freedom of association and exit to conduct their economic activities as private actors; matters related to social justice and provision of public goods are the role and responsibility of the state. Hence it is debatable whether corporations have any legitimacy in administering and providing public goods; although the state may privatize the provision of public goods for economic efficiency, it may regulate it. For example, the state may seek to ensure a level of service in remote areas that a private corporation might discard as unprofitable. But that still leaves us questioning: What should be the role and responsibility of corporations in the globalized economy?

Increasingly, responsible behavior of corporations, in terms of actions and responsibilities, is tied to the understanding of CC (Crane et al. 2008), and global CC for multinational companies (see Newell and Gaffney 2009). Citizenship within politics is understood as membership in a political community, and within liberalism it involves the relationship between rights and duties. However, it is also plausible to argue the importance of citizenship in terms of political participation for the common good, duties, obligations, and virtues within a civic or communitarian citizenship (Sison 2008, pp. 82–94) or within cosmopolitanism (see Newell and Gaffney 2009; cf. Delanty 2000). But an approach to realize the common good of citizens may lead to conflicts when the majority's and minorities' interests, norms, and ethical convictions differ (see Wood et al. 2006, pp. 42–46). The idea of common good or shared values presumes that all citizens in their specificities within the ethical plural society can agree on the common good or shared values, even though they have opposing values and concepts of common good that may lead to discontent. Moreover, values may change over time and the meanings of the goods may also change over time, although there may be some continuity, and even differ within different communities (Walzer 1983). Communitarian citizenship may emphasize existing community norms and relationships, which may be based on the power holders of society, for example, a patriarchal society or a religious society dominated by its religious doctrine. Both liberal and communitarian citizenships are tied to the nation-state and its territorial boundaries; the same is also applicable to civic republicanism. But cosmopolitan citizenship goes beyond the nation-state and its boundaries. Although the idea of cosmopolitan citizenship is appealing as a way of describing what may be our global rights and responsibilities as cosmopolitan citizens, there are challenges to the theoretical underpinning of the ideology, given that we are already citizens of nation-states and we have special obligations and rights as citizens of nation-states (Miller 2007).

As I have discussed, the basic social facts of human diversity, ethical pluralism, and interdependency have a propensity to lead to conflicts among citizens who are also stakeholders of various organizations and corporations in pursuing their well-being because of asymmetrical power relationships. These asymmetrical power relationships in many dimensions are a cause of concern, leading to unjust conditions for the citizens to pursue their well-being in accord with their different ethical convictions. Hence it is important that we deliberate on unjust conditions to bring about a just society. Therefore, I emphasize that we should take responsibilities and virtues more seriously to mitigate our common vulnerabilities and concerns for global social justice within our interconnected socioeconomic-ecological world order, instead of emphasizing the common good within the idea of civic republican citizenship (see Honohan 2002; Nathan 2010).

Scherer and Palazzo argue that corporations as political actors have political responsibility by 'an explicit participation in public processes of political will-formation' (2007, p. 1108). Corporations do not replace governments, but 'they participate in public deliberation, define norms and standards…' (Scherer et al. 2006, p. 507). Their argument is based on the political philosophy of Habermas (1996, 1998). Its central idea is that the 'state's *raison d'être* does not lie primarily in the protection of equal individual rights but in the guarantee of an inclusive process of opinion- and will-formation in which free and equal citizens reach an understanding on which goals and norms lie in the interest of all' (Habermas 1998, p. 241; also quoted in Scherer et al. 2006, p. 516). Although it is an 'ideal speech situation,' the point he emphasizes is that citizens of the republican polity have concerns over public interests other than pursuing their private interests. However, it is doubtful how the state may ensure that everyone can participate in all public decisions as free and equal citizens. Realizing this problem, Habermas turns toward the 'procedural design of political institutions' and away from individual participation in associations such as NGOs and CSOs, and hence Scherer and Palazzo (2006) consider his conceptual changes to deliberative democracy to be more pragmatic than the idealistic speech situation. This goal could be achieved by providing a 'stronger link' to existing democratic institutions.

However, there are some challenges with regard to the deliberative model (Nathan 2014). First, are the platforms for deliberation accessible to the parties and individuals concerned? Second, can these parties and individuals deliberate on contentious issues as free and equal citizens without any power play, not only within a state but globally among the states? Furthermore, it is a concern whether corporations have adequate skills, motivation, and legitimacy in political deliberation and whether all stakeholders would participate without fear of retribution. And it is doubtful whether all conflicts could be resolved by referring to some moral grounds that are applicable to all parties and individuals. Although Habermas concedes that normative conflicts may not be solvable referring to a shared background of values and traditions, he argues that communication can be a 'sole source of peaceful interaction and mutual recognition' (Scherer and Palazzo 2006; Palazzo and Scherer 2006; cf. Habermas 2001, p. 74). But it is not clear how mutual recognition may be achieved when parties and individuals deliberate in their particularities that may be a source of discontent.

The foregoing concerns are arguably valid for corporations as citizens. In addition, there is a concern when corporations are expected to participate in political deliberation only on a voluntary basis. They may choose to participate only for the instrumental benefit of profit maximization as there is no normative force to engage for social benefits. Corporations may deliberate on issues that may lead to an increase in their political power. Furthermore, how should we resolve differences in morality: what is right and wrong, and the puzzling interplay between what is right and what is good? Many scholars differ in differentiating what is morality and ethicality; however, what is right and wrong according to societal norms, values, and beliefs are associated with morality (see Crane and Matten 2010, Chap. 1). Ethical theories of deontology (non-consequentialism) are concerned with whether moral principle or motivation is right or wrong leading to an action and whereas ethical theories of consequentialism are concerned with whether action leading to an outcome is good or bad to the society. John Rawls (1971/1999), however, asserts the priority of right over good, and his theory of justice is a deontological ethic, whereas theories based on the priority of good over right are teleological (e.g., utilitarianism) (see Kymlicka 1989, Chap. 3 for critique). Sandel (1998) criticizes Rawls' deontological ethic from a communitarian perspective. On the other hand, Kymlicka (1989, Chap. 3) argues that whether what is right takes precedence over what is good is not really the issue. The real issue, he argues, is one of responsibility. To that I shall add that we need to be concerned with 'realized justice.'[4]

We should take responsibilities seriously if we are to seek responsible governance and leadership by firms. It is not that stakeholders' rights do not matter, but as O'Neill (1996, p. 128) points out, by taking rights seriously, obligation is often treated as the 'subordinate notion,' although 'obligations are neither banished nor undercut.' Although by definition a right always carries some obligation, by giving rights serious consideration obligations are often neglected. Moreover, as O'Neill (1996, p. 129) states, 'unless obligation-bearers are identifiable by right-holders, claims to have rights amount only to rhetoric…' By taking obligations seriously, one can also identify special obligations that lack counterpart rights (O'Neill 1996, pp. 136–141), for example, social virtues that are conducive to social interaction ensuring that others' social freedom, freedom as non-domination, and social recognition, is not undermined (Nathan 2010). However, responsibility alone cannot lead to realized justice. Firms as political actors should engage in deliberation for social justice toward common ethical concerns in many intersecting dimensions: economic, social, and environmental. As mentioned earlier, it is not value per se that matters, but how to value and what kind of actions and attitudes are called for. Therefore, through stakeholder engagement and deliberation for justice (Nathan 2014), stakeholders can come up with solutions, that is, 'moral imagination' (see Maak and Pless 2006), taking into consideration moral consequences that no stakeholder can 'reasonably reject.'[5] For example, TNCs should take responsibility seriously in engaging with stakeholders in deliberating for global social justice for sustainability on the issues of climate change and poverty as their activities intersect within many spheres – economic, social, and ecological – and interact with many social organizations globally. However, as I have pointed out, the power holders among stakeholders may dominate other stakeholders, and stakeholders may not be given recognition as equal status partners in their identities. Therefore, we also need to strive to bring about some conditions in which stakeholders can engage on deliberation for justice. I shall, however, not discuss what those minimal and common conditions given the limited space (see Nathan 2014). These conditions may shape our governance structure and responsible leadership.

Conclusion

The firm is embedded in society and its activities cut across many dimensions – social, ecological, and cultural – and a neat delineation of public and private spheres is untenable. As our well-being is constituted by engaging in our activities according to our ethical convictions within our socio-political-cultural and ecological context, it is imperative that we strive for just conditions. As the firm is not only an economic but also a sociopolitical actor, it has a responsibility to deliberate for global social justice for the well-being of its stakeholders. As Zadek (2007, p. 23) foresees, a fourth generation of civil corporation 'would go beyond a reshaping of the role of business in society to inventing a new politics.' And, perhaps, corporations in deliberating for social justice as socio-political actors in pursuit of well-being of stakeholders would reshape the role of business in society and the governance structure of the firm to bring about a sustainable world order.

Notes

1. Note that I am only adopting some relevant parts of Dilthey's work in advancing my arguments; 'despite the important influence he has had on several leading twentieth-century thinkers and the growing attention paid to him in the English-speaking world, Dilthey's work is still not as well known, nor as well received, nor as accessible as it might be'; his work 'extends over the whole range of human sciences' and although his '*Collected Works* run to nineteen volumes'

many works appear as partial or introductory; furthermore, his works are difficult to grasp due to his style of writing – a 'convoluted style' using several abstract idioms (Betanzos in Dilthey 1988, p. 10–11).

2. One may plausibly argue that we cannot know precisely what future generations will need in terms of natural resources. Even so it is arguable that we should leave them fair choices.
3. There is also a trend toward measuring Gross National Happiness (GNH). It is also to be noted that OECD's 'How's Life' (2013) provides measures of well-being based on many aspects such as income, jobs, housing, health, work–life balance, education, social connections, civic engagement and governance, environment, personal security, and subjective well-being. However, it is not clear why these constitute the normative context of well-being.
4. Sen (2009: 20) introduces, based on the Sanskrit literature on ethics and jurisprudence, *niti* and *nyaya*, both of which stand for justice; *niti* refers to 'organizational propriety and behavioural correctness' and *nyaya* refers to a 'comprehensive concept of realized justice'; i.e., the realization of justice is 'not just a matter of judging institutions and rules, but of judging the societies themselves.'
5. I derive this based on the idea of Scanlon's (2000) contractualist framework (see also Nathan 2010).

References

Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal, 42*, 507–525.

Arendt, H. (1958). *The human condition*. Chicago: Chicago University Press.

Bakan, J. (2004). *The corporation: The pathological pursuit of profit and power*. London: Constable.

Baumann-Pauly, D., & Scherer, A. G. (2012). The organizational implementation of corporate citizenship: An assessment tool and its application at UN global compact participants. *Journal of Business Ethics, 117*, 1–17.

Blair, M. (1995). *Ownership and control*. Washington, DC: The Brookings Institution.

Blowfield, M., & Murray, A. (2008). *Corporate responsibility: A critical introduction*. New York: Oxford University Press.

Branco, M. C., & Rodrigues, L. L. (2007). Positioning stakeholder theory within the debate on corporate social responsibility. *EJBO Electronic Journal of Business Ethics and Organization Studies., 12*(1), 5–15.

Buchholz, R. A. (2004). The natural environment: Does it count? *Academy of Management Executive, 18*(2), 130–133.

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. (1998). The four faces of corporate citizenship. *Business and Society Review, 100*, 1–7.

Crane, A., & Matten, D. (2010). *Business ethics* (3rd ed.). New York: Oxford University Press.

Crane, A., Matten, D., & Moon, J. (2008). *Corporations and citizenship*. Cambridge: Cambridge University Press.

Delanty, G. (2000). *Citizenship in a global age*. Buckingham: Open University Press.

Dilthey, W. (1988). *Introduction to the human sciences*. Translated with an Introduction Essay by Betanzos, R. J. Detroit: Wayne State University Press.

Dilthey, W. (1989). Introduction to human sciences. (Edited, with an introduction, by R. A. Makkreel & F. Rodi). Princeton: Princeton University Press.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review, 20*, 65–91.

Dworkin, R. (2000). *Sovereign virtue: The theory and practice of equality*. Paperback edition (2002). Cambridge: Harvard University Press.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review, 14*(1), 57–74.

Ermarth, M. (1978). *Wilhelm Dilthey: The critique of historical reason*. Chicago/London: The University of Chicago Press.

Filatotchev, I., & Nakajima, C. (2014). Corporate governance, responsible managerial behaviour, and corporate social responsibility: Organizational efficiency versus organizational legitimacy? *The Academy of Management Perspectives, 28*(3), 289–306.

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

Freeman, R. E. (1994). The politics of stakeholder theory: Some future directions. *Buisness Ethics Quarterly, 4*(4), 409–421.

Freeman, R. E. (1998). Stakeholder theory. In P. Werhane & R. E. Freeman (Eds.), *The Blackwell encyclopedic dictionary of business ethics*. Malden/Oxford: Blackwell.

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine*.

Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review, 24*, 191–205.

Garriga, E., & Melé, D. (2004). Corporate social responsibility theories: Mapping the territory. *Journal of Business Ethics, 53*(1–2), 51–71.

Ghoshal, S. (2005). Bad management theories are destroying good management practices. *Academy of Management Learning & Education., 4*(1), 75–91.

Habermas, J. (1996). *Between facts and norms*. Cambridge, MA: MIT Press.

Habermas, J. (1998). Three normative models of democracy. In J. Habermas (Ed.), *The inclusion of the other* (pp. 239–252). Cambridge, MA: MIT Press.

Habermas, J. (2001). *The postnational constellation: Political essays*. Cambridge: MIT Press.

Honohan, I. (2002). *Civic republicanism*. London: Routledge.

Jacobs, M. (1997). The environment as stakeholder. *Business Strategy Review, 6*(2), 25–28.

Jensen, M. C., & Meckling, W. H. (1976). The theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review, 20*, 404–437.

Jones, T. M., & Felps, W. (2013). Shareholder wealth maximization and social welfare: A utilitarian critique. *Business Ethics Quarterly, 23*(2), 207–238.

Kern, I., Sachs, S., & Rühli, E. (2007). Corporate responsibility from an industry structure perspective – Stakeholder relations and maintaining the license to operate: a comparative case study of the Swiss telecommunications industry. *Corporate Governance, 7*(4), 446–454.

Kochan, T. A. (2002). Addressing the crisis in confidence in corporations: Root causes, victims and strategies for reform. *Academy of Management Executive, 16*, 139–141.

Kymlicka, W. (1989). *Liberalism, community and culture*. Oxford: Clarendon.

Maak, T., & Pless, N. M. (2006). Responsible leadership: A relational approach. In T. Maak & N. Pless (Eds.), *Responsible leadership* (pp. 33–53). London/New York: Routledge.

Matten, D., & Crane, A. (2005). Corporate citizenship: Toward an extended theoretical conceptualization. *Academy of Management Review, 30*, 166–179.

Matten, D., Crane, A., & Chapple, W. (2003). Behind the mask: Revealing the true face of corporate citizenship. *Journal of Business Ethics, 45*(1/2), 109–120.

McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review, 26*, 117–127.

Miller, D. (2007). *National responsibility and global justice*. Oxford: Oxford University Press.

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*, 853–886.

Nathan, G. (2010). *Social freedom in a multicultural state: Towards a theory of intercultural justice*. Basingstoke: Palgrave Macmillan.

Nathan, G. (2014). Multi-stakeholder deliberation for (global) justice: An approach from modern civic republicanism. In S. Schepers & A. Kakabadse (Eds.), *Rethinking the future of Europe: A challenge of governance*. Basingstoke: Palgrave Macmillan.

Newell, P., & E. Gaffney. (2009). *Globalising corporate citizenship: Political and theoretical considerations* (Working paper CSGP 09/04). Ontario: Centre for the Critical Study of Global Power and Politics, Trent University.

Nozick, R. (1974). *Anarchy, state and utopia*. New York: Basic Books.

O'Neill, O. (1996). *Towards justice and virtue*. Cambridge: Cambridge University Press.

O'Toole, J., & Vogel, D. (2011). Two and a half cheers for conscious capitalism. *California Management Review, 53*(3), 60–76.

Oosterhout, J. V. (2005). Dialogue. Corporate citizenship: An idea whose time has not yet come. *Academy of Management Review, 30*, 677–681.

Osterloh, M., & Frey B. S. (2003, July). *Corporate governance for crooks? The case for corporate virtue* (Working Paper Series, no. 164). Institute for Empirical Research in Economics/ University of Zurich.

Palazzo, G., & Scherer, A. G. (2006). "Corporate legitimacy as deliberation: A communicative framework". *Journal of Business Ethics, 66*(1), 71–88.

Palazzo, G., & Scherer, A. G. (2008). The future of global corporate citizenship: Towards a new theory of the firm as a political actor. In A. G. Scherer & G. Palazzo (Eds.), *Handbook of research on global corporate citizenship* (pp. 577–590). Cheltenham: Edward Elgar Publishing.

Parfit, D. (1984/1987). *Reasons and persons*. Oxford: Clarendon Press.

Phillips, R. (2003). *Stakeholder theory and organizational ethics*. San Francisco: Berrett-Koehler.

Phillips, R. A., & Reichart, J. (2000). The environment as a stakeholder? A fairness-based approach. *Journal of Business Ethics, 23*(2), 185–197.

Phillips, R., Freeman, R. E., & Wicks, A. C. (2003). What stakeholder theory is not. *Business Ethics Quarterly, 13*(4), 479–502.

Rawls, J. (1971/1999). *Theory of justice*. Revised edition (1999). Cambridge, MA: Harvard University Press.

Sachs, S., Rühli, E., & Kern, I. (2009). *Sustainable success with stakeholders*. Basingstoke: Palgrave Macmillan.

Sandel, M. (1998). *Liberalism and the limits of justice* (2nd ed.). Cambridge: Cambridge University Press.

Scanlon, T. M. (2000). *What we owe to each other*. Cambridge: First Harvard University Press.

Scherer, A. G., & Palazzo, G. (2007). Towards a political conception of corporate responsibility – Business and society seen from a Habermasian perspective. *Academy of Management Review, 32*, 1096–1120.

Scherer, A. G., & Palazzo, G. (2008). Globalization and corporate social responsibility. In A. Crane, A. McWillams, D. Matten, J. Moon, & D. Siegel (Eds.), *The Oxford handbook on corporate social responsibility*. Oxford: Oxford University Press.

Scherer, A. G., & Smid, M. (2000). The downward spiral and the U.S. model business principles: Why MNEs should take responsibility for the improvement if world-wide social and environmental conditions. *Management International Review, 40*, 351–371.

Scherer, A. G., Palazzo, G., & Baumann, D. (2006). Global rules and private actors: Toward a new role of the transnational corporation in global governance. *Business Ethics Quarterly, 16*(4), 505–532.

Sen, A. (1993). Capability and well-being. In M. Nussbaum & A. Sen (Eds.), *The quality of life* (pp. 30–53). Oxford: Clarendon.

Sen, A. (2009). *The idea of justice*. London: Penguin.

Sison, A. J. G. (2008). *Corporate governance and ethics: An Aristotelian perspective*. Cheltenham: Edward Elgar.

Waddock, S. (2005). Corporate responsibility, accountability and stakeholder relationships: Will voluntary action suffice? In J. P. Doh & S. A. Stumpf (Eds.), *Handbook on responsible leadership and governance in global business*. Cheltenham: Edward Elgar.

Walsh, J. P. (2005). Book review essay: Taking stock of stakeholder management. *Academy of Management Review, 30*, 426–452.

Walzer, M. (1983). *Spheres of justice*. New York: Basic Books.

Whetten, D. A., Rands, G., & Godfrey, P. O. (2002). What are the responsibilities of business to society. In A. Pettigrew, H. Thomas, & R. Whittington (Eds.), *Handbook of strategy and management* (pp. 372–408). London: Sage.

Wolf, K. D. (2005). Private actors and legitimacy of governance beyond the state. Conceptional outlines and empirical explorations. In A. Benz & I. Papadopoulous (Eds.), *Governance and democratic legitimacy* (pp. 200–227). London: Routledge.

Wood, D. J., & Logsdon, J. M. (2001). Theorising business citizenship. In J. Andriof & M. McIntosh (Eds.), *Perspectives on corporate citizenship* (pp. 83–103). Greenleaf: Sheffield.

Wood, D. J., Logsdon, J. M., Lewellyn, P. G., & Davenport, K. (2006). *Global business citizenship. A transformative framework for ethics and sustainable capitalism*. Armonk/London: M.E. Sharpe.

Zadek, S. (2007). *The civil corporation*, Rev. edn. London: Earthscan.

Part IV
Business Engaging in Politics

Chapter 10
CSR's New Challenge: Corporate Political Advocacy

Dorothea Baur and Florian Wettstein

Introduction

In summer 2011, Starbucks CEO Howard Schultz launched a highly publicized campaign against the prevailing political climate in the U.S. and the respective "lack of cooperation and irresponsibility among elected officials as they have put partisan agendas before the people's agenda."[1] Building a coalition with other corporations, they pledged "to withhold any further campaign contributions to elected members of Congress and the President until a fair, bipartisan deal is reached that sets our nation on stronger long-term fiscal footing."[2] Furthermore, in an open letter to his "dear fellow citizens," he called upon all citizens to send a message to their elected officials in which to remind them "that the time to put citizenship ahead of partisanship is now."[3] Schultz's political advance raised eyebrows not only in the corporate and political communities, but also among scholars concerned with questions of business ethics and corporate responsibility. Noted business ethicists Andy Crane and Dirk Matten, for example, commented: "For a business leader like Schultz to come out and so explicitly take a stand that effectively seeks to hold his domestic politicians to ransom until they do his bidding represents a fairly unique twist on the growing involvement of business in politics."[4]

Crane and Matten's perplexity is telling. Indeed, we seem to be contending with a rather new and "fairly unique" phenomenon that has not yet been adequately theorized in the literature on corporate responsibility; we will refer to this kind of corporate political exposure as "corporate political advocacy." As a rough and preliminary definition, corporate political advocacy can be understood as taking a stance, politically, by voicing or showing explicit and public support for certain ideals or values with the aim

D. Baur (✉) • F. Wettstein
Institute for Business Ethics, University of St. Gallen, St. Gallen, Switzerland
e-mail: dorothea.baur@unisg.ch; florian.wettstein@unisg.ch

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_10

of convincing and persuading others to do the same. Depending on whether the ideals in question are directly connected and of direct relevance to a company's core business, we shall distinguish between wide and narrow types of advocacy.

Neither the literature on corporate responsibility nor the management or political science literature has so far addressed such political advocacy as a phenomenon that warrants scholarly scrutiny in its own right. In fact, with our focus on corporate political advocacy we seem to enter an entirely unchartered scholarly territory. Granted that there is some overlap with existing debates on the political role and responsibility of corporations such as the debate on corporate political activity (CPA) (Keim and Zeithaml 1986; Schuler 1996; Getz 1997; Hillman et al. 2004; Bonardi and Keim 2005; Windsor 2007) or the more recent discussion about a political notion of CSR (Moon et al. 2005; Matten and Crane 2005; Scherer and Palazzo 2007; Néron and Norman 2008b; Néron 2010; Scherer and Palazzo 2011), but neither of these offers an avenue that is able to fully make conceptual and normative sense of this new phenomenon. Corporate political advocates, so we claim, politically expose themselves outside the opaque chambers of lobbying and the safe haven of 'neatly organized' multi-stakeholder initiatives. Therefore, corporate political advocacy, as a new and controversial form of political engagement by corporations, confronts us with conceptual and normative challenges that must be handled at least partly separately from such existing debates.

In this chapter, we attempt to define and conceptualize this blind spot in the ongoing debates on the political role and responsibility of corporations. The purpose and focus of the paper is exploratory; it aims at accessing and defining a new problem area in the field of corporate responsibility and outlining an agenda for further research within it.

In a first step, we introduce the term advocacy, whereby we distinguish between a 'wide' and a 'narrow' notion. The concept of advocacy is then contrasted with related phenomena. In a next step we outline four different levels of interaction between corporations and political institutions. The four levels of interaction differ in terms of the issues they target and in terms of their underlying normative logic. Advocacy, we argue, represents the most explicit type of political engagement by corporations in which corporations expose themselves as distinctive political actors in a manner that runs counter to the commonsense understanding of corporations as self-interested actors. We then introduce two broad trains of thought that have considered the conceptualization of corporations as political actors: those are the debate on "corporate political activity" (CPA) on the one hand and that on "political CSR" on the other. Pointing out the commonalities and differences of these existing debates enables understanding of our conceptual and normative challenges and, thus, outlining further research that can suggest a meaningful conception of corporate political advocacy.

Corporate Political Advocacy

Etymologically, the term advocacy stems from the past participle of the Latin verb *advocare*, which means to summon assistance. It also includes the Latin word for voice (*vox*) and thus can be defined as an act of voicing support for an "individual or organization, or idea with the object of persuading targeted audiences to look favorably on – or accept the point of view of – the individual, the organization, or the idea" (Edgett 2002, p. 1).

Advocacy as a type of corporate political activity then takes the form of voicing or showing explicit and public support for certain ideals or values with the aim of convincing and persuading others to do the same. It represents the promotion of an issue, a cause, or a group of people, *beyond* the company's economic interests. We distinguish between two forms of advocacy that vary in terms of 'exposure': in its *wide interpretation,* advocacy denotes something we could call 'lobbying for the good,' that is, political engagement of corporations for issues related to their business activity but, as already mentioned, not to their economic interests. For example, Unilever committed itself to lobbying efforts in favor of stronger environmental regulation as part of its Sustainable Living Plan.[5] The effects of such lobbying are directly relevant for and linked to Unilever's business operations; however, in contrast to 'classical' notions of lobbying, the primary purpose of Unilever's engagement is not its business interests per se. Similar examples are the coalition between companies such as Starbucks, Nike, and Sun Microsystems with Ceres, a network of environmental advocates and investors that lobbies Congress on stronger regulation of gas emissions and the promotion of investment in renewable energy,[6] or The Prince of Wales's Corporate Leaders Group on Climate Change.[7] Finally, the OECD Anti-Bribery Convention was mainly the result of "the support of large companies" according to the founder and Chairman of Transparency International, Peter Eigen (AccountAbility 2005, p. 24). The Responsible Lobbying Report named the leaders of corporations that engage in advocacy as 'CEO lobbyists.' Among the most famous are Anita Roddick, late CEO of The Body Shop, and Ray Anderson, late CEO of Interface Carpets (AccountAbility 2005, p. 24).

In its *narrow interpretation*, advocacy refers to the political engagement of corporations for issues linked to values without any direct connection to their operating area. An early illustrative case is Ben and Jerry's aforementioned support for the Vermont law legalizing gay marriage in the form of temporarily changing the name of its popular Chubby Hubby flavor into Hubby Hubby.[8] The same issue recently gained momentum again when other companies such as Starbucks, Microsoft, and Amazon "spoke up for same-sex marriage" (Bruni 2012). Goldman Sachs CEO Lloyd Blankfein was called the first "corporate spokesman for same-sex marriage" by the Human Rights Campaign.[9] There are a number of other recent examples that fit this category of corporate advocacy and thus emphasize its increased relevance in practice. For example, the Global Business Coalition Health, a collaborative initiative by the corporate sector, governments, and civil society, has successfully fought for the abolition of the "discriminatory 'travel ban' against people with HIV/AIDS."[10] Finally, also Starbucks' campaign against the U.S. Congress mentioned at the beginning of this chapter counts as a narrow form of advocacy.

A number of critical distinctions help us better understand corporate political advocacy as a new phenomenon. First, advocacy must be distinguished from philanthropy. Philanthropy typically centers on donations that may or may not be public, but which crucially lack the 'voice' component of advocacy. Both philanthropy and advocacy are located at "the most voluntary and discretionary dimension of corporate responsibility" (McAlister and Ferrell 2002, p. 692) and philanthropy, just like advocacy, is equally conceivable without being linked to the profit motive. Moreover, philanthropy, for example, a corporation's financial support of animal welfare, can certainly be considered an activity of political relevance, just like advocacy. However, to be of advocatory nature, such philanthropic contributions would have to be complemented with vocal and targeted public attempts by the company to get others to embrace and support its cause as well.

Second, advocacy is to be distinguished from cause-related marketing. Cause-related marketing "links an organization's product(s) directly to a social cause or event" (McAlister and Ferrell 2002, p. 693). Therefore, it is typically connected to the economic interest of the company. For example, a company may make the extent of support for an issue dependent on the sales of a specifically labeled product (Berglind and Nakata 2005). Cause-related marketing campaigns are a way to increase fundraising for charities and to increase the sales of products for corporations. Among the most famous issues that regularly appear in the spotlight of cause-related marketing is breast cancer. In 1997 Yoplait started to package some of its products with a pink lid that, if redeemed by the consumer, triggers a 10-cent donation from Yoplait for each lid to a foundation which advocates breast cancer awareness, education, and research (Berglind and Nakata 2005). Granted that this is a worthwhile cause, but the fact that the main goal of cause-related *marketing* ultimately is to increase product sales (McAlister and Ferrell 2002; Berglind and Nakata 2005), and that the extent of corporate engagement for a cause is directly linked to the sales of the product, makes cause-related marketing different from what we call advocacy. It is precisely the point of the kind of advocacy described in this paper that it occurs beyond the company's financial interests. For example, Ben and Jerry's did not make the extent of their support for same-sex marriage dependent on the amount of Hubby Hubby ice cream they sold. Their support was unconditional and nonmonetary. In short, although cause-related marketing rests on the instrumental logic of constructing a business case, advocacy does not.

Third, political advocacy is not to be confused with what we could call "classical" lobbying, which denotes the attempt of corporations to influence political institutions regarding the design, adoption, and enforcement of policies favorable to their business interests. Granted that at least in its narrow interpretation, corporate advocacy does occur also as lobbying, but it does so under different premises because it crucially is aimed not at the company's own financial interests, but at the greater good. In other words, although advocacy does overlap with the problem area of lobbying, it is neither congruent with it, nor does it reflect the rather common understanding of lobbying as a "continuation of business with other means" (Ulrich 2008, p. 273).

The contrasting of four different types of corporate political engagement in the next section should further clarify the distinct nature of corporate political advocacy.

Four Levels of Political Interaction Between Corporations and Political Institutions

Political activities of corporations come in four different shapes, which differ in terms of the issues they address and the normative logic that drives them.

The most conventional level of corporate political activity is represented by *"classical" lobbying*. As already mentioned, classical lobbying is squarely aimed at advancing the company's own financial interests by exerting influence on the political process. Companies are willing to invest vast sums of money to make sure their political preferences are taken into account. For example, in 2011 the pharmaceutical and health products industry spent $237,504,544 on lobbying in Washington, DC.[11]

Classical lobbying is a highly disputed activity. Outside CPA, scholars from different fields such as organization theory have called for a more critical analysis of "(h)ow organizations affect the pattern of privilege and disadvantage in society" (Hinings and Greenwood 2002, p. 411). There is widespread concern about those effects of corporate lobbying that happen "at the expense of individual citizens," about "the capturing of regulatory agencies by those whom the agencies were designed to regulate," and about "the privatization of functions that have historically been the mandate of local, state, and federal governments" (Barley 2007, p. 201). Also, business ethicists have criticized classical lobbying for its lack of a "robust normative theory" (Néron 2010, p. 347). Furthermore, as a result of growing misconduct of lobbyists in practice, there have been repeated calls for the introduction of ethical standards for corporate lobbying during the past two decades (Christensen 1997; Oberman 2004; Tian et al. 2008; Stark 2010). Thus, the second level of corporate political engagement is represented by what we could call 'ethical lobbying' or 'responsible lobbying.' Ethical lobbying shares the assumption with CPA that corporations primarily become politically active to promote their own business interests, because, in the rather laconic words of Néron and Norman, they simply cannot be expected "to put 'the public interest' ahead of their 'private interests' (Néron and Norman 2008a, p. 18). In other words, the focus of such ethical lobbying is not the subject matter of the lobbying efforts itself, but the manner in which such efforts take place. Thus, the process of lobbying is subjected to certain guidelines and principles without, however, questioning the self-interested aim and purpose of lobbying as such. For example, Oberman developed an ethical framework for judging CPA that contains a "test of ethical acceptability" that requires that "no political action aimed at gaining legitimacy may seek to reduce the capacity of the system for making a rational public policy decision on the issue, deceptively manipulate public opinion on the issue, or contribute to the perennial exclusion of any group" (Oberman 2004, p. 257). Ethical lobbying, thus understood, is often promoted also by professional associations of lobbyists, whose historical purpose it is to establish and advance lobbying as a profession and thus to promote certain ideals and standards, which are laid down in a Code of Ethics that is specific for the profession. For example, the national professional association American League of

Lobbyists requires its members to uphold their Code of Ethics[12] for lobbyists. Professional lobbyists, as the Code reads, “have a strong obligation to act always in the highest ethical and moral manner in their dealings with all parties.” Thus, the Code is aimed at the “highest ethical conduct” of lobbying professionals “in their lobbying endeavors” within the given context and premise of lobbying as a vehicle of advancing one’s particular interests. In fact, to “vigorously and diligently advance and advocate the client’s or employer’s interests” is one of the very principles laid down in the Code. Based on this premise, then, lobbyists are asked to “conduct lobbying activities with honesty and integrity,” which includes truthfulness in communication and the provision of “factually correct, current and accurate information”; they ought to “comply fully with all laws, regulations and rules applicable to the lobbyist” and “conduct lobbying activities in a fair and professional manner”; they should “treat others—both allies and adversaries—with respect and civility” and never “act in any manner that will undermine public confidence and trust in the democratic governmental process.”

The third and fourth level then represent what we called wide and narrow interpretations of advocacy in the previous section. Characteristic for levels three and four is that the seemingly inextricable link between political activity and the business interests of companies, which defined levels one and two, vanishes gradually.

Hence, the third level is represented by “lobbying for the good.” This stage builds on the previous one insofar as it questions the self-interested motive of lobbying and, as a consequence, adds another layer of responsibility, which aims at the legitimacy of the pursued purpose of lobbying efforts. David Vogel (2008, p. 41) outlines two scenarios in which corporations might promote “good social policy.” First, they might hope to achieve a first-mover advantage over their competitors and thus benefit financially from it. Second, they might hope to protect their social engagements from competitive downward pressures exerted on them by less responsible competitors. Although the former, purely instrumental interpretation would belong to either level one or two on our scale, only the latter case represents advocacy in the sense of “lobbying for the good,” because not the corporation’s business interest, but its concern for social responsibility, is the *primary* motivation. As Vogel summarizes (2008, p. 41):

> Lobbying needs to become a critical component of a CSR strategy. It is not enough for companies to engage in sophisticated private initiatives, however strategic. They must also be willing to support public policy that makes it easier for them and other firms to do the right thing. Without government support, many socially beneficial corporate programs will have limited impact.

Thus, similar to Néron who called for a “new theory of corporate responsibilities, which focuses on the various ways in which firms, in their external relations, interfere in the political process, in the direction of a robust normative theory of corporate lobbying”(Néron 2010, p. 247), Vogel has criticized the field of CSR for its lack of focus on lobbying. A related claim has been made by Ulrich (2008, pp. 414–418): “The reasonableness of the demand that an individual company should operate in accordance with a life-serving conception of value creation,” as he asserts, "depends essentially on the institutional framework under which it must assert itself in competition" (Ulrich 2008, p. 414). Rather than shrugging their shoulders at the factual impossibility of living up to their proclaimed responsibilities as corporate citizens under "given competitive conditions," they will assume for themselves a "political-regulatory responsibility" to "initiate ethically justified reforms of the institutional framework" (Ulrich 2008, p. 414). In other words, "(e) ntrepreneurs and top managers who are really interested in company policies with a high social and economic potential for the consideration of values consequently recognize their share of responsibility… for the ethical quality of the 'rules of the game' and the regulatory framework under which they wish to play the 'game of competition" (Ulrich 2008, p. 414).

Thus, it is characteristic also for this third level of political involvement that there is a link between the issue in question and the core business operations of the company. However, it is no longer conducted exclusively on the basis of a self-interested rationale. In other words, the dissolving link between lobbying efforts and corporate self-interest characterizes "lobbying for the good" as a kind of advocacy in a wide sense.

On the fourth level of corporate political involvement, even the link to the company's core business dissolves. Thus, corporations expose themselves politically on issues without any direct relationship to their core business operations. Starbucks' aforementioned campaign against the 'irresponsibility' of the U.S. Congress is one example for such narrow advocacy. Narrow advocacy, thus understood, is the type of activity where corporations most distinctively expose themselves as political actors – in colloquial terms: they 'stray furthest' from their core business and intervene most distinctively in issues that many would say are indeed 'none of their business.' It is this type of corporate political engagement that shall be conceptualized further in the remainder of this paper.

Corporate political advocacy as a new phenomenon raises a number of conceptual and normative challenges. It is most closely related to the fields of CPA and political CSR. However, neither of these two trains of thought captures the core of this new phenomenon adequately. As we argue next, political advocacy takes place (a) outside the explanatory scope of CPA and (b) outside the normative models of legitimacy based on which political CSR commonly rests.

Conceptual Challenges: Corporate Advocacy Beyond "Corporate Political Activity" (CPA)

The term corporate political activity emerged in the 1980s in connection with a new strand of research in management studies, which focused on "those actions by which corporations attempt to shape government policy in ways favorable to the firm (Baysinger 1984)" (Hillman et al. 2004, p. 838).[13] Thus, in a nutshell, the assumption regarding the political role and responsibility of corporations underlying CPA is that companies only become politically active with the intent of promoting and advancing *their own* interests in their interaction with political actors and institutions. According to such views, political action is seen as the combination of "expression of private interests with engagement in collective processes of decision-making" (Moon et al. 2005, p. 436).

According to Hillman et al. (2004), CPA research can be divided into four thematic blocks. First, a significant share of the work in CPA involves the antecedents of CPA, that is, with factors that shape the political strategy of corporations. Second, it has focused on building typologies and taxonomies in an effort to systematize our understanding of CPA. Third, attention has been directed to the question of effective implementation. And fourth, significant attention has been devoted to studying the correlation between CPA and policy decisions or firm performance.

In an early paper, Keim and Zeithaml distinguish between different strategies that CPA encompasses, such as constituency building, campaign contributions through a political action committee, advocacy advertising, lobbying, and coalition building (Keim and Zeithaml 1986). For our paper, particularly lobbying and advocacy advertising are interesting because these strategies are also used in wide and narrow advocacy, respectively. Lobbying "involves efforts by political professionals or company executives to establish communication channels with regulatory bodies, legislators, and their staffs. It is designed to monitor legislation, to provide issue papers and other information on the anticipated effects of proposed legislation, to convey the sentiments of company constituents on legislative issues to elected officials and their staffs, and to attempt to influence the decisions of legislators and key advisors" (Keim and Zeithaml 1986, p. 830). Under the condition that it is deployed for promoting the public good, this definition of lobbying aptly characterizes what we have described as wide advocacy. Advocacy advertising is "concerned with the propagation of ideas and the elucidation of controversial social issues of public importance" (Sethi 1979, p. 70). Also here, if the message refers to the promotion of the public good, this definition of advocacy advertising pretty much characterizes what we define as narrow advocacy. However, not surprisingly, and in line with the overall strategic perspective of CPA, the assumption behind these definitions of lobbying and advocacy advertising is that they are strategic activities in which corporations engage for their own sake, that is, to create private value for themselves. The notion that CPA is a field with 'no ethical strings attached' is underlined by Sethi's claim that the manner in which advocacy advertising propagates ideas is "such that supports the position and interests of the sponsor while expressly or implicitly downgrading the sponsor's opponents and denying the accuracy of their facts" (Sethi 1979, p. 70).

In the meantime, criticism about the one-dimensional focus of CPA on political activities of corporations to achieve competitive gains has been acknowledged by one of the leading CPA scholars, Douglas A. Schuler, who diagnosed a "preponderance of 'contemporary' scholarship on corporate political activity" that focuses on "how corporate political activities can create private value for the companies that use them" (Schuler 2008, p. 164). Schuler admitted that as a consequence of this instrumental rationale informing CPA, "other effects" such as those relating "to the economy, democracy, or justice, are ignored" (Schuler 2008, p. 164). Similarly, Oberman argued that "(t)he objective of recent CPA research has been to describe and conceptualize business political activity as a strategic response to the environment, not to question or seek to limit that response. It would seem that this research stream has reached a sufficient level of maturity that normative considerations can be entered into the mix" (Oberman 2004, pp. 248–249). Yet, the challenge we face is that so far there is no coherent theory for the specific context in which we are interested.

In sum, corporate political advocacy shares with CPA the interest in the influence that corporations exert on politics and thus a focus on power- or pressure-based political activity. Yet, advocacy obviously runs counter to the CPA assumption that such political activity should promote the corporation's own economic interests. In contrast to a typical CPA scenario in which corporations lobby behind *closed doors* for their own interests, advocacy exposes corporations *publicly* and on issues that are of no direct relevance to their economic interests. Granted that reputational considerations can never be entirely ruled out (e.g., we do not claim that Ben and Jerry's decision to get engaged was entirely free from business considerations[14]), but advocacy applies to activities where it is safe to assume that the 'business case' has not been their sole or even the primary driving factor. Let us now explore the field of political CSR, which, with its normative focus, may provide a more promising avenue to make sense of corporate political advocacy.

Normative Challenges: Political Advocacy Beyond Political CSR

In contrast to the predominantly strategic debate on CPA there have been developments in the debate on CSR in recent years that strive at providing normative justifications instead of mere explanations of political activities by corporations. In particular, during the past few years a notion of corporations as political actors has gained ground in business ethics and management journals whose aim is to link CSR and political theory, which is why some scholars have labeled it "political CSR" (Scherer and Palazzo 2011). Although the term "political CSR" has not been adopted explicitly and uniformly by all scholars who contribute to the debate in a wide sense (e.g., Matten and Crane 2005; Moon et al. 2005; Matten and Moon 2008; Néron 2010; Néron and Norman 2008a, b), it seems sufficiently well established to serve as an umbrella term for this stream of research.

Political CSR derives from an attempt to reconceptualize corporations as political actors "against the background of emerging governance institutions and procedures beyond the nation-state" (Scherer and Palazzo 2007, p. 1108). It focuses on the role and responsibility of corporations within emerging 'new forms of governance' such as public policy networks or multi-stakeholder initiatives. Such arrangements often generate actual 'civil regulation,' that is, "voluntary, private, non-state industry and cross-industry codes that specify the responsibilities of global firms for addressing labor practices, environmental performance, and human rights policies"

(Vogel 2010, p. 68). Thus, in contrast to CPA, this debate highlights the political role of corporations predominantly in the 'extraconstitutional' sphere (Baur 2011). Thus, the focus of political CSR seems to be narrower than that on political advocacy, which takes place both within (lobbying for the good) and outside (advocacy in a narrow sense) the constitutional sphere. Concordantly, the discussion on political CSR cannot fully integrate the phenomenon of political advocacy. This lack in itself raises questions about the compatibility of the normative premises underlying political CSR with the focus and aim of corporate political advocacy. Specifically, the normative model of legitimacy informing political CSR seems to clash with the very idea of corporate political advocacy.

As pointed out, the key concern of political CSR is the legitimacy of corporate political activity rather than its instrumental utility, which clearly sets it apart from CPA. To arrive at a meaningful notion of normative legitimacy for corporate political activities, some of its most prominent exponents, Andreas Scherer and Guido Palazzo (2007), combine the political model of deliberative democracy with (normative) stakeholder theory. Deliberative democracy is the normative political model that corresponds to discourse ethics (Habermas 1996). Thus, legitimacy is understood to result from communicative processes involving all relevant stakeholders. Ideally, such processes are modeled after the discursive principles that allow for the 'forceless force of the better argument' (Habermas 1999, p. 940) to prevail over mere and potentially manipulative rhetoric (Scherer and Palazzo 2011). Asking corporations to openly participate in public processes of political will formation to legitimize their public use of power (Scherer and Palazzo 2007, pp. 1108–1109) evidently runs counter to both the inherent opaqueness of corporate lobbying as portrayed by CPA as well as its aim of advancing the corporation's own interest over that of the public.

Similar to political CSR, corporate political advocacy also must be conceptualized as an activity beyond the promotion of narrow economic interests. Furthermore, similar to political CSR, also corporate political advocacy rests on the assumption of overt, rather than hidden, political engagement of corporations. Yet, the notion of legitimacy underlying political CSR seems to clash with the aim and purpose of corporate political advocacy. Rather than subjecting their CSR to scrutiny within critical multi-stakeholder dialogues, advocacy seems to require the company to abandon its deliberative attitude in favor of a forceful and public stance for particular values or ideals. Thus, although political CSR tends to call for embedding the corporation in inclusive and holistic deliberation processes and for the *balancing* of stakeholder interests therein, political advocacy aims at the exposure of the corporation beyond such processes and at the partial and at times confrontational promotion of certain ideals and causes over others. Stakeholder dialogues, which are seen to be the prime mechanism for considering and balancing competing stakeholder claims and which, therefore, are constitutive for the understanding of legitimacy in political CSR, may play a rather subordinate, if *any*, role for corporate political advocacy. In contrast, corporate political advocates may be willing even to override this legitimacy requirement and promote specific ideal causes without legitimizing them first in broad stakeholder deliberations.[15] Thus, at the heart of corporate political advocacy is a form of public favoritism and a reliance on the use of power, which political CSR is precisely concerned with rooting out.

Thus, a first normative challenge is that corporate political advocacy seems to require a notion of legitimacy beyond stakeholder theory. Although stakeholder theory did not necessarily start as a normative approach (Walsh 2005; Freeman et al. 2010; Donaldson and Preston 1995), it is one of the predominant theories on which CSR scholars rely for the justification of "moral or philosophical guidelines for the operation and management of corporations" (Donaldson and Preston 1995, p. 71). Yet, obviously, as already stated: corporate political advocacy may not rest on the impartial consideration and balancing of stakeholder interests. Instead, it implies that companies potentially favor some stakeholders over others in their pursuit of normative convictions. The case of the U.S. retailer JC Penney and its spokeswoman Ellen de Generes is illustrative for this. de Generes, who is openly homosexual, was chosen by JC Penney despite repeated calls for boycott by a conservative group named "One Million Moms."[16] As necessary normative conditions for the advocatory pursuit of causes and ideals outside any stakeholder processes seems to be that those causes represent "valid claims regardless of whether or not they affect the stakeholders of the corporation" (Baur and Palazzo 2011, p. 582). Such claims are based on norms for whose violation can be considered wrong "for reasons prior to any stakeholder obligation" (Phillips 2003, p. 30). Granted that such a conceptualization may provide some guidelines in regard to the circumstances of legitimacy of corporate political advocacy, but it does so only in a negative sense. That is, it points out under what conditions corporate political advocacy can be permissible but it does not yet contain much reflection about corporate political advocacy as a desirable activity, that is, as a political responsibility of the corporation. For this, we turn to the not very well known concept of advocatory ethics.

Advocatory ethics is a term that can be found in various debates within different disciplines of applied ethics, such as 'animal ethics' (Baranzke 2006), bioethics or genetic ethics (Bayertz 1994), but also in debates about the ethics of social policy (Brumlik 1991). It has emerged as a specific response to the challenge faced by discourse ethics when it comes to describing the *responsibility* of actors in cases "where those directly affected are unable to be included in the discourse" (Bayertz 1994, p. 249). In such cases, "the discourse community must try and put itself in that person's position, anticipating and validating the latter's interests within the debate and during the process of reaching consensus" (Bayertz 1994, p. 249). With this claim, advocatory ethics "abandon(s) the principle that *only* norms consented by *all* those concerned may be considered valid" (Bayertz 1994, pp. 249–250). Thus, the notion of advocatory ethics implies a (positive) responsibility of the agent to voice the position of those whose voices otherwise remain unheard. Both the legitimacy and the desirability of political advocacy would thus depend on whether what is being advocated represents a particularly fundamental interest of otherwise marginalized groups.

The most convincing way to conceptualize such particularly fundamental interests is by reference to human rights. In other words, the most (and perhaps only) plausible conceptualization of a normative responsibility to political advocacy is in the form of "human rights advocacy" (Wettstein 2010a, 2012). Such a responsibility to advocate for human rights raises several questions. First, it is important to point out that such advocacy is based on a positive responsibility, rather than merely a negative obligation to do no harm. For example, there has been a recent “trend” among European chemical firms to refuse to supply certain American states with their products because they may be used for the execution of death row inmates. Granted that such actions imply a strong stance of such companies against the death penalty, but they do not represent advocacy in the sense described in this paper. Rather, they represent the attempt by the companies not to become complicit in what they consider an illegitimate activity. In other words, they are expressions of a negative duty to do no harm. The companies only reach a level of advocacy if in addition to their refusal to do business with the American states those businesses expose themselves publicly to promote the abolishment of the death penalty in the broader political arena. Second, such positive responsibility necessarily rests on leverage, rather than on impact (for such accounts of corporate responsibility, see the recent contributions of Santoro 2009; Wettstein 2010b, 2012; Wood 2012). Thus, it is based on the rather controversial assumption that corporate responsibility does not only include the responsible exercise of power (as exemplified by ethical lobbying) but also an actual responsibility to exercise power (Wood 2012, p. 77). In other words, it is based on the assumption that companies use their de facto power to promote good public causes. Third, although the mere legitimacy of corporate political advocacy does not require that the corporation is connected to the cause for which it advocates, an actual positive responsibility to advocate does (Young 2004; Santoro 2009; Wettstein 2010a, 2012; Wood 2012). This, however, would at least partly contradict the narrow definition of advocacy as outlined here. In other words, it is questionable whether corporations can, in fact, have a positive responsibility to political advocacy in a narrow sense.

Conclusion: Corporate Political Advocacy: A Research Agenda for a New Phenomenon

Corporate political advocacy is a new phenomenon that has not yet been well documented or analyzed. The aim of our chapter was to take a first stab at the issue by defining political advocacy conceptually and to contrast this definition with ongoing debates on the political role and responsibility of corporations. Our sense is that corporate political advocacy does not fully match with any of the ongoing debates, either conceptually or normatively. Although it shares some critical elements with the debate on corporate political activity, its focus on public rather than private interest denotes a key difference, which remains unaccounted for in the explanatory models of CPA. Although the discussion on political CSR can better make sense of the public focus underlying political advocacy, its normative premises regarding the legitimacy of corporate activity again clash with our conceptual definition of corporate advocacy.

The conceptual and normative challenges pointed out here can help us frame a research agenda for the further exploration of this new phenomenon. First, the idea of legitimacy beyond stakeholder deliberation in regard to political activities of companies must be explored and investigated further and in more detail. The concept of advocatory ethics in particular is in need of more detailed analysis.

Specifically, the question is whether the normative premises of advocatory ethics are meaningful for corporate political advocacy as introduced in this paper. Within the context of environmental responsibility, in which advocatory ethics is commonly mentioned, the premise is that "those directly affected are unable to be included in the discourse." Does this premise hold also for context in which certain groups of people could, in principle, be included, but are historically underrepresented and discriminated against? Thus, an adaptation of the concept of advocatory ethics to corporate political advocacy would have to provide a convincing answer to such questions.

Second, the question of positive responsibility in connection with corporate human rights advocacy needs clarification. Can we make a convincing normative case for an actual corporate responsibility to political advocacy or are we considering merely a permissible activity? What would the criteria be on which such a responsibility necessarily would have to rest?

Finally, corporate political advocacy raises a conceptual challenge with regard to political theory, which we have not yet addressed: neither the model of economic liberalism with its assumption that political activity serves business interests as underlying CPA nor the model of deliberative democracy with its normative requirement that political activities of corporations must be legitimized discursively within stakeholder dialogues on which political CSR rests seems to be able to account for corporate political advocacy as a legitimate political activity. We thus need to think of a political theory that overcomes these biases.

One option is to turn toward republicanism. In the 'battle' between liberalism and deliberative democracy, which exemplarily represent more 'economic' versus more 'political' perspectives on the relationships between business and politics, republicanism seems to be somewhat underrated. One possible reason for this is that republicanism, at least in its classical form, "tends to make exaggerated demands on the civic virtue of the (corporate, the authors) citizen" (Ulrich 2008, pp. 277–278). But if we look for a political theory that not only accounts for the reason corporate political advocacy should be permissible but that also provides the grounds why it could be considered part of the responsibility of corporate citizens, the high demands of republicanism potentially gain renewed significance.

Republicanism overcomes the liberal bias on self-interest by grounding "the normative basis of citizenship in participation that is enacted for the common good, even if it is not in their immediate self-interest" (Moon et al. 2005, p. 441). A republican notion of corporate citizenship not only "accommodates a full range of social and political participation" (Moon et al. 2005, p. 440) but also emphasizes the link between participation and "*obligations* towards the common or 'civic' good" (Moon et al. 2005, p. 440, our emphasis). These obligations consist in the willingness of corporate citizens "to grant the ethical principles of the res publica systematic priority over their private economic interests" (Ulrich 2008, p. 417).

Such a notion of the political responsibility of corporations can also be found among the work of business ethicists who have explicitly reflected on what a normatively meaningful conception of corporate lobbying would entail and who have drawn conclusions that go beyond simply subjecting 'classical lobbying' to certain ethical standards. For example, Weber bases his 'moral version of lobbying' on the role of corporations as citizens and claims that "(w)hen individuals and organizations seek to shape public policy, they should, it would seem, hold themselves to the same standard of putting the public good above private interests" (Weber 1996, p. 256). For him, lobbying constitutes an activity which "should be directed by the public-good-over-private-interests understanding of responsibility" (1996, p. 256). He pleads for an understanding of "lobbying and other political activity (…) as a different type of activity, an activity to be governed by different goals and standards" than those governing business decisions in the pursuit of private interests (1996, p. 256). Hamilton and Hoch go even further by arguing that corporations not only have the right but even the *obligation* to lobby.

They derive this obligation from the fact that corporations often possess knowledge about a social problem which morally obliges them to become politically active: "If a corporation or industry has some level of responsibility for having created a problem whose solution requires public policy decision making at the state or national level, that corporation or industry should contribute to the public policy debate as well as to the implementation of the decisions" (Hamilton and Hoch 1997, p. 119).

Against this background it might be fruitful for future research on corporate political advocacy to take a closer look at the often marginalized work of those business ethicists who implicitly or explicitly derive their arguments for the political role of corporations from the political theory of republicanism.

Notes

1. http://graphics8.nytimes.com/packages/pdf/opinion/starbucks.pdf
2. www.upwardspiral2011.org
3. www.upwardspiral2011.org/letterstoamerica
4. http://craneandmatten.blogspot.com/2011_09_01_archive.html
5. http://www.ethicalcorp.com/content.asp?contentid=7204
6. http://www.seattlepi.com/business/article/Top-companies-urge-Congress-to-go-green-1292038.php#ixzz1hHL7rFMi
7. http://www.cpsl.cam.ac.uk/Leaders-Groups/The-Prince-of-Wales-Corporate-Leaders-Group-on-Climate-Change.aspx
8. http://www.huffingtonpost.com/2009/09/01/hubby-hubby-ben-jerrys-sh_n_273872.html
9. http://www.guardian.co.uk/commentisfree/cifamerica/2012/feb/07/lloyd-blankfein-gay-marriage-spokesman
10. http://wwww.gbcimpact.org/itcs_node/0/0/news/2237

11. http://www.opensecrets.org/lobby/indusclient.php?id=H04&year=2011
12. http://www.alldc.org/ethicscode.cfm
13. Another term for essentially the same strand of research is Corporate Political Strategy (CPS) (see, e.g., Hillman and Hitt 1999). However, for the sake of simplicity we only use the term CPA in this paper.
14. See http://www.dailyfinance.com/2009/09/01/ben-and-jerrys-hubby-hubby-ice-cream-celebrates-same-sex-marriage/ for the opinion of a brand expert on this issue.
15. However, we admit that stakeholder dialogues are not entirely irrelevant in advocacy. After all, as becomes evident from the examples quoted above, advocacy can either occur as a stand-alone activity, for example, if a corporation expresses support for a cause through advertising as in Ben and Jerry's case (so-called issue or advocacy advertising Stark 2010) or as collective action, that is in the form of coalitions with other corporations or non-profit organizations. In the latter case, as particularly evident in the example of the Global Business Coalition on HIV/AIDS, Tuberculosis and malaria, the constellation responsible for the 'drive,' is in fact a multi-stakeholder initiative that adheres to the standards of stakeholder dialogues. Thus, MSIs can play a role in advocacy, namely if they act as a unitary political actor toward the outside. The specific activities of MSIs in the cases we cite do have an advocacy character because they are targeted at the political arena and they refer to issues that are not directly related to the core business of the corporations in question. However, it has to be noted that the degree of political exposure of corporations as part of an MSI is of course always less distinctive than if they do so on a stand-alone basis.
16. http://www.reuters.com/article/2012/02/03/us-jcpenney-ellendegeneres-idUSTRE8121VK20120203

References

AccountAbility. (2005). *Towards responsible lobbying: Leadership and public policy*. Geneva: AccountAbility/UN Global Compact.

Baranzke, H. (2006). Tierethik. In M. Düwell, C. Hübenthal, & M. Werner (Eds.), *Handbuch Ethik* (pp. 288–292). Stuttgart: Metzler Verlag.

Barley, S. R. (2007). Corporations, democracy, and the public good. *Journal of Management Inquiry, 16*(3), 201–215.

Baur, D. (2011). *NGOs as legitimate partners of corporations. A political conceptualization*. Dordrecht: Springer.

Baur, D., & Palazzo, G. (2011). The moral legitimacy of NGOs as partners of corporations. *Business Ethics Quarterly, 21*(4), 579–604.

Bayertz, K. (1994). *Genethics: Technological intervention in human reproduction as a philosophical problem*. Cambridge: Cambridge University Press.

Baysinger, B. (1984). Domain maintenance as an objective of business political activity: An expanded typology. *Academy of Management Review, 9*(2), 248–258.

Berglind, M., & Nakata, C. (2005). Cause-related marketing: More buck than bang? *Business Horizons, 48*(5), 443–453.

Bonardi, J.-P., & Keim, G. D. (2005). Corporate political strategies for widely salient issues. *The Academy of Management Review, 30*(3), 555–576.

Brumlik, M. (1991). Is an advocatory ethic at all possible? In G. Albrecht & H.-U. Otto (Eds.), *Social prevention and the social sciences* (pp. 61–70). Berlin/New York: De Gruyter.

Bruni, F. (2012, February 6). Java and justice. *New York Times*.

Christensen, S. L. (1997). The new federalism: Implications for the legitimacy of corporate political activity. *Business Ethics Quarterly, 7*(3), 81–91.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review, 20*(1), 65–91.

Edgett, R. (2002). Toward an ethical framework for advocacy in public relations. *Journal of Public Relations Research, 14*(1), 1–26.

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.

Getz, K. A. (1997). Research in corporate political action. *Business & Society, 36*(1), 32–72.

Habermas, J. (1996). Three normative models of democracy. In S. Benhabib (Ed.), *Democracy and difference: Contesting the boundaries of the political* (pp. 21–30). Princeton: Princeton University Press.

Habermas, J. (1999). Between facts and norms: An author's reflections. *Denver University Law Review, 76*(4), 937–942.

Hamilton, J. B. I., & Hoch, D. (1997). Ethical standards for business lobbying: Some practical suggestions. *Business Ethics Quarterly, 7*(3), 117–129.

Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *The Academy of Management Review, 24*(4), 825–842.

Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management, 30*(6), 837–857.

Hinings, C. R., & Greenwood, R. (2002). Disconnects and consequences in organization theory? *Administrative Science Quarterly, 47*(3), 411–421.

Keim, G. D., & Zeithaml, C. P. (1986). Corporate political strategy and legislative decision making: A review and contingency approach. *The Academy of Management Review, 11*(4), 828–843.

Matten, D., & Crane, A. (2005). Corporate citizenship: Toward an extended theoretical conceptualization. *Academy of Management Review, 30*(1), 166–179.

Matten, D., & Moon, J. (2008). "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review, 33*(2), 404–424.

McAlister, D. T., & Ferrell, L. (2002). The role of strategic philanthropy in marketing strategy. *European Journal of Marketing, 36*(5), 689–705.

Moon, J., Crane, A., & Matten, D. (2005). Can corporations be citizens? Corporate citizenship as a metaphor for business participation in society. *Business Ethics Quarterly, 15*(3), 429–453.

Néron, P.-Y. (2010). Business and the polis: What does it mean to see corporations as political actors? *Journal of Business Ethics, 94*(3), 333–352.

Néron, P.-Y., & Norman, W. (2008a). Citizenship, Inc. *Business Ethics Quarterly, 18*(1), 1–26.

Néron, P.-Y., & Norman, W. (2008b). Corporations as citizens: Political not metaphorical. *Business Ethics Quarterly, 18*(1), 61–66.

Oberman, W. D. (2004). A framework for the ethical analysis of corporate political activity. *Business & Society Review, 109*(2), 245–262.

Phillips, R. (2003). Stakeholder legitimacy. *Business Ethics Quarterly, 13*(1), 25–41.

Santoro, M. A. (2009). *China 2020: How western business can– and should– influence social and political change in the coming decade*. Ithaca/London: Cornell University Press.

Scherer, A. G., & Palazzo, G. (2007). Toward a political conception of corporate responsibility: Business and society seen from a Habermasian perspective. *Academy of Management Review, 32*(4), 1096–1120.

Scherer, A. G., & Palazzo, G. (2011). The new political role of business in a globalized world: A review of a new perspective on CSR and its implications for the firm, governance, and democracy. *Journal of Management Studies, 48*(4), 899–931.
Schuler, D. A. (1996). Corporate political strategy and foreign competition: The case of the steel industry. *Academy of Management Journal, 39*, 720–737.
Schuler, D. A. (2008). Peering in from corporate political activity. *Journal of Management Inquiry, 17*(3), 162–167.
Sethi, S. P. (1979). Institutional/image advertising and idea/issue advertising as marketing tools: Some public policy issues. *The Journal of Marketing, 43*(1), 68–78.
Stark, A. (2010). Business in politics: Lobbying and corporate campaign contributions. In G. G. Brenkert & T. L. Beauchamp (Eds.), *The Oxford handbook of business ethics* (pp. 501–532). Oxford: Oxford University Press.
Tian, Z., Gao, H., & Cone, M. (2008). A study of the ethical issues of private entrepreneurs participating in politics in China. *Journal of Business Ethics, 80*(3), 627–642.
Ulrich, P. (2008). *Integrative economic ethics. Foundations of a civilized market economy*. Cambridge: Cambridge University Press.
Vogel, D. (2008). Breakthrough ideas for 2008. *Harvard Business Review, 86*(2), 41.
Vogel, D. (2010). The private regulation of global corporate conduct: Achievements and limitations. *Business & Society, 49*(1), 68–87.
Walsh, J. P. (2005). Review: Book review essay: Taking stock of stakeholder management. *The Academy of Management Review, 30*(2), 426–438.
Weber, L. J. (1996). Review: Citizenship and democracy: The ethics of corporate lobbying. *Business Ethics Quarterly, 6*(2), 253–259.
Wettstein, F. (2010a). The duty to protect: Corporate complicity, political responsibility, and human rights advocacy. *Journal of Business Ethics, 96*(1), 33–47.
Wettstein, F. (2010b). For better or for worse: Corporate responsibility beyond "do no harm". *Business Ethics Quarterly, 20*(2), 275–283.
Wettstein, F. (2012). Silence as complicity: Elements of a corporate duty to speak out against the violation of human rights. *Business Ethics Quarterly, 22*(1), 37–61.
Windsor, D. (2007). Toward a global theory of cross-border and multilevel corporate political activity. *Business & Society, 46*(2), 253–278.
Wood, S. (2012). The case for leverage-based corporate human rights responsibility. *Business Ethics Quarterly, 22*(1), 63–98.
Young, I. M. (2004). Responsibility and global labor justice. *The Journal of Political Philosophy, 12*(4), 365–388.

Chapter 11
Countries in Transition: Ethics Is Not the Key in Their Success. Analysis of Chilean Experience

Jorge Mendoza and Orlando de la Vega

Presentation

Social processes have dynamics not always fully understood by those who experience them. Indeed, the complexity of these processes leads the political and social actors to what in psychology is called the "tunnel effect," that is, seeing only what they want to see, which does not reflect the whole idea into a holistic point of view that allows seeing the mutual interactions between the different areas in a specific period of time. They often overlook the dynamics with regard to past and future times (Hunneus 2000).

This work, in its exploratory nature, is based on two main ideas: the first one is trying to clarify whether Chilean society is moving toward democracy; and the second one, if this movement (transition) is occurring simultaneously in all aspects and variables.

In this chapter, we can use the concept *transitions of the transition*. Not just one transition exists, but many of them occur at different rates: political-institutional, political power in itself, social reconciliation, civil–military relationships, cultural and ethical, and economic transitions; consider that an effective transition toward democracy in all areas place particular emphasis on the relationship between cultural environment and its ethical derivations, particularly in relationship to economy.

The current situation and future events in Chile were not made by chance or spontaneous generation; there is a timeline or a certain continuity that passes through all

J. Mendoza (✉)
Instituto de Ciencias Religiosas, Facultad Eclesiática de Teológía,
Pontificia Universidad Católica de Valparaíso, Valparaíso, Chile
e-mail: jmendoza@ucv.cl

O. de la Vega
Escuela de Ingeniería Comercial, Facultad de Ciencias Económicas y Administrativas,
Pontificia Universidad Católica de Valparaíso, Valparaíso, Chile
e-mail: orlando.delavega@ucv.cl

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_11

stages of our recent history. It is not intended to state a historical determinism, because mankind and the societies of which it is part are always able to be "amazing," to choose new paths, and to imagine new solutions. However, it is possible to say that the current situations are the complex sum of decisions, attitudes, and events that are linked together; it is possible to add new elements and orientations to those so long as we know what their current course is and what direction we want to follow.

The first point that must be addressed in this area is the recurring subject of the so-called value crisis or crisis of values. Although both terms indicate a similar direction, the first points of distinction between them are related either to behavior in the society (this would correspond to the term "value crisis") or to a more academic discussion about the origin and recognition that should promote some values and value systems in the society. As to Chile and its economic system, this can be seen in the gap between values proclaimed at a public level, also through companies' ethical codes, and the actual behaviors qualified as criminal acts; violations that have been revealed to the public by the press, both from businessmen and from political authorities.

In Chile, the topic about values has several connotations that show the path toward the structuring of behavior patterns, explained both by the same historical circumstances in which we live and by the cultural and ethical influences that come from the outside world. These influences are transmitted through phenomena such as globalization and the new currents of philosophical, anthropological, and cultural thought that influence the upper-class executives of the country.

The economic model, based in the "free market," has been validated by the governments of the Concertación[1] and by Sebastián Piñera's current government. It is our opinion that the market if not duly regulated is "cruel," and this cruelty has been only partially mitigated. The model has generated wealth but has been unable to distribute equitably the wealth created with everyone's contribution.

A form of these manifestations that demonstrates this discontent—which adds to the "outraged" movement around the world—are the demands made by the "Chilean student protest" carrying this recently (2011), being supported by thinkers with an evident ideological tendency.

In this sense, it is necessary to analyze a factor that has been relegated in the political thought, the *transition* subject. People have tried to end the transition since the 1990s, and for that purpose, there have been attempts of closure, especially with regard to political issues and, particularly, human rights. However, the transition is not just "one," but several processes; for this reason it is more appropriate to speak of "*transitions.*" One of the transitions that has not been fully realized and that has great importance nowadays is the economic system, which has maintained, or even increased, the gap in income distribution, with the resultant structural poverty that affects not only monetary income but also the access to high-quality education (elementary and high school) that allows access to higher education and also to staying in the system. In this connection, it is advisable to keep in mind that a significant number of students with the economic resources to go to college have already dropped out from their studies. Among the reasons why they leave school we can find lack of training, culture, and discipline to enable them to perform well academically, and the economic costs for the family group. It is important to note that just welfare as a resource to overcome the inequities of the system has proved inadequate.

Conceptual Framework

The first task that must be faced is to try to distinguish between terms such as "transition," "liberalization," and "democratization" (Flax 2002; Otano 2006).

Transition means moving from or toward some point, but this can mean either a "return," a certain circularity, a "renovation" of an unfinished political dream, or simply to build labile structures for the ephemeral or reactive characteristics of their motivations.

As to *liberalization*, one of the complex aspects generated by their consequences is the coexistence of the so-called dual state, that is, two opposite sides: political coercion on the one side and the promotion of economic freedom on the other (Hunneus 2000). This is the starting point of the current Chilean state: on the one hand, revising the order in an attempt to better regulate economic functions and, on the other hand, increasing the opportunities for political expression and participation.

Regarding *democratization* in Chile and how to move toward it, we can say that it occurred as a "painless transition," that is, with severe rules that have prevented any traumatic event or improvement to create a milestone between before and after (Otano 2006). It should also be made clear whether the post-1988 referendum was foundational or a modified continuity, in relationship to the necessity for governance that appears as a must in political decisions and, therefore, should be mentioned that has been both a "negotiated transition" (Portales 2000) and, in more than some aspects, a "patterned transition." Somehow the decisions made during the military regime, sheltered under the concept of "protected democracy," still exist but in more subtle forms, because governance is a thing that nobody wants to risk, even though this could mean lowering the levels of community involvement and social conflicts resolution (the expression used by thinkers and politicians from Concertación before 1990 was "pent-up social demand"). State policies that existed during the Concertación government were marked by this timeline, until the government of Michelle Bachelet, who presented her motto "Protecting our people." In the current government (center right), neoliberal economic criteria are reinforced, which has generated several social conflicts, such as that of education, and regional conflicts, such as decentralization of the State.

Culture and Ethics

Chile's structural values have experienced the most changes through historical events, such as the "idealisms and utopias" of the 1960s, the disenchantment, frustration, or refoundational spirit of the dictatorship years, the hope generated by its electoral defeat, and the pragmatism of "the possible"—which was extreme in cases of corruption.

> And thus, we arrive to the matter of power limitations. Someone who judges superficially might think that when they come to power they can do whatever they want to. Truth be told, a politician's duty consists, on the one hand, of the noble aspirations that inspire them, their aims, the values they want to establish and, on the other hand, of the reality that limits them due to a lack of resources, legal instruments, economical resources, general consent, or any other circumstance.
>
> It is beneficial to always remember that ruling is not doing whatever you want, but doing what you can of what you want. This is why it has been said that "politics is the art of the possible." This, sometimes, limits us to situations where no alternative is truly good, or none of them is as good as we would like. Circumstances force us to choose between alternatives that seem to be bad or just average. So the right, ethical, brave thing to do is to choose the lesser of two evils and not just sit there doing nothing or try to find a perfect, ideal solution, which is not really possible.
>
> This is where caution plays an important role. The ruling authority, the politician, must be brave, courageous, audacious, in order to fight for their beliefs and remain faithful to their convictions. But they must also be cautious in order to avoid taking risks that could lead the country to a disastrous result or a greater evil (Aylwin 1991).

In this sense, the first thing we must confront is the recurrent and so-called values crisis or crisis of values (Menéndez-Carrión 1999). Although both terms indicate a similar direction, the first points of distinction between them are related either to behavior in the society (this would correspond to the term "value crisis") or to a more academic discussion about the origin and recognition that should promote some values and value systems in the society. The value systems refer to cultural paradigms being the focal point of the subject, whether it is a religious, modern, or disputable post-modern paradigm. The latter presents us with the dilemma of "moral crisis" or "morality in crisis" (Parrini 1993). This issue requires further discussion than can be provided in this presentation.

For a few authors, none of these values properly exist, because the values that guide social dynamic change according to social needs, especially toward a greater liberalization regarding social and individual behaviors. This characteristic is proper for social dynamics.

Regarding what is generally named the value crisis, it is beneficial to keep in mind that this might mean both the nonexistence of values (in sociology, this is known as "anomie") and the emergence of new "values" (in some cases these might be considered as "anti-values" or "counter values") that replace those of a previous cultural structure, leaving the members of society in a state of perplexity. The paradigm of post-modernity could fit more properly in the latter situation.

In Chile, the topic about values has several connotations that show the path toward the structuring of behavior patterns, and these are explained both by the same historical circumstances in which we live and by the cultural and ethical influences that come from the outside world. These influences are transmitted through phenomena such as globalization and the new currents of philosophical, anthropological, and cultural thought that influence the upper-class executives of the country.

Perhaps the focus of ethical and cultural aspects is found in the conceptual diversity related to the meaning of "democracy." In Chile, shared fear (Menéndez-Carrión 1999) expressed in different ways, about bringing back past conflicts has caused a "block of dreams," as they would be responsible for past events. This fear creates two features of Chilean society: a "presentism" that refuses to look ahead and a tolerance that does not imply accepting diversity, but bearing with it out of fear that the conflict repeats past events. Certainly, there is a fear of violence and mistrust generated by the dangerous nature of humankind. All this weakens the institutional part of democracy, but not its normative side. Chile, as a society, does not seem to take any kind of risks when uncertainty is present.

Concertación, assuming it does not intend to explore new paths, has been working with key elements of the institutional legacy of the dictatorship, especially referring to the internalization and expansion of all the decisions of market criteria: competitiveness, utility, efficiency. In this sense, development policies are much more influenced by economic evaluations than by the potential social advantages. Moreover, the idea of market cruelty leading to real situations of marginalization encouraged politicians to take action and create policies that somehow decrease the consequences of market laws.

Democracy has been changing toward a strong *pragmatism* (Lechner 1988), which can be easily confused with "political realism." This change happens because political actors convince themselves that they should perform a good administration (called "government management"), and because of the strategic necessities of the government and the opposite party, which most of the time need each other to establish balance and predominance within their own parties about national interests. Because of this, some bills have been approved with votes of one or the other sector, according to these parties' needs. This type of action has been so magnified in recent years that when both the Concertación, during its governance, and the current government, by not having the majority of votes in the Parliament, had to pass bills as independent or opposite parties to balance the votes against their own political grouping.

> The natural way to reassure the peaceful struggle for democracy, refusal to being trapped in political acknowledgement of the Constitution's legitimacy, and the need to bring together the greatest possible consensus in order to establish a solid, democratic society was gradually drifting to position where any agreement made to reach democracy had to include the previous support, if not completely, from most of the right party. This not only began to pose as an ideal, which certainly was a positive aspiration, but it also increasingly began to be seen as a sine qua non requirement for any democratic advance (Portales 2000).

A particularly sensitive point is the so-called values agenda, which was explicitly left out of Bachelet's government program and caused several bills to be dismissed only because they were not considered in that program. Furthermore, administrative measures that do introduce values issues were taken with no previous discussion and put the ministries' administrative power to good use. This power includes Health and Education. Thus, the government implemented measures resisted by social sectors and demanded that they were obeyed:

> However, as well as it is recognized that the issue of values is increasingly present in public discourse, some ambiguities should also be noted. Indeed, it seems that, at least in our country, in a more common and reiterative level, there is a reduction of the real and profound approach. Usually, when speaking of "values," we refer to specific dilemmas from the personal, familiar, and sexual areas. It seems that only divorce, abortion, homosexuality,

> and euthanasia entail values. We cannot deny that this type of problems jeopardize individual and social conscience. This issue is still open for debate and is subject to rational discussion. However, the simplification of the concept of "values" conceals the ethics inherent to social coexistence, and has an underlying meaning that distorts the moral implications on issues of most importance, which compromise people's lives and dignity, freedom, drive for seeking the truth, social justice, and a better coexistence. The use of "values" that can be found in the common language tends to put in a second place the morality of the choices related to fundamental rights, currently considered as human rights, that are part of the political, economic, social, and cultural spheres (Opazo 1999).

Taking this into account, we can affirm that the statement made by the actor Nissim Sharim (Menéndez-Carrión 1999) is true: the State does not want to take responsibility for their people's cultural development. Perhaps Sharim's statement does refer to cultural expressions, but it is even more plausible when the subject of culture as a transmitter of values is not addressed and is passed on to the personal judgment of every member of society. Denying the problems seems to be more democratic than having a discussion based on axiology.

Socioeconomic Model

As previously mentioned, although the economic model used and validated by the Concertación governments and ratified by the current government of President Piñera has reduced its "cruelty" only partially, it has maintained its structure and market logic.

In Chile, we can find a record of the current economic model[2] back in 1955, when the model of "inward economic growing" already showed signs of exhaustion. The government of Carlos Ibáñez del Campo hired the American consulting company Klein-Saks to diagnose the Chilean economy. The results showed a large number of problems, and less government intervention and more market freedom were recommended. It was both an impeccable analysis from a technical point of view and an impossible task during those days and under that regime. Months after the arrival of the American experts, in March 1956, Universidad Católica de Chile and the University of Chicago signed a student exchange program that, in contrast to the Klein-Saks experience, did have long-term effects on Chile's development. Thanks to this agreement, Chilean students obtained postgraduate degrees in Chicago, where they acquired knowledge that was later put into practice by the military regime. Nationalization and import substitution were dismissed; the government fought against inflation, and the foundation for the current model was set. It is fair to say that the agreement signed 56 years ago ended up being one of the most transcendental milestones of the history of Chilean economy. The exchange program between both universities allowed training of several experts and allowed economists the opportunity to travel abroad to continue their studies. When the agreement ended in 1964, it was replaced by scholarships financed by North American foundations. Later on, the military regime started a scholarship program that helped hundreds of Chilean students to go not only to Chicago but also to other universities in Europe and the United States, to study a wide variety of academic fields and specialties. This initiative was continued by the democratic governments.

This is how Chile's current economic model was created, and it has been criticized (it has even been wrongly considered as a mistake related to the origin, because its implementation, not its origin, is associated with the military regime that ruled the country since 1973) because it was not the result of a consensus reached by the Chilean society. Be that as it may, the fact that the model is active up to this day is constantly on the discussion table within political and academic circles. As a consequence, it has become an ever-present element when discussing government projects.

This "mistake" related to the origin is recognized by both the defenders of the economic model and its detractors. As an example, we quote an author who supports the neoliberal economic system:

> The military regime that followed the 1973 coup d'etat set into motion a thorough economic and social reform, which finally led to a market economy. As it has been said, free market in Chile was born with an 'original sin' (…) Furthermore, the same government drastically changed the Chilean economic scene by reducing State intervention in economy and increasing in the same way individual freedom. The contradiction between both sides of Pinochet's regime has disturbed many outside spectators and analysts. I will not address many of the topics involved in the tense relationship between economic freedom and political authoritarianism. I only intend to discuss how this association came to be in the Chilean model (Fontaine 1993).

For those who have criticized the economic model, its political and social outcomes, despite accepting that the country was facing a political and economic crisis, it is evident that its implementation went beyond the initial purposes, and all this amid social chaos and increasing inflation. Thus, Jorge Cauas, former Minister of Finance of Pinochet's regime, states that the purpose of the economic policy of the military regime "*intended to control Chile's inflationary process and redistribute income in favor of the wage sector* (Cauas 1991)." This statement is strongly refuted by those who, from a critical point of view, believe the economic model served other purposes:

> Pinochet's regime is also associated with the reforms that contributed to overcome the critical economic crisis present at the time of the coup, caused by the policies of the Unidad Popular government. These reforms yielded great macroeconomic results (decrease in inflation, increase economic growth, exports, better fiscal balance, etc.) and transformed the country's productive structure. These policies had "revolutionary" results and generated a sustained economic growth since 1985 that continued during democracy, with an annual growth rate of 7.9 % until 1997.
>
> The policies covered a wide variety of measures, from suppressing price controls, opening of international markets and promoting exports, to an extreme process of privatization of public companies and even of public health and social security. Moreover, they covered hundreds of companies that had been intervened and nationalized during Salvador Allende's government. They promoted the rise of a numerous and dynamic entrepreneurial class and a remarkable diversification of exports. Such policies benefited not only entrepreneurs, but also wide segments of the population that had been in need and insecure during the last months before the coup. That is why they also served as a way to increase the popular support (…) The economic reforms were created in an authoritarian context that influenced them in a great way. Especially due to certain aspects of clientelism and patronage, which were particularly evident during nationalization of companies. These had not a neutral nature, but were driven

by political interests instead, thus, economy was subordinate to politics and not the other way around as claimed those who supported independence (Hunneus 2000).

However, in addition to the criticism regarding the origin of the economic model and the way in which it was implemented in the country, new criticism arises over the fact that the Concertación governments have maintained, in a general sense, the criteria and requirements of the neoliberal economy (Larraín 2000) to obtain macroeconomic results that will make the country viable in the international scenario. Different opinions revolve around this economic model. Some people think that it only lacks the appropriate implementation (Larraín 2000), while others consider it has caused a further concentration of wealth and economic power (Claude 2006). To others, this economic model has been adapted in such a way that it could be considered as a Concertación economic model, characterized by higher levels of government intervention to regulate the economy (Muñoz 2007). The current government—with "two souls"—tries to meet the social demands with a technical approach, instead of one that has as its goal the restoration of the much needed and wanted economic justice. An example of this is the contradiction among the many studies and surveys that show the good macroeconomic situation of Chile in Latin America and the inequality of income distribution, as shown in Table 11.1.

Another transition that has not been considered, manifested in the characteristics of the "student movements" of the years 2006 and 2011, is the cultural transition. Today's generation does not seem to experience the same forms of democratic coexistence that we, as people who lived during the time of the military dictatorship, experienced. This is because the simple fact of getting rid of the dictator was an achievement that allowed us to breathe and live with satisfaction. We consider the use of force as something strange because we lived under its threat, and that is why under no circumstances do we condone its use. Some of the newer generations do not hesitate to make use of the spaces of freedom and democracy that we obtained if they believe the goals they are seeking are fair. Therefore, they also legitimize whatever means are necessary for achieving those goals. Other segments of this generation immediately relate the concept of "authority" to "limitations," rather than to rules to protect coexistence. Authority is, almost automatically, related to authoritarianism.

Table 11.1 Income distribution in Chile 1990–2009

Decile	1990	1992	1994	1996	1998	2000	2003	2006	2009
I	1.4	1.5	1.3	1.3	1.2	1.1	1.2	1.0	0.9
II	2.7	2.8	2.7	2.6	2.5	2.6	2.7	2.4	2.7
III	3.6	3.7	3.5	3.5	3.5	2.6	3.6	3.3	3.7
IV	4.5	4.6	4.6	4.5	4.5	4.5	4.7	4.1	4.6
V	5.4	5.6	5.5	5.4	5.3	5.7	5.5	4.9	5.6
VI	6.9	6.6	6.4	6.3	6.4	6.5	6.6	6.0	7.1
VII	7.8	8.1	8.1	8.2	8.3	7.9	8.3	7.7	8.5
VIII	10.3	10.4	10.6	11.1	11.0	10.5	10.8	10.3	11.1
IX	15.2	14.8	15.4	15.5	16.0	15.2	15.3	15.6	15.6
X	42.2	41.9	41.9	41.6	41.3	42.3	41.2	44.7	40.2

Another thing to consider is the asymmetry with which they present their points of view: they do not accept others' conditions, but they do impose their own; they complain when they consider some proposal is vague, but their demands and determination tend to be just as vaguely expressed; they use forcible means, but do not accept that their counterpart uses them as well. However, this asymmetry can also be perceived by the common citizen when they are faced against the so-called de facto powers, such as the economy, information, and, even to some people, church power.

With these two factors taken into account, it is easier to understand that the demands, which were postponed for so long, have an all-or-nothing nature. There is no faith in a social-political system that lacks the capacity or interest for solving the underlying problems. We, the universities, also fall into this way of seeing society and its institutions. We restrict ourselves to train professionals who will be useful to the model, but we hardly take a stand on the its ethics.

Regarding the independence of judgment unclouded by economic factors, those who have the responsibility of being in charge of an organization must showcase their best decision-making skills, based on a complete and total independence of judgment. Then, one cannot help but to wonder up to what point are those who work in the government willing to honor their convictions, to not ignore their fundamental values, even if that means sacrificing a big paycheck?

Overcoming the economic problem has nothing to do with having an important current account, a big fixed-term deposit, or assets (stock market assets or other kinds); it is not just about personal material security, but also about responsibility to the social group.

True freedom and authority to govern are founded—essentially—on the independence of judgment unclouded by economic factors that we mentioned earlier; that is, to make decisions free of economic pressure means to act for the greater, common good, just because it is the right thing to do.

Organizations are constituted by the people who form a unity/multiplicity paradox. The enormous differences between organizational structures are real, in terms of objectives and purposes—in a sports club, a medical services company, the tax revenue service, or a foundation for people with disabilities; also, there are explicit differences in their legal classifications.

In contrast, there are also enormous similarities between them: some people have a necessity or a need that they wish to fulfill, which results in a demand for recreation, or health, for example; the State, in fulfilling the demands of its citizens, provides a good quality of life for which it needs financial resources. First, a demand is identified, then "someone" tries to satisfy it, and, finally, takes the appropriate measures.

Just as self-regulation (de La Vega 2011) is not enough by itself, the same thing happens with regulations. It is not enough to impose the criteria that must be followed, but that does not mean that the act of obeying is being undermined or diminished in importance. On the contrary, the act of honoring commitments, without a doubt, helps the creation of trust and stable relationships between individuals. "Being not enough" means that people must "do" things not because it is what it is expected of them, or because there are punishing measures that force them to do so, but because there is a real disposition (moral) to do them, even to the point to do more than what is expected of them. Being this is the case, as Mèle states, "it is not about following some rules for some reason," it "also requires good will, that is, to act on ethical motives." This is how the ethical issue comes into play among organizational relationships.

Reactive immediacy has been translated according to "ethical codes" or, better said, pseudo-codes because people have understood that it helps, in some way, to fit into society, as a kind of measure for being collectively accepted. It is like an ID for being viewed favorably in public. The consequence is a development of culture or fever of codification. Organizations entrust "experts"—internal and external—to elaborate them. Obviously, that is not enough, and not just that, it is not logical, or even reasonable, that those who have large responsibilities in organizations "delegate" their inherent duties to a third party.

As to the country, generally speaking, we can use the events of the 2011 earthquake as an example. When it came to the first balance and evaluations of the consequences of the earthquake and tsunami, many people claimed that this catastrophe had shown the best and the worst of our country: lootings and honesty, collaboration and lack of coordination, meanness and generosity, and a long list of things that were well and badly done.

What is left for thinking? It seems that the answer is that, after all, we are still doing something wrong or, even worse, that there is something good we are not doing. We think that we have been dazzled by our own positive image; as a typical Chilean would say, "we ended up believing our own story." And the story we tell about ourselves is related to a false superiority of our country in terms of economy and a political stability that make us predictable and, thus, reliable in the international scenario. We could also add our success in several sports, which also gives us a feeling of superiority. To this, we must add the ability we have shown, as a country, to rise up after this catastrophe.

The glare, as in physical terms, obstructs the view from other aspects of life that are overshadowed by the intense brightness that dazzles us. The macroeconomic successes of our country have prevented us from seeing that their benefits have not reached everyone in this long and narrow country. A few years ago our Bishops spoke to us about the two sides of Chile that coexist without getting to know each other. On one side, we have an image of success, modernity, and technological advancement, and a complete reliability that we offer to the outside world. On the other side, we have the majority of our country that is not able to enjoy that modernity and technology.

On the one hand, we find a country that educates their children in schools with all facilities and favorable conditions to provide a good learning. On the other hand, there is a Chile which has access only to an education that limits its opportunity to improve the quality of life. One is the Chile that has access to a health system that ensures—using medical and technological advances—good treatment for its medical problems. The other Chile is the one that must wait for months to receive any medical attention. All these problems still exist despite the enormous efforts made by the political authorities to overcome the shortcomings.

Notes

1. Group of political parties (social democracy) that between 1990 and 2009 assumed the government of Chile, after the military dictatorship of General Pinochet.
2. As a counterpart, we can mention a record for the economic model with other purposes and characteristics in the so-called Socialist Republic (June to September, 1932; governments of Marmanduque Grove and Carlos Dávila), that served as a precedent to the Unidad Popular Government, led by Salvador Allende (1970–1973).

References

Aylwin, P., Brunner, J., & Lagos, G. (1991). *Ética y política*. Santiago: Editorial Andrés Bello, 55 pages.

Cauas, J. (1991). *Sobre economía, política y política económica* (Revista de Estudios Públicos, no. 43). Santiago: Centro de Estudios Públicos.

Claude, M. (2006). *El retorno de Fausto. Ricardo Lagos y la concentración del poder económico*. Santiago: Ediciones Política y Utopía, 215 pages.

de La Vega, O. (2011). *Gobiernos Corporativos: Conflictos de Intereses por Duplicidad de Roles*. Valparaíso: Editorial Universitaria de Valparaíso.

Flax, J. (2002). *La democraciaatrapada. Unacrítica del decisionismo*. Buenos Aires: Editorial Biblos, 244 pages.

Fontaine, J. A. (1993). *Transición política y económica en Chile. 1970–1990* (Revista de Estudios Públicos no. 50). Santiago: Centro de Estudios Públicos.

Hunneus, C. (2000). *El régimen de Pinochet*. Santiago: Editorial Sudamericana, 670 pages.

Larraín, F./Vergara, R. (publishers). (2000). *La transformacióneconómica de Chile.* Santiago: Centro de Estudios Públicos, 728 pages.

Lechner, N. (1988). *Los patios interiores de la democracia*. Santiago: Ediciones FLACSO.

Menéndez-Carrión, A., & Joignant, A. (publishers). (1999). *La caja de pandora. El retorno de la transición chilena.* Santiago: Editorial Planeta-Ariel, 267 pages.

Muñoz Gomá, O. (2007). *El modeloeconómico de la Concertación. 1990–2005 ¿reformas o cambio?.* Santiago: FLACSO, 287 pages.

Opazo Bernales, A. (Coordinator of the Project on Civic Ethics and Democratic Culture). (1999). *Chile: los desafíoséticos del presente.* Santiago: PNUD, Ediciones Aguilar, 478 pages.

Otano, R. (2006). *Nueva Crónica de la transición* (CienciaHumanas, second edn.). Santiago: Ediciones LOM, 531 pages.

Parrini Roces, V. (1993). *Matar al Minotauro. Chile: ¿Crisis moral o moral en crisis?.* Santiago: Ediciones Planeta, 250 pages.

Portales, F. (2000). *Chile: una democracia tutelada*. Santiago: Editorial Sudamericana, 493 pages.

Chapter 12
Economic Inequality as an Obstacle to Development

Ulyana Shtybel and Elena Artemenko

Introduction

The top priority for a far-sighted developing society in the current global interconnected world is addressing the issues of poverty and economic inequality. Economic inequality has been a common threat throughout the history of mankind and particularly occurs in contemporary societies as the obstacle to sustainable global development. The important role of smart governance and partnership between corporations, international institutions, and state authorities toward resolution of the negative externalities of the liberal market economy is considered to be implemented through the countries' transformation into the socially oriented market economy, enabling both economic growth and social progress.

Resolution of excessive economic inequality is emphasized through intensification of the global policies toward achieving economic progress combined with economic justice through adoption of value-added business models, corporate social responsibility, government normative regulation, and tax initiatives encouraging impact investing, a social compact, and financing of sustainable development.

U. Shtybel (✉) • E. Artemenko
Faculty of Economics, Department of Banking and Insurance Business,
Ivan Franko National University of Lviv, Lviv, Ukraine
e-mail: ulyana.core@gmail.com; lena.artemenko@gmail.com

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_12

Theoretical Background and Measurement of Economic Inequality

Globalization, technological progress, and concentration of the financial system, despite the positive impact on the quality of life and the pace of civilization, have a number of negative environmental and socioeconomic consequences. These consequences include reducing employment of the working class with increased productivity and the stagnation of the average household income and inflation. The low level of socioeconomic mobility leaves billions of people worldwide without access to capital and resources. As a result, the demand imbalance is compensated through overheated credit markets, while capital and huge capital reserves are accumulated by 1 % of the privileged population.

Poverty and economic inequality are the core problems of contemporary society. Economic inequality refers to disparities in the distribution of economic assets and income among individuals, groups, and nations.

Economic inequality refers to equality of outcomes (income and wealth) and is based on the idea of equality of opportunities and justice. Proportionally raising the income of the poor generally has a positive influence on poverty reduction, but if incomes at the top are rising faster and the gap between rich and poor gets too large, then the architecture of society will collapse. The harmful effects of inequality lead to the disproportionate influence of the wealthy, populism, personalist rule, corruption, instability, and crisis in the economy. In a democracy, inequality causes plutocracy, abuse of power, and low levels of accountability. It polarizes societies, regions, and countries and traps people in the low levels of socioeconomic mobility, known as the welfare trap.

Achieving a just income and wealth distribution is one of the six main targets of economic policy (Fig. 12.1).

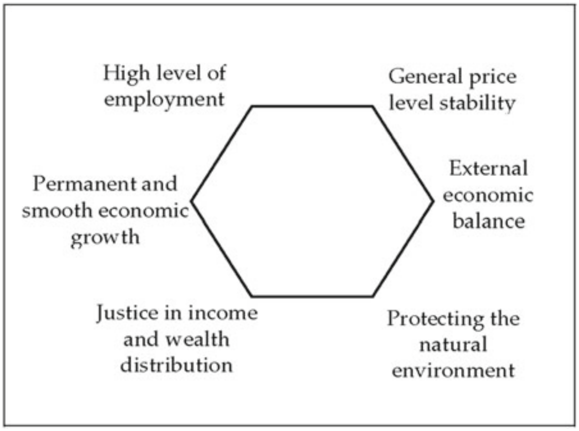


Fig. 12.1 Magic hexagon of economic policy (From Mussel 2000, p. 53)

There exists an enormous amount of economic literature on the general topic of inequality. When looking specifically into the literature on inequality with a focus on transition economics, it can be stated that one of the main papers in this field was Branko Milanovic's "Explaining the increase in inequality during transition" (Milanovic 1998, p. 323). He states that the most important factors driving overall inequality upward are to be found in the field of changing labor market outcomes.

Differences in national income equality around the world as measured by the national Gini coefficient. The Gini coefficient is a number between 0 and 1 (multiplied by 100) in which 0 corresponds to perfect equality (where everyone has the same income) and 1 corresponds to perfect inequality (where one person has all the income, and everyone else has zero income).

Worldwide, Gini coefficients for income range from 23.0 (Sweden) to 70.7 (Namibia), so the calculated Gini coefficients by wealth (assets), according to a study by Credit Suisse, range from 54.7 (Japan) to 84.7 (Namibia).

Taxes and social spending that were in place in the 2008–2009 period in Organisation for Economic Co-operation and Development (OECD) countries significantly lowered effective income inequality, and in general, "European countries—especially Nordic and Continental welfare states—achieve lower levels of income inequality than other countries" (Wang 2012, p. 27).

Among the most rapidly changing regions of the world in the 1990s were the former centrally planned economies in Central and Eastern Europe (CEE), including the Slovakia, Poland, Ukraine, and Russian Federation, which were studied for this paper (Table 12.1).

Ukraine has a low level of social inequality, 28.2. Countries with a Gini coefficient that fall into this category of low social inequality are developed European countries for the most part and include Japan. This low Gini coefficient value suggests a lower likelihood of domestic tension from social inequality. Even the United States is a country with a high level of social inequality (45.0). In comparison, Ukraine seems not to be in such a bad position, but first of all, all the data in existence on income inequality are outdated. These data do not demonstrate the situation in different countries in the same period of time and at nearly the same global economy cycle. The second weakness of the Gini by income is that this is measured only by reported income statistics, which cannot always be considered as real facts.

The Gini coefficient by reported income is 28.2, but the Gini index by wealth in Ukraine in 2010 was 66.7. Accordingly to the study in 2013, 42.5 % of Ukrainian citizens have assets worth less than $1,000, 53.4 % have from $1,000 to $10,000, 4 % have $10,000 to $100,000, and only 0.1 % have assets worth more than $100,000 (Economic Inequality in Ukraine 2013).

Such differences in economic inequality by income and wealth are explained as a fact of the shadow economy, which in Ukraine was reported as 45 % of gross domestic product (GDP) in Q12015 (Shadow Economy 2015).

The correct measurement of the Gini index requires extensive disclosures about real income and the wealth of the different segments of the population.

Consider the fact that according to UNESCO data 35 % of Ukrainian populations live below the national poverty line but that according to unofficial statistics more

Table 12.1 Inequality in income or consumption in Central and Eastern Europe

			Share of income or expenditure (%)		Inequality measures		Population below income poverty line (%)
	HDI rank	Income group (2009 GNI per capita)	Poorest 10 %	Richest 10 %	Richest 10 % to poorest 10 %	Gini index	National poverty line
Slovakia	High human development	High-income economies ($12,196 or more)	3,1	20,9	6,8 (1996)	25 (2005)	21 (2002)
Ukraine	Medium human development	Lower-middle-income economies ($996 to $3,945)	4,1	22,6	6,0 (2008)	28,2 (2010)	35 (2009)
Germany	Very high human development	High-income economies ($12,196 or more)	3,6	24	6,9 (2000)	27 (2006)	16 (2010)
Poland	High human development	High-income economies ($12,196 or more)	3,2	27,2	9,0 (2008)	34,2 (2008)	17 (2003)
Russian Federation	High human development	Upper-middle-income economies ($3,946 to $12,195)	2,6	33,1	11,0 (2008)	42 (2010)	13 (2009)
Georgia	Medium human development	Lower-middle-income economies ($996 to $3,945)	2	31,3	15,9 (2008)	40,8 (2009)	31 (2006)

Source: World CIA Report (2009)

than 70 % live below the national poverty line. Obviously, income inequality is just one statistic; it does not reflect the size of the pie, only how it is divided. The Soviet Union was a very equal place: equally poor. As two distinct phenomena, economic inequality and poverty are not necessarily correlative.

The European Union (EU) is one of the richest areas in the world, but still 17 % of EU citizens have such limited resources that they cannot afford the basics. Today in Europe one person in six lives below the poverty threshold (almost 80 million people, of whom 19 million are children). Despite an improvement in overall living standards during the past decade, global processes of the past few years prove that poverty and social exclusion remain major issues in most countries, with substantial differences across the EU as follows:

- One European in ten lives in a household where nobody works. Even so, work does not always guard effectively against the risk of poverty.
- For 8 % of Europeans, having a job is not enough to work one's way out of poverty.

Technological growth and globalization are among the main factors of increasing economic inequality, as the demand for highly skilled innovative workers is constantly growing and in the short-term period relatively low skilled workers suffer from unemployment, low wage earnings, or the abolition of minimum wages (Harjes 2007a, p. 20).

Variations in poverty and inequality across and within regions are higher in the Russian Federation than in the three EU countries. In these three non-EU countries, variations are somewhat but not considerably higher than in Western EU countries. Ukraine is almost on the EU level by Gini index (Fig. 12.2).

Although these results are somewhat tentative at this time, they point to both winners and losers in the changeover from planned to market economies in these three countries. They also suggest that regional differences may have been exacerbated by the transition and that national and international authorities need to pay

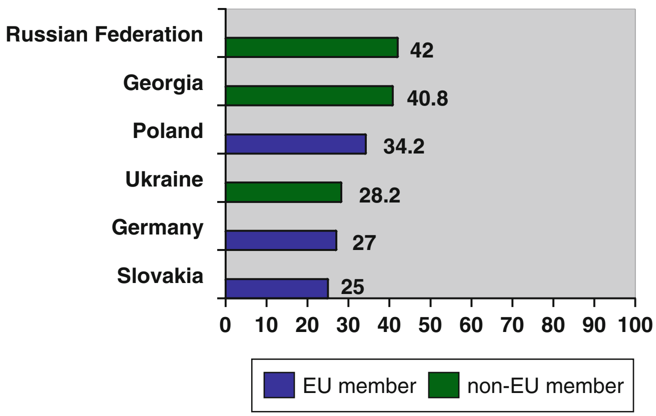


Fig. 12.2 Gini coefficient by country. (From Gini index)

greater attention to regional disparities within and across nations as they design economic and social policies.

From the overview of population subgroups, increase in poverty risk is detected for the following characteristics of inequality: being young, living in a rural area or (in some cases) a secondary city, being unemployed, and having a low level of education. The urban–rural gap seems to have increased in all countries.

Although a rise in inequality can be observed in the Central, East, and Southeast Europe regions from the breakdown of the communist regimes onward, the situation differs from country to country, depending on the institutional heritages as well as the transition policies chosen. Looking at the development of average inequality in the three main country groups of the formerly socialist region, in all of these the liberalization of markets led to a sudden rise in income dispersion. The change was most dramatic in the CIS region, with Russia experiencing the strongest increases after the breakup of the Soviet Union.

Experiences of transition economies show a positive relationship between growth and inequalities and a negative relationship between growth and poverty. With the growth in GDP after the large recession in the beginning of the transition process, all the transition countries have become more unequal, even though there was a wide diversity among countries and at times.

According to the literature on this issue, the main sources of inequalities in transition can be listed as follows (Mitra and Yemtsov 2006, pp. 11–15):

- Growth of the private sector and wage differentials;
- Restructuring and unemployment in the fields of subsistence economy;
- Changes in government expenditure and taxation; increase of tax cuts for major big corporations.

Further recovery and growth in formerly socialist countries have been accompanied by a sharp increase in the Gini coefficient. The value of this coefficient increased by 2 percentage points between 1990 and 2001, and consequently the Gini coefficient in 2003 became nearly 50 % higher compared to that in 1981 (Mitra and Yemtsov 2006, p. 4).

As seen from Table 12.2, all transition countries experienced an increase in inequality. This increase was rapid in the countries that composed the USSR but was relatively gradual in the new members of the European Union (Doğan 2009, p. 90).

There is currently no consensus on why inequality increased in some industrialized countries but not in others. Some argue that inequality in countries on transition was increased by the changes in job task demands driven by skill-biased technological change as a part of globalization. But others argue that the rise in inequality is largely explained by such factors as changes in labor market institutions, including stagnation of minimum wages, a lesser degree of unionization, and deregulation of financial markets (Harjes 2007b, pp. 1–15).

Kuznets's classical work claims that "at the initial stages of the development process, inequality rises with growth; then, at later stages, inequality starts to decrease with further expansion of the economy" (Kuznets 1955, p. 131). This view

Table 12.2 Gini indices for per capita incomes

	1987–90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2007	2008	2009–10
Armenia	0.269									0.570		0.537		0.428			0.309
Azerbaijan	0.345					0.440						0.373				0.337	
Belarus	0.233				0.280	0.253	0.244	0.249	0.253	0.235	0.247	0.245	0.246	0.249		0.272	
Bulgaria	0.245		0.344		0.340	0.384	0.357	0.366	0.345	0.326	0.332	0.333	0.370	0.351	0.453		
Croatia	0.251								0.333					0.29*			0.27
Czech Rep.	0.197		0.228		0.270		0.258	0.230	0.239	0.212	0.232	0.231	0.237	0.234			0.31
Estonia	0.240		0.395		0.350		0.370	0.361	0.354	0.361	0.389	0.385	0.393	0.402			0.313
Georgia	0.313						0.430							0.469			0.408
Hungary	0.214			0.231		0.242	0.246	0.254	0.250	0.253	0.259	0.272	0.267	0.268			0.247
Kazakhstan	0.297				0.330		0.35										0.267
Kyrgyz Rep.	0.308			0.353				0.470	0.411	0.399	0.414	0.377	0.382	0.342	0.334		
Latvia	0.240				0.310			0.326	0.321		0.327		0.358	0.379			0.352
Lithuania	0.248				0.350		0.347	0.309	0.332	0.343	0.355	0.354	0.357	0.318			0.355
Macedonia	0.349						0.369	0.367					0.34*	0.34*		0.442	
Moldova	0.267			0.365	0.360			0.420			0.437	0.435	0.436	0.411		0.38	
Poland	0.255	0.265	0.274	0.285		0.320	0.328	0.334	0.326	0.334	0.345	0.341	0.353	0.356		0.342	
Romania	0.232				0.290	0.312	0.302	0.305	0.298	0.299	0.310	0.353	0.349	0.352			0.333
Russia	0.259	0.260	0.289	0.398	0.409	0.381	0.375	0.381	0.398	0.399	0.394	0.396	0.398	0.404			0.42
Slovenia	0.220	0.227	0.282		0.250		0.302	0.305	0.298	0.299	0.310	0.353	0.22*	0.22*			
Slovak Rep.	0.186						0.237	0.249	0.262	0.249	0.264	0.263	0.267	0.299			0.26
Tajikistan	0.334									0.470							0.308
Turkmenistan	0.308				0.360				0.408							0.275	0,282
Ukraine	0.240									0.282	0.288	0.290	0.277	0.271			
Uzbekistan	0.351				0.330									0.368			

Source: Eurostat, OECD per equivalent equivalence scale (Yemtsov 2006, p. 6)

* data are from Eurostat and rely on a OECD per equivalent equivalence scale.

is broadened with more recent studies that point to the conclusion that it is not growth itself that brings lower levels of inequality in income distribution, but rather the way in which it unfolds. First of all, economic inequality remains unchanged if the income of the poorest and wealthiest segments of the population rises proportionally, but economic inequality progresses as the income of the richest class rises faster than incomes of the poorest (Terry et al. 2009). And the second factor that influences inequality is whether economic growth is based on an increase in employment or on a rise in productivity. The analysis shows that although the new EU Member States recorded respectable rates of economic growth with the rise in productivity in the past decade, its effect on decrease in the inequality of income distribution was not so great as it was in the old EU Member States (notably Ireland, Spain, and Portugal), which have recorded comparable rates of economic growth, because that growth was mainly a consequence of an increase in employment (Ward 2009, p. 214).

Research by the University of California shows that from 1975 to 2000 the real income of 0.01 % of Americans grew by 761 % whereas the real income of 90 % of the population grew by only 13 %. After the great recession of 2007–2009, the income of the richest 1 % of the U.S. population increased by 31.4 %, although the revenues of 99 % of the population increased by only 0.4 % from 2009 to 2012 (The Economist 2013) (Fig. 12.3). In 2012, the income of the richest 1 % of the U.S. population rose sharply by 19.6 % and the revenues of the other 99 % of the

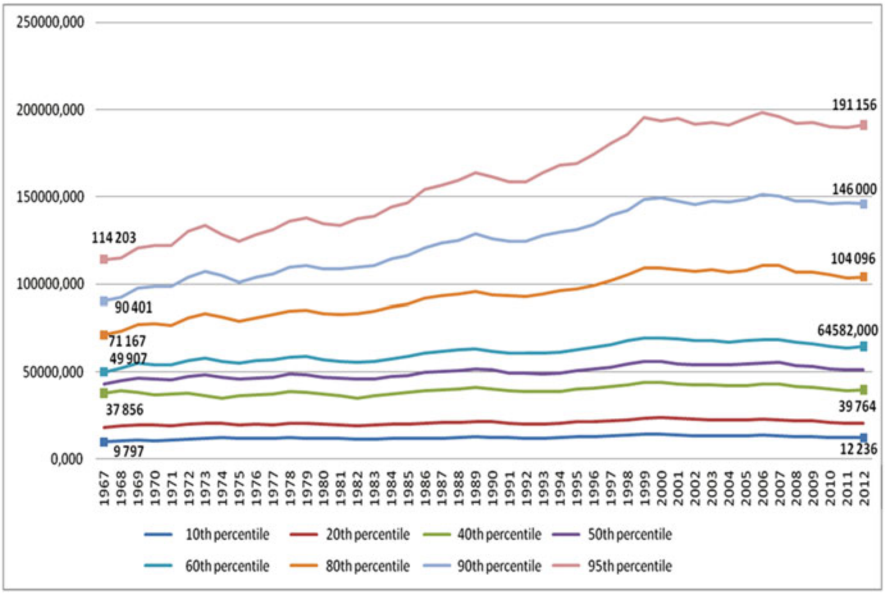


Fig. 12.3 Dispersion of real household incomes in the United States (USA), 1967–2012, in U.S. dollars (From DeNavas-Walt 2012 (in The Economist 2013))

population increased by only 1.0 %. Since the financial crisis only 1 % of the U.S. population has earned 95 % of all revenues (BBC News; Krugman vs. Stiglitz 2013).

The average yearly income of the richest 20 % of people in the world is about 50 times greater than the yearly income of the poorest 20 % of people (Facts on World Hunger and Poverty, April 19, 2010). Approximately 40 % of all assets is owned by 1 % of the world's richest people; 85 % of assets is owned by 10 % of the people; and less than 1 % of the assets is owned by 50 % of the people.

The high level of economic inequality was registered at the beginning of the Great Depression. Then came what economist Paul Krugman calls the great compression between 1929 and 1947. The new regulation managed to give birth to the American middle class, as the real wages for workers rose by 67 % while real income for the richest 1 % of Americans fell by 17 %. The era of the American middle class dream was over in the beginning of the 1980s, when the Reagan administration started to impose the deregulation of financial markets and mitigated the tax policy, giving the wealthy great tax cuts following the Tax Reform Act of 1986. As the periods of expansion of financial markets during the past 100 years correspond highly with the increase of overall economic inequality, we can argue that the economic inequality is man made and a direct consequence of governmental deregulation of markets (Creamer 2013).

The failure to regulate financial markets causing the continuously growing economic inequality, American economist Joseph Stiglitz claims, is a major cause of the slow pace of post-crisis economic recovery. The middle class and poor people have low purchasing power and wealth, and the 1 % of the privileged people who accumulate wealth do not reinvest fully in the real economy. Instead, they rotate capital on speculative derivatives markets (90 % of which have no counterpart of the real economy) and fractional credit markets, thereby increasing purchasing power in the short term. This practice has produced a new cyclic downturn in the economy, accordingly to the Austrian business cycle theory. When the housing bubble burst, the money elite had the opportunity to enrich themselves further by buying undervalued assets.

Research by leading economists and analysis of the dynamics of the growth of economic inequality in the growth period and deregulation of financial markets defined a stable correlation between the scale of the financial system and economic inequality. It defines economic inequality as the main resolution-driving prerequisite for a socially oriented market economy. A well-organized and liquid market of financial instruments is certainly an important factor of effective risk management for economic growth in developing countries. In our opinion, the liberalization and expansion of financial instruments encourage financing of the economy and economic growth, while strengthening the regulatory role of the state shell to undergo when the market is a glut of speculative capital, risky and "toxic" assets, namely, the use of financial instruments for trading and personal enrichment instead of investments into the real economy. The decrease of real economy financing caused the slowing down of middle-class development, decrease of employment and purchasing power, and as a result the growing economic inequality. When stagnation of the real GDP is combined with significant growth of the speculative financial markets and "top 1 % enrichment," the government needs to intervene with additional prudential and normative regulation, as well as tax incentives to reorient money flow from the secondary markets to the real economy investments, recovery of real market conjuncture, restarts of lending into the industrial and GDP-creating sectors, and modernization.

Citing historical experiences and case studies, Loehr and Powelson (1981) conclude that public policy could help inequality become progressively less as growth proceeds and that sustained growth and improved equality are compatible vehicles for poverty reduction. The poverty–growth–inequality triangle (PGIT) hypothesis is based on the idea that development strategy should be guided by the goal of reducing absolute poverty, which can be achieved by implementing a country-specific combination of growth and distribution policies.

Indian Prime Minister Manmohan Singh said: "Even as absolute poverty may be reduced by growth, inequalities can get sharpened. This can be politically and socially extremely destabilizing." Even if economic inequality and poverty are not necessarily statistically correlative, we can assume that growth reduces poverty, but increase of inequality intensifies destabilization that brings back instability and poverty. Here we come to the conclusion that the channel of poverty reduction through the combination of growth and distribution policies (socially oriented market economy) is more effective and sustainable than poverty reduction through economic growth without intervention of social welfare programs (liberal capitalism).

Economic inequality is inherent in capitalism, and that is why some moderate natural level of economic inequality (among individuals and among nations) must be accepted so long as the capitalism exists. In fact, there are some really good aspects of capitalism, namely, that it motivates risk, hard work, and innovation. Money income is the reason for getting out of bed in the morning; this is what Adam Smith calls the "invisible hand." Some modern experts even state that income inequality is a by-product of a well-functioning capitalist economy, but we can argue that structural inequality is the result of a deregulated amoral capitalist economy. In an ideal pattern of capitalism, wealthy people are not wealthy because they have more money; it is because they have greater productivity. That is true in an ideal society, but the current attitude toward a market economy does not consider the morality of profits as a main valuable principle. With imperfect markets, inequalities in power and wealth translate into unequal opportunities, leading to wasted productive potential and to an inefficient allocation of resources. The moral and legal aspect of the ability to become rich within a relatively short period varies from country to country. Unfortunately, in most post-Soviet and developing countries we just have pseudo-democracy and simply corrupted capitalism, as a result of plutocracy and the rule of oligarchs who transform the independent country into a corporate state.

Capitalism is not bad because it provides the opportunity to be rich and get richer (in the meantime working for economic growth and making humanity richer in general), but because capitalism is corrupt (more or less so in different countries). It denies property rights and makes information asymmetrical and the access to resources and power unequal (imperfect markets). *In our opinion, the excessive* *level of economic inequality is a number of the wealth growth of the 1 % richest in the time of stagnation or near stagnation of the middle and below middle class; these measures of excessive economic inequality also include the income/wealth gap between the wealthiest and poorest in society, as well as the growth rate of the income/wealth gap.*

The following determination of richness could be observed (Guriev 2004, pp. 3–5):

– Trade opportunities: the market evolved in certain new segments or niches (banks, foreign exchange, information technology, car imports, industrial consumer goods, etc.) as a result of liberalization, and large fortunes were acquired through the trading system.
– Insider privatization or buying out (using the privileged position of being a top manager).
– Control over resources (certain political or government elites gained control over the resources, resulting in large monopolies, particularly in the extracting industries).
– Patent technology (important inventions or patent or defense-related technology that were not properly valued and utilized in the state-owned enterprises were obtained and commercialized, mainly through finding a foreign partner with whom joint ventures could be established).
– Exploiting the system (criminalized and corrupted government, the lawless system, and the abuse of administrative power, which is typical during the past few decades for post-Soviet countries).

Each opportunity is defined by information asymmetry, and each subsequent opportunity by a privilege received from the previous one.

Additionally to the obvious factor of inequality of opportunities, the OECD overview defines a few other key drivers of changes in wage inequality and employment:

– Globalization [trade integration, foreign direct investment (FDI) deregulation, technological progress, etc.];
– Policy choices, regulations, and institutions (declining union coverage, product market deregulation, less strict employment protection legislation, declining tax wedges, declining unemployment benefit replacement rate, etc.);
– Education.

The combination of those key factors and the approaches they facilitate can have a positive as well as a negative impact on overall earnings inequality.

Although progress, regulatory reforms, and institutional changes generally increase wage dispersion, the rise in the supply of skilled workers is reducing wage dispersion among workers and contributing to higher employment rates ("An Overview of Growing Income Inequalities in OECD Countries: Main Findings" 2011, p. 41).

The challenging assignment for governmental institutions is to implement high employment protection legislation and to encourage innovations, development of startups, small- and medium-size businesses, access to employment for under-represented groups (youths, older workers, women, migrants, etc).

As follows, the crucial factor for the long-term decline of income inequality and poverty reduction is development and investment in the human capital of the workforce.

We can highlights two main strands of human capital policies:

- Staff development (training, coaching, team building, nonmonetary motivation, etc.)
- Equal lifelong learning opportunities (equal access to formal and informal education)
- Development of civil society and active citizenship (citizen participation and advocacy of positive human rights, development of participatory and liquid democracy)
- Socioeconomic mobility (governmental initiatives for strengthening the access of population for capital markets and empowerment of women, social entrepreneurs, innovators creating the new paradigm of middle class/advanced class versus worker class/ruling class).

These steps require awareness from workers and additional investment from businesses (e.g., deduction of training expenses as business costs), inclusive employment promotion, and well-designed tax/transfer redistribution policies ("An Overview of Growing Income Inequalities in OECD Countries: Main Findings" 2011, p. 41).

In conclusion, although the power structure in the Eastern European countries includes the political elite, top bureaucrats, army leaders, and politically involved top managers of the large private oligarch firms, the moral and democratic changes underline the necessity of developing a 'middle class' and to educate retail investors as the new owners of the privatized state property, necessary for the creation of a well-functioning economy. The evolving middle class includes the small businessmen, professionals, scientists, and journalists, and the middle- and lower-level staff in the NGOs and public administration. Deeply ingrained economic inequality and inequalities of opportunities should be reformatted to a system of just income distribution, equal access to resources, knowledge, technology, and starting opportunities under the rule of law, democracy, forced or encouraged morality and responsibility. The capitalism system has to evolve according to global sustainability and economic security challenges.

Economic Justice in the Frame of Economic Security

Economic security is a state of national economy that provides protection of national interests, resistance to internal and external threats, the ability to develop and secure the vital interests of the people, society, and the state. In the context of a socially oriented economy, economic security acquires even higher importance.

Under national interests in this context we understand that a set of requirements ensures the existence and progressive development of the individual, society, and state. The task of economic security is to ensure continued economic growth; to lower levels of inflation and unemployment; to form an effective structure of the economy and developed securities market; to reduce the budget deficit and national debt; to support stability of the currency; to provide social protection; to improve the quality of life, and more. Resilience and stability of the national economy provide strength and reliability of all economic system elements, plus the protection of all ownership forms, and control over destabilizing factors. The ability for self-development and progress means the ability to sell and protect national interests, and to create a favorable investment and innovative climate: this will lead to the development of intellectual potential. The objects of economic security are state, society, citizens, businesses, institutions and organizations, territory, individual components of economic security. We are focusing on economic equality in the framework of the economic security where human beings are the basis of that economic security.

Justice is the real significance in the correlation between different individuals (social groups) and their social statuses. In more concrete terms it is the correlation between their rights and obligations, crime and punishment, between the act and the reward, effort and reward, etc. Discrepancy in these ratios is estimated as an injustice.

Economic justice refers to economic well-being. Here it is understood as impartiality or lack of interest (fairness). Such a conception of justice was named in honor of its author by Rawls. Philosopher John Rawls argued that decisions about economic justice should be made behind a "veil of ignorance." He argues that justice is "a sign of the structure of society, which individuals would choose, if they are not influenced by purely personal interests." In this state they are disinterested to conclude an agreement on the nature of society and its economic structure. "Ignorance" of their interests does not allow them to know what position (determined by ability, gender, race), they occupy in this society. In this case, the society will be chosen from the four properties and these properties can be regarded as property equity.

Effective and fair functioning of the economy, society, and state is impossible without ensuring an optimal balance of all the interests of all parties involved. It is necessary to form an appropriate mechanism to achieve the desired balance. This task, on the one hand, is immeasurably more difficult for parties involved as it contradicts and diverges from their interests. On the other hand, it is necessary for finding and providing stable balance for their interests. Hence there is a need to choose the means and tools for integrating and protecting the public, collectively and individually, in their interests and in their activities of owning an enterprise in any ownership form.

Some experience in this direction is already available both at the domestic as well as at the world level (non-profit enterprises, national enterprises, etc.).

To solve the problems of formation and effective functioning of socially oriented enterprises, and make them appropriate for economic security, we can offer the following areas:

- To require further development of the theory of "socially oriented region" and "socially responsible business." This is especially important and difficult given the current lack of theories of socially oriented economy, social economics, and social state.
- To expand the list of organizational and legal forms applicable to socially oriented enterprises, in particular through the provision of non-profit status of the manufacturing enterprise cooperatives, and national public enterprises, and the Municipal State-owned enterprises subject to the corresponding entry in its constituent documents.
- To improve the efficiency of the mechanism of territory, region, and state influence on the policy of socially important goods (the provision of benefits for payment of taxes and customs duties, as well as soft loans, placing the state and municipal orders, providing benefits to citizens and entities that provide financial assistance to such enterprises, the introduction of rigid and strict penalties for breach of an agreement between the company and the relevant public authority or local government, etc.).
- To develop various forms of self-government enterprise.
- To create expert advice and educational centers that serve enterprises, as well as incubators of non-profit organizations, aiming at their patronage.
- To train highly qualified managers to socially oriented enterprises.

A socially oriented economy is a system that includes economics at different levels (macro, meso, and micro). It is mainly aimed at improving the economic and social participation of all stakeholders and at ensuring that specific historical conditions balance their interests, thereby providing economic security.

Thus, the socially oriented market economy should be viewed primarily as a multilevel system, where each of the components (micro-meso) is socially oriented and aimed at improving economic security. Moreover, in accordance with the signs of the inherent system as a whole, it has properties that are absent in each of its constituent elements. The degree of development of a socially oriented economy as a multilevel system depends on creating conditions that are sufficient for its gradual transition to a higher level of quality, characteristic of the corresponding form of the "new economy."

Development of Socially Oriented Market Economy for Resolution of Excessive Economic Inequality

Behavioral economics states that when people are not rational as usual, they are making precarious and impulsive decisions with the backdrop of systematic uncertainty, ignorance, and behavioral biases. Ironically, people repeat the same mistakes for centuries. To error is human, but it is also human to adopt patterns of behavior and new social standards. Therefore, the objective of a socially oriented market economy is to change selfish patterns of business and adopt pro-social decision-making norms. Profit is not immoral itself, but materialism and greediness are immoral, that is, the attitude of people, business, and government toward the profit. Wealth inequality translates into a power inequality, which makes people envious and prevents the economy from just income redistribution and equilibrium.

Economic growth achieved by the debt-generating policy and financial market speculations eventually will lead to excessive economic inequality, recession, or stagnation of the real GDP. A socially oriented market economy emphasizes the growing role of business in execution of the social functions and state macroeconomic policy, which combine appropriate monetary, fiscal, administrative, and normative measures, as well as prudential supervision, which need to be taken on different stages of the country development and phases of the economic cycle. Such an approach encourages fair competitiveness, corporate social responsibility (CSR), public-private partnership (PPP), and delegation of the social functions from the state to the private sector (insurance, infrastructure investments, Small and medium-sized enterprises (SME) development, social entrepreneurship, etc.), and in the meantime highlights the state government as the partner and supervisory body authority that ensures transparency, justice, and fairness of the business activities. According to social responsibility on different levels (personal and corporate), novel social impact business models (social investment, social impact bonds, micro-finance, etc.) can provide a more sustainable system and greater human security.

In the progressive market economy the social functions of the government are delegated to the private businesses, because the private businesses are operating in a competitive environment and competition encourage the higher quality of goods and services, while transparency and ethics of businesses are not only a requirement of government but also a condition of favorable business reputation and consumers' loyalty. CSR concept itself should not aim to covert the market economy into socialism, but to socialize the market economy, so companies are encouraged to understand its role as business partners in ecosystem of society. The role of companies as business partners is realized through implementing value-added business models, public-private partnership programs, which are more sustainable and long-term, in contrast to unsystematic charity and donations. Accordingly to the concept of CSR as social-orientation business, the NGOs have to transform into social enterprises, and financial institutions have to implement their social orientation through Impact Investing.

Impact Investing it is a form of socially responsible financing into the real economy and social economy, including financing of SMEs and infrastructure development, social services and technologies through community development financial institutions - CDFI (impact investing funds, social banks, development banks etc).

As an economy develops, the role of the generator and initiator of the corporate social responsibility principles is redirected from government to business and from marketing strategy to social awareness. Thus, in developed countries, the key actors of CSR are corporations, as the CSR is an effective tool to manage their reputation and competitiveness by promoting more sustainable products and services as the inclusive part of society. The key agent of CSR in developing countries is the government, whose role remains crucial in the society until the final rules of responsibilities and political and market relationships are fixed.

It is still problematic to implement the concept of corporate social responsibility in highly deregulated economies and even more complicated to do it in third-world country developing markets. But an absolute majority of managers recognize the inevitability of responsible leadership and the need for sustainable development. The difficulty is that the economies of developing countries actually still are in the process of transformation and reform. Even a conventional model of capitalism has some implementation and adaptation difficulties here. There is no clear economic, tax, and legal regulations for the promotion and encouraging of corporate responsibility, development of social enterprises, or corporate governance. Such circumstances make CSR in developing countries more like a marketing strategy to make a profit and to survive in terms of external competitiveness and strong occupancy of domestic markets by global corporations, etc. In the majority of cases, international corporations are the drivers of progress, sustainability standards, and compliance in emerging and developing economies. In majority cases the international corporations are at the stage of development where they recognize the role of the reputations assets for the sustainable growth of their business.

We consider sustainability as a main feature to apply moral responsibility in human behavior. As the main goal of sustainability, CSR is synonymous nowadays to the triple bottom line: “people, planet, and profit.”

The triple bottom line reflects an integrated understanding of business performance in which social, environmental, and economic bottom lines are interdependent. The aim of a triple bottom line approach is to ensure business performance that is socially responsible, environmentally sound, and economically viable. Responsibility could appear and operate on the global level and a personal level as well.

Milton Friedman has argued that “only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole.” According to Friedman, responsibility starts with each of us and only then starts the responsibility of business.

For organizations to act irresponsibly, individuals must act irresponsibly. Nowadays, it is not enough to tell people what to do; in times of a materialistic system people act according to their own interest. And this is not because people are bad, mostly it is because they do not have an alternative way to follow. Considering this term, humanity needs a nudge; we need it in our everyday life to be neater, careful, and more responsible in our everyday actions. As a fundamental part of corporations, people by their own are choice architectures and they are the driving force of sustainable development.

People as individual consumers and the interdependent mass of consumers can contribute to reach sustainability by boycotting, by consuming pro-environmental products and services, and by acting responsibly and ethically toward the environment, society, and each other.

The personal level of social responsibility leads us to corporate social responsibility. Corporate social responsibility can be implemented in active and passive forms at three gradual levels: philanthropy and corporate volunteering, internal transformation, and sustainability of products, and the highest level of CRS is social investing, which mean transformation of the business models into value-added approach, which combine both economic profit and positive social impact of the business activities.

There are various methods to realize the social function of business and financial sector specifically, which are based on the CSR concept: socially oriented financial products and services; socially responsible investment and social investments; micro-credits; use of corporate codes of ethics; improvement of financial literacy, the integration of ethical principles, and social consciousness in business education; development of social entrepreneurship; socially responsible marketing; social partnership, corporate communications, and social dialogue; social reporting; fair trade and trade at social stock exchanges; sponsorship and charitable activities (philanthropy), etc.

Methods of CSR can be implemented in voluntary, compulsory, or combined form. CSR can be encouraged by the government through prudential supervision and compliance of the companies with legislation, regulatory standards, and norms, as well as encouragement of CSR activities through tax benefits and initiatives based on ethical (social) criteria.

As the socially oriented market economy is a combination of the macroeconomic policies and regulatory measures at the different cycles and stages of market development, the recent structural reform of the financial system is a design for more efficient socioeconomic risk management, a more sustainable and socially oriented financial system, and inclusion of financial ethics as a distinguished objective among the state-regulated elements.

In our opinion, without implementation of additional taxes on the speculative financial activities of banks (for instance, financial transactions tax, FTT), tax incentives in the current taxation system do not exist and nothing creates an obligation for financial companies and businesses to do business ethically and to pay for negative externalities. We propose to apply the financial transactions tax to traditional financial institutions, and exclude from the FTT the Community Development Financial Institutions (social banks, local cooperatives, etc.) considering that financial transactions of these institutions are based on fundamental analysis (equity-based, plain-vanilla instruments).

The challenge of the twenty-first century is to find a way of economic growth (full employment, poverty reduction) that will not increase the income gap. This goal is possible in terms of a correct combination of redistribution, growth, and social policies:

1. Increase the tax burden on unethical financial institutions (decline in growth of speculative capital↓, economic stability and justice↑, government expenditure, government and fund spending on social welfare programs↑)

2. Exemption of socially oriented financial institutions from paying additional tax (economic growth by growth of ethical and social businesses↑, economic stability and justice↑, positive social effect and decline of the budget expenses on social and infrastructure projects by delegation of social services and projects to private sector-sharing economy↑).

A socially oriented financial system proves a positive correlation between income redistribution based on ethical criteria and growth based on differentiation of capital flows to ethical and conventional businesses. A socially oriented financial system does not reduce the amount of capital; rather, it equalizes the attractiveness to conduct profitable nonethical businesses and pay an additional tax, or to conduct socially responsible business without paying an additional tax. Nevertheless, socially oriented capital multiplies wealth and provides social welfare to the community (increase of revenues and social security fund, legal encouragement for social benefit, decrease of pollution, tobacco and alcohol manufacture, etc.). The result is a decrease in nonethical inequality (structural inequality that is based on speculative capital accumulation and corruption). We stand for economic freedom that is limited by morality as defined by law. So, entrepreneurs would be free to do any business and to make money, but they have to choose their direction (ethical or conventional). The sustainability is more likely to be achieved if we have some natural level of income inequality in the state of social welfare (liberty based on clear, defined, and legal contribution to the general good of the society) than if we have income inequality in the state of capitalism (liberty based on unclear, undefined, and volunteer contribution to the general good of the society).

The state anti-speculative regulatory policy combined with the overall progressive taxation and tax benefits for businesses that implement CSR practices and impact investing are the crucial elements of socially oriented economy development. This modern model of ethical capitalism is strongly needed for developed countries as well as developing countries and Ukraine specifically. As such, this policy drives investment into the real economy, but in the meantime a number of complications has to be implemented in Ukraine:

1. Poorly functioning juridical system and low level of protection for creditors/investors and consumers rights;
2. Budget deficit and lack of long-term planning of the taxation policy, including tax initiatives for development of the priority sectors of economy and social investments;
3. Debt crisis, macroeconomic and political instability;
4. Corruption, abuse of power and tax evasion, money-laundering practices and monopolization of the market, including state enterprises;
5. Existing wealth inequality and limited opportunities for socioeconomic mobility, including corruption, regional educational, and development differences;
6. Legislative obstacles for development of new socially and real economy-oriented financial instruments;
7. Lack of government financial and institutional involvement into public-private partnership initiatives;

8. A slow progress in demonopolization of financial services (insurance, etc.) and reform of public finance;
9. Currently declared path of liberalization without clear understanding of the models for financial markets development and its interdependence with the real economy sectors, lack of understanding of the modern transformation process, and structural reforms recognized by the Western developed countries.

Reforming the structure of the banking system is an important factor in minimizing the social and economic risks. We consider it very important for Ukraine to prevent these risks through efficient public and corporate governance, namely, the establishment of regulations in Ukrainian legislation restricting on speculative financial activities and stimulate investment in real and social economic sectors. These measures will contribute to economic development and will ensure stability of the new establishing democratic economy in Ukraine through improved transparency, responsibility of the shareholders and management, recapitalization and consolidation of the banking system, International Financial Reporting Standards, institutional transformation and development of the new specific requirements, and reporting standards for CSR, accountability, and impact investing.

In conclusion, the development of a socially oriented market economy in Ukraine, including a socially oriented banking system, is the crucial factor of its sustainable development. We believe that on its transition to free market relationships, with institutional transformation of the government into the socioeconomic partner, Ukraine, as well as other developing countries, has to focus on total demonopolization, development of highly professional responsible state and corporate governance, institutional agility, fair competition, and involvement of businesses in the resolution of social issues.

As researched in the first chapter of this paper, economic inequality is the negative externality of the deregulated market economies or, as it is in Ukraine, the result of highly monopolized and corrupted economies, so the solution proposed by the socially oriented market economy is the new form of capitalism based on blended values and shared responsibility. Ukraine as a post-socialist society has mental ties with the model of state solidarity; thus, the socially oriented market economy is the best option to transform this solidarity into a well-functioning transparent competition-regulated economy with the supportive government. Economic and social justice is the regulatory and redistributing function of government jointly with value-added businesses, which stimulate socioeconomic mobility by development of social capital and innovations.

Development of Social Capital through Online Communities as a Precondition for Economic Development

Social relationships and social structures, which form different forms of social capital, facilitate development of an economy. Many scientists have showed this on a people relations level. The same goes for the government level and international economic relationships. Social capital can be "defined as an asset that inheres in social relations and networks." Actors establish relationships purposefully and continue them when they continue to provide benefits. The main aspect of these relationships is trust. The most useful way of producing interpersonal trust, scientists believe, is in different social organizations. These organizations provide affiliation of citizens in society and integration: that is why the conception of social capital can explain many aspects of political culture in cross-national measurement. So, a high level of social capital qualitatively influences economic development and other fields of society.

The economic stream flies in the face of empirical reality: persons' actions are shaped, redirected, and constrained by the social context: norms, interpersonal trust, social networks, and social organizations. These aspects are important in the functioning not only of the society but also of the economy.

In economics, Yoram Ben-Porath has developed ideas concerning the functioning of what he calls the "F-connection" in exchange systems. The F-connection is families, friends, and firms, and Ben-Porath, drawing on literature in anthropology and sociology as well as economics, shows the way these forms of social organization affect economic exchange. Oliver Williamson has, in a number of publications, examined the conditions under which economic activity is organized in different institutional forms, that is, within firms or in markets. There is a whole body of work in economics, the "new institutional economics," that attempts to show, within neoclassical economic theory, both the conditions under which particular economic institutions arise and the effects of these institutions (i.e., of social organization) on the functioning of the system.

There have been recent attempts by sociologists to examine the way a social organization affects the functioning of economic activity. Baker has shown how, even in the highly rationalized market of the Chicago Options Exchange, relationships among floor traders develop, are maintained, and affect their trades. More generally, Granovetter has engaged in a broad attack on the "under socialized concept of man" that characterizes economists' analysis of economic activity. Granovetter first criticizes much of the new institutional economics as crudely functionalist because the existence of an economic institution is often explained merely by the functions it performs for the economic system. He argues that, even in the new institutional economics, there is a failure to recognize the importance of concrete personal relationships and networks of relationships – what he calls "embeddedness" – in generating trust, in establishing expectations, and in creating and enforcing norms. The main idea of embeddedness may be seen as an attempt to introduce into the analysis of economic systems, social organizations, and social relationships, not merely as a structure that springs into place to fulfill an economic function, but as a structure with history and continuity that give it an independent effect on the functioning of economic systems.

If we begin with a theory of rational action, in which each actor has control over certain resources and interests in certain resources and events, then social capital constitutes a particular kind of resource available to an actor.

Social capital is defined by its functions. It is not a single entity but a variety of different entities, which have two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of the actors – whether persons or corporate actors – within the structure. As are other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Similar to physical capital and human capital, social capital is not completely fungible but may be specific to certain activities.

The value of the concept of social capital lies first in the fact that it identifies certain aspects of social structure by their functions, just as the concept of a "chair" identifies certain physical objects by its function, despite differences in form, appearance, and construction. The function identified by the concept of "social capital" is the value of these aspects of social structure to actors as resources that they can use to achieve their interests.

By identifying this function of certain aspects of social structure, the concept of social capital constitutes both an aid in accounting for different outcomes at the level of individual actors and an aid toward making the micro-to-macro transitions without elaborating the social structure details through which this occurs.

The concept of social capital allows one to take different resources and show the way they can be combined with other resources to produce different system-level behavior or, in other cases, different outcomes for individuals.

An important form of social capital is the potential for information that inheres in social relationships. Information is important in providing a basis for action, but acquisition of information is costly. At a minimum, it requires attention, which is always in scarce supply. One means by which information can be acquired is by use of social relationships that are maintained for other purposes.

A prescriptive norm within a collectivity that constitutes an especially important form of social capital is the norm that one should forget self-interest and act in the interests of the collectivity. A norm of this sort, reinforced by social support, status, honor, and other rewards, is the social capital that builds young nations and then dissipates as they grow older. It strengthens families by leading family members to act selflessly in "the family's" interest, and it facilitates the development of nascent social movements through a small group of dedicated, inward-looking, and mutually rewarding members. In general it leads persons to work for the public good. In some of these cases, the norms are internalized; in others, they are largely supported through external rewards for selfless actions and disapproval for selfish actions. But, whether supported by internal or external sanctions, norms of this sort are important in overcoming the public goods problem that exists in collectivities.

So, we can say that effective norms can constitute a powerful form of social capital. Norms are very important because all social relationships and social structures facilitate some forms of social capital. Actors establish relationships purposefully and continue them when they continue to provide benefits. Certain kinds of social structure, however, are especially important in facilitating some forms of social capital.

In modern society, widely spread informational-communicational technologies exist in a different scale than a few years ago, causing condition changes for informational interaction between people. As a result, there are also some changes in institutional structure and in the economy too. To react to all these changes in society and grow social capital in a proper way, we use Internet technologies. Online Internet communities are some of the most useful ways to relate to people during their informational interaction. Its singularity lies in intensive informational exchanges between members of a community of a type where “everybody shares information with everybody” in informational interacting.

The online community is a part of the theoretical picture of the modern social-economic world: that is why it is so relevant. And it is very important to use respective principles and mechanisms of interacting to online community participants. Coordination and regulation methods of their collateral activity are also important. An online community, as a research object, is related to the class of complex social systems, which consist of a large number of active and independent elements.

A virtual community, e-community, or online community is a group of people who primarily interact via communication media such as newsletters, telephone, e-mail, Internet social network service, or instant messages rather than face to face, for social, professional, educational, or other purposes. If the mechanism is a computer network, it is called an online community. Virtual and online communities have also become a supplemental form of communication between people who know each other primarily in real life. Significant socio-technological change may have resulted from the proliferation of such Internet-based social networks. The impact of modern technologies is inevitable for development of a generation of social-minded human beings and online change makers. CSR ranking online platforms is the opportunity to activate the impact of an online community toward a new social-oriented economy and the social responsibility of individuals and corporations. Accessible review and transparency of the corporate activities is the best chance for society to take control under decision making in the business world and to decrease economic inequality and injustice by improving the social responsibility of financial system and other businesses.

The embeddedness of a virtual community in the experiences of everyday life and its reflection of, and influence on, the communication practices and patterns of identity formation make the online community a colossal research enterprise: this requires continuous investigation and theorizing. The space of options, after using online networks to increase social capital, is very large. The possibilities that are opened to the social economy developed in the context of social capital provide hope for positive changes in general. Social and economic justice, sustainable development, are and should be provided by strong and respectable ties between people.

Conclusions

The theoretical background and measurement of economic inequality all over the world and in Europe specifically shows its huge effect on poverty and welfare in society. Resolution of the economic inequality issue comes from redirection of the capital flow from speculative financial markets into real economy investments and demonopolization of state services. The combination of different methods of the socially oriented market economy such as corporate social responsibility, impact investing, ethical banking, and taxation based on ethical criteria is the way to reduce income inequality, to ensure economic security and an improved mechanism of socioeconomic mobility, including development of social capital and innovations.

Our conclusion is clear: both individuals and corporations must take their responsibilities very seriously. The government's task is not to ignore the existing sustainability issues and to encourage people and corporations into submission to ethical principles, sustainable contribution under the guidance of the international and state initiatives, in accordance with global social challenges, including specific objectives of the "Europe 2020" Strategy for "smart, sustainable and inclusive growth," the Sustainability Development Goals.

The priorities for developed country decision makers are to elaborate proposals for global governance; to intensify the efforts of the US and EU toward achieving economic justice, economic growth, and social progress in developing countries; to strengthen prudential supervision and anti-speculative regulation; to promote tax reforms to develop efficient tax incentives based on ethical criteria: thus to adopt a new social-oriented model of financial system and responsible state and corporate governance, to legalize the concepts of corporate social responsibility (CSR) and ethical banking, and to increase the pro-social impact of business and its involvement into social services functions. Thereby, the issue of economic inequality is more likely to be solved in cooperation with experienced EU countries and through adaptation of a new socially oriented regulatory policy and developing a new institutional framework for financing of sustainable development.

In our research, we analyzed data showing a linear correlation between growth of speculative capital and economic inequality, which in our opinion is the threat to Ukraine on its way to intensive liberalization of financial markets. Thus, development of the market economy in Ukraine has to be under supervision of international organizations and local authorities to prevent the speculative activities of oligarchs' financial and industrial groups, traders, and other counterparts. A new paradigm of market relationships needs to be supported with international standards, emerging models of governance proposed by the socially oriented market economy, just redistribution policy, and exceptional transparency and control over budget expenses and tenders, as well as providing transparent targeted financing into the real economy, infrastructure, and social programs. The socially oriented economy itself has a higher than current supervisory standard of anti-money laundering and higher standards of control over financial instruments and schemes, whether they are designed to provide socially responsible investments of the real economy by supporting local communities and development of the middle class. Considering the high level of the shadow economy in Ukraine, we may assume that the socially oriented market economy is the way for international and local authorities/organizations to focus on the object of financing, attraction of money flow into real economy sectors, and anti-money outflow measures and proper taxation instead of persecution and revealing the source of money. These and other aspects of formation of the socially oriented economy have an important impact on development of the modern sustainable economic model for Ukraine that need to be discussed in further scientific research by national and international experts.

Bibliography

An Overview of Growing Income Inequalities in OECD Countries: Main Findings. (2011). *Divided we stand: Why inequality keeps growing* (p. 41). Paris: OECD Publishing. http://www.oecd.org/els/soc/49499779.pdf. Accessed 7 Oct 2015.

Barzilai, G. (2003). *Communities and law: Politics and cultures of legal identities*. Ann Arbor: The University of Michigan Press.

Bermeo, N. (2009). Theorizing poverty, inequality, and democracy (NDRI conference on "poverty, inequality, and democracy"). *Journal of Democracy, 20*(4), 7.

Coleman, J. S. (1986a). Social theory, social research, and a theory of action. *American Journal of Sociology, 91*, 1309–1335.

Coleman, J. S. (1986b). *Individual interests and collective action*. Cambridge: Cambridge University Press.

Coleman, J. S. (1987). Norms as social capital. In R. Gerard & B. Peter (Eds.), *Economic imperialism* (pp. 133–155). New York: Paragon.

DeNavas-Walt, C. (2012). *Income, poverty, and health insurance coverage in the United States: Current population reports*. Washington, DC: U.S. Census Bureau 2013. – 77 c. http://www.census.gov/prod/2013pubs/p60-245.pdf. Date of access 12 Mar 2015.

Doğan, S. (2009). Income inequality, poverty, and growth in transition economies: The case of Kyrgyzstan. *Journal of Qafqaz University, 26*, 90.

Economic inequality in Ukraine. http://real-economy.com.ua/publication/22/9737.html. Date of access 07 Feb 2014.

Else, L., & Turkle, S. (2006, September 20). Living online: I'll have to ask my friends. *New Scientist*, *2569* (interview).

Facts on World Hunger and Poverty, April 19, 2010. http://www.heartsandminds.org/poverty/hungerfacts.htm. Date of access 12 Feb 2012.

Festinger, L., Schachter, S., & Back, K. (1963). *Social pressures in informal groups: a study of human factors in housing*. Stanford: Stanford University Press. (Original work published by Stanford University Press, 1950)

Galbraith, J. K. (1961). *The great crash* (p. 20). London: Penguin Books.

Gini Coefficient World CIA Report. (2009). https://www.cia.gov/library/publications/the-world-factbook/fields/2172.html. Date of access 07 May 2012.

Granovetter, M. (1985). Economic action, social structure, and embeddedness. *American Journal of Sociology, 91*, 481–510.

Guriev, S., & Rachinsky, A. (2004). Russian oligarchs: A quantitative assessment. *Beyond Transition, 15*(1), 4–5.

Harjes, T. (2007a) *Globalization and income inequality: A European perspective*. Washington: IMF Working Paper, WP/07/169

Harjes, T.(2007b, July 10). *Globalization and income inequality: A European perspective* (IMF Working Papers), pp. 1–15.

Jones, G., Ravid, G., & Rafaeli, S. (2004). Information overload and the message dynamics of online interaction spaces: A theoretical model and empirical exploration. *Information Systems Research, 15*(2), 194–210.

Kim, A. J. (2004, January 24). Emergent purpose. *Musings of a Social Architect*. Retrieved April 4, 2006

Krugman vs. Stiglitz on what's holding back the recovery. http://www.bbc.com/news/business-25035267. Date of access: 07 October 2015

Kuznets, S. (1955). Economic growth and income inequality. *The American Economic Review, 45*(1), 131.

Milanovic, B. (1998). *Explaining the increase in inequality during the transition*. Washington, DC: World Bank.

Milanovic, B. (2006). *Global income inequality: What it is and why it matters* (Policy Research Working Paper Series 3865; p. 25). Washington, DC: Policy Research Department, The World Bank.

Mitra, P., & Yemtsov, R. (2006). *Increasing inequality in transition economies: Is there more to come?* (Policy Research Working Paper Series 4007; pp. 11–15). The World Bank.

Mussel, G. (2000). *Volkswirtschaft* (p. 53). Campus Verlag.

Robert, C. (2013). *It's economic inequality stupid what to do about the biggest crisis facing America*. http://www.huffingtonpost.com/robert-creamer/its-economic-inequality-s_b_4273787.html. Date of access 07 Feb 2014.

Shadow Economy. (2015). http://ua.interfax.com.ua/news/general/283877.html. Date of access 07 Oct 2015.

Terry, W., Orsolya, L., Holly, S., & György, T. I. (2009). *European inequalities: Social inclusion and income distribution in the European Union* (p. 214). Budapest: TÁRKI Social Research Institute Inc.

The Economist: Stagnation for everyone, http://www.economist.com/blogs/freeexchange/2013/09/incomes (date of access: 07 October 2015)

The FT Review of Business Books, September 26, 1991, p. 2.

The perspective of new growth theories (1615–1660). *Journal of Economic Literature, 37*(4), 40

Wang, C., Caminada, K., & Goudswaard, K. (2012). The redistributive effect of social transfer programs and taxes: A decomposition across countries. *International Social Security Review, 65*(3), 27.

Ward, T., Lelkes, O., Sutherland, H., & Tóth, I. G. (2009). *European inequalities: Social inclusion and income distribution in the European Union* (p. 214). Budapest: TÁRKI Social Research Institute Inc.

World Bank. (2009). *World Development Indicators.*http://data.worldbank.org/indicator. Date of accessed 07 May 2012.

Part V
Business Ethics Education

Chapter 13
Social Responsibility as a Matter of Justice: A Proposal to Expand Business Ethics Education

Francis J. Schweigert

Part I. The Ordinary Pressures of Business Operations

Business ethics education has focused primarily on the moral formation of individual leaders and managers in the context of legal compliance, ethical codes, and organizational culture. As valuable as this approach is, it does not generate a sufficient level of business responsibility to satisfy legitimate social concerns regarding the use of natural resources, environmental sustainability, reasonable limitation of systemic risk in capital markets, and fair allocation of goods and services (Alsop 2007; Holland 2009; Friedland 2009). Business educators have accepted some responsibility for this failure because of their emphasis on short-term gain and maximum shareholder profit (Quelch 2005; Mangan 2006). However, the shortcomings in business social responsibility arise from more fundamental and ordinary pressures of business operations: uncertainty, liability, ambition, and loyalty.

The *uncertainty* of business outcomes increases pressure to pursue short-term gain over long-term benefits. Although investments in socially conscious labor practices and resource use may pay off in the long run (Porter and Kramer 2011), businesses face immediate pressure for success in the short term. As John Maynard Keynes pointed out, short-term success has always preoccupied attention, even for "private business of the old-fashioned type," when owners had to live with the long-term effects of business decisions in their local communities. With public ownership, Keynes saw that this was more so:

> With the separation between ownership and management which prevails today and the development of organized investment markets, a new factor of great importance has entered in, which sometimes facilitates investment but sometimes adds greatly to the instability of the system… [T]he Stock Exchange revalues many investments every day and the

F.J. Schweigert (✉)
College of Management, Metropolitan State University, Minneapolis, MN, USA
e-mail: francis.schweigert@metrostate.edu

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_13

> revaluations give a frequent opportunity to the individual (though not to the community as a whole) to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week (1932/2008, p. 99).

Thus, the familiar uncertainties in future resource, labor, and market conditions are compounded by uncertainties in ownership and investor confidence. Communities are stuck with the long-term social consequences, Keynes noted, but managers must succeed day by day and quarter by quarter.

Liability for harms increases pressure to minimize exposure at both a personal and business level to the extent legally allowable. Businesses limit their exposure internally through risk assessment and mitigation and control systems in the context of external regulation, taxation, and litigation. It is not surprising the managers are cautious about embracing personal or business responsibility for social effects of business operations. There is much less risk in acting on the basis of generous social concern, without accepting responsibility—and thus liability—for the social impacts of the business.

Ambition for advancement and wealth is the natural passion of capitalism, which Adam Smith saw as the individual motivation leading ultimately to mutual benefit: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (1776/1981, pp. 26–27). As R.H. Tawney observed, however, ambition has no clear point of satisfaction. The desire for more persists, and its positive social function decreases absent the sense of mutual dependency that Smith assumed.

> The acquisition of wealth … concentrates attention upon the right of those who possess or can acquire power to make the fullest use of it for their own self-advancement. By fixing men's minds, not upon the discharge of social obligations, which restricts their energy, because it defines the goal to which it should be directed, but upon the exercise of the right to pursue their own self-interest, it offers unlimited scope for the acquisition of riches, and therefore gives free play to one the most powerful of human instincts (1920, pp. 29–30).

The free play of ambition has this in common with finance: "Finance does not embody a goal," according to Robert Shiller, but instead is "the architecture for reaching a goal" (2012, p. 7). Ambition and finance are goal free, one supplying the energy and the other the skillful means to achieve whatever personal or commercial goals may be chosen. The manager's ambition for personal advancement thus matches the owner's ambition for maximizing profits, trusting that any adverse social effects will be "corrected almost automatically by the mechanical play of economic forces" (Tawney 1920, p. 31). Moral restraint is considered unnecessary.

Loyalty to the team, as necessary for business success as it is for personal advancement, draws upon the natural human instinct to earn the honor of one's fellows. Humans evolved in groups that depended for survival on mutual aid and in-group identity, belonging, assistance, and accountability. Loyalty evolved as a deeply embedded moral instinct, a desire and duty that shapes our identity, sense of purpose, and understanding of right and wrong (Naroll 1983). When new managers join a leadership team, this evolutionary inheritance kicks into high gear, easing their way into the group and smoothing their way from the periphery to the center, from novice to mastery. This process of "legitimate peripheral participation" (Lave and Wenger 1991) combines learning the language and skills of the business with incorporating the operative morals of the team, as the novice builds a new identity as a manager through cooperation and loyalty. Self-identity is an ongoing process with "a historical and contingent character, unfolding through the creation of value in action, in relation with other selves in the setting" (Lave 1988, p. 181). The most pressing moral challenge for managers is to learn the values of the group and prove themselves worthy in the eyes of the team.

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

Uncertainty, liability, ambition, and loyalty are inherent moral pressures in any workplace. Businesses depend upon these pressures for their success. Because of the power of these ordinary social forces, business ethics must be expanded to combine moral restraint within the business with ethical accountability outside the business.

Part II. Business Ethics as Pragmatic Pursuit of the Good

Taking full account of the ordinary moral pressures in business operations requires an expansion of business ethics education from individual moral formation to public accountability and the pragmatic pursuit of the good.

Three Prominent Moral Education Approaches

The common approaches to moral education can be broadly identified as character education, values clarification, and the cognitive-developmental approach. Although their elements overlap in education and in daily life, each approach was designed to respond to a different concern and builds on a distinct theory of individual development and ethics.

Character education, also called virtues education, addresses the concern for moral continuity, that new generations receive and embody the morals of past generations. Rooted in Aristotle's observation that moral virtue cannot be taught but must be learned by doing, the aim is to form virtuous character as a habit through virtuous action (1962, *Nicomachean Ethics*, Bk. VI. 1103a). The educator's role is thus to provide direction, practice, role models, and support in cultivating traditional virtues, to the point that these become habitual—in the context of a virtuous community that can reward good behavior and sanction moral failure (Lickona 1991; Ryan 1996). Character education has been a major purpose of schooling throughout history and was an explicit aim of compulsory schooling in the U.S. (Gutek 1972).

The *values clarification* approach is designed to help students sort through conflicting moral imperatives in a culturally diverse world (Fletcher 1966). In contrast to the continuity and moral formation sought in character education, values clarification enlargens on the emergence of critical thinking at adolescence when youth are inclined to question received beliefs. The educator's role is to help learners see and raise questions of value, seek values that resonate with their understanding of themselves and the world, and move through questioning to settled moral commitments. Because of its openness to questioning, this approach is sometimes confused with moral relativism, "that there is no such thing as universal truth in ethics" (Rachels 1993, p. 17). In fact, it has more in common with the work of Comer and Vega (2011b) on moral intensity, recognizing and holding firmly to one's own core values even as one respects the fact that others may disagree.

The *cognitive-developmental approach* was pioneered by Lawrence Kohlberg to explain and foster the ability of individuals to rise above the accepted morals of their community and aspire to higher principles of justice (Kohlberg 1971/1980, p. 74). This approach is similar to values clarification in questioning received beliefs but it incorporates a developmental trajectory that goes beyond personal values toward a higher morality of impersonal universal norms. Building on Jean Piaget's theory that childhood moral judgment develops in stages from egocentric to cooperative (1965, pp. 26–27), Kohlberg identified additional developmental stages in accord with universal moral principles as represented by Immanuel Kant's "categorical imperative" (1785/1956) and embodied in Gandhi's *satyagraha* campaign and the Civil Rights Movement. It is the educator's role to stimulate a child's natural autonomy and reasoning power through the use of moral dilemmas and thus foster development from preconventional to conventional thinking and ultimately to decision making "centering on principles of justice" (Kohlberg 1971/1980, p. 70). James Rest, who continued Kohlberg's work, described each new stage is an elaboration of the previous one in a progressive ability to organize cooperation (Rest 1994, p. 5).

In my reading, business ethics texts advocate moral reasoning, moral character, and moral leadership without explicit reference to theories of moral learning and educational methodology. References to Kohlberg's stages of moral development are common, but whereas Kohlberg used moral dilemmas to stimulate "the 'natural' development of the individual child's own moral judgment and capacities" toward higher levels of moral reasoning (Kohlberg 1980, p. 72), business ethics texts present moral dilemmas not as stimuli for higher levels of reasoning but as complicated puzzles that reflect the conflicting moral demands managers face in business settings. In contrast to the cognitive-developmental approach, moral dilemmas in applied ethics—business and professional—emphasize analysis of intermediate-level concepts "such as informed consent, paternalistic deception, and privileged confidentiality" as well as "even a more concrete level of conceptualization…that is usually found in codes of ethics of professional organizations" (Rest 1994, p. 9). The aim is problem solving rather than higher moral reasoning. For example, James Svara's advice to whistleblowers moves quickly from post-conventional norms of justice to preconventional concern for one's family welfare and "skeletons in your closet," plus several conventional concerns regarding use of company time and resources, adequate documentation, consulting an attorney, checking for allies, having a clear plan, and perhaps feeding the information anonymously to an outside group (Svara 2007, pp. 121–122).

A central theme in business ethics texts is that ethical behavior is based on a set of core values or principles (e.g., Boatright 2012, pp. 40–41; DesJardins 2009, pp. 5 ff.; Gentile 2011; George 2007, pp. 85 ff.; Josephson 2002/2006; Trevino and Nelson 2007, pp. 95 ff.; Svara 2007, p. 81) that the leader enacts with integrity and courage, acting as a moral exemplar in guiding the organization rightly and demonstrating that moral ideals can, in fact, be achieved—as in character education (Ryan 1996, p. 83). These solid values provide "a compass to keep you focused on your True North and get back on track when you are pulled off by external forces or are at risk of being derailed" (George 2007, p. 65). Mary Gentile (2010) summarized the aim of business ethics education as "designed to help individuals learn to recognize, clarify, speak and act on their values when those conflicts arise…[using] the approach that not only seems most likely to be effective in our particular situation, but also the one that is most comfortable, given our own personal style of communication and personality" (p. 1). There are echoes of values clarification here, but the emphasis is on personal positioning more than openness to moral exploration and the development of a critical morality. At center is the strong self of virtue ethics: "Organizational pressures can compromise our moral behavior," Comer and Vega wrote. "To rise above these pressures, we need to understand and foster moral courage" (2011a, p. xvii).

This emphasis on strong virtues does not, however, incorporate the essential role of the moral community, which character and virtues educators insist is the formative power at the heart of character education: the practice of moral behavior in a community upon which one depends for esteem and support and to which one owes loyalty, honor, and positive assistance.

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

Moral character develops through earning the esteem of one's "betters" and in turn becoming a model for others to emulate. To effectively communicate communally held values, it is necessary to "reward success and admonish failure," evaluating "by formal and informal means students' growth in virtue and character" (Ryan 1996, p. 83).

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

The sense of group identity and unity is essential and continually strengthened through shared rituals, traditions, practices, and symbols (Lickona 1991, p. 102). Earning the esteem of one's coworkers is essential, and no worker or manager can afford to be fooled about what really matters to others in the workplace. Career advancement and business success depend upon it. Nothing is more formative than the *enacted* agendas and actions in the workplace—the moral community—whether or not these actions contradict the *espoused* practices and values of the business or individual workers. Rick Weissbourd cited research that "When people's moral beliefs conflict with their immoral actions, many will change their beliefs to accommodate their actions, not vice versa. They will justify stealing, for example, because 'society is corrupt' or because 'all people are basically self-interested'" (Weissbourd 2003, p. 7).

The need for acceptance, cooperation, loyalty, and mutual protection is highest among close colleagues. Not surprisingly, as social distance decreases, the propensity to lie increases. "To the extent that employees are concerned about what others think of them, reduced social distance intensifies the concern. As a result, employees are more likely to expend time and effort on impression management activities, which could affect their work quality and performance" (Ackert et al. 2011, p. 619). As character and virtue educators insist, the role of the moral community is fundamental.

A Fourth Approach: The Pragmatic Pursuit of the Good

If business schools want to prepare students for situations of moral compromise, confusion, and conflict, an educational approach is needed that combines a strong sense of external moral accountability with skills in critical thinking and ethical deliberation, an approach I am calling the *pragmatic pursuit of the good*. This pragmatic approach would prepare students to transcend their local moral community by going beyond "customary morality" to engage in a "reflective morality" (Dewey 1908/1980, pp. 3–7) that places conflicts about the good and the right in the larger context of "remaking the social environment, economic, political, international" (p. 118). Reflective morality explicitly requires that one "not accept the standards of his group without reflection" (p. xxvii). Dewey pointed to Socrates and the Hebrew prophets as pioneers in this effort, challenging the accepted mores of their time and attempting to resolve questions of conduct in terms of universal principles (p. 3).

Reflective morality, as outlined by John Dewey, does not accept the individual conscience as formed by upbringing in a particular moral community or as shaped within a particular business organization as the last word on personal integrity.

Rather, the moral ground shifts from customary accepted knowledge—one's "gut feeling" or "moral intensity"—to rational examination and evaluation. Specifically, the choice of what is good and right should be subject to questioning and capable of rational explanation (cf. Boatright 2012, p. 38; Frankena 1963, p. 91). This attitude makes ethics a *shared enterprise* of searching out the right course of action, not through introspection alone but through investigation of the facts of the situation.

According to Dewey, "the genuine heart of reasonableness (and of goodness in conduct) lies in effective mastery of the conditions which *now* enter into action" (Dewey 1922/2008, p. 37; parentheses and emphasis in the original). Moral decision making is the attempt to achieve the *good in view* in the actual circumstances faced by the manager amidst a diversity of moral perceptions and values.

From the standpoint of the individual, morality consists in sharing responsibility in forming and directing the activities of the groups to which one belongs and in participating in the values which the groups sustain. From the standpoint of the groups, it demands liberating the potentialities of members in harmony with the interests and goods that are common. Because every individual is a member of many groups, reflective morality requires that each group interact flexibly and fully in connection with other groups (Dewey 1927, p. 147).

The pragmatic pursuit of the good engages the moral community of the workplace in all its variety and in the midst of multiple pressures in building a better world (Dewey 1908/1980, 1909/1975, 1927; Zigler 1998).

In this approach, the role of individual conscience or judgment appears first as moral sensitivity that leads to ethical evaluation and action: the aim of morality is acting well, not merely meaning well (Dewey 1916, pp. 348–350). Dewey called attention to the need to cultivate "a prompt and almost instinctive sensitiveness to conditions, to the ends and interests of others, [without which] the intellectual side of judgment will not have proper material to work upon" (1909/1975, p. 52). Moral education should nurture "a delicate personal responsiveness" along with "excellent judgment" oriented to a good not merely for the individual, the management team, or their business organization, but also good in some larger social or even universal sense. This inquiry can be pursued from the inside or from the outside: from the perspective of the decision makers within the organization or from the perspective of the public or the community that would be affected by the action of the business organization. The process was described by Aristotle as an exercise in practical wisdom or *phronesis* (1962, *Nicomachean Ethics*, Book VI, 1142a), and the aim was defined as justice: the good for oneself and others and the community as a whole (1962, *Nicomachean Ethics*, Book V, 1129b–1130a).

Education in the pragmatic approach to business ethics would give managers an important tool to lead a process of shared practical reasoning, a reflection on morals that would place moral choices in the workplace in a larger arena of inquiry. This approach would make it possible to address questions of business ethics in terms of what good can be achieved for the business and its stakeholders, including the larger community or the public. Pragmatic moral education explicitly positions the business organization as an institutional member of society with the benefits and duties this entails, subject to the claims of justice. "Justice is the first virtue of social institutions," John Rawls noted, and "laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust" (1971, p. 3).

The pragmatic pursuit of the good incorporates the other three approaches to moral education. The practice of reflective morality adopts the cognitive-developmental agenda of fostering moral reasoning at the level of universal principles, from which one can evaluate one's action from outside conventional and preconventional frameworks. Reflective morality also incorporates the values clarification agenda of critical morality by inviting different perspectives and rationales in attempting to articulate the good to be achieved, both within and outside the organization. Virtue education is incorporated through shared reflection and the nurture of emotional sensitivity in the moral community of the workplace, including mutual accountability for doing the good that is possible and decided upon. Moral integrity and courage are still required, but in more varied ways: opening or convening a process of reflection on what action is right and good to take, making sure varied perspectives are heard, explicitly including the good of the public or surrounding community, being open to the challenge of new information and perspectives, and—in conclusion—being willing to act for the good that has been clarified.

Part III. Business Ethics Education: Adding Three Essential Elements

The pragmatic approach to moral education as the pursuit of justice adds three elements to business ethics education: (a) establishing business responsibility for the social good as a matter of justice; (b) distinguishing public accountability on matters of justice from personal moral accountability to one's conscience; and (c) preparing business leaders to engage in public deliberation to determine the legitimacy, priority, and just resolution of social claims.

Business Responsibility for the Social Good

If the business corporation is understood as the cooperative action of private parties pursuing private aims in the marketplace, the business may have no obligations for the social good beyond what the law requires. The corporation, in this view, is not an entity in itself but merely the aggregate of persons who have come together to pursue private interests in the marketplace. Such an understanding of the business firm is incomplete, however, because the firm acts as an entity in itself, both as a natural entity composed of private parties—the nexus-of-contracts theory—and as a creation of the state—the concession theory (Padfield 2012). Indeed, the theory of the firm is contested, with meanings shifting over time and often turning on justifications for or resistance to public accountability and regulation (Millon 1990).

Given this range of understanding, three lines of reasoning can be offered as justifications for normative expectations of social responsibility. *First*, if the corporation is created by the state as described in concession theory, it can be presumed to exist to serve public as well as private purposes. "As the creator of the corporation, the state is at least presumptively free to impose whatever regulations or restrictions it deems to be appropriate" (Millon 1990, p. 260; Padfield 2012, p. 10). *Second*, if the corporation is seen as a system of contracting private parties, its competitive advantage nevertheless turns in part on costs related to government-provided infrastructure or government-imposed costs (Porter 1979), including entry and exit barriers. It is reasonable to expect a public return for this public expense. *Third*, as stakeholder theorists have pointed out, communities within which businesses operate must be included among the contracting parties because their cooperation is essential to business success, which entails business responsibility for some community costs and benefits. I describe this as seeking the *cooperative advantage* of the firm; Edward Freeman and his coauthors referred to it as a *system of cooperation* (Freeman et al. 2010, p. 15); Michael Porter and Mark Kramer (2011) have called it *shared value*. The aim of the business is not social responsibility directly but value creation for all the stakeholders (Freeman et al. 2010, p. 12), including consumers and employees "who express their desire for socially responsible behavior by their market decisions to buy a company's products or to accept employment" (Boatright 2012, p. 284). Social responsibility contributes to profitability, either through satisfying a "market for virtue" or incorporating public goods into the company's business strategy (Boatright 2012, pp. 285–289). A *third* line of reasoning focuses not on the nature of the firm but on the nature of the marketplace as a public institution that must be maintained by "self-regulation and restraint" as well as government (Boatright 2012, p. 9). Walter Schultz has presented the conditions of market efficiency as five moral rights: the right to ownership of property, the right to true information, the right to at least subsistence welfare, the right to autonomy, and the right to liberty (2001). Failure to satisfy these conditions undermines the efficiency of the market and harms those involved.

All three lines of reasoning support normative claims on business operations. Not all such claims can be justified, but it is reasonable to assume that some can, and business leaders should be prepared to understand and address them. Some of these expectations have been incorporated into law, but a regime of legal regulation cannot address all the demands for business social responsibility, for several reasons.

First, although law is expected to have a basis in justice, the law "is not a complete account of morality" (Shapiro 2011, p. 186). Some public problems or moral evils cannot be effectively handled through law (Kalscheur 2004, p. 17; Kaveny 2000, p. 9). Indeed, "it is almost impossible to write a rule to address every situation that will not also be too broad or wildly complex, and it would be best to avoid creating rules and procedures today that will lack legitimacy tomorrow" (Lager 2009, p. 3). "Justice is a matter of the correct or best theory of moral and political rights," but much that is just does not enter into law.

Second, the law is not enough because—although one could hope otherwise—not all laws are just. The institutions that have authorized the law have moral legitimacy, so that the laws themselves also "are morally legitimate and obligating"; however, even though the law "always *purports* to represent the moral point of view" it sometimes does not (Shapiro 2011, p. 187; emphasis in original). Rather, law follows politics: "Law is a matter of which supposed rights supply a justification for using or withholding the collective force of the state because they are included in or implied by actual political decisions of the past" (Dworkin 1986, p. 97). In fact, "compliance is not always better than noncompliance," because employees are sometimes able to achieve the public good and the law's intent by going around the rules (Lager 2009, p. 3); this is what Gregory called "official corruption" as opposed to the personal corruption that serves individual self-interest (Gregory 1995, p. 65).

Third, in some cases, "the concrete steps that a state would need to take in order to enforce a particular law are themselves morally repugnant" (Kaveny 2000, p. 9). For example, intrusive surveillance such as DNA or drug testing, GPS tracking, examination of phone records, or phone tapping poses problems regarding privacy and business security.

Fourth, it costs money to pass laws and enforce them, money that can sometimes be spent on better things (Kaveny 2000, p. 9). Law enforcement requires regulatory oversight, which has resulted in a "compliance infrastructure…consisting of auditors, inspectors, lawyers, and a burgeoning industry of 'compliance professionals' who will design internal controls, training and education programs" to reduce exposure to liability and meet ethics reporting requirements (Lager 2009, p. 3). Excessive reporting and monitoring can also create a burden that is unsustainable for those reporting and overwhelming for those receiving the reports. Indeed, "businesses may often advance their self-interest more effectively by engaging in greater self-regulation" rather than depending upon the law to set mandates (Boatright 2012, p. 11).

Fifth, the law enforces a minimal compliance, which is often not adequate to achieve justice (Kalscheur 2004, p. 17). Compliance is "a dreadfully low bar to meet," and it nurtures an attitude that compliance is enough, displacing moral responsibility for anything beyond obeying the law and contributing to a culture of loopholes and evasions that cut as close to the minimum as possible without actually breaking the law (Lager 2009, p. 3). This attitude also leads businesses to engage in harmful or unjust practices right up to the moment that enforcement begins, thus reducing self-restraint and fueling an interlocking mesh of corporate lobbyists and campaign contributions.

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

Public Accountability on Matters of Justice

The determination of business accountability for the social good—beyond legal compliance—cannot depend upon moral agreement on business obligations based on personal or organizational norms or a particular conception of justice. Although "there are indeed shared values to which we can appeal in most circumstances" (Gentile 2011, p. 123), moral disagreement on enacting these would obstruct attempts to reach a public definition of justice. Rather than appealing to "a single conception of the good," businesses must evaluate their operations within "liberal democratic societies that permit, or encourage, a plurality of conceptions of the good" (Hampshire 2000, pp. 23–24). As Benjamin Constant (1816) pointed out 200 years ago, the collective moral agreement of ancient societies has given way to the affirmation of individual liberties, including the right to choose one's own religion and moral priorities. The modern world is characterized by global, regional, ethnic, religious, communal, and personal moral diversity; any attempt to establish a singular moral order could succeed only if imposed by "the oppressive use of state power" (Rawls 1996, p. 37).

To have legitimacy in the public arena, moral claims "must be able to pass the test of critical reflection and public deliberation; they must be based on intersubjectively justifiable standards of justice" (Wettstein 2009, p. 29). It is therefore imperative that business ethics education distinguishes the practice of personal morals in accord with one's individual conscience from determinations of justice in the morally pluralistic marketplace.

The inculcation of morals is a necessary part of individual human development within families, communities, and cultures. Long before moral values and practices are subjected to personal evaluation and choice, their authority is felt. Their power lies in the social networks to which people belong and on which they depend for affection, support, accountability, and protection, including their ideologies on how the world came to be, the nature of reality, and symbols of meaning (Naroll 1983, p. 390). These communal dynamics inform the conscience of each person, so that individuals can make judgments of right and good that conform generally to social expectations while at the same time allowing for individual perceptions and adaptations. The regulative power of morals is therefore always both social and personal, "the varied, problematic, partial, and unintentional production of persons through historical and biographical time, in a multiplicity of identities constructed and reconstructed through participation in social practice" (Lave et al. 1992, p. 257).

The moral diversity among primary normative reference groups in a pluralistic society results in a public arena in which the moral expectations of particular communities and traditions often differ. Nevertheless, these communities must achieve enough agreement to enable the society-wide function of markets, property, security, and government. This adapatation requires a shift in accountability from morals to ethics: "Morality implies a standard of conduct" whereas ethics is the "ordered, systematic, critical, rational investigation and reflection" on conduct (Lee 1928, pp. 453, 456). Ethics is therefore the regulatory mechanism that enables communities, organizations, associations, or jurisdictions to dispute about right and wrong or worth and value, seeking agreement for social cooperation based on the exercise of public reason. Personal moral convictions are essential to inform public debate, but public reason calls upon citizens to present evidence and arguments employing the "kinds of reasons they may reasonably give one another when fundamental political questions are at stake" (Rawls 1997, p. 767). The reasons given may arise from personal conscience or particular moral communities, but attempts to obligate the public on the basis of cultural traditions or personal moral convictions are subject to ethical challenge and require public validation (Schweigert 2011, p. 45). The aim is to achieve agreement on a political conception of justice rather than a comprehensive conception of justice (Rawls 1996).

This agreement pertains not only to policies but to outcomes. It is not only collective determination of which claims will be recognized as rights but also what public duties social membership can demand and whether social practices and institutions contribute or detract from human well-being. Justice is the work of the public body, as its requirements are worked out through deliberation. Once citizens have determined through authoritative public deliberation what needs are legitimate and compelling—in other words, which claims are just—all members of society are accountable to these determinations, even if these differ from personal or communal moral convictions. At the same time, matters of justice cannot be settled once and for ever, because conditions and populations change, new information arises, and new communities or leaders become involved. Good order in the public arena must be established according to objective evidence and impersonal ethical principles that transcend communal morals and perspectives (Sievers 2010; Rawls 1996), without the expectation that these can ever be settled permanently. In this way, social unity can be preserved through conflict within a tradition of respectful disagreement and deliberation, and so long as evils are reduced and human conditions gradually improve (Hampshire 2000, pp. 88–89). Indeed, conflict must be seen as a positive feature of public life through which social expectations are clarified, problems are made visible, and citizens can exercise shared responsibility for public order (Christie 1977). "Even though ethical disputes are not settled once and for all, the attempts nevertheless define a just social order as best it can be understood" (Schweigert 2011, p. 45).

Business operations depend fundamentally on a political conception of justice in the public arena of the marketplace. Public reason and the determination of justice are therefore necessary elements of business ethics education, so that business leaders can participate meaningfully in defining and satisfying their social obligations.

Public Deliberation on the Justice of Social Claims

Business responsibility for the social good rests on two economic assumptions, both well articulated by Rogene Buchholz (2009) and both essential to the practical pursuit of business ethics as a matter of justice.

The *first assumption* is embedded in the earlier discussion of the theory of the firm, especially in relation to stakeholder theory: "Self-interest and community interest are inseparably intertwined, and a proper balance between these two dimensions is necessary for effective functioning of the total system" (p. 144). Note that "proper balance" is Aristotle's description of justice and moral virtue, the median between excess and deficiency. Aristotle is careful to explain that this is not a mathematical calculation, but "a mean which is defined by a rational principle, such as a man of practical wisdom would use to determine it …at the right time, toward the right objects, toward the right people, for the right reason, and in the right manner—that is the median and the best course, the course that is the mark of virtue" (1106b). Putting this assumption into practice requires structures and processes through which businesses and communities can exercise practical wisdom, presenting their interests and seeking solutions that can serve both the community and the business.

The *second assumption* bears directly on the pursuit of the good in clarifying what, in fact, is the good in question. Buchholz distinguished *wealth* from *worth*: "Economic wealth is supposedly created when resources that have no economic value in themselves are combined in such a way that goods and services are produced that have value to the society" (2009, p. 86). However, "economic wealth is an elusive concept and something of a fiction. Several trillions of dollars disappeared from the American economy during the first years of the twenty-first century…What happened to all this wealth? Where did it go?" (p. 87). Echoing Immanuel Kant's distinction between price and dignity (1785/1956, p. 102), Buchholz contrasted wealth as "an abstraction" relative to price to worth "in the goods and service they produce and whether these goods and services enhance the lives of people." How much worth something has "does not reside in the product itself, nor does it lie in an individual consumer, but emerges from the interaction of millions of people who participate in the marketplace" (2009, p. 88).

One reason that businesses may resist accountability to the social good—besides a reduction in profits—is the risk of incurring liabilities that lack clear boundaries. In contrast, corporate philanthropy can safely express public concern and earn public appreciation while remaining entirely voluntary. Legal obligations similarly entail less risk because laws and their enforcement rules set clear boundaries within clear timeframes, and the risk of noncompliance is mitigated by appeal to legal processes. Public accountability to claims of justice, on the other hand, would entail obligations that require definition—not necessarily an easy task.

One could argue that the determination of justice belongs to the legislature, not businesses and their stakeholders, but as pointed out earlier, law cannot define or enforce all ethical obligations. Decisions are being made every day on wealth and worth and the proper balance between gains and costs for businesses and communities. It does not suffice to leave public deliberation on justice to government alone. Along with other institutions operating in the public arena, businesses share responsibility for understanding, prioritizing, and achieving the social goods needed to address pressing social issues: use and preservation of resources, environmental sustainability, avoidance of systemic risk in capital markets, and fair allocation of goods and services. The pragmatic pursuit of the good as presented in this chapter would position business leaders to participate in and even to convene processes of shared reflection to determine the proper balance of gain and social good.

Although a thorough description of a practical program for public deliberation would go beyond the scope of this paper, it is helpful to propose five considerations to guide development of structures and processes of deliberation.

First, a range of deliberative structures is needed to set agendas, gather and share information, manage participation, develop solutions, and follow through on implementation. The iconic structure for public deliberation in America is the town hall, with its standards (at its best) of open participation, verifiable information, reasoned debate, and fair decision making—paralleling, in fact, the structure of a free marketplace (Schultz 2001). This ideal is useful but also limiting, given the range of interactive media and meetings possible.

Second, deliberative processes must fit the scale of operations being addressed and reflect the complexity and scope of the business enterprises, communities, and markets involved. Although there are daunting challenges in selecting participants and managing facilitation and decision making, processes for citizen engagement already exist on community, municipal, statewide, regional, and national scales. The credibility of deliberations can be enhanced by using processes involving representative sampling, such as citizen juries or Deliberative Polling® (Fishkin and Luskin 2005). Given the ubiquity of social media and personal communication tools, it is also possible to foresee distributed networks of deliberation extending across time and space.

Third, agreements resulting from public deliberation need enough clarity and stability to support business decisions and investments, as well as to merit community support and enable monitoring of implementation. Community benefits agreements, civil compacts, or collective impact collaboratives (Kania and Kramer 2011) may be possible models, but more are needed. It should be expected that some agreements would be codified in contracts or legislation and subject to litigation.

Fourth, a framework for justice claims is needed, especially at the beginning stages, to help participants name what kind of claims are being presented. For this purpose, I have proposed a three-part framework of procedural justice, distributive justice, and public justice (Schweigert 2007).[1] *Procedural justice* addresses concerns about fairness in processes and procedures, affirming human dignity and individual or group rights to free and equal participation. Where interpersonal trust is low, participants should at least be able to trust the fairness of public processes. *Distributive justice* directly involves the questions of wealth and worth just raised, bearing on an understanding of the good at stake and how goods and services can be allocated fairly. Possible conceptual frameworks might be a scheme of human capabilities (Sen 2009; Nussbaum 2011), a list of primary goods (Rawls 1971, 1996), analysis of the material conditions for existence (Dussel 1997, 1999), analysis of equality of condition and responsibility (Roemer 1996), or appeal to the common good (Lohmann 1992; Maritain 1946/1966). *Public justice*[2] refers to duties of office that are delegated to officeholders, as well as duties and standards that various professions commit to uphold, such as in law, medicine, teaching, or research.

Equipped with this three-part framework, deliberations can begin by asking what kind of justice is at stake and what kinds of claims must be considered.

Fifth, an avenue for appeal should be provided in case deliberations or agreements are perceived as unfair or detrimental to parties involved. The working assumption behind public deliberation is that citizens have a sense of justice and an ability to plan for the good (Rawls 1996; Corning 2011). Nevertheless, participants in public deliberation face the same hazards of uncertainty, liability, ambition, and loyalty that inhibit moral behavior in the workplace. This vulnerability to corruption requires that participants in civil deliberations have a right to appeal to legislative bodies and judicial proceedings when deliberations fail.

Conclusion

The current aims of business ethics education—to strengthen virtue, increase moral sensitivity, clarify values, promote moral reasoning, and foster moral leadership—are important but insufficient. Business leaders must be prepared to recognize the ordinary moral hazards of the workplace and reason together to meet public expectations of business responsibility for the social good. The additions to business ethics education proposed here would cultivate skill in the pragmatic pursuit of the good as a practical way to exercise business responsibility for the social good as a matter of justice.

Notes

1. I set aside here matters of criminal justice, not because they are irrelevant to business ethics but because processes and procedures already exists to address these, as well as rich traditions of ethical reflection in rectificatory justice, restitution and reparative justice, retributive justice, and restorative justice (Schweigert 1999).
2. *Public justice* is my term for these duties, as a shorthand way to refer to this particular set of responsibilities.

References

Ackert, L. F., Church, B. K., Kuang, X(J), & Qi, L. (2011). Lying: An experimental investigation of the role of situational factors. *Business Ethics Quarterly, 21*(4), 605–632.

Alsop, R. (2007, March 10). Why teaching ethics continues to be lacking. *Wall Street Journal*. Retrieved May 28, 2012 from Vault blogs at http://blogs.vault.com/blog/admit-one-vaults-mba-law-school-and-college-blog/why-teaching-of-ethics-continues-to-be-lacking/

Aristotle. (1962). *Nicomachean ethics* (M. Ostwald, Trans.). Englewood Cliffs: Prentice Hall. Original published c. 330 BCE.

Boatright, J. R. (2012). *Ethics and the conduct of business* (7th ed.). Upper Saddle River: Pearson Education, Inc.
Buchholz, R. A. (2009). *Rethinking capitalism: Community and responsibility in business*. New York: Routledge.
Christie, N. (1977). Conflicts as property. *British Journal of Criminology, 17*, 1–15.
Comer, D. R., & Vega, G. (2011a). Introduction: Why moral courage matters in organizations. In D. R. Comer & G. Vega (Eds.), *Moral courage in organizations: Doing the right thing at work* (pp. xv–xxii). Armonk: M. E. Sharpe.
Comer, D. R., & Vega, G. (2011b). The personal ethical threshold. In D. R. Comer & G. Vega (Eds.), *Moral courage in organizations: Doing the right thing at work* (pp. 25–44). Armonk: M. E. Sharpe.
Constant, B. (1816). *The liberty of ancients compared with that of the moderns*. Available at http://www.monadnock.net/constant/liberty.html
Corning, P. (2011, April 29). The fairness instinct: Why biology matters to the social contract. *The Chronicle Review*, *29* (April), B8–B11.
DesJardins, J. (2009). *An introduction to business ethics* (3rd ed.). New York: McGraw-Hill.
Dewey, J. (1916). *Democracy and education*. New York: Macmillan, Inc.
Dewey, J. (1927). *The public and its problems*. Denver: Alan Swallow.
Dewey, J. (1975). *Moral principles in education*. Carbondale: Southern Illinois University Press. Original published 1909.
Dewey, J. (1980). *Theory of the moral life*. New York: Irvington Publishers, Inc. Original published 1908.
Dewey, J. (2008). *Human nature and conduct*. New York: Barnes & Noble. Original published 1922.
Dussel, E. (1997). The architectonic of the ethics of liberation. *Philosophy and Social Criticism, 23*(3), 1–35.
Dussel, E. (1999). Six theses toward a critique of political reason: The citizen as political agent (C. Lloyd & E. Mendieta, Trans.). *Radical Philosophy Review, 2*(2), 79–95.
Dworkin, R. (1986). *Law's empire*. Cambridge, MA: Harvard University Press.
Fishkin, J. S., & Luskin, R. C. (2005). Experimenting with a democratic ideal: Deliberative polling and public opinion. *Acta Politica, 40*, 284–298.
Fletcher, J. (1966). *Situation ethics: The new morality*. Philadelphia: Westminster Press.
Frankena, W. K. (1963). *Ethics*. Englewood Cliffs: Prentice-Hall.
Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & De Colle, S. (2010). *Stakeholder theory: The state of the art*. Cambridge, MA: Cambridge University Press.
Friedland, J. (2009, November 13). Where business meets philosophy: The matter of ethics. *The Chronicle of Higher Education*, A26–A27.
Gentile, M. C. (2010). *Giving voice to values: A brief introduction*. Available from Babson College at http://www.babson.edu/faculty/teaching-learning/gvv/Documents/Student/GVV-Brief-Introduction_S.pdf
Gentile, M. C. (2011). Giving voice to values: Building moral competence. In D. R. Comer & G. Vega (Eds.), *Moral courage in organizations: Doing the right thing at work* (pp. 117–129). Armonk: M. E. Sharpe.
George, B. (2007). *True north: Discover your authentic leadership*. San Francisco: Jossey-Bass.
Gregory, R. (1995). Accountability, responsibility and corruption: Managing the "public production process.". In J. Boston (Ed.), *The state under contract* (pp. 56–77). Wellington: Bridget Williams Books.
Gutek, G. L. (1972). *A history of the Western educational experience*. Prospect Heights: Waveland Press.
Hampshire, S. (2000). *Justice is conflict*. Princeton: Princeton University Press.
Holland, K. (2009, March 15). Is it time to retrain b-schools? *New York Times*. Retrieved May 28, 2012 at http://www.nytimes.com/2009/03/15/business/15school.html?pagewanted=all

Jackall, R. (2010). *Moral mazes: The world of corporate managers*. New York: Oxford University Press.
Josephson, M. (2006). The six pillars of character. In J. P. West & E. M. Berman (Eds.), *The ethics edge* (2nd ed., pp. 11–17). Washington, DC: ICMA Press. Original published 2002.
Kalscheur, G. A. (2004, August 2–9). American Catholics and the state. *America, 191*(3), 15–18.
Kania, J., & Kramer, M. (2011, Winter). Collective impact. *Stanford Social Innovation Review*, 36–41.
Kant, I. (1956). *Groundwork of the metaphysic of morals* (H. J. Paton, Trans.). New York: Harper & Row. Original published 1785.
Kaveny, M. C. (2000, December 9). Law, morality, and common ground. *America, 183*(19), 7–10.
Keynes, J. M. (2008). *The general theory of employment, interest and money.* Santa Monica: BN Publishing. Original published 1932.
Kilpatrick, W. (1992). *Why Johnny can't tell right from wrong*. New York: Simon & Schuster.
Kohlberg, L. (1980). Stages of moral development as a basis for moral education. In B. Munsey (Ed.), *Moral development, moral education, and Kohlberg* (pp. 1–98). Birmingham: Religious Education Press. (Original work published 1971).
Lager, J. M. (2009, October). Have a problem with compliance? *Public Administration Times*, p. 3.
Lave, J. (1988). *Cognition in practice: Mind, mathematics, and culture in everyday life*. Cambridge, MA: Cambridge University Press.
Lave, J., & Wenger, E. (1991). *Situated learning: Legitimate peripheral participation*. Cambridge, MA: Cambridge University Press.
Lave, J., Duguid, P., Fernandez, N., & Axel, E. (1992). Coming of age in Birmingham: Cultural studies and conceptions of subjectivity. *Annual Review of Anthropology, 21*, 257–282.
Lee, H. N. (1928). Morals, morality, and ethics: Suggested terminology. *International Journal of Ethics, 38*(4), 450–466.
Lickona, T. (1991). *Educating for character: How our schools can teach respect and responsibility*. New York: Bantam Books.
Lohmann, R. A. (1992). *The commons*. San Francisco: Jossey-Bass, Inc.
Mangan, K. (2006, June 23). Agents of fortunes. *The Chronicle of Higher Education*, A14–A16.
Maritain, J. (1966). *The person and the common good*. Notre Dame: University of Notre Dame Press. Original published 1946.
Millon, D. (1990). Theories of the corporation. *Duke Law Journal, 1990*, 201–262.
Naroll, R. (1983). *The moral order: An introduction to the human situation*. Beverley Hills/London/New Delhi: Sage.
Nussbaum, M. C. (2011). *Creating capabilities: The human development approach*. Cambridge, MA: Harvard University Press.
Padfield, S. (2012). *The silent role of corporate theory in the Supreme Court's campaign finance cases*, *University of Pennsylvania Journal of Constitutional Law* (forthcoming draft, electronic copy available at: http://ssrn.com/abstract=2025159)
Piaget, J. (1965). *The moral judgment of the child* (M. Gabain, Trans.). New York: Macmillan Publishing Co.
Porter, M. (1979, March–April). How competitive forces shape strategy. *Harvard Business Review*, *57*(2)1–10.
Porter, M. E., & Kramer, M. R. (2011, January–February). Creating shared value. *Harvard Business Review, 89*(1/2), 62–77.
Quelch, J. (2005, December 2). A new agenda for business schools. *The Chronicle of Higher Education*, B19.
Rachels, J. (1993). *The elements of moral philosophy* (2nd ed.). New York: McGraw-Hill, Inc.
Rawls, J. (1971). *A theory of justice*. Cambridge, MA: Harvard University Press.
Rawls, J. (1996). *Political liberalism* (Rev. ed.). New York: Columbia University Press.
Rawls, J. (1997, summer). The idea of public reason revisited. *University of Chicago Law Review*, *64*, 765–807.

Rest, J. R. (1994). Background: Theory and research. In J. R. Rest & D. Narváez (Eds.), *Moral development in the professions: Psychology and applied ethics* (pp. 1–26). Hillsdale: Lawrence Erlbaum Associates.

Roemer, J. E. (1996). *Theories of distributive justice*. Cambridge, MA: Harvard University Press.

Ryan, K. (1996). Character education in the United States. *Journal for a Just and Caring Education, 2*(1), 75–84.

Saddler-Smith, E. (2012). Before virtue: Biology, brain, behavior, and the "moral sense.". *Business Ethics Quarterly, 22*(2), 351–376. doi:10.5840/beq201222223.

Schultz, W. J. (2001). *The moral conditions of economic efficiency*. New York: Cambridge University Press.

Schweigert, F. J. (1999). Learning the common good: Principles of community-based moral education in restorative justice. *Journal of Moral Education, 28*(2), 163–183.

Schweigert, F. J. (2007). The priority of justice: A framework approach to ethics in program evaluation. *Evaluation and Program Planning, 30*, 294–399.

Schweigert, F. J. (2011). Predicament and promise: The internal evaluator as ethical leader. In B. B. Volkov & M. E. Baron (Eds.), *Internal evaluation in the 21st century. New directions for evaluation* (Vol. 132, pp. 43–56).

Sen, A. (2009). *The idea of justice*. Cambridge, MA: Harvard University Press.

Shapiro, S. J. (2011). *Legality*. Cambridge, MA: Harvard University Press.

Shiller, R. J. (2012). *Finance and the good society*. Princeton: Princeton University Press.

Sievers, B. R. (2010). *Civil society, philanthropy, and the fate of the commons*. Medford: Tufts University Press.

Smith, A. (1981). *An inquiry into the nature and causes of the wealth of nations, Vol. I.* Indianapolis: Liberty Classics, copyrighted by Oxford University Press in 1976. Original published 1776.

Svara, J. (2007). *The ethics primer for public administrators in government and nonprofit organizations*. Sudbury: Jones and Bartlett Publishers.

Tawney, R. H. (1920). *The acquisitive society*. New York: Harcourt, Brace and Company.

Trevino, L. K., & Nelson, K. A. (2007). *Managing business ethics: Straight talk about how to do it right* (4th ed.). Hoboken: Wiley.

Weissbourd, R. (2003, March). Moral teachers, moral students. *Educational Leadership, 60*(6), 6–11.

Wettstein, F. (2009). *Multinational corporations and global justice*. Stanford: Stanford University Press.

Zigler, R. L. (1998). The four domains of moral education: The contributions of Dewey, Alexander and Goleman to a comprehensive taxonomy. *Journal of Moral Education, 27*(1), 19–33.

Chapter 14
Sustainability, Justice, and Virtue

Howard Harris

The argument most frequently used to justify the call for sustainability in business and life generally is based on notions of distributive justice (see, for instance, Dobson 1998; Jacobs 1999; Tencati and Perrini 2011). This chapter sees a strong link between sustainability and justice, but in a different way, concerned more with the development and exercise of the virtue of justice by individuals.

Sustainability is thus more personal, and is something involving personal effort. It is a work of justice.

The first section in the chapter provides a short restatement of the conventional view that sustainability is principally about intergenerational justice, and introduces some alternative positions. This is followed by a section in which the three main approaches to justice – utilitarian, rights, and virtue – are outlined (after Cotton 2001). The third section is concerned with the argument that justice is a virtue, that it is a quality of character as well as a measure of distribution, and that this personal virtue can be developed in community. The fourth section considers the interrelationship between the virtue of justice and sustainability, and shows that both sustainability and justice require personal effort. The conclusion reinforces the argument that runs through the paper that sustainability is something to be worked at now, that a commitment to sustainability is not a wish for the future but an action in the present.

H. Harris (✉)
School of Management, UniSA Business School, Adelaide, SA, Australia
e-mail: howard.harris@unisa.edu.au

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_14

Introduction

The Club of Rome report in 1972 drew attention to the possibility that the earth faces ‘Limits to growth’, and that these limits might be reached within the lifetime of many of its current inhabitants unless the then equations or paths of growth were attenuated (Meadows et al. 1972). The term sustainability gained recognition and authority by its use in two United Nations-sponsored activities, the 1987 report of the World Commission on Environment and Development, the *Brundtland Report* (1990), and the 1992 Earth Summit held in Rio de Janeiro. The theme of both is development, especially development for what was then called the Third World. The intergenerational element is clear in the report’s title, *Our common future* and in Brundtland’s definition: ‘Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future’ (Brundtland 1990). A slightly different form of this definition, found a little later in the WCED report, has found much wider usage, often as a definition of sustainability in general. Under this formulation, the focus on future generations is explicit and the reference to aspirations dropped, as has the concept of seeking, resulting in the phrase ‘meets the needs of the present without compromising the ability of future generations to meet their own needs’ (Brundtland 1990). This statement underpins much of the writing and practice about sustainability. It can be found in numerous books, curriculum materials, and websites, and in the sustainability reporting guidelines of the Global Reporting Initiative (GRI 2006). On this approach, ‘Futurity: an explicit concern about the impact of current activity on future generations’ and equity are core ideas in the discussion of sustainability (Jacobs 1999).

This approach to the definition of sustainability is contested. This point did not go unnoticed by the WCED team, and they included in their report a comment by a speaker at public hearings conducted by them in Sao Paulo while they prepared their report. The unidentified person told the Commission, ‘You talk very little about life, you talk too much about survival’ (Brundtland 1990). In a similar vein Amratya Sen has expressed concern that the emphasis is on needs and not on capabilities. He writes (Sen 2004):

> The world has good reason to be grateful for the new prominence of this idea, yet it must be asked whether the conception of human beings implicit in it is sufficiently capacious. Certainly, people have ‘needs’, but they also have values, and, in particular, they cherish their ability to reason, appraise, act and participate. Seeing people in terms only of their needs may give us a rather meagre view of humanity.

Another concern (of which more later) is that the WCED definition does not provide any guidance on what is to be distributed justly across generations. Some activists in the environmental justice movement argue that ‘the environment is a particular form of goods and bads that society must divide among its members‘(Dobson 1998) whereas other environmentalists have wider concerns such as the preservation of wilderness (Carter 2009), and supporters of the triple bottom line will be concerned about an even broader canvas including social and economic sustainability as well as the environment. That we do not know what the needs, let alone the aspirations, of future generations will be makes it difficult to decide what we should constrain, or distribute. This may be one reason why there are so many definitions of sustainability – the number exceeded 300 and was still rising when Dobson (1998) did a count more than a decade ago.

Although the Bruntland definition has stood the test of controversy, as shown by its continued and widespread use, the examination of others ways of defining sustainability may help individuals to see how they can influence and participate in sustainability.

Approaches to Justice

This paper accepts, after Jacobs (1999), that the future and equity are important elements in the concept of sustainability and that sustainability and justice are linked, but does not accept that the relevant linkage mechanism is to be found in the concept of (intergenerational) distributive justice. I will argue that by considering justice as a virtue a broader notion of sustainability will be fostered, one in which individuals today will be engaged, and perhaps working hard. Before embarking on that argument it is necessary to outline the three main approaches to justice: utilitarian, rights, and virtue.

The description that follows is based on the introduction provided by Michael Sandel, who described the ideas behind these three ways of thinking about justice as 'maximising welfare, respecting freedom, and promoting virtue' (2009).

Under the popular definition sustainability means that the needs of both current and future generations will be met. In a utilitarian approach to ethical decision making, the goal will be to maximise welfare. If this approach is adopted to assist in the understanding and practice of sustainability, questions will arise as to what is to be included in the calculation of welfare, as to the time period over which the maximisation of welfare is to be sought, and as to the extent that the distribution of welfare is to be taken into account both within any one generation and across generations. If future generations have an uncompromised ability to meet their needs that would seem to suggest that they will be able to achieve a level of welfare at least equal to that of the present generation or that they will have a modified set of needs, perhaps having cut their coat to match their cloth. But is that just? The concern is for a just allocation.

Another approach is to focus attention on freedom and to say that the most important element to be sustained is human freedom, without which there can be no justice. Some might consider the key freedom to be provided by the opportunity to participate in a free market and to make free choices in it, including choices about what to value. Others, after Kant, might consider the central freedom to be the capacity to choose under which rule they should live. Thus for sustainability this approach to ethical decision making will tend more to focus on the maintenance of certain fundamental rights. As Sandel notes, 'making sense of Kant is not only a philosophical exercise; is also a way of examining some of the key assumptions implicit in our public life' (2009).

The third approach is concerned not with the justice that is demonstrated in an appropriate level or measure of welfare, or the justice demonstrated in the existence of certain freedoms or rights, but with that quality of character known as justice, one of the virtues 'on which the good society depends' (Sandel 2009).

At this stage I will note some of the difficulties that come from using either the utilitarian or the rights approaches when considering the link between sustainability and justice. The conventional definition holds that sustainability is about just allocation. Basing sustainability in utility makes it a matter of calculation rather than principle. If that is so, then it lessens the grounds on which sustainability can make a moral claim on individuals (and society). If sustainability is not a principle to be fought for or defended, but the result of a calculation, then its attraction will be lessened. In the context of sustainability, utilitarianism is not only subject to the criticism that there is no single measure available with which to calculate the various individual utility functions, but to the added difficulty that any calculation involving intergenerational justice will have to span long periods of time.

If, as Nozick (1993) for instance argues, each individual has a right to make a free choice about what they value, then the concept of intergenerational justice is perhaps thwarted, deprived of any power to move society toward a goal of sustainability. Each can make his or her own decision as to what needs (and aspirations, even capabilities) to seek in the present, but the needs which the future generation will be meeting cannot be foretold. That makes it difficult to justify or to mount any coordinated effort to protect or develop a particular element of society or the environment. That applies as much to action by government or some other authority to enforce actions in support of sustainability as it does to any autonomously evolving campaign. Rawls establishes a right to just distribution in the deliberations of the 'original position' where no one knows their ultimate status in society (Rawls 1972), but this still leaves open how things are to be valued.

It is to this difficulty in determining what is to be valued that the virtue approach can make a contribution. On the one hand, virtue, similar to utilitarianism and rights, does not have a universally accepted position on what should be valued but it does have a process for investigation. The virtue approach involves cultivating the attitudes and dispositions on which society depends and 'reasoning about the common good' (Agosto et al. 2008). This is both an individual and a communal activity, personally cultivating virtue and collectively debating the right way to value things. As I argue next, both these are important elements of sustainability.

A disadvantage or difficulty of the virtue approach is that it is personally demanding in a way that the other two approaches are not. No longer is sustainability something I can commit to and perhaps follow some rules or possibly burdensome strictures in support of it. It is work, for the discussion and cultivation requires work by both individuals and communities. Having the discussion about what to value is work as much as personally cultivating a disposition toward justice.

Some argue that virtue is of itself insufficient as an approach to ethics, or sustainability. Solomon, among others, has argued that the virtue approach is effective, calling it ‘a better way to think about business’ (Solomon 1999), and McCloskey (2006)has provided a comprehensive mapping of the classical virtues as they apply to contemporary finance.

Although virtue is cultivated in community, and is an individual and community activity, it is worth noting here that business ethics is not only an individual activity and a corporate one but also to be considered at the macro- or societal level (Solomon 1992). Solomon points out that the concepts and values that define macro business ethics are ‘already well developed’ and goes on to argue ‘for the importance of micro business ethics—the concepts and values that define individual responsibilities and role behavior.’ That is the focus of this chapter.

Justice as a Virtue

The linking of justice with issues of sustainability and distribution brings to the fore the social role and organizational nature of justice. It is here that Rawls begins *A Theory of Justice*, calling it ‘the first virtue of social institutions’ and making ‘the basic structure of society’ its primary subject (Rawls 1971). However, it is the idea of justice as an individual virtue that is the focus of this paper. That particular virtue or moral excellence is principally concerned with ‘moral issues having to do with goods or property’ (Slote 2010), and the concept can be traced back at least as far as Plato.

This ‘conception of individual justice…ties justice (acting justly) to an internal state of a person rather than to (adherence to) social norms or good consequences’ (Slote 2010), thereby rejecting the utilitarian and rights/freedom approaches and making it an example of the virtue approach. Put in perhaps simpler terms, ‘only the just can know what justice is’ (Hamilton 1961) or ‘we become just by acting justly’ (Aristotle 1953). Both these statements point to the dynamic nature of the moral virtues, that they can be developed through practice and from example. This will be important when considering sustainability as a work of justice.

The purpose of the *polis*, the engagement of individuals in the life of the society or state, is ‘to form good citizens and cultivate good character’ (Sandel 2009). To determine which virtues are to be honored and rewarded in society involves reason and argument, to determine the ‘goods internal to practices’ (MacIntyre 1985) that contribute to the growth and enjoyment of the individual undertaking some practice and seeking to do it well. Aristotle’s examples range from the practical in the playing of flutes through the building of houses to the development of courage and the capacity to act justly. The purpose of every art, job, or practice, he argues (Aristotle nd), is some good. To determine its value we need to understand its purpose or essential nature, in the sense that the purpose of flutes is to be played well. I would argue then that the purpose of sustainability is to allow, encourage, and enhance the good society and its physical, intellectual, and moral virtues. Sustainability is a debate about purpose.

The Journey Aspect: Working Toward Sustainability

The first Brundtland definition included an aspect of incompleteness and mission—'sustainable development seeks to meet…'—which is lost in the second and much more widely used statement that sustainability 'meets the needs…' (Brundtland 1990). The active verb 'seeks' with its connotation of expeditions and discovery has been replaced by the passive 'meets' with the implication that the task has already been achieved. The idea that we should be "working toward" justice and sustainability not only acknowledges that this is unfinished business requiring an ongoing effort but also recognizes that there is no sufficiently well-defined set of universal values with which to assess the relative merit of trees, jobs, and health.

This plurality of values in the contemporary world could be used as a reason to do little if anything to seek out more than the broadest of definition of sustainability, sustainability light, as it were. Support could be found in at least two arguments: that failure is certain and so any effort would be wasted, or that it would be a repudiation of individual freedom to seek to change another person's view of the relative worth of those various things which are held to be valuable. Virtue provides grounds for rejecting this do-little approach. Both Aristotle and MacIntyre point to the personal benefit that can come as one seeks to develop moral virtue and understand purpose. For Aristotle, to be a better person, to have a virtue or any number of them more deeply than before, or to understand more clearly how particular virtues that one has relate to each other and to the whole, give reason to engage in the development of one's moral capabilities even if of no immediate use.

Where there are goods internal to the practices then there will be a benefit for the practitioner even when the intended external goal is not met. MacIntyre acknowledges the importance of flow and time when he writes, 'I can only answer the question, 'What am I to do?' if I can answer the prior question, 'Of what story or stories do I find myself a part?'' (1985). That there are multiple stories, that each of us might be part of more than one, is a challenge, an opportunity to exercise reason, rather than an invitation to inaction.

The plural society need not inhibit debate; indeed, it heightens the need for the development of virtue and the capacity for reflection (Harris 2008). Furthermore, Gardner (2011) argues that, even where there is widespread acceptance of a multiplicity of views about what constitutes truth, beauty, and goodness, engagement in a 'movement toward' truth is essential if truth and society are to be sustained. The questions raised by any examination of what is meant by sustainability and how it is to be achieved cannot be answered without consideration of ethics, and 'our debates about justice unavoidably embroil us in substantive moral questions' (Sandel 2009). Thus, an attempt or desire to introduce a form or process of sustainable allocation on the basis of equivalence will lead to consideration of whether the future generations will (or should) attribute the same value to the item being allocated as we do in this generation. Those in Generation Y, we are told, have different values, honor, and reward different virtues to those from the Babyboomer generation. Is it sustainable that what is sustained changes from generation to generation? Sandel (2009) acknowledges the link between allocation, value, and justice when he writes: 'Justice is not only about the right way to distribute things, it is about the right way to value things.'

A Work of Justice

This section of the paper discusses the nature and value of the work involved when sustainability is considered to be a work of justice. It draws on MacIntyre (1985, 1988) and the notion of goods internal to practices to show how such work can contribute to personal fulfilment, result in tangible benefits to society and enhance engagement in a community, all at the same time.

Both MacIntyre and Aristotle tell us, from their positions more than 2000 years apart, that the cultivation of virtue is not easy: it requires practice. This is part of the work of justice. Any moral virtue in its desired state lies in a mean between the extremes of excess and deficiency, courage for instance between rashness and cowardice, justice between the extremes of giving too much and giving too little. As this mean is not an arithmetic mean, the finding of it requires the application of reason, and engagement in a process of moral decision making. One aspect of the work is participation with others in the process. Earlier I referred to unavoidable debates. Participating in those debates—enunciating a position, listening intently to different views, seeking common ground—requires effort.

It may be that the debate is conducted through stories, as different tales capture the reality of variations in the value and honor attached to specific items at different times and in different places. The work is not only in the telling of the story for sometimes the story will become real and its implementation unavoidable. Telling the story, looking after it, and nurturing it is a responsibility, for 'you can't really take pride in your country [or profession, or wilderness] and its past if you're unwilling to acknowledge any responsibility for carrying its story into the present, and discharging the moral burdens that may come with it' (Sandel 2009).

This concept has implications for ethics education and sustainability education throughout the education system, organizations, and society. Where case studies are used, the cases should be chosen to encourage debate rather than unalloyed condemnation or praise for one participant at the expense of another. Cases where the same item – a stream, the companionship of domestic animals, the classics of art and literature, for instance – is valued differently by a number of different participants in the case, and where there is a matrix of stakeholders and valued goods, will provide a greater opportunity to discuss what is necessary to maintain the society and the environment for generations to come than two-party, A against B, cases. Case studies can be put to a number of purposes: open-ended cases can invite the search for a solution, others may be chosen to demonstrate the application of a particular theory or principle, some may be examples of good practice or the consequences of despicable behavior. In the teaching of ethics, especially to adults, cases which allow and encourage those studying it to examine how the participants responded to the conflicts of values and the interplay of internal and external goods have been found particularly effective (O'Donovan 2002).

Conclusion

Although the most common framing of sustainability is in terms of intergenerational (distributive) justice, that view is open to criticism both practical and conceptual. It is more helpful, I argue, to consider justice as an individual virtue than as a social virtue. On this basis sustainability is something to be worked at now: a commitment to sustainability is not a wish for the future but an action in the present.

Sustainability is a debate about purpose, a debate about what to value in a world where there are wide differences about how some goods are to be valued. That debate occurs both within communities and between communities. Understanding the traditions that have led to the practices of the community in which one is placed, and of the other communities with which one engages in a search for sustainability, will be enhanced by a disposition to openness and to justice.

References

Agosto, D. E., Gasson, S., & Atwood, M. (2008). Changing mental models of the IT professions: A theoretical framework. *Journal of Information Technology Education, 7*, 205–221.

Aristotle. (1953). *Nicomachean ethics*. Harmondsworth: Penguin Books.

Aristotle. (n.d.). *Politics*. publication details not stated: Heron Books Series, published in assoc with JM Dent.

Brundtland, G. H. (1990). *Our common future*. Australian Aufl. Canberra: World Commission on Environment and Development.

Carter, A. (2009). Distributive justice and environmental sustainability. *Heythrop Journal*, *XLI*, 449–460.

Cotton, A. H. (2001). Private thoughts in public spheres: Issues in reflection and reflective practices in nursing. *Journal of Advanced Nursing, 36*(4), 512–519.

Dobson, A. (1998). *Justice and the environment: Conceptions of environmental sustainability and theories of distributive justice*. Oxford: Oxford University Press.

Gardner, H. (2011). *Truth, beauty, and goodness reframed: Educating for the virtues in the twenty-first century*. New York: Basic Books.

GRI. (2006). *Sustainability reporting guidelines G3*. Amsterdam: Global Reporting Initiative.

Hamilton, E. (1961). Introduction to the republic. In E. Hamilton & H. Cairns (Eds.), *The collected dialogues of Plato* (Bolligen series lxxi, pp. 575–576). New York: Pantheon Books.

Harris, H. (2008). Promoting ethical reflection in the teaching of business ethics. *Business Ethics: A European Review, 17*(4), 379–390.

Jacobs, M. (1999). Sustainable development as a contested concept. In A. Dobson (Ed.), *Fairness and futurity: Essays on environmental sustainability and social justice* (pp. 21–45). Oxford: Oxford University Press.

MacIntyre, A. (1985). *After virtue* (2nd ed.). London: Gerald Duckworth.

MacIntyre, A. (1988). *Whose justice? Which rationality?* Notre Dame: Univ of Notre Dame Press.

McCloskey, D. N. (2006). *The bourgeois virtues: Ethics for an age of commerce*. Chicago: University of Chicago Press.

Meadows, D. H., Meadows, D. L., Randers, J., Berhens, W. W., & III. (1972). *The limits to growth: A report to the club of Rome's project on the predicament of mankind*. London: Earth Island.

Nozick, R. (1993). *The nature of rationality*. Princeton: Princeton University Press.

O'Donovan, O. (2002). *Common objects of love*. Grand Rapids: Eerdmans.

Rawls, J. (1971). *A theory of justice* (1st ed.). Cambridge, MA: Harvard University Press.
Rawls, J. (1972). *A theory of justice*. Oxford: Oxford University Press.
Sandel, M. J. (2009). *Justice: What's the right thing to do?* London: Penguin.
Sen, A. (2004). Why we should preserve the spotted owl. *London Review of Books, 26*(3), 10–11.
Slote, M. (2010). Justice as a virtue. In Edward N. Zalta (Ed.),*Stanford encyclopedia of philosophy* (pp. 429–448). http://plato.stanford.edu/archives/fall2010/entries/justice-virtue/%3E.
Solomon, R. C. (1992). *Ethics and excellence: Cooperation and integrity in business*. New York: Oxford University Press.
Solomon, R. C. (1999). *A better way to think about business: How personal integrity leads to corporate success*. New York: Oxford University Press.
Tencati, A., & Perrini, A. (2011). Business ethics and corporate sustainability. In L. Zsolnai & G. Brenkert (Eds.), *Studies in transatlantic business ethics*. Cheltenham: Edward Elgar.

Chapter 15
Moral Reasoning and Learning Outcomes in Undergraduate Business Education: A Cross-Cultural Exploration

Jessica McManus Warnell, Maria Cecilia Coutinho de Arruda, and Cheng Wang

Introduction

As the economy lumbers out of its global slump, scholars, business school administrations, and societal and other stakeholders at all levels continue to scrutinize business education, particularly in the area of ethical decision making and behavior. Competition for employment is fierce, and corporate leaders are called to account for outcomes across the triple bottom line of financial, ethical, and environmental performance.

Assessment of learning outcomes—measurable, meaningful indicators that pedagogy and content are effective in enhancing skills and influencing behavior—receives ever-increasing attention as business schools around the world respond to calls for accountability. Concurrently, schools face mounting pressures: from corporate recruiters and from industry; from accreditation organizations; a climate of rankings-fever and competition; students, and parents of students, clamoring for a solid return on investment; and other demands to indicate what schools are "doing" and whether it "works." The formative role of business schools must be considered.

J.M. Warnell (✉)
Department of Management, Mendoza College of Business, University of Notre Dame, Notre Dame, IN, USA
e-mail: jmcmanus@nd.edu

M.C. Coutinho de Arruda
ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil
e-mail: heticabrasil@gmail.com

C. Wang
Postdoctoral Research Associate, Department of Sociology, Cornell University, Ithaca, NY, USA

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_15

Attention to ethics is critical in times of crisis and scandals often generated by greed, unconscious consumption, and pleasure. It is important to notice that not only universities and families, but also enterprises, act as storehouses to foster attitudes of integrity and maturity. Ethical capitalism will lead to seeking profits with a spirit of building a society driven by freedom and peace (de Arruda 2012).

The market is reacting and focusing on emerging professionals—our business students. For example, a recent study exploring the future of business asserts that "Restoring and enhancing the reputational capital of business … has a twofold importance for today's business leaders—first, to address the decline in trust in business among wider society [in the wake of the scandals] and secondly, to understand and realize the opportunities inherent in the new direction being shaped by the Millennial generation" (Deloitte 2011, p. 3). These emerging professionals are primed to meet this call—"Millennials believe that business has a societal purpose… They have high expectations that business is best suited to taking a leadership role in solving some of society's biggest challenges….." (Deloitte 2011, p. 3). This report, presented as a resource for business leaders, reflects just one example of the recognition of this proclivity and demand for implementable skills in social impact management.

Within this context, scholars explore learning outcomes associated with various curricular interventions, with a necessary eye on measurement. The objective of this study is to explore one approach to equipping emerging business professionals with the acumen for success, and a measure of impact on students' capacity for effective, ethical decision making. We explore a 3-year longitudinal assessment of learning outcomes related to moral reasoning capacity with undergraduate business students at a premier U.S. college of business. Findings from the longitudinal study are complemented by highlights from results administering the same assessment with students at a top-tier business school in São Paulo, Brazil.

Overview and Theory

Curricular experiences at a highly competitive university in the United States provide one example of a pedagogical approach to business ethics education. Consistent with outcomes from other studies (Rest et al. 1999; Neubaum et al. 2009; Christensen et al. 2007; Caldwell 2010), this research indicates that students who complete a course with dedicated ethics content indicate resonance of concepts and theoretical foundations of ethical decision making, but show room for growth in translating this "knowing" to "doing" (McManus Warnell 2010, 2012). Thus, although dedicated ethics curricula are associated with significant learning outcomes for students in the area of moral reasoning, the opportunity remains to translate *moral intention* to *application and behavior* in the business context.

Two undergraduate business schools were considered in this exploration. A longitudinal study represents data from the University of Notre Dame Mendoza College of Business (ND-MCOB) in Indiana, United States. Since its inception, ND-MCOB has explicitly included attention to values and integrity, and this ethos is clearly reflected in the business school. Three class cohorts of students participated in this study ($n = 1208$), representing 70 % of undergraduate business students at this university. The university's college of business expresses its mission "to build a premier Catholic business school that fosters academic excellence, professional effectiveness and personal accountability in a context that strives to be faithful to the ideals of community, human development and individual integrity." Further, the college is representative of top-tier business education in the United States, consistently recognized in various national rankings of business schools, for example, most recently ranked the nation's top business schools by *Bloomberg Businessweek* (2012). Commitment to ethics in the curriculum has also been recognized, as evidenced by the top ranking in business ethics as a specialty area (*Bloomberg Businessweek*2012). Finally, the graduate program is recognized globally among top business schools addressing social and environmental management in curriculum and research (Aspen Institute Beyond Grey Pinstripes, 2011) and Corporate Social Responsibility (Financial Times, 2010). ND-MCOB is a signatory of the Principles for Responsible Management Education (PRME), the foremost global initiative aimed at fostering corporate responsibility in business education.

All undergraduate business students are required to take a 1.0-credit course, BAET 20300: Introduction to Business Ethics, which introduces the conceptual foundations of ethical theory and explores topic-based examples in multiple dimensions of business. During the survey period, the course was taught by one of four instructors. Two instructors are tenured faculty in management and marketing, and both focus their scholarship and teaching on ethical dimensions of their respective fields. A third instructor is a management teaching professor who focuses on business ethics and sustainability, and the fourth is an adjunct faculty member and priest who also serves the university in administrative capacities. Each instructor uses the same textbook, and the group meets regularly to coordinate the general presentation of material. Although each instructor incorporates some unique information, the topics and framework are consistent. Students are introduced to the various theoretical perspectives of ethics in business. Also included is a focus on the meaning and value of work, moral rights and responsibilities at work, and the environmental responsibilities of business. Case studies are explored through readings, video clips, and review of corporate documents. The final exam is cumulative. Each course shares a set of course objectives (see following), including three sequential components aimed at moral action as the cumulative step in moral formation.

The course has the following objectives:

1. Raise ethical awareness—the course will introduce and explore the ethical dimensions of business. The objective is to enhance awareness of and sensitivity to the broad range of ethical issues in business.
2. Improve ethical knowledge—the course will introduce key terms and concepts. The objective is to understand the major theoretical foundations of ethics, moral judgment, and decision making.
3. Enhance ethical judgment—the course will provide and improve skills of ethical decision making. The objective is to move beyond identifying and understanding ethical issues in business to identifying and acting on the appropriate course of action.

Instructors explicitly indicate in the language of the course objectives and class lecture that the goal of successful ethics education has three parts—awareness, knowledge, and action/behavior. This framework is consistent with the Four Component Model of Morality (Rest and Narvaez 1999) and allows for ready exploration of course outcomes within this framework. Thus, in evaluating the required course, we are attempting to explore the ability of students to perform the following actions:

1. Successfully identify ethical issues—key facts, considerations, and concepts
2. Appropriately incorporate terms and theoretical concepts of business ethics into analyses of such issues
3. Display aptitude in identifying the appropriate resolution of ethical dilemmas, and proclivity toward ethical decision making.

Given course objectives and considering the Four Component Model, we developed four measures across which we expected change from pre-course to post-course. Analyses focus on student change from orientation to completion of an ethics course, specifically, change related to moral sensitivity, moral judgment, moral motivation and commitment, and moral character and competence. We expected change reflecting enhanced sensitivity to moral issues, more sophisticated analysis of key terms and concepts, increased aptitude for describing and identifying appropriate resolutions to the case dilemma, and increased proclivity toward ethical decision making.

Second, the results of the longitudinal study at ND-MCOB are complemented with a small but compelling set of qualitative responses from a top South American business school. Fundação Getulio Vargas is a hallmark of the education field for reasons of its excellence and quality in its undergraduate and graduate programs, applied research activities, and consulting services. Today, it is composed of 11 schools and units, located in Rio de Janeiro, São Paulo, and Brasilia. Since its creation in 1954, The School of Business Administration of São Paulo (FGV-EAESP) has stood out for its pioneering character. It was the first management school outside the United States, the first undergraduate program and professional masters program in business administration in Brazil, and the first Brazilian private school to offer students reimbursable scholarships. The School's first accreditation was by AACSB (The Association to Advance Collegiate Schools of Business) in 2000. Since then, the School has continued to internationalize. In 2001, FGV-EAESP was accredited by EQUIS (European Quality Improvement System) of the European Foundation for Management Development (EFMD) and, in 2004, by the Association of MBAs (AMBA), thereby becoming the first business school in Latin America to receive the "triple crown." FGV-EAESP has maintained these accreditations and was appointed fourth best business school in Latin America for its Academic Master in Business Administration (CMAE) and Professional Master in Business Administration (MPA) programs in a survey published by *America Economia*. Similar to ND-MCOB, FGV-EAESP is a signatory of the Principles for Responsible Management Education (PRME).

FGV-EAESP does not include a mandatory ethics course for business majors; however, students are able to explore these concepts in several courses, including Fundamentals of Philosophy, Sociology, Sustainability and Human Resources.

Spink (2012) understands that when one goes deep into scientific work, ethical and moral issues are simultaneously assumed. Based upon a governmental requirement, all faculty members are asked to mention or discuss ethical issues in their specific classes. Selected students are exposed to 3-week sustainability and social responsibility programs developed in low-income areas during school holidays. Projects include mapping the socioeconomic conditions of the local population and organizing the business inclusion of its small producers. Such an experience has brought significant awareness of social justice and responsibility, personal and business ethics, and individual and corporate citizenship to the sophomore participants.

This chapter explores outcomes associated with the sophomore-level required course in business ethics theory at ND-MCOB, considers a sample of results from FGV-EAESP, and briefly compares contexts. We envision this paper as a preliminary exploration of these topics.

Methodology

The case study analysis was conducted in two diverse contexts: first, a longitudinal study at the University of Notre Dame Mendoza College of Business (ND-MCOB), comparing pre- and post-course results with three class-year cohorts, and second, a one-time assessment of responses from a small sample of students from the School of Business Administration of São Paulo (EAESP) at Fundação Getulio Vargas (FGV). Our goal was to complement findings of the longitudinal study with qualitative data from students in a different institutional context and to lay a foundation for further comparison.

University of Notre Dame Mendoza College of Business

Units of Analysis

The units of analysis of this case study are the students in the University of Notre Dame Mendoza College of Business (ND-MCOB) class of 2012 and 2013 who have taken the required ethics course, *BAET 20300: Introduction to Business Ethics*, taught by one of four different instructors, and who have completed both the pre- and post-course survey instruments.

The pre-course survey was administered at orientation to the Mendoza College of Business. The students were asked to read an article depicting a business ethical issue and input their responses via the online tool called SurveyMonkey. They were not notified that this would recur sometime later. During their sophomore year in the College the students were required to take the ethics course, and at the conclusion of the course they were asked to respond to the same case they had analyzed during orientation, again utilizing the SurveyMonkey tool.

In the class of 2012, 553 students responded to the pre-course survey, 562 students participated at post-course, and 462 took both the pre- and post-course surveys. Thus, we can perform a longitudinal study of these 462 students to explore changes in their perceptions of business ethics and in their analysis of a case ($n = 462$). In the class of 2013, 671 students responded to the pre-course survey, 566 students participated at post-course, and 491 took them both ($n = 491$). Cohort 1 of this study, with results reported in an earlier publication (McManus Warnell 2010), the graduating class of 2011, is composed of 556 business students, representing 26.1 % of all university undergraduates; Cohort 2, class of 2012, is composed of 569 business students or 27.1 % of all university undergraduates; and Cohort 3, class of 2013, 621 business students or 32.5 % of all university undergraduate students. The study is representative of undergraduate business students, with $n = 255$ (Cohort 1), $n = 462$ (Cohort 2), and $n = 491$ (Cohort 3), representing 45.8 %, 81.2 %, and 79.1 % of the student populations, respectively.

The students were also asked to identify several demographic characteristics including gender and academic major (accounting, finance, management, marketing, or other), and questions regarding their perceptions of the influence of religion in their lives, their political views, and service/volunteer experiences. Table 15.1 and Table 15.2 show the demographic profile reflecting gender and academic majors of the two cohorts.

Table 15.1 Demographics of students in the ND-MCOB class of 2012

	Gender		
Major	Female	Male	Sum
Accounting	54	63	117
Finance	42	139	181
Management	37	31	68
Marketing	61	30	91
Other	2	3	5
Sum	196	266	462

Table 15.2 Demographics of students in the ND-MCOB class of 2013

	Gender		
Major	Female	Male	Sum
Accounting	66	73	139
Finance	44	155	199
Management	36	34	70
Marketing	52	29	81
Other	1	1	2
Sum	199	292	491

Data Collection, Processing, and Analysis

We used Survey Monkey as the data collection platform because we have a subscription available for use by faculty in the College of Business. The students' text responses are automatically recorded in the SurveyMonkey file and exported as a data file in Microsoft EXCEL 2003 format.

We used SPSS Text Analysis for Surveys (version 2.1) to conduct a content analysis of the four open-ended case study questions in each of the pre- and post-course surveys. All the text responses are imported to the software by the unique ID of each student. Items/categories are created based on the scoring rubric of each question. Key words and phrases are extracted from the text responses to define each item/category as shown in Fig. 15.1. For example, for question 2 "Can you identify any major principles/theories that would relate to this case?" the text response is automatically classified into the "Deception" item/category if any of the following words are detected: cheat, deceive (deceiving), deceit, entice (enticing), fooling, lure (luring), scam, seduce, swindle, trap, trick, and etc., or into the "Honesty" item/category if any of the following words or phrases are detected: accurate information, all the details, all the information, symmetric information, aware of, disclosure, full knowledge of, full information, fully disclosing, honest(y), transparent (transparency), and etc. The categorization results are double checked to detect the subtlety and nuance in survey answers, and some text responses are excluded from a certain item/category whereas others are forced into it. Figures illustrating text analyses can be found in the Appendix.

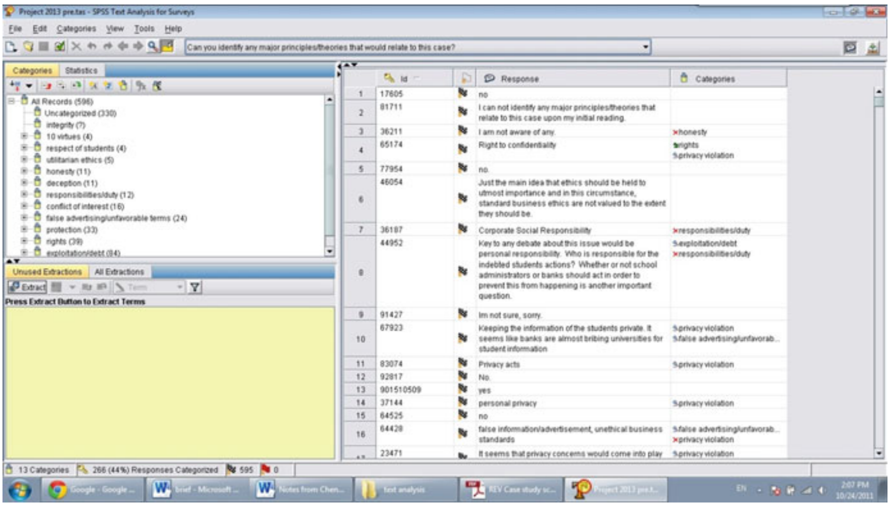


Fig. 15.1 Working interface of SPSS Text Analysis for Surveys (version 2.1)

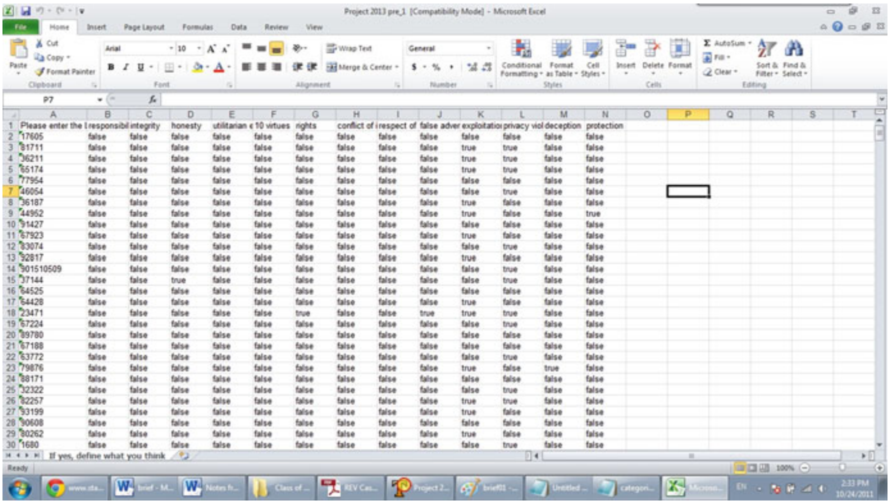


Fig. 15.2 Microsoft EXCEL spreadsheet for question 2 of cohort 2013

After all the text responses are categorized, a Microsoft EXCEL spreadsheet is generated for each question (Fig. 15.2). The rows are the unique IDs and the columns are all the items/categories of the question. It shows "true" if the text response is sorted into one certain item/category and "false" if it is not. According to the scoring rubric as showed in the Appendix, the total point is calculated for each student in the spreadsheet. And finally, all the item sums of the four open-ended questions in the pre- of post-course surveys are merged in to a single data set for each student with her/his demographic characteristics by the unique ID.

School of Business Administration of São Paulo at Fundação Getulio Vargas

Units of Analysis

A small group of students at the School of Business Administration of São Paulo at Fundação Getulio Vargas (FGV-EAESP) completed the same case study analysis. Although the number of responses precludes comparison of the student data between the two schools, it is illustrative to consider the FGV-EAESP data qualitatively, and explore some similarities and differences.

Data Collection, Processing, and Analysis

An invitation to participate in the study was sent in two mailings to 600 students registered in the first three semesters of the Undergraduate Program of Business Administration at FGV-EAESP. The students received the message from a

Table 15.3 Demographics of students in the FGV-EAESP cohort

Major	Gender		Sum
	Female	Male	
Accounting	2	3	5
Finance	0	5	5
Management	1	2	3
Marketing	1	0	1
Other	0	0	0
Sum	4	10	14

well-liked instructor; however, no incentive or requirement was provided for participation. The students received the original invitation and two reminder e-mails.

Fourteen (14) students participated in the survey. In contrast to the ND-MCOB cohorts, the FGV-EAESP students did not complete the survey as part of a course, nor did they complete it as a pre- and postintervention instrument. Rather, the FGV-EAESP students took the survey one time and did so without incentive or requirement. Rationale for this project design and implications is discussed below. The FGV-EAESP data are included as an interesting opportunity to explore some similarities and differences, although longitudinal or comparison analyses or not included.

The survey design was identical for both the ND-MCOB and FGV-EAESP studies. Students were asked to identify the same set of demographic characteristics in both surveys; Table 15.3 shows the demographic profile of the FGV-EAESP respondents.

A critical difference in the units of analysis was the mechanism of obtaining participants. The ND-MCOB students participated at pre- and post- as part of a requirement for a class, or at the invitation, sent multiple times, of the Dean of the college. The FGV-EAESP student participation was entirely elective and results will be presented following the discussion of the longitudinal study at ND-MCOB.

Materials and Procedure

The instrument developed for this Case Study Analysis was used with an earlier cohort of ND-MCOB students, with results published in *the Journal of Business Ethics Education* (McManus Warnell 2010). Discussion of materials and procedure is adapted from this preliminary report. Longitudinal comparisons of these earlier results is included here and includes only the data from ND-MCOB. Because of the small number of responses to the FGV-EAESP study and the lack of pre- and post-intervention comparison data, this discussion of materials and procedure is specific to the ND-MCOB study. FGV-EAESP data are discussed as complementary results following this analysis.

Case study analysis data were coded using a standardized rubric exploring change in sophistication of analysis and incorporation of relevant terms and concepts. Two research assistants were provided a rubric of keywords by category to assign scores based on content analysis. After specific training on application of the rubric, research assistants scored 20 case study responses each and returned them to this author for review. After consistency was determined, all case studies were analyzed. The scoring rubric for this assessment, the "Case Study Response," is a four-item assessment based on the Four-Component Model of Morality (4CM) (Rest and Narvaez 1999) and examines development of moral reasoning capacity. The Four Component Model of Morality was developed by Rest (1982, 1986) and further developed and applied by Rest and Narvaez (1995), among others. The model addresses the ways that moral behavior occurs and allows for conceptualization of successful moral functioning and the capacities it requires.

Thus, effective moral functioning requires four integrated abilities: moral sensitivity, moral judgment, moral motivation and commitment, and moral character and competence. Moral sensitivity focuses on the ability to identify and discern problematic situations with ethical dimensions. Moral judgment requires that the person move beyond recognizing that ethical dimensions are present in a given situation to explore which line of action is morally justified. Moral motivation and commitment involve the prioritization of values—moral values are prioritized over other personal values. Finally, moral character and competence acknowledges that sensitivity, judgment, and prioritization of moral values must lead to moral character and competence, or moral behavior will fail. Moral character and competence is "having the strength of your convictions, having courage, persisting, overcoming distractions and obstacles, having implementing skills, and having ego strength" (Nucci and Narvaez 2008).

The model is not linear—the components are clearly interactive. Further, Rest notes, in contrast to other models of moral function, the Four Component Model of Morality assumes co-occurrence in all areas of moral functioning of cognition and affect. Thus, moral behavior is not the result of separate processes. Rather, each of the four components involves both cognitive and affective processes. In the rubric designed for this investigation, Items 1 and 2 are associated with Moral Sensitivity, or the ability to recognize and articulate ethical dimensions of a situation. Item 3 is also associated with the Moral Sensitivity component. Here, the results were scored to determine breadth of analysis regarding perspective taking, which is a prerequisite to moral action (Nucci and Narvaez 2008). Thus, scores reflected identification of relevant stakeholders, including whether students improved their ability to recognize multiple stakeholders at three levels of analysis: micro-, mezzo-, and macro-level analysis. The analysis also concerns the three levels of decision making and action in the socioeconomic system of which we are all a part, including the systemic level in which the values and principles are determined and operationalized. In addition to recognizing the Four Component Model, here the approach seeks consistency with the college's goal of fostering understanding of ethical dimensions at the individual, organizational, and societal level. Finally, Item 4 (suggested resolution) is associated with the Moral Motivation component, and, broadly, to the Moral Judgment and Moral Character and Competence components of the model. Although character and competence ultimately concern measuring action, which is beyond the scope of this study for reasons noted next, our goal for Item 4 was to explore identification of, and related proclivity toward, moral action. Detail on the rubric follows.

Scores for both Item 1 (*Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.*) and Item 2 (*Can you identify any major principles/theories that would relate to this case?*) are thus indicators of the Moral Sensitivity measure, that is, whether students can appropriately identify and articulate ethical issues. Our rubric explored outcomes along a continuum, with zero points indicating no identification of ethical issues, and a progressive score. The score is also cumulative, that is, students received points for indicating multiple levels of analysis/more than one conceptualization of relevant concepts. Further, students were given one additional point for appropriate explanation of concepts and their relevance, beyond simply identifying relevant terms to describing interactions and relevance to the dilemma(s). One point is associated with legalistic/compliance-based notions of relevant concerns, for example, privacy law violations in the credit card marketing case. Two points were given for advanced notions, including ethical principles involved in privacy, not simply violation of legal notions. Other terms indicating a two-point score include exploitation broadly presented, that is, "taking advantage of" students, and simple conceptions of deception, false advertising, unfavorable terms for students, dishonesty, or conflict of interest. Three points were given for inclusion of major theoretical concepts, including duty-based or deontological ethics, responsibility, integrity, utilitarian ethics, virtue/virtue ethics, ethical obligations, the meaning and value of work, the fallacy of relativism, notions of corporate social responsibility, or models of work including human fulfillment, liberal, or classical conceptions. Finally, one point was added to the score for appropriate description of these terms' relevance, beyond simply acknowledging their relationship to the case.

Item 3 scores (*Who has an interest or stake in this situation?*) correspond to sensitivity to stakeholders in the ethical dilemma. Thus, a score of 2 points indicates identification of primary stakeholders, including students and parents, or other, primary stakeholders immediately affected by the issue. If students indicated more than two individuals/groups of individuals affected from this primary group, they were awarded 4 points. Students were given 4 points for indication of awareness of organizational or secondary-level stakeholders, including banks, retailers, alumni associations, and the like. Five points were given for identification of societal ramifications, including contribution of credit concerns to the U.S. financial crisis, for example. Here the scores can be cumulative, so a maximum score for this item is 13, which indicates identification at all three levels of analysis—individual, organizational, and societal.

Item 4 (*What is your suggestion for resolving this case?*) involves the components of Moral Judgment and Moral Motivation and Commitment. The component of Moral Character and Competence is more challenging to measure—action is difficult to measure without design of a social-psychological study. Our goal for Item 4 was identification of, and indication of proclivity toward, moral action. Thus, identifying specific and actionable resolutions to moral dilemmas indicates judgment and motivation, which are precursors to commitment. This item is an exploration of intent, acknowledging that capacity for and proclivity toward action precedes action.

Item 4 was scored with zero points indicating no resolution, and one point a simple request for securing students' permission for use of their contact data, again reflecting fewer points for compliance-based resolutions. Two points were given for resolutions consistent with general information and disclosure themes. Three points were given for more proactive information and disclosure solutions; for example, those that involve some reduction in the marketing appeals. Four points were given for resolutions suggesting responses that require action on the part of one or more organizational stakeholders (banks, the colleges/universities). Finally, five points were given for recommendations of proactive solutions that involve policy or process changes; for example, offering financial literacy classes at the college/university, financial literacy "pre-tests" for approval, university negotiation of better terms for students, refusal of credit to students under age 21, formation of nationwide programs with fixed rates for students, and cessation of marketing to undergraduates.

Again this item's score was cumulative, so a maximum score indicates suggested resolutions that thoroughly address each level of concern—compliance, information and disclosure, organizational change, and policy/procedural change. All students were provided the case study and response template during orientation to the college of business in August of their sophomore year. This analysis is identified as the Pre-Test/Intervention. The intervention here is defined as successful completion of the required sophomore-level course, BAET 20300: Introduction to Business Ethics. The case study presented at both pre- (taken during orientation) and post- (taken at course end) intervention concerned credit card marketing to university and college students, including issues of sharing of personal information, financial incentives for universities to partner with credit card companies, calculating credit worthiness using student loan income, and other issues with ethical implications.[1] The four-page case included data related to industry marketing protocol, examples from real-world application, and testimony from industry experts. The case topic was selected as timely, immediately relevant to students, and one that also included industry and policy implications. At both pre- and post-test, students were asked to read the case individually. They were provided with the article and a response template via a secure online interface. Responses were entered into the website. The template requested response to each of the four items. For each of the four items, analyses will explore change between pre- and post-course.

Results

University of Notre Dame–Mendoza College of Business

In this case study we have four open-ended questions. In the rubric designed for this investigation, question 1 and 2 are associated with Moral Sensitivity, or the ability to recognize and articulate ethical dimensions of a situation, question 3 is also associated with the Moral Sensitivity component, and question 4 (suggested resolution) is associated with the Moral Motivation component, and, broadly, to the Moral Judgment and Moral Character and Competence components of the model. Our expectation was to see positive change scores on average for each question. As we have two cohorts, we first checked the results of each class individually, and then attempted to find common traits in these two cohorts.

Results of Students in the Class of 2012

The descriptive statistics for item scored responses of the students in the class of 2012 are shown in Table 15.3.

Scores for both question 1 (*Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.*) and question 2 (*Can you identify any major principles/theories that would relate to this case?*) are indicators of the Moral Sensitivity measure, that is, whether students can appropriately identify and articulate ethical issues. In the pre-course survey, 412 students (89.18 %) answered "Yes" and 50 students (10.82 %) answered "No." All the 462 students (100 %) answered affirmatively in the post-course survey. In the post-test, we expect greater levels of identification of issues as well as increased sophistication in describing the dilemma(s). The mean score on question 1 in the pre-test is 2.65 ($n=412$); it increases to 6.60 in the post-test, and the mean change is 3.95 points, a statistically significant increase at the 95 % confidence level (Table 15.4). The mean score on question 2 at pre-test is 1.26 ($n=412$); it increases to 6.73 in the post-test, and the

Table 15.4 Descriptive statistics for item scored responses

Question	Pre		Post	
	Mean (SD)	Low – High	Mean (SD)	Low – High
1. Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.	2.65 (1.84)	0–10	6.60 (0.97)	3–7
2. Can you identify any major principles/theories that would relate to this case?	1.26 (1.67)	0–9	6.73 (0.95)	0–7
3. Who has an interest or stake in this situation?	9.06 (2.95)	0–20	9.24 (2.12)	2–11
4. What is your suggestion for resolving this case?	2.40 (2.64)	0–13	10.85 (2.63)	0–13

mean change is 5.46 points, which is also a statistically significant increase. These changes indicate that the ethics course did contribute to the development of Moral Sensitivity among the students in the class of 2012.

The third question (*Who has an interest or stake in this situation?*) is also associated with the Moral Sensitivity component. Here the results are scored to determine breadth of analysis regarding relevant stakeholders, including whether students improve their ability to recognize multiple stakeholders at three levels of analysis, micro- to macro-level analysis—the individual, organizational, and societal stakeholders. The mean score for question 3 in pre-test is 9.06 ($n=462$). In the post-test, mean score for question 3 is 9.24, a 0.18 point increase that is statistically insignificant. We cannot reject the null hypothesis that the mean scores of pre- and post-course surveys are different. It appears that the students in this cohort did not show significant change on their identification of stakeholders after taking the course.

Question 4 (*What is your suggestion for resolving this case?*) involves the components of Moral Judgment and Moral Motivation and Commitment, and our goal for this question is identification of, and indication of proclivity toward, moral action. The mean score for question 4 in pre-test is 2.40 ($n=462$); it increases to 10.85 in the post-test, and the mean change is 8.44 points, which is statistically significant. This change is the greatest increase among the four measures for the students in the class of 2012, possibly indicating exploration of key terms and concepts about suggested solutions might be the major focus of the ethics course.

In sum, we detect an 18.03-point mean change in the total scores of all the four open-ended questions, which is statistically significant. Although no specific hypotheses are posited regarding difference by gender and academic majors, Fig. 15.3 suggests the manner of change was consistent across those variables.

Results of Students in the Class of 2013

The descriptive statistics for item scored responses of the students in the class of 2013 are shown in Table 15.5.

In the pre-course survey, 450 students (91.65 %) agreed there was an ethical issue in this case and 41 students (8.35 %) answered "No"; 31 more students (in all, 97.96 %) answered affirmatively in the post-course survey. The mean score on question 1 in pre-test is 2.79 ($n=450$); it increases to 4.00 in the post-test, and the mean change is 1.21 points, a statistically significant increase at the 95 % confidence level (Table 15.6). The mean score on question 2 at pre-test is 1.41 ($n=450$); it increases to 7.59 in the post-test, and the mean change is 6.18 points, which is also a statistically significant increase. This change is the greatest increase among the four measures for the students in the class of 2013 as compared to the 5.46-point increase for the students in the class of 2012. These changes suggest that the ethics course also contributes to the development of Moral Sensitivity among the students in the class of 2013 (Table15.7).

The mean score for question 3 in pre-test is 8.96 ($n=491$). In post-test, the mean score for question 3 is 10.23, a 1.27-point increase, which is statistically significant.

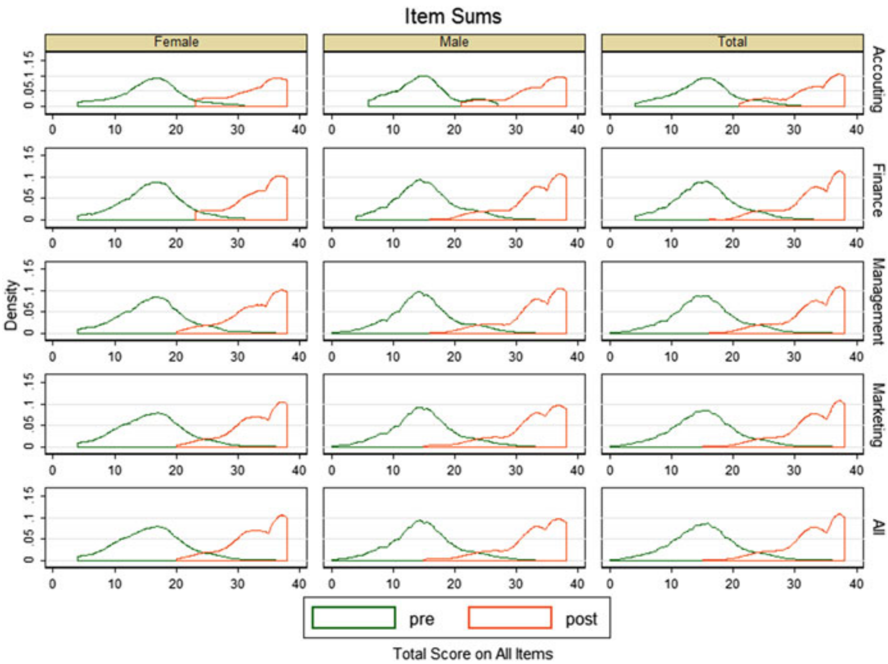


Fig. 15.3 Item sums by gender and academic majors of cohort 2012

Table 15.5 Detailed *t* test results

Question	Mean change	95 % CI	*t*	*p*	Standardized mean gain
1	3.95	3.76, 4.13	42.19	***	2.69
2	5.46	5.29, 5.63	63.51	***	4.02
3	0.18	−0.15, 0.50	1.07		0.07
4	8.44	8.12, 8.76	52.04	***	3.21
Item sums	18.03	17.41, 18.65	57.43	***	3.52

*** = <.001

In contrast to the situation of the students in the class of 2012, it seems that the ethics course did help the students in the class of 2013 to identify the stakeholder(s) in the situation.

The mean score for question 4 in the pre-test is 2.21 (n=491); it increases to 3.72 in the post-test, and the mean change is 1.51 points, which is statistically significant. This change is much less than the 8.44-point increase for the students in the class of 2012.

In sum, we detected a 10.17-point mean change in the total scores of all four open-ended questions, which is statistically significant. However, it is less than the 18.03-point mean gain for the cohorts of 2012, indicating that the students in the class of 2013 gained more on the development of Moral Sensitivity than on the

Table 15.6 Descriptive statistics for item scored responses

Item	Pre		Post	
	Mean (SD)	Low–High	Mean (SD)	Low–High
1. Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.	2.79 (1.81)	0–13	4.00 (2.54)	0–19
2. Can you identify any major principles/theories that would relate to this case?	1.41 (2.06)	0–15	7.59 (4.45)	0–21
3. Who has an interest or stake in this situation?	8.96 (2.99)	0–21	10.23 (2.91)	2–24
4. What is your suggestion for resolving this case?	2.21 (2.43)	0–11	3.72 (3.55)	0–24

Table 15.7 Detailed *t* test results

Item	Mean change	95 % CI	*t*	*p*	Standardized mean gain
1	1.21	0.95, 1.48	9.11	***	0.55
2	6.18	5.75, 6.60	28.50	***	1.78
3	1.27	0.97, 1.58	8.19	***	0.43
4	1.51	1.19, 1.83	9.18	***	0.50
Item sums	10.17	9.39, 10.96	25.51	***	1.41

*** = <.001

components of Moral Judgment and Moral Motivation and Commitment. Figure 15.4 also suggests the manner of change is consistent across gender and the academic majors of cohort 2013.

Common Traits of Cohort 2012 and 2013

First, more students realized it was an ethical issue for both cohorts of 2012 and 2013 after they took the required ethics course, suggesting a preliminary increase in sensitivity.

Second, almost all the item score mean increases are statistically significant between the pre- and post-course surveys.

Third, as shown in Table 15.4 and Table 15.6, the standardized mean gains for question 2 are 4.02 and 1.78 for the cohort 2012 and cohort 2013, respectively, which rank the first among the four open-ended questions, the standardized mean gains for question 3 are 0.07 and 0.43, which rank last, and the standardized mean gains for question 1 and question 4 rank in the middle. Results thus indicated the greatest change in measures of Moral Sensitivity, with statistically significant change in cultivating Moral Judgment and Moral Motivation and Commitment, and in helping them identify stakeholders.

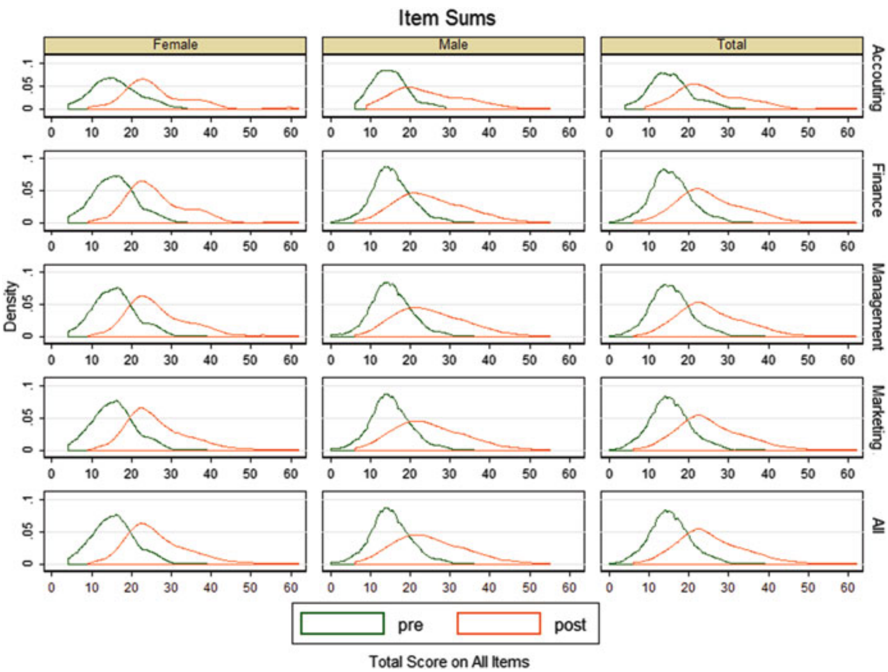


Fig. 15.4 Item sums by gender and academic majors of cohort 2013

School of Business Administration of São Paulo at Fundação Getulio Vargas (FGV-EAESP)

Statistical analysis of FGV-EAESP data was not attempted because of the small number of responses ($n = 14$), responses that may not be representative of the student body. However, the data provide interesting cross-cultural comparisons to explore several commonalities and differences and to consider the role of institutional support in learning outcomes related to business ethics education. In this globalized business context, further cross-cultural studies will be illuminating. Included below is a sample of qualitative responses to survey items from FGV-EAESP students. In addition to the demographic information on this sample provided above, it is interesting to note that of 14 respondents, 5 indicated that they have completed a course dedicated to the study of business ethics and 9 indicated they have not. The institutionalization of theories and concepts of business ethics and relationship to student perspectives are discussed next.

Fourteen students at FGV-EAESP completed the online survey, which was identical to the survey completed by students at ND-MCOB. Twelve students responded affirmatively to the question, "Is there an ethical issue in this case?" with 2 students indicating *no*. In response to Item 1, *If yes, define what you think the ethical issue(s) is/are*, students cited such concerns as privacy of the students being violated (mentioned in 10 responses), the possibility of exploitative or predatory lending to inexperienced students through credit card practices (mentioned in 8 responses), and the profit the universities stand to gain from these practices (mentioned in 6 responses).

For Item 2, *Can you identify any major principles/theories that would relate to this case?*, one student noted that this case is an example of "Kant's deontology as applied to professional matters." This student was the sole respondent invoking classical ethics theory in his/her response. Other responses included, "Just a common sense of what is fair and what is not," "Abusive economic interests," and "Credit risk." Two students provided more substantive responses, including the following:

> I don't believe that such a case is related to ethical issues, mostly because ethics is something really relative. I believe that the students got into debt it is their fault, because they chose to open the bank account knowing about the dangers of spending more than what they have. I'm sure the bank gave them some contracts to read and sign, but I don't believe they actually read it, just filled up the paperwork to get the credit or as the article said [the free gifts] (sic).

and

> Being the university is a public place and an institution of the state, and a bank is a business, there is a conflict between the notion of public and private. Should the students inside an academic place be marketized in this predatory way (sic)?

The first response is similar to some of the ND-MCOB student responses. Many students indicated that the issue involved personal choice and that individual students' failure to investigate terms of the credit adoption was the issue at hand.

Both comments lead to the idea that, despite the orientation of different instructions, class moral orientation might not be enough to shape the future practitioner's ethical professional behavior (Bertero 2012). Formal training helps, provides the language and concepts to articulate and support "common sense" and a deeper understanding of universal principles, but an important role can be that of business ethics courses that apply the students' ethical values into the reality of enterprises.

For Item 3, *Who has an interest or stake in this situation?*, students consistently identified the banks, universities, and students as stakeholders in the case. Two students included student/alumni associations as well. No students included stakeholders at the macro- or societal level, or discussed larger implications of such activities.

For Item 4, *What is your suggestion for resolving this case?*, responses fell into one of two categories. First, six students indicated responses related to enhancing financial literacy/education for students, with responses such as offering "better and maybe mandatory seminars instructing students on how credit and debt cards work, how to keep track of their personal finances, and also the risks and advantages of having a credit card…. [with such seminars] mandatory for undergraduates or first year students," and providing "education and information for the students to enlighten them on the responsibility of having a credit card and the danger of debts." These responses provide an interesting comparison with the ND-MCOB data.

Several students at FGV-EAESP explicitly note the role of the universities in providing financial literacy training to their students, perhaps acknowledging a more comprehensive notion of the appropriate role of educational intuitions, whereas students at ND-MCOB generally indicated this sentiment at post-test, after taking an ethics course, if they expressed this perspective at all.

Second, for Item 4, nine students explicitly mentioned securing permission for use of student contact information, indicating that the possibility of privacy violation or improper use of personal information was the major ethical issue. These responses from FGV-EAESP are quite consistent with the majority of responses from ND-MCOB.

Item 4 presents unique challenges, as noted, and rich opportunities for research. A natural extension of this item relates to moral behavior—the "holy grail" of business ethics education. Questions abound: How do we measure behavior/action? Can we define social or ethical impact? Can we acknowledge more explicitly the role of influence on behavior by studying narratives, role models, and reflections, thus effectively extending these "modes of discovery" (Audi 2012) into the classroom? Can we think creatively about how to assess moral behavior (perhaps here exploration of their activities post college, that is, participation on not-for-profit, social service, or civic boards of directors or other service orientations, active citizenship through political advocacy or other indicators of prosocial behavior, and, most compelling, analysis of decisions made in the workplace context)?

Discussion

Role of Institutional Support in Student Outcomes in Business Ethics

Despite enhanced attention to business ethics in the curriculum postfinancial crises of the late 1990s and 2000s, much work remains to be done. Assessment of business ethics curricula is increasingly demanded by accreditation bodies, university and college administrators, and the market. Resources continue to emerge as scholars explore outcomes (Swanson and Fisher 2011). Regulators scramble (or amble) to meet calls for accountability in business, but regulation is only one part of creating a system peopled by effective ethical business leaders—business education must continue to rise to the challenge. Scholars provide specific examples including structures with intrinsic potential to effect positive change in the classroom such as structuring self-exploration toward principled interests (Koehn 2005), holistic approaches that incorporate resources from moral psychology by recognizing the role of developing intuition (Zhong 2011), enhancing assessment of learning outcomes, and whether integration across the business curriculum is an effective method (Assudani et al. 2011).

The Assudani et al. study (2011) reflects a not uncommon finding: there is agreement that ethics should be taught, but it is not unclear how to do so. Scholars do respond with practical suggestions as “road maps” to incorporating such topics successfully (Langmead et al. 2010; Cornelius et al. 2007; Sims and Felton 2006; Weber 2006; Falkenberg and Woiceshyn 2008; Baker and Comer 2011). An early and important study with specific guidance on implementation of effective ethics education is provided by Piper et al. (1993). These writings provide rich resources for educators. Felton and Sims (2005) have offered some of the most robust and specific suggestions on effective ethics teaching, including “targeted outputs” or specific learning goals accompanied by outcomes assessment, exploration of course values, discussion of the complexities of business ethics, acknowledgement of the interconnectedness of ethics to the functional areas of business, inclusion of cultural values in the discussion, consideration of stakeholder interests, considering sustainability and long-term outcomes, enhancing fluency and comfort around discussing ethics in the workplace, heightening notions of accountability, the need for continuous improvement (here also reinforcing an integrated approach to pedagogy—ethics education cannot be limited to a stand-alone course without reinforcement throughout the curriculum), and explicit attention to the values of the companies with whom they will be working (Felton and Sims 2005). Additionally, particularly with undergraduates who likely lack experiences necessary to apply concepts they encounter in their course material, engagement around real-world scenarios, opportunities to apply the concepts, and highly interactive learning environments are key (Felton and Sims 2005).

Learning from others is critical. The Principles for Responsible Management Education (PRME) initiative is an iteration of the United Nations Global Compact principles for business that recognizes internationally accepted values can inform and guide business decision making. The PRME embody continuous improvement recognizing management education’s role in shaping “a new generation of business leaders capable of managing the complex challenges faced by business and society in the 21st century” (United Nations 2015). With the recent crisis in the financial markets, it is clear that the sum of individual benefits does not lead to a collective benefit. It is perhaps not surprising that unethical behavior in the corporate world by certain individuals is associated with those individuals’ dishonest practices while at school (Innarelli 2012). Attention to ethics in business schools can be readily informed by the PRME network and resources including the Sharing Information on Progress (SIP) reports. These reports, provided by PRME member institutions, provide details on individual schools’ attention to curricula, research. and co-curricular activities. There are currently more than 500 university and college signatories of the PRME initiative; there are 792 SIP reports available (several schools have reported over multiple years) (United Nations 2015). Using SIP reports, schools can benchmark best practices, learn from others, and share what works. Manuel Escudero (2011), PRME secretariat, writes eloquently of the future of management education and notes that the financial crisis has acted “as an additional catalyst for a process of redefining business education,” adding “a note of urgency” and creating a mood of “rethinking business education with a sense of imperative innovation" (p. 202). Escudero discusses globalization, the information technology revolution, and governance gaps as the three primary changes effecting business today (Escudero 2011). These three phenomena are clearly interrelated with management education and development of future business leaders. The potential for impact on the world economy and the human community is tremendous. Escudero writes:

> The issue we have to address as business educators is this: if the new trend of corporate sustainability has already evolved into a new proposition for value creation in the twenty-first century, we should be reporting this to our students, and preparing them to work in this new environment…. Further, if we are supposed to train our students in business, we should change our own vision of the firm and its role vis-à-vis society in the twenty-first century, by adhering to a new paradigm or theory of the firm where companies set the limits of profit maximization in terms of the long-term sustainability of the company itself and the sustainability of society and the planet (p. 207).

Explicit attention to ethics in the curriculum, including skills-based, multidisciplinary approaches that have indicated success in action orientation toward ethical behavior such as *Giving Voice to Values*,[2] provides the foundation for this type of education. The PRME as a community for learning specific strategies is critical.

Similar to the origins of the U.S. and global financial crisis, ethical issues are not simple "yes/no" decisions. *Giving Voice to Values*, for example, allows students to explore and respond to oversimplification of ethical choices, conflicts of interests and values among the stakeholders and decision makers, and practice actionable alternatives (Gentile 2010). The case study analysis our students completed is another useful illustration of the need for explicit attention in the curriculum. The complexity of the case, as that of the financial crisis, illustrates how even well-educated business students might struggle to make ethical decisions when facing issues in real time. Awareness of "blind spots" that may act as barriers to effective, ethical decision-making is critical and points to the need for applied curricula (Bazerman and Tenbrunsel 2011). These findings indicate that although significant improvement can be seen after taking a dedicated course, the engagement of these issues must continue through courses that embed ethical decision making in practical, experiential study.

The question is often asked—should ethics be treated as a "stand-alone" course in the curriculum, or "woven" throughout the core functional areas? The answer, of course, is both. Dedicated courses allow for exploration of conceptual, theoretical foundations of ethics, and, importantly, can include opportunities for both an abstract (conceptual) and narrative (cases, stories, personal experience) approaches (Audi 2012). In his discussion of virtues, defined as praiseworthy traits of character with a far-reaching capacity to influence conduct, Audi (2012) presents a virtue orientation—clearly embedded in philosophical tradition—that affects attitudes in management practices and aids in decision making in business. Thus, "practical ethics as a set of standards for a morally good life must take account of virtue: both the evaluation of persons and the guidance of their conduct are inadequate apart from a discriminating use of virtue concepts" (Audi 2012, p. 282).

Survey response rates may be indicative of the institutional support consideration. The ND-MCOB student response rates were much higher than those of FGV-EAESP. An optimistic observer from Notre Dame might posit that their students are more concerned with these issues than their counterparts at FGV. However, this conclusion is not supported with any comparison data. The response rates most likely reflect the reality that a “carrot” (incentive) or “stick” (threat of repercussion) must be offered to students to ensure response. Critically, the question remains: can this intention be translated into action? We conclude by asserting that intention must preclude action, and it is the role of business education to provide the foundations for development of principled intention, to provide channels of access to these issues: these include rich curricula, engaging faculty, opportunities to engage with practitioners in the field—a space and place to study and practice ethical decision making. We find the discussion of whether to mandate a specific ethics course or to embed ethics throughout business education within the functional areas resolved: the answer is both. Some institutional support, providing the extrinsic motivation, a time and place, and validation of student attention to these issues, can only foster students who are intrinsically motivated toward effective ethical business decision making.

An additional note regarding the inclusion of a U.S.-based and South American business school in this exploration concerns this forward momentum for emerging leaders. Brazil, the world’s sixth-largest economy, is rich in young talent with global fluency—Brazil houses the second highest number of Facebook users after the United States, and increasingly hosts tech innovators and other investors scouring for startups (Darlington 2012). Proclivity toward social media and information exchange illustrates that Brazil’s young people, similar to those in the United States and in so many of the world’s economic giants, will contribute to the character of the world business economy.

This progression to an action orientation is demanded by the market and recognized by those who educate and train emerging leaders. Research supports students studying business possess explicit values considerations and are primed to contribute to values-driven organizations. These horizons are international. As business becomes necessarily global, scholars around the world explore the role and purpose of business school and advocate for business as a prosocial enterprise (Losada et al. 2011; Escudero 2011). The PRME offer a resource for global business education.

Conclusion

Business faces tremendous challenges and opportunities in the immediate future, including globalization, technology, climate change, emerging economies, poverty and other social challenges, and the wake of the financial crisis (Enderle 2011). For a meticulous discussion of these challenges and their implications, which is beyond the scope of this paper, see Georges Enderle’s insightful article in the *Business & Professional Ethics Journal* (2011). Scholars and educators who prepare the next generation of global leaders can be hopeful. Audi (2012) offers a discussion of virtue ethics as a resource in business, for practitioners and for students. Aspirational approaches, rooted in philosophical tradition and equipped with skills-based, relevant, and robust pedagogy, are key.

Teaching ethics in business administration undergraduate programs is crucial. A philosophical perspective is essential for a conceptual foundation in moral and ethical reasoning. Those who posit that this approach is too arid or complex for most undergraduate students may do well to explore the intellectual habits that may exist in the millennial generation. It is a university's role to broaden their comprehension, supporting the development of their maturity as human beings and as professionals. It is critical to dedicate time and space to exploring business ethics explicitly, including analysis of theoretical concepts in context and in practice by building on this conceptual foundation to the business functional areas of accountancy, finance, marketing, and management. We do our students a disservice if we prepare them to recognize and understand core ethical concepts but fail to equip them with the skills necessary to apply it to analysis of issues in their field and to their own personal and professional decision making. The authors see opportunities for fruitful further studies and cooperation in this regard and look at the findings as most useful.

Notes

1. Silver-Greenburg, Jessica and Elgin, B. (2008), "The College Credit Card Hustle", *BusinessWeek* (July 17). Available at http://www.businessweek.com/magazine/content/08_30/b4093038700850.htm.
2. The *Giving Voice to Values* curriculum collection is based and supported at Babson College, Wellesley, Massachusetts, USA. The University of Notre Dame was one of several pilots and the first to offer a dedicated *Giving Voice to Values* elective course. *Giving Voice to Values* was created with The Aspen Institute as Incubator, and, along with Yale School of Management, Founding Partner. It can be found at www.GivingVoiceToValues.org.

References

Assudani, R. H., Chinta, R., Manolis, C., & Burns, D. J. (2011). The effect of pedagogy on students' perceptions of the importance of ethics and social responsibility in business firms. *Ethics & Behavior, 21*(2), 103–117.

Audi, R. (2012, April). Virtue ethics as a resource in business. *Business Ethics Quarterly*, *22*(2): 273–291.

Baker, S., & Comer, D. (2011). Business ethics everywhere: An experiential exercise to develop students' ability to identify and respond to ethical issues in business. *Journal of Management Education, 36*(1), 95–125.

Bazerman, M. H., & Tenbrunsel, A. E. (2011). *Blind spots: Why we fail to do what's right and what to do about it*. Princeton: Princeton University Press.

Bertero, C. O. (2012). É Possível Ensinar Ética? *GVexecutivo, 11*(1), 34–37.

Bloomberg Businessweek. (2012). *The Best Undergraduate B-Schools*. Retrieved from http://www.businessweek.com/bschools/rankings/

Caldwell, C. (2010). A ten-step model for academic integrity: A positive approach for business schools. *Journal of Business Ethics, 92*(1), 1–13.

Christensen, D., Barnes, J. N., & Rees, D. A. (2007). Developing resolve to have moral courage: A field comparison of teaching methods. *Journal of Business Ethics Education, 4*, 79–96.

Cornelius, N., Wallace, J., & Tassabehji, R. (2007). An analysis of corporate social responsibility, corporate identity and ethics teaching in business schools. *Journal of Business Ethics, 76*, 117–135.

Darlington, S. (2012). 'Geeks on a plane' flock to Brazil. Retrieved from http://www.cnn.com/2012/05/22/tech/innovation/geeks-plane-brazil

Deloitte (2011). *The Millennial Survey*. Retrieved from ttp://www.deloitte.com/assets/DcomCostaRica/Local%20Assets/Documents/Estudios/2012/120124-cr_Millennial_Survey_2011.pdf

de Arruda, M. C. C. (2012). A Ética em Tempos de Crise. *GVexecutivo, 11*(1), 42–45

Enderle, G. (2011). Three major challenges for business and economic ethics in the next ten years: Wealth creation, human rights, and active involvement of the world's religions. *Business & Professional Ethics Journal, 30*(3–4), 231–252.

Escudero, M. (2011). PRME and four theses on the future of management education. In M. Morsing & A. S. Rovira (Eds.), *Business schools and their contribution to society*. London: Sage.

Falkenberg, L., & Woiceshyn, J. (2008). Enhancing business ethics: Using cases to teach moral reasoning. *Journal of Business Ethics, 79*, 213–217.

Felton, E. L., & Sims, R. R. (2005). Teaching business ethics: Targeted outputs. *Journal of Business Ethics, 60*(4), 377–391.

Gentile, M. C. (2010). *Giving voice to values: How to speak your mind when you know what's right*. New Haven/London: Yale University Press.

Innarelli, P. B. (2012). Desonestidade Acadêmica, Plágio e Ética? *GVexecutivo, 11*(1), 46–49.

Koehn, D. (2005). Transforming our students: Teaching business ethics post-Enron. *Business Ethics Quarterly, 15*(1), 137–151.

Langmead, J., Sedaghat, A., & Unger, M. (2010). Incorporating international accounting into the MBA curriculum: Exploring implications of the financial reporting crisis of 2001–2009. *Journal of Teaching in International Business, 21*(2), 132–152.

Losada, C., Martell, J., & Lozano, J. M. (2011). Responsible business education: Not a question of curriculum but a raison d'etre for business schools. In M. Morsing & A. S. Rovira (Eds.), *Business schools and their contribution to society*. London: Sage.

McManus Warnell, J. (2010). An undergraduate business ethics curriculum: Learning and moral development outcomes. *Journal of Business Ethics Education, 7*(1), 63–83.

McManus Warnell, J. (2012). Giving voice to values: Engaging millenials and managing multigenerational cultures. In W. I. Sauser & R. R. Sims (Eds.), *Managing human resources from the millenial generation*. Greenwich: Information Age Publishing.

Neubaum, D., Pagell, M., Drexler, J., McKee-Ryan, F., & Larson, E. (2009). Business education and its relationship to student personal moral philosophies and attitudes toward profits: An empirical response to critics. *Academy of Management Learning & Education, 8*(1), 9–24.

Nucci, L. P., & Narvaez, D. (2008). *The handbook of moral and character education*. New York: Routledge.

Piper, T. R., Gentile, M., & Park, S. (Eds.). (1993). *Can ethics be taught?* Boston: Harvard Business School Press.

Rest, J. (1982). A psychologist looks at the teaching of ethics. *The Hastings Center Report, 12*, 29–36.

Rest, J., Bebeau, M. J., & Volker, J. (1986). An overview of the psychology of morality. In: J. R. Rest (Ed.), *Moral development, advances in research and theory* (pp. 1–39). Boston: Praeger.

Rest, J., & Narvaez, D. (1995). The four components of acting morally. In W. M. Kurtines & J. L. Gerwitz (Eds.), *Moral development: An introduction*. Boston: Allyn and Bacon.

Rest, J., & Narvaez, D. (1999). DIT2: Devising and testing a revised instrument of moral judgment. *Journal of Educational Psychology, 91*(4), 644–659.

Rest, J. R., Narvaez, D., Bebeau, M., & Thoma, S. J. (1999). *Postconventional moral thinking: A Neo-Kohlbergian approach*. Mahwah: Lawrence Erlbaum Associates.

Sims, R., & Felton, E. (2006). Designing and delivering business ethics teaching and learning. *Journal of Business Ethics, 63*(3), 297–312.

Spink, P. K. (2012). Ética na Pesquisa Científica. *GVexecutivo, 11*(1), 38–41.

Swanson, D. L., & Fisher, D. G. (Eds.). (2011). *Got ethics? Toward assessing business ethics education*. Charlotte: IAP-Information Age Publishing.

United Nations. (2015). *United Nations Principles for Responsible Management Education (PRME).* Retrieved from: www.unprme.org.

Weber, J. (2006). Implementing an organizational ethics program in an academic environment: The challenges and opportunities for the Duquesne University Schools of Business. *Journal of Business Ethics, 65*, 23–42.

Zhong, C.-B. (2011). The ethical dangers of deliberative decision making. *Administrative Science Quarterly, 56*, 1–25.

Chapter 16
Efforts and Achievements of Two Decades of Business Ethics Teaching and Research in Africa with a Special Reference to Kenya

Christine W. Gichure

The Notion of Ethics and the Ethical Character in an African Context

In the half-century since African nations gained political independence, a rich body of African philosophy has been produced. Given that one of the main tasks of philosophy is clarification, a chief task these scholars have had to face is the clarification of what it means to be ethical within the African mindset. If we are to begin to understand the state of business ethics in Africa, we must gain clarity regarding the meaning and function of morals in an African context. To do so, three points must first be clarified. The first one is whether, as some scholars have claimed, there can be an ethics that is solely African. The second point is whether it is correct to speak of a common African culture in much the same way as one would ask whether it is appropriate to talk of an Asian culture or a European culture when Asia, Africa, and Europe are whole continents formed of different nations and peoples, each of which have their specific properties, habits, and beliefs, which we can also call cultures. The third matter is whether the African understanding of ethics and morals is the same as in other cultures. Much African philosophical literature has dwelt on these three questions. As in all philosophy when reflecting about ethics in a systematic way, varieties of concepts naturally arise. As this chapter resembles more of a report of the achievement of business ethics research, teaching, and corporate governance, it is not possible to analyze the various answers to these three questions. However, where appropriate I shall use the arguments advanced to answer them as part of the developments in research in business ethics.

C.W. Gichure (✉)
School of Humanities and Social Sciences, Strathmore University, Nairobi, Kenya
e-mail: cgichure@strathmore.edu

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_16

One method that has been used to answer the foregoing questions is to investigate what African languages call ethics and what they consider to be morals and morality. This study is done in much the same as any empirical survey, proceeding as a scientist would, and describing human behavior and practices in the various contexts in which moral problems arise. From there the investigator proceeds to identify motives and to develop theories about why people act as they do. This kind of research has been done by some philosophers, who later have made analyses of individuals, groups, societies, or cultures and compared the results of that analysis to identify similarities and differences. With those results, these scholars believe that they can describe and explain what people understand by ethics and moral conduct.

One such scholar has been the Ghanaian Kwame Gyekye with his essay on "African Ethics," published in the *Stanford Encyclopedia of Philosophy* (2010). Gyekye presents the results of an inquiry carried out across Africa to find the names used by these people for ethics and morals, and what African people generally understood by those two terms. The inquiry that covered a wide range of languages in Western, Central, Eastern, and Southern Africa showed in the first place that a substantial number of Sub-Saharan African languages do not have words that can be directly translated to 'ethics' or 'morality.' However, the concepts of ethics and morality were found to be deeply embedded in the common parlance and in the way people's characters are judged. He goes on to show that these concepts are not necessarily all drawn from myth rather, they mostly respond to rational conclusions, which lead to specific religious beliefs. He cites, among others, the Akan and the Ewe ethnic groups, both of Ghana. Among the Akan ethics is understood to be what forges a person's character. To 'have no morals,' 'to be immoral,' or 'to be unethical,' or to express that a 'person's conduct is unethical' are all invariably expressed as '*Onni suban*' (he has no character). Thus, the Akan relate ethics and morals to character. This relationship of ethics to character was found to be the same among the Ewe, also of Ghana. Here, '*nonomo mele si o*' are the words used to say 'he has no character,' 'he has no morals,' or 'he is unethical' (Gyekye 2010).

Among the Yoruba and Ibo of Nigeria, the concepts for ethics and morals were similarly linked to a person's general 'character' and 'morality,' expressed with the single term '*iwa*.' *Iwa* also means 'being' or 'nature,' depending on the context in which it is used. Similarly, among the Igbo of Eastern Nigeria, the word '*agwa*' is used in relationship to character and behavior. Hence, a statement such as "he has no morals" would be expressed as '*onwe ghi ezi agwa*.'

In Southern African languages, such as the Shona, which is spoken by a substantial majority of the people of Zimbabwe, the word used is '*tsika'* for 'ethics' and the ethical person is a moral character. Shona, however, uses a different but strong word for someone who lacks these two qualities. That person is a '*hunhu*,' that is to say, his character is wanting in an essential human quality. A lack of ethics is equated to a lack of character much in the same way as Aristotle would explain a lack of virtue to be a deficiency of fullness of being (*Nichomachean Ethics*).

Similarly, in the Sotho language, which is widely spoken in Lesotho and parts of Zimbabwe (Matebeleland), the words used to refer to the moral or ethical life or behavior are, according to Gyekye, the same as those used to refer to character or personality. Thus, 'maemo a mabe' means that a person "has a bad character" or that his action is "unethical," whereas good acts are recognized using such terms as 'lokileng' or 'boitswaro,' both of which mean good character or good behavior.

Relevance of the Philosophical Inquiry as Basis for a Viable Theory of Ethical Management in Africa

Gyekye's work has two important contributions for business and leadership ethics research in Africa. In the first place, it confirms that in African thought, ethics or morality is essentially a question of moral character, because the way a person behaves is linked to her/his beliefs regarding the right way of acting in society. Secondly, it confirms that to be successful, business ethics in Africa must address an African existential reality, that ethics and morals are an all-embracing endeavor in a person's and a society's life and not simply an activity based on codes. Hence, to be effective, the practice of business ethics must fit within the African mindset and worldview, their understanding of happiness and a good life. This attitude is governed by, among other things, the way a community of people understands itself and its obligations. Similarly, any attempts to enforce business ethics in Africa, especially in international trade, without prior study to understand what the community considers to be good practice is bound to fail. This point is particularly important in international trade, as was already shown with regard to 'ethical sourcing' in African floriculture (Gichure 2009). At most, business ethics could be understood and practiced as a gimmick to keep a job, but in that case it would not mark a person's character intrinsically. In a similar manner, the notion of wrongdoing and culpability of the wrongdoer may be difficult to establish in a situation where the employer's ethical practice is put in doubt.

There is still much diversity among African scholars and the literature emerging from Africa regarding what African ethics is and what its application to business should be. Some have objected to the idea of African ethics in a generalized sense. They claim that it is incorrect to refer to Africa as a single entity with a defined culture because Africa is a continent with many divergent cultures. However, there is some consensus among African scholars that, despite the ethnic diversity, there are more similarities among them, and in this they all differ in significant respects from modern Western cultures. Consequently, it is argued that the main obstacle to effective ethics in African management is simply the mismatch between African cultures in general and the management theories that are taught and prescribed, these having been developed within and for quite different cultures. David Lutz (2009), for example, points to a discrepancy between African business education, most of which is indistinguishable in content from Anglo-American business education, and traditional African cultures. In his view, theories created within and for individualistic cultures, such as the Anglo-American, cannot be at home within communal cultures. Instead, he proposes that African scholars of management should devise a management theory that is congruent to the African situation, be it in politics or business, a theory that is consistent with their cultures and communal lives.

The debate continues with some suggesting that an adequate ethics of business and leadership for Africa should not be indifferent to glaring facts regarding the African situation. Some of these aspects are cultural, and others are the aftermath and vestiges of colonialism and of the introduction of Western modes of business, which are not at home in the African context. These vestiges and aftermath are best articulated by J. Kigondo (*African Heritage in CRVP Series*, Ch. II). Kigondo points out that although some scholars conceive and suggest a heightened awareness and strong attachment to cultural values that underlie Africa's social-cultural change, others are inclined toward alien values as being more relevant to modernization. In the first instance, there is a perception and concern for the relevance and continuity of African cultural values. In the second, African values are seen to be of secondary relevance to the new sociocultural reality because, so long as modernity continues to gain a dominating impact all over the world, the obvious results will be a similar decline in the influence of tradition and its relevance to contemporary management. It is in this light that people such as Lutz (2009) suggest a synthesis of the African and the alien. In such a 'synthesis' the African and the alien are perceived as having equal importance in affecting the process of change, because both are historical realities that cannot be wished away. They are already embedded in our history. However, for such a synthesis to work and be appreciated, there is still a need for scholars and the different stakeholders to derive what is positive in the traditional African ethics and inculcate it in the management ethics. This, as we shall point out shortly, is what the National Values System (NVS) in Kenya is trying to achieve. (Kenya Government Task Force June 2011)

This fact alone has been found to present long-term challenges to African scholars. As Lutz points out, "for successful development of business ethics, Africa has yet to determine what considerations should guide this process, and it is a process that requires much self-reflection" (Lutz 2009, p. 2). As an example, he points to the difference between African reality and the Anglo-American reality. The two differ in terms of community ties, relationships, and reciprocity. The need for the mutual recognition of the two, the cultural and the alien, in a 'synthesis' is seen to be a first step in the process of developing an adequate theory of African business management. Some scholars have pointed to the much-discussed African worldview as the starting point for such a synthesis.

As a term, '*Ubuntu*' has no particular ethnic or cultural connotation. It is simply, and exclusively, a linguistic label of African languages and dialects that use the word stem *ntu* to mean '*something*,' and it is always used to denote human beings, persons. It is derived mainly from the sub-Bantu group of languages called Nguni that includes the Zulu, Xhosa, Swati, Phuti, and the Ndebele. It has phonological variants in the wider Niger-Congo group called the Bantu. This word, Bantu, was coined by Wilhelm Breek, a German philologist, to represent a large number of African ethnic groups that, phonetically, have some similarities in their languages (Reader 1998, p. 182). The term *Bantu* has since then been used to refer to these groups that are believed to have emerged from a common root in the past. Political scientists, philosophers, and theologians have come to believe that such similarities must have some significant importance in all areas of African research, particularly in the human sciences and in ethics. Such is the case with the concept of *Ubuntu* as an African worldview.

Peter Opio (1996), an advocate of the *Ubuntu* worldview, describes it as consisting of several exceptional features. The most salient of these is a strong sense of belonging to a particular family, ethnic group, and community. Each group defines itself through a specific way of life, and a moral, political, economic, and religious system: in a word, a *Weltanschauung* (personal philosophy of human life and the universe), concerning life, work, leadership, and property. In the *Ubuntu* anthropology and ethics, therefore, there exists a common link between us all and it is through this tie, through our interaction with our fellow human beings, that we discover our own human qualities. What belongs to one therefore belongs to us.

When transported to a management context, this concept translates to the recognition of the firm or organization not so much as a collection of individuals, but as a community. If the firm is understood as a community "the purpose of management is neither to benefit one collection of individuals, as shareholder-value-maximisation theories claim, nor to benefit several collections of individuals, as stakeholder theories tell us, but to benefit the community, as well as the larger communities of which it is a part" (Lutz 2009, p. 2). For this to happen, business ethics teaching in Africa would consist in showing the difference between unethical self-promotion, which benefits no one, and ethical self-promotion, which promotes both the individual and the community. For example, seeking a promotion through sycophancy, so common in modern African politics, benefits no one. But every society benefits from people who excel to promote the common good. Aristotle's analysis of the difference between vicious and virtuous self-love is helpful here (*Nichomachean Ethics*, Book IX, Chaps. 4, 8.).

A more in-depth investigation of the use of and application of *Ubuntu* to African business management has been made by Prinsloo (2000). After examining the concepts used by *Ubuntu* scholars as examples of the African view of business management, Prinsloo analyzes the application of those concepts to business management with the aim of establishing what African thinkers themselves regard as the special position of *Ubuntu* in contrast to Western individualism, on the one hand, and the Western socialist collectivism on the other hand, which also claims to be the humanistic theory of management. Prinsloo's study is a scathing critique of the advocates of Ubuntu as a philosophy of business management. However, he appears to have ignored certain patterns of belief and reflection that are known to be factual across Africa: these are about the goals and meaning of a good human life (character), which here matters more than the dead rule of law. This is the view taken by, among others, Broodryk (2005), Nnadozie (1998), and Mbigi (2005). What these three have in common is their view that the doctrine of shareholder–value–maximization when applied to the African setup as the goal of management ends by being merely axiomatic, hypocritical, and unethical because it contradicts African cultures.

According to Broodryk (2005), for a theory of management to be meaningful and acceptable in Africa, "a new culture for enterprises is needed. This culture is about striving for decent survival and working towards profit-making, but not striving for the greatest profit at all costs, especially not at the exploitation of human beings, in order to attain goals characterized by greed and selfishness"(Broodryk 2005, p. 168). This is the view also taken by Chernoff (1979), who notes that in general African cultures do not trust just a single point of view, such as agency theory, or its more ambiguous rival, the stakeholder theory of business management. Just as in their music, which is rhythmical, with the drums and '*kayambas*'[1] typically used in Africa to make music, African people need and appreciate flexibility. They believe that there is always room to add another beat to their music, to accommodate one more person if the need arises. African communities therefore like to remain open to fresh and vital participation. Hence, says Chernoff, "extreme single mindedness of purpose is seen to be an expression of poverty of expression" (Chernoff 1979, p. 155). The implication is clear: an ethics of business and leadership appropriate for Africa should be one which understands that in the African communities it is imperative to link the demands of ethics in business to the patterns and cultures of the people, to the country where business takes place.

These patterns of African belief inform the practice of Africa in family and community life and they are inclusive in nature. Such patterns may not be written down in script, but they are orally taught and handed down from generation to generation; they are explicit in the cultural instructions and admonitions to those who err against accepted social *mores*. Those mores reflect in the habits and the conduct of the people, such as the joy in sharing good fortune.

In the African worldview, to promote the good of a community is to promote the good of all its members. The community stems from a series of linked relationships; consequently, relationships and reciprocity are essential properties of the African mindset. It becomes inconceivable therefore that what belongs to one individual should not also somehow benefit the whole of his community. To benefit just one individual is generally seen as isolation, and no good person would want to be isolated. Traditional Africa, therefore, does not accept individualism. Persons are in relationships all the time, a relationship that continues even after death because the dead are somehow believed to continue living in another state; they are the living dead, and they can still commune with the living, positively if they are well treated and maliciously if they are not.

In traditional Africa, it was generally inconceivable for someone to be isolated either in their wants or in their prosperity. Today, persons with a good work position or political power are automatically expected to provide for all their less fortunate kith and kin and community, but more often than not, this excuse is used by a few powerful people to accumulate wealth under the guise of sharing it with the community. Hence, notes Paris, "persons of higher status in a relationship can initiate action towards persons of lower status, but not, as a rule, the reverse" (Paris 1995, p. 87). Such a relationship necessarily invokes some form of reciprocity. Reciprocity of obligations in the eyes of most African cultures is still viewed positively. Hence, after an election or an appointment to a position of honor, it is generally expected that the individual's community will somehow benefit together with the honored individual. Such benefits are translated in different terms depending on the kind of honor in question, such as job offers, promotion of one's kith and kin, help in paying school fees, and even easier entry to a whole host of opportunities. From a

Westernized perspective and in the strict sense of the law, these expectations are a pressure to indulge in corruption. The communities not affected in the honors will term such practices bad, as nepotism, bribery, tribalism, and so on, whereas for the beneficiaries, they are perceived to be no more than their 'right' because they are actions of one of their own. Theoretically, the big man is practicing *Ubuntu*, practicing solidarity with the community; but the others, the 'outsiders,' cry foul and wonder how a corrupt man can be repeatedly appointed to a position of responsibility and authority. The benefiting group on the other hand continues to feel duty bound to retain its great man or woman in the powerful position, claiming this to be African solidarity and their interest communalist rather than individualistic. They will hardly ever query the ethical implications of such expectations and the behavior of their big man. Whether this culture should be retained is the critique made by Prinsloo (2000) to the proponents of an *Ubuntu* philosophy of management. As he does, other scholars hold the view that the key to the 'African worldview' is beneficence, toward others, not all others, but my 'others,' such as the sharing of bounty, forbearance, patience and tolerance, forgiveness and justice, understood as proportionate sharing in the well-being of the community. Here again, contradiction rears its head.

Although he acknowledges these shortcomings of communal societies, Broodryk (2005) nonetheless believes that its social virtues make up for the disadvantages. There may be no canonical listing of such values, but he insists they are there and they are known because they are life. He mentions, among others, humaneness, which is manifested in caring, sharing, respect for older people, and compassion. Each of these in turn has several "associated values" (Broodryk 2005, p. 198). In Eastern Africa, that sharing and caring is manifested through the practice of *Harambee* (all together), wherein a whole community and friends may be called together to assist a needy person to raise the necessary funds for such things as school fees, medical bills, a funeral, a building such as a school or church, etc. with each person giving what he can in the spirit of a Swahili proverb: 'haba na haba hujaza kibaba.' It has its vernacular rendering in most East African local languages. Paris (1995: 136–153), on his part, underlines reciprocity and obligation to constitute the key virtues fostered under the banner of community and relationship.

All these resources are rich for progress and social cohesion, but the more realist of the African scholars of management also recognize that these characteristics of African culture do put pressure on those entrusted with management responsibilities. In some instances, the very idea of reciprocity and obligation can be the root cause of malpractice and, in some respects, interfere with the goals of the organizations for which the people concerned work. For example, because the family, the ethnic or social group, and in some cases, the tribal ideologies, are strong factors in the constitution of individual and collective identity, the African manager or employee will often put the interest of his or her cousins and tribesmen before that of the organization. When in the modern firm and organizations relationships and reciprocity start to take priority over duty and honesty in the organization, the business or organization starts to decline. In both the private and the public sectors, abuses such as nepotism, leadership cult (paternalism), complacency, bribery, fraud, and paying of kickbacks combined with entrenched bureaucracies end up reducing efficiency; they prevent fair competition and undermine free enterprise (Opio 1996, p. 6). Yet, perhaps owing mainly to the village background of the majority of the leaders, evil is understood as a lack of purpose and goodwill in sharing. Similarly, good life, and by extension – for nonexistence in most African languages–, a 'moral good', may be seen to be the acceptance of an obligation to build a community of harmony with one's people, and all the powers of the cosmos, including the living dead, a tendency that is more prevalent in some countries than in others. This attitude continues to be a challenge to business and leadership ethics in Africa.

One other ethical challenge to business and leadership ethics in Africa is the African concept of time. Chudi Ukpabi (1990) and John Mbiti (1979) maintain the controversial thesis that in the traditional life of Africans, time is simply a composition of events which have occurred, those which are taking place now, and those which are to occur immediately. Consequently, in the general African mindset, events and not time as an abstract value, give meaning to life. There is a danger for someone to allow an event, for instance, the funeral of a relative, to take disproportionate primacy over office deadlines and rigor of performance review guidelines. In the context of decision making, a lack of balance between the procedure of project planning and the execution of the plan can be decisive for the failure of the project (Opio 1996, p. 6).

General Efforts toward Improvement of Corporate Governance

In post-Independence Africa, that is to say, since the 1960s, for a long time a kind of culture emerged in which directorships were understood as a source of power and money, but devoid of responsibility, the latter being relegated to lower management. This abuse of power, coupled with the expectations already mentioned under the umbrella of reciprocity and obligation, paved the way for much of the corruption that has given the continent a bad name in the past decade, if we go by the results of a survey conducted by Gideon Rossouw and published in 2005. The aim of the study was to establish how corporate governance was being institutionalized in the continent, and to establish the implications of business ethics in African corporations.

Many corporations were found to already have codes of corporate conduct. The dominant model of corporate governance proposed in most of the national codes was what he calls 'inclusive,' meaning that the boards of directors were expected not to just be accountable to shareholders but also to be responsible to all other stakeholder of the company. This requirement for inclusiveness has been interpreted by some to be a modern version of the proposed *Ubuntu* style of management.

Increasingly, more companies were found to have codes of conduct, many of which advocated for a *self-regulatory* approach. That is to say, the companies were being encouraged to adopt not only the letter of the law but to add the moral sense, or the good spirit of corporate governance as best business practice. The recommendation for voluntary self-regulatory codes appears to have been prompted by two factors. In the first place, it was found that there was a need to make up for the often inadequate legal and regulatory framework to control corporate activity in the majority of African countries. Instead of exploiting this deficiency, the national business communities are exhorted to voluntarily devise responsible self-regulatory mechanisms of good governance.

However, despite the landmarks achieved in this area, Rossouw reports several factors that were found to frustrate good corporate governance and which needed revision and the help of training programs. For example:

- Absence of active regulatory and institutional frameworks capable of the enforcement of the standards of good corporate governance.
- Notoriety of many state-run corporations; these were found wanting in the manner in which they practice governance. In not a few instances, their boards were found to fall short of the kind of competence or independence that is required for good corporate governance.
- Absence of appropriate governance structures in the boards of state-owned corporations was another shortcoming. Often the members of their senior management appeared to have been appointed on purely political grounds.
- The report points to a gap of cooperation between academia and business, but notes that scholars, business leaders, the financial press, and civil society were starting to pay attention to the relationship between good corporate governance and academic training and research.
- It indicates that such cooperation is possible through ethics and governance training programs, consultancy, and specific field research related to business ethics. Such cooperation would offer benefits to both parties in entrenching a culture of ethics and responsibility beyond the village, the clan, and political affinities.

Although the report recognized that the solutions to all these problems would take time to find, it also conveys a very positive note that clearly links good corporate governance to an in-depth understanding of virtue ethics and moral character.

Specific Collaboration of Different Stakeholders in Kenya to Stem Impunity and to Entrench a Culture of Ethics and Values

Narc Government: The promise. In Kenya, soon after the new government took office in 2002, it was expected that high on its reform agenda would be the task of cleaning out 24 years of corruption and impunity from the previous government that had almost crippled Kenya's economy. Whether to impress the public, or truly in earnest, in the following year, 2003, the new government moved swiftly to enact two Ethics Acts: *The Public Officers Act 2003* and *The Anti Corruption and Economics Crimes Act 2003*. These two acts were supposed to create the structures that would enable the government to provide the basis for the criminalization of unethical business behavior in Kenyan business and the public sector. The government also reviewed and renewed the Kenya Anti-Corruption Act (KACA). For the majority of Kenyans, the two acts and KACA were viewed as a commendable gesture from the government's side that now things would be different. By 2006 it was noticeable that although the economy seems to have recovered, corruption was still rife. It had become increasingly clear that a major challenge facing Kenya is how to mainstream virtuous and ethical behavior among its citizens, on the one hand, and how to get them to live a positive values-driven life and to hold those who live by such values in high esteem.

It was noted, for example, that there were few people either in leadership levels or in the professional business who could be pointed out as role models to champion the promotion of virtuous and ethical behavior. Coupled with this was also the recognition that this state of affairs was bound to undermine Kenya development plans, popularly called the Kenya Vision 2030.[2] This recognition led to the establishment in October 2009 by the National Economic Social Council Secretariat (NESC), in collaboration with the Ministry of Justice, National Cohesion and Constitutional Affairs, of a consultative group comprising of a cross section of stakeholders drawn from the public, private, and civil society, faith-based organizations, and academia (www.nesc.go.ke) with the mandate of doing a thorough survey, which would do, among other things, the following:

– Determine Kenyans' concept and definition of "value"
– Formulate the criteria for the identification of desirable values
– Make a critical analysis of research and work done by various institutions including initiatives on the inculcation of national values
– Provide a comparative analysis of the National Value System (NVS) policies of other countries, including the process of their evolution, institutionalization, practice, and the living of such values
– Scrutinize the values of the diverse cultural and ethnic groupings in Kenya to identify common and positive aspects that can inform the NVS
– Identify the key constraints that have hindered the country from evolving, adopting, practicing, and institutionalizing an NVS in Kenya.

This survey began in early 2009. The timeline given was until December 2011. The draft report was complete by May 2012. This document is supposed to help do four things:

(1) Set the national values that should drive development of an ethical nation
(2) Provide the institutional and legal framework for the NVS in Kenya
(3) Set strategies for education, information, and communication of the NVS
(4) Set strategies for institutionalization and assimilation of these values by all Kenyans

Inputs of academia. At the intellectual level, there is still a huge gap in research, teaching, and publication, focusing on creating an ethics of business relevant to the African business situation. There has, however, been in recent years a proliferation of ethics/governance seminars and conferences on various aspects of business practice, all of which point toward the improvement of ethical practice. Among these is the Strathmore University Annual Ethics Conference. It was in one such conference in 2006, which was opened by the Minister for Justice and National Cohesion, that the idea of the National Values System (NVS) was first conceived. Notable too was the need to introduce a Master's Degree program in Philosophy and Applied Ethics (MAPE) wherein people already experienced in professional and business practice could learn the principles behind ethics and ethical behavior. The idea behind this Masters program is to provide the philosophical basis of the human person, work, and economics as an important basis for development. For admission, the main requirement is to be a holder of a first degree in any field, 2 years of work experience, and a simple entrance examination. This program is attracting professionals from all walks of life. Among these are key policymakers such as politicians, government officers, lawyers, doctors, military and security professionals, development officers, directors of human resource departments, journalists, psychologists, family counselors, and many others. Some of them do find the course challenging but are willing to make the necessary effort and love what they are learning. What they all have in common is a desire to know the true foundations of ethics and its application to their particular professional field.

With regard to publications, there has been a good collection of which many may not be captured in this paper. One can mention *Fair Trade in International Business*, Volume 1, by Springer (2010), edited by Geoff Moore with chapters on Business Ethics in Africa. This is a volume that emerged from research papers presented in the 2008 ISBEE World Congress in Cape Town, South Africa. Significant too, in a humble way, is the extensive sales of *Ethics for Africa Today* (Gichure 2008), reviewed in the *African Journal of Business Ethics* (AJoBE) in 2008 (vol. 3, no. 1). The main thrust of this book is to provide a simple explanation of the relationship between ethical conscientiousness and the 'common good' as the most essential elements for the practice of ethical business. The book has received good acceptance in Kenya, Uganda, Nigeria, and Ghana.

One milestone in business ethics research in Africa has been the global survey on business ethics and economics carried out by Deon Rossouw during 2009–2010, published in 2011. Of equal significance has been the launch of the *African Journal of Business Ethics* (AJoBE) since 2004, being the official journal of the Business Ethics Network of Africa (BEN-Africa) currently based in Johannesburg, South Africa. A similar global survey conducted by Globethics.net (2011) on the teaching and training courses on Economic and Business Ethics shows that the current focus areas in teaching business ethics in Sub-Saharan Africa are as follows: a) Theoretical and religious foundations of business ethics b) Macro-economic and systemic dimensions c) Corporate responsibility d) Ethical management and leadership. However, it is important to note that there is a glaring lack of focus on the individual or personal dimension. In terms of training in business ethics, most of it is in ethical management and leadership. The report further confirms that there is less focus on the theoretical foundations or philosophical roots of ethics at the postgraduate level.

One other highlight in academia is that more universities have now included Business Ethics or Philosophy of Management as elective courses in their curricula, seeking to unlock the discrepancy between profitability in business and ethical practice. In defining the concept of business ethics as an 'academic field,' Rossouw (1997), for example, argues that it is necessary to establish its distinguishing features in the continent. He identifies five characteristics that are still weak: (1) a focus on a specific area that is being studied; (2) the creation of new theoretical knowledge through research; (3) the transfer of existing knowledge and the development of relevant competencies via teaching to students; (4) interaction among those who teach and/or research in a specific field; and (5) the institutionalization of the foregoing focus and activities (Rossouw 2004). He notes, however, that in most of the studies, the reflection and process of maturation in the field of business ethics are still dominated by a North American discourse, which continues to influence most of the landscape in this area of study.

Conclusion and Recommendations

To date, there is no doubt that in contemporary Kenya there are currently more people knowledgeable about the positive values that are pivotal to the country's socioeconomic development than perhaps 30 years ago. However, anecdotal evidence indicates that most citizens no longer uphold some of the social ideals of traditional Africa. The same anecdotal evidence shows that education seems to bring an increased consciousness of personal freedom and personal interests. Coupled with this, there is noted an increasing tendency to value only what benefits them individually or their families or their ethnic groups, something which 30 years ago was less felt than today. A pilot study done by (NESC 2010) indicated that the population in general appeared to be more greedy, dishonest, corrupt, and selfish than ever been experienced previously.

The challenge for the emergence of different models of corporate governance and their respective ethical requirements calls for a return to a clear anthropology that encompasses the dynamic nature of the human person—an individual who is at the same time in relationship to others and of good character. The emergence of business ethics research in Africa can facilitate the kind of discourse that can lead to a better understanding of how to marry the old traditional thinking, such as Ubuntu, to the new and technological world in which individualism is the trend rather than communalism. Similarly, there is still a need to clearly articulate that standards of governance and ethics that originated or are emerging within a specific cultural identity and the regional context should not be allowed to masquerade as global human standards. In the case of Africa, there is a perpetual desire not to lose the evaluation of ethical behavior on the basis of both the individual and the relational (other) perspective. One is always a member of a community, without losing their personal individuality.

Urgent too for business ethics development in Africa is the understanding of the need for professional competence and the acquisition of work skills and determination that are crucially needed in the kind of competitive world in which we live today. This requirement should not be construed to be in contradiction to the integrity of business or to the integrity of people in business. When this understanding of what ethics entails is applied to economic activity, it becomes evident that what is being studied in business ethics is not only the ethical impact of economic activity, but also the economic impact of ethical behavior (Rossouw 2004). In this sense, scholars are pointing to the need for a better understanding of the context in which business is practiced in Africa, of what drives change, what hinders the efforts to build an ethical culture in individuals and organizations, etc. Because business life requires efficiency and competitiveness, these goals need to be placed within the context of the search for happiness and a positive relationship with the community. This concept translates to living a good life and doing good, forging a moral character where one's professional or business activity become the occasion to practice the social and business virtues, and combining these with economic success and commitment to the common good.

Notes

1. A reed musical instrument used in East Africa.
2. (cf. http://kenyaembassy.com/vision2030.htm).

Bibliography

Armstrong, P. (2003). *Status report on corporate governance reform in Africa*. PACFCG document, Johannesburg.

Broodryk, J. (2005). *Ubuntu management philosophy*. Randburg: Knowres.

Chernoff, J. M. (1979). *African rhythm and African sensibility*. Chicago: University of Chicago Press.

Gichure, W. C. (2008). *Ethics for Africa today. An introduction to business ethics*. Nairobi: Paulines.

Gichure, C. W. (2009). Is the common good the missing factor in ethical sourcing in international business? The case of Kenya cutflower industry. In *Fairness in international trade* (The International Society of Business, Economics, and Ethics Book Series). Dordrecht/Heidelberg/London/New York: Springer.

Globe ethics: *The Global Survey on Business Ethics in Teaching, Training and Research*. http://www.globethics.net/c/document_library/get_file?uuid=78d0659a-21da-46a5-be35-6fc2bc00b93e&groupId=10131. Due to be published in 2011/2012.

Gyekye, K. (2010). African ethics. In E. N. Zalta (Ed.), *The Stanford encyclopedia of philosophy*, first published Sept 9, 2010.

Imbo, S. O. (1998). *An introduction to African philosophy*. Lanham: Rowman & Littlefield.
INUKA. Republic of Kenya, Ministry of Justice, National Cohesion and Constitutional Affairs. Draft, Sessional Paper No. 1 of 2012 on National Values and Principles of Governance Policy, Kenya, January 2012.
Lutz, D. (2009). African *Ubuntu* philosophy and global management. *Journal of Business Ethics*, *84*, 313–328.
Mbigi, L., & Maree, J. (2005). *Ubuntu*: *The spirit of African transformation management*. Randburg: Knowres.
Mbiti, J. (1979). *African religions and philosophy*. London: Heinemann.
Moore, G. (Ed.). (2010). *Fairness in international trade* (The International Society of Business, Economics, and Ethics Book Series). Dordrecht: Springer.
Nnadozie, E. A. (1998). *African culture and American business in Africa: How to strategically manage cultural differences in African business*. Kirksville: Afrimax.
NESC. (2010, February). *Toward a policy on the national values system for Kenya*. Document of the National Economic & Social Council, Kenya (NESC) (Vol 3). www.nesc.go.ke
Opio, P. J. (1996). Towards an ethics of business in Africa: Integrity and competitiveness. In L. Michel & W. R. Philipp (Eds.), *Business ethics in the African context today* (pp. 99–100). Nkozi: Uganda Martyrs University Press.
Paris, P. J. (1995). *The spirituality of African peoples*. Minneapolis: Fortress Press.
Prinsloo, E. D. (2000). The African view of participatory business management. *Journal of Business Ethics*, *25*(4), 275–286. Published by SpringerStable. http://www.jstor.org/stable/25074317. Accessed: 13 Dec 2010 13:31.
Reader, J. (1998). *Africa, a biography of the continent*. New York: Vintage Books.
Rossouw, G. J. (1997, October). Business ethics in Africa. *Journal of Business Ethics*, *16*(14), 1549–1553.
Rossouw, D. G. J. (2004). Developing business ethics as an academic field. (Ben_Africa Book Series – Number 1). http://scribd.com/doc/8730769/Developing-Business-Ethics-as-Academic-Field
Rossouw, G. J. (2005, March). Business ethics and corporate governance in Africa. *Business and Society*, *44*(1); (ABI/INFORM Global).
Rossouw, G. J. (2011). The Sub-Sahara African survey of business ethics as field of teaching, training and research. *African Journal of Business Ethics, 5*, 61–65.
Ukpabi, C. (1990). *Doing business in Africa*. The Hague: Royal Tropical Institute.

Chapter 17
Conclusion: The Future for Responsibility

Boleslaw Rok and Maria Cecilia Coutinho de Arruda

During the next decade, we will face a complex set of "responsibility questions." Different organizations will go through radical and unprecedented changes of rules. What we need now is a permanent platform for business and its stakeholders as they grapple with the most pressing ethical issues facing businesses all over the world concerning the vital area of responsibility. The transition to a market economy in many parts of the world in the recent two decades has not only opened up new horizons for business but also created a need to renew traditional moral values in the interest of social stability and the well-being of societies. There is a growing recognition that responsibility could create added value both for the economy and for society.

All economies are going through deep and rapid change in a process of transition having not only positive consequences but also causing several interrelated crises: economic recession, energy insecurity, food crisis, demographic challenges, and the overarching climate crisis. The recent financial crisis intensified these challenges. It is time to understand that solving any of these challenges requires addressing all. There is a growing body of knowledge on a new approach focused on systemic change in the responsible way, but more understanding is needed to reach a "new responsibility consensus."

According to Zadek: "Our challenge is no longer that we do not understand the problem; we are in fact overwhelmed with evidence that things need to change dramatically for the better if they are not to get an awful lot worse" (Zadek 2013). The role of business is as important as the role of government and civil society, including

B. Rok (✉)
Business Ethics Centre, Kozminski University, Warsaw, Poland
e-mail: brok@kozminski.edu.pl

M.C. Coutinho de Arruda
ALENE, São Paulo, Brazil

Hetica Business Training, São Paulo, Brazil
e-mail: heticabrasil@gmail.com

M.C. Coutinho de Arruda, B. Rok (eds.), *Understanding Ethics and Responsibilities in a Globalizing World*, The International Society of Business, Economics, and Ethics Book Series 5, DOI 10.1007/978-3-319-23081-8_17

the academic community. But the moral aspects of business conduct have never been so much in doubt, and in fact the level of understanding mentioned by Zadek is not yet common and the diagnosis is not clear.

The negative social effects are becoming increasingly problematic for human welfare as the tension between particular actors in different parts of the world increases. As the regulating power of national governments and international institutions is limited, this challenge has generated a strong interest in the responsibility of business leaders. Some of them find it increasingly important to meet the expectations of different stakeholders with respect to the company's contribution to profit, planet, and people. This interaction between companies and various stakeholders constitutes a third mechanism that increases the shortcomings of the market mechanism and government regulation in serving the well-being of society.

One can read in the text presented recently at the launch of Edelman Trust Barometer 2014: "As we enter the age of the 'how,' the CEO as Chief Engagement Officer is critical to set the vision and guide the direction for this critical new model of capitalism, demonstrating stakeholder value through values" (Cone 2014). Some businesses already realized that their approach of putting the welfare of society at the center of its business and as a new form of capitalism will only succeed if others join. The most progressive leaders already trust that companies, governments, customers, and NGOs will come together carrying this new mantle of responsibility.

The responsibility of business and its stakeholders in coming years is to be more active in tackling the main social and environmental challenges through innovative, creative solutions and a multi-stakeholder partnership approach. The biggest challenge is to design the new responsibility framework to support the desired social results. It should be agreed that responsibility abiding by moral rules is an important and necessary element of these changes. What we need is the defined framework of extended responsibility for the whole. Four main elements of this framework have already been presented in part in this volume: education, leadership, politics, and sustainability. But much more needs to be done, especially on the institutional level.

Education

Education is the starting point for this newly defined framework. For business ethicists, it is obvious that there is a need to accelerate the integration of responsibility agenda into the knowledge, skills, and mindsets of today's and tomorrow's leaders and other stakeholders. It is increasingly recognized as crucial that business schools and universities proactively ensure that graduates are educated in ethical responsibility and acquaint their students with the challenge to integrate sustainability as a long-term vision in their future professional decisions (Moon and Orlitzky 2010). The clear demand for academic courses and training for employees in the field of ethical responsibility first appeared to a large extent in connection with scandals occurring in the business world, involving people with an excellent management education acquired in their universities. Unfortunately, they did not make use of fundamental ethical reasoning in solving day-to-day managerial problems.

The dominant stereotype that business is unethical in itself sums up the general criticism toward business in the post-crisis era. As was pointed out already (Gasparski 2004), inappropriate behavior in business is not caused by the fact that people working in companies are less ethical than other people but by the fact that not enough attention is given to developing an ethical organizational infrastructure. Waddock (2008) claims that organizations are made up of responsibility assurance infrastructures that include codes of conduct, standards, and principles which require businesses to commit to certain values-based practices and procedures: credible verification, monitoring, and certification services that support transparency for stakeholders about what companies are actually doing and generally accepted reporting systems for environmental and social responsibility. It is argued that unethical behavior is often structural in its nature. Ethical people can go astray by working in irresponsible organizations, whereas in good companies even people of questionable reputation could become better or at least be kept under control. It is necessary to work out an efficient and effective system of ethical responsibility education on every level.

Successfully mainstreaming an ethical agenda, especially on sustainability and leadership ethics, into education and creating a high level of ethical sensibility among future leaders is a big challenge everywhere in the world. When the implementation process is examined, both structural barriers and communications barriers emerge. One strategic objective, therefore, is that the wide academic community provides the foundation for a structured and coherent vision of the necessary changes in management education.

To foster a learning environment that supports ethical responsibility, a range of initiatives are emerging across and within universities and business schools. The development of the six Principles for Responsible Management Education (PRME) under the auspices of the United Nations can be seen as an institutional response to the increasing demands for a responsibility framework from different universities around the globe. Since the inception of PRME initiative in 2007, there has been increased debate over how to adapt management education to train a new generation of business leaders capable of managing the complex demands faced by business and society. Fundamentally, PRME are designed to inspire and champion responsible management education, much as the UN Global Compact's principles hope to inspire responsible management practices in business. The PRME is the first large-scale initiative for change in business ethics education, and its governance structure was developed in response to several specific social and institutional waves of change.

PRME represent a set of voluntary standards to which business schools agree to adhere in the interest of developing leaders of tomorrow with the necessary insights, skills, and competencies to handle the ethical issues that businesses and other institutions are already facing. The six principles focus on (1) the goal of creating sustainable value and an inclusive, sustainable global economy, (2) values of responsibility, as illustrated by initiatives such as the UN Global Compact's principles, (3) a method of creating pedagogies and education approaches that develops effective and responsible leaders, (4) research that advances understanding about the impacts of companies in creating sustainable social, environmental, and economic values, (5) a partnership that fosters interactions between managers and academics to explore challenges in meeting environmental and social responsibilities, and (6) dialogue that facilitates debate among stakeholders from the multiple sectors which constitute society around key sustainability issues. The six principles themselves need to be filled with context-specific meaning in each university; they need to be brought to life by serious reflection among students, faculty, and other stakeholders (Waddock et al. 2011).

The Principles for Responsible Management Education became a guiding tool in the new approach to education. There is an understanding behind PRME that education programs need to take leadership roles to change the dominant mindset so that graduates have the skills needed to understand the truly complex world they will face. The PRME are designed to help educate future business leaders who can explicitly link ethical, social, and ecological considerations directly to business decisions to foster a more inclusive global economy. It is recognized that every successful program on ethical responsibility should be based on understanding of the real challenges in a particular market, combining profitability with social justice and sustainability. The PRME's role has been reinforced in the context of recent discussions on business leaders' failings, including corporate corruption, the financial crisis, and the ecological system crises. According to a recent research study, the PRME initiative is an important catalyst for the transformation of management education and a global initiative to change and reform management education to meet the increasing societal demands for responsible business (Godemann et al. 2014).

Business needs practical tools and approaches to successfully manage the whole range of environmental, social, governance, and economic issues required, with a sustainable model that recognizes that the financial health of the firm is dependent upon the environmental and social health of our planet. It is increasingly clear that the combination of these factors means that the playing fields across which business operates will be convulsed in coming years. Global companies are reviewing their human capital strategies and internal management development programs to better address current shortfalls. They will need more managers and employees who understand this long-term vision based on ethical responsibility. In this context, business schools and universities have a growing and vital role. The social, moral, and political skills will be needed as much as traditional business competencies such as accounting and finance. It can be assumed that the preparation of a curriculum that would meet market expectations as well as the expectations of potential students and the university itself is a major challenge in this context.

Leadership

The financial crisis showed that violating certain ethical standards becomes dangerous in global terms; for example, the lack of responsibility in the mortgage market was one of the causes of the global collapse in the markets. Financial institutions are being accused of carelessness and speculation at the expense of their customers and their managers of greed and dishonesty. In the face of a serious, longitudinal crisis, not only financial or economic but also an ecological crisis, leaders from different sectors are definitely looking for ways for further development that take into account the expectations of various groups of stakeholders. It becomes more and more clear that it is necessary to make far-reaching systemic changes. Future leaders can no longer operate upon the same principles "as usual."

We understand that leadership is about a person or persons somehow getting other people to do something. We are not confused about what leaders do, but we would like to know the best way to do it. But there is no clear understanding as to what elements of leadership lead to successful implementation of an ethical vision. Perhaps followers all around the world will begin to provide a strong counterweight to outdated practices and attitudes that lead to subsequent disasters.

Responsible leadership should address (1) the vision of sustainable development, which is building a dynamic balance in an economic, social, and ecological dimension; (2) transparent, decent relationships with current stakeholders; and (3) protecting and developing the resources that will be necessary in the future. We have painfully convinced ourselves many times that moral responsibilities cannot be forgotten.

This realization means that the first important feature of a responsible leader is the ability to see the consequences of economic, social, and environmental aspects of different changes, both the positive and the negative ones. The second feature is the ability to build mutually beneficial relationships with stakeholders, which primarily concerns balancing of conflicting interests through participation and a genuine dialogue. The basis for future development is the process of agreeing on the rules of conduct among stakeholders. Finally, the third feature is the ability to see long-term challenges, co-creation of space for an intergenerational dialogue and engagement, and imagination allowing acceptance that future generations will also want to fulfil their needs. Leaders should recognize that it is about a wise cooperation for the sake of a new, although still not entirely defined, responsibility framework, leading ultimately to a high quality of life for all (Rok 2009).

Responsible leaders derive their legitimacy in particular from ethical principles on which their everyday practice is based. The definition of responsible leadership and the role of leadership in generating and maintaining effective organizational change have been widely studied for a long time. Ciulla (2007) has explored the many ways in which ethics, competence, and effectiveness are inextricably intertwined in the fabric of leadership. It is important to understand the many facets of ethics and effectiveness so that we can develop good leaders for the future and help current leaders do a better job, to help leaders who lack the skills and knowledge to lead responsibly.

The effective and ethical model of leadership and the critical role of leaders in implementing responsibility agenda are of crucial importance for organizational change. Therefore, an ethical infrastructure or management ethics is critical in the process of adopting responsibility-based leadership approach. Research on the relationship between a leadership model and responsibility performance or sustainable value creation is still in its infancy. Existing research on leadership in the context of responsibility is strongly influenced by only one dimension: how well informed corporate leaders are about the Corporate Social Responsibility (CSR) policy and how much they support it.

Putting a signature at the bottom of the ethical guidelines for the staff or CSR report does not mean that these leaders are practicing responsible leadership and leading their employees toward total responsibility thinking, giving meaning to organizational life, building relationships with stakeholders. To understand the ethical context of leadership we have to take into account the leadership paradigm in itself: how to move from a classical type of leadership in the stakeholder engagement, which is firm centric, aimed at persuasion, accessing stakeholders' opinion only, to more dialogue-centric attitudes, a more active collaboration aimed at embedding responsibility in all relevant processes, where planning and decision-making responsibilities are shared to a certain extent and main decisions are delegated to committees where stakeholders have a majority voice. How can we democratize an organization that was always operating in a hierarchical way?

Different paradigms of leadership can create different types of people's performance at an organizational level, especially in terms of ethical behavior. We can assume that classical leadership can create only a philanthropic, reactive attitude as a form of responsibility. Transactional leadership could be better equipped for the approach of a win–win attitude, building a shared value. Visionary leadership should be more proactive, multilateral, rather than imposing values on other stakeholders. Only in the case of the organic paradigm, co-leadership, can deep integration of values and responsibilities occur. Instead of enforcing others to do the right thing, leadership should be based on co-creation and empowerment. This approach to leadership has the potential to integrate sustainability in the core of an organization, into the "hearts and minds" of all stakeholders. By focusing on ethical values through co-leadership, stakeholders could shift their attitudes as well as practice into the direction of more responsibility and sustainable value for all.

Politics

There is a great need to improve the quality of politics, to set a frame for an ethical culture, to raise consciousness on social and environmental issues among leaders and followers. In fact, all partners from civil society, the academic community, and business and government should be involved in a permanent political dialogue for the new and continuously changing vision for this co-ownership approach. The set of political, economic, social, psychological, moral, cultural factors, as well as the different needed improvements in our overall ethical infrastructure, hopefully undertaken by all persons in the society, contribute to this ongoing process. "Business cannot succeed in a society that fails," as the popular saying goes, but businesses can sustain their growth only if society is generally satisfied with their long-term positive contribution to societal well-being. The question of ethical responsibility is in fact a political question.

During discussions that in recent years have dominated the public discourses in many developed countries, much has been said about the need for such development that does not lead to the exclusion of most citizens. The recent crises do not concern merely financial markets or economic life but, above all, the lack of a commonly shared vision of social development. Some political commentators argue that the current crisis is to some extent a new reality in which we must learn to live and work in the long run. Turbulence in the financial markets is only a part of the general unstable situation concerning the depletion of natural resources, erosion of energy security, demographic challenges, and social exclusion, declining access to quality education and healthcare, as well as changes in factors affecting the quality of social capital, trust, and moral values. Every breakdown in the market is another valuable lesson, both for those who maintain that this is the final crash of that system as well as for those who do not lose faith in its survival. But a belief that business is based on competition and greed and that an invisible hand of the market will itself transform these qualities into social development and prosperity for all should admittedly be regarded as too naive.

In this discussion one can hear the voices of those who maintain that nothing has happened, and that the current crisis is just the way things go, as well as the voices of those who are already formulating new economic doctrines, new market visions. It seems that the significant difference can be seen at the level of diagnosis, describing and understanding the principles of the functioning of a market economy, because various authors perceive the economic reality in different ways.

Simplifying, we can adopt three basic versions describing the situation that can be encountered currently: (1) *predatory capitalism*, the acknowledgement that in business there is no place for ethical behavior and the main characteristic is a free, unimpeded pursuit of profits; (2) *civilized capitalism*, described as the search for an optimal balance between regulation and self-regulation, including obligations of an ethical nature at the individual level, simply basic integrity; and (3) *responsible capitalism*, the belief that the foundation of every business activity, as well as complying with legal regulations, is the common good, which causes the enterprise to adjust its management systems to the various expectations from different stakeholders (Gasparski et al. 2010).

Those who believe in predatory capitalism treat the crisis on the market as a fairly normal part of the business cycle. If ‘the market knows better,’ then the blame for the current crisis can be laid on the inefficacy of the regulation policy, on the incompetence of some analysts or investment risk managers. The fear of market interference by public administration, which we are currently witnessing in some countries, is part of this belief. Moreover, according to this version, any external interference in the economy usually does more harm than good, which leads to the conclusion that the scope of legal regulations should be reduced. Consequently, managements of companies should concentrate on the maximization of income, and possibly even lobby for economic freedom, regardless of the social or ecological consequences.

There are not many now who believe in the principles of predatory capitalism in its purest form, but rather in so-called civilized capitalism. It can take many forms, but there is a growing recognition that the coexistence of legal regulations and ethical self-regulation for people working in business is just necessary. According to the followers of civilized capitalism, it is a part of "good business" to introduce a mix of legally binding rules and a voluntary code of conduct that make unethical behavior in the market impossible. The strict procedures give honest people rules to play by, and they work for most people. For the rest, there must be consequences for noncompliance.

It is doubtful, however, whether it is possible to introduce such a set of rules and system of sanctions that could make attempts at finding a way around regulations impossible. Harrison discusses the consequences of introducing the Sarbanes–Oxley Act as well as other legal regulations after the disclosure of the affairs at the beginning of the twenty-first century (Harrison 2007). On the basis of his research over recent years, the author claims that "we can't create compliant organizations solely by punitive means." The laws and legal regulations that were created, with the main goal being to educate people about the real threat of punitive consequences, were not sufficient. According to Harrison, the carrot-and-stick method, with the emphasis on the stick, will not work if the organization lacks a genuine will to embrace an ethical responsibility culture at all levels of the organization and in all areas of activity.

Ethical conduct at the individual level is not enough on its own for the responsible functioning of a whole company. It should be acknowledged the obviously vital role of individual ethical behavior, but placing companies in a broader context of social expectations and actions for the sake of the common good, can show in what way these expectations are met in business practice. Changing social expectations cause the vision of the current market economy in its specific equilibrium between economic freedom and individual integrity to be substituted by responsible capitalism. The entire sphere of corporate ethical responsibility, also on the global level, is becoming increasingly important in the contemporary world. It should, however, be emphasized that describing the functioning of the market in terms of responsible capitalism is not a case of wishful thinking, because more and more companies in the global market, both large and small, do consider in their activity, to a lesser or greater extent, the minimization of negative consequences for society and the maximization of positive ones. It is becoming increasingly desirable as a new framework for responsibility should be based on the ethos of coregulation and cooperation between stakeholders.

So, it is a call for ethical values that provide long-term benefits for all. Concern with social issues and a commitment on the part of all market players to create an economic playing field based on the principles of fairness and justice should be a defining characteristic of the coming era. Corporate strategies can address a wide range of economic, social, and environmental global or local issues, applying engagement at the heart of the business model. With global societal challenges such as poverty, climate change, financial turbulences, and demographic aging, the need for companies to adjust internal processes and partner with external stakeholders to find workable solutions at the local as well as sectoral and regional level has increased significantly in recent years. Businesses acting as businesses, not as charitable givers, are arguably the most powerful force for addressing many pressing issues facing our society.

Global players, including business leaders, social activists, and policymakers in different institutions, have changed their appreciation of the role of business in society. The United Nations has a leading role in this context. It has begun a complex, multi-stakeholder process for establishing a new development agenda for the world after 2015, built upon the Millennium Development Goals (MDGs) which, even though they have not been fully achieved, have made a real difference for good all around the globe. As various UN reports have highlighted, several countries have made significant strides forward on the MDGs, and some of the most valuable successes in recent years have occurred in the poorest countries. One of the main outcomes of the Rio+20 Conference was the agreement by member states to launch an inclusive and transparent intergovernmental process to develop a set of sustainable development goals (SDGs), with a view to developing global sustainable development agenda for the future (UNDP 2014).

This agenda must be universal, reflecting the nature of both the post-2015 development agenda and the Rio+20 final documents. It will call for a new vision and coordinated effort on a scale without precedent in human history, to bring together a policy framework and detailed action plan for sustainable growth, compatible with human dignity and social justice, and protection of the natural ecosystems of our planet. Political mindset must shift from a preoccupation with quantitative growth to one equally concerned over the quality and sustainability of growth. This new agenda has to be developed by all, given that one of the main criticisms of the MDGs was that it was devised by a minority to be implemented for the majority. UNDP and its partners are declaring that diverse stakeholders participate in the discussions, including the most vulnerable groups—women, youth, people with disabilities—and private sector companies, as well as all levels of the government. It was already agreed that SDGs must be action oriented, concise, easy to communicate, limited in number, aspirational, global in nature, and universally applicable to all countries while taking into account different national realities, capacities, and levels of development and respecting national policies and priorities.

On the regional, European level, several initiatives are leading in the same direction as SDGs. The "Europe 2020 Strategy" calls for smart, sustainable, and inclusive growth throughout the European Union member states. It also responds to, and builds upon, other long-term visions for achieving sustainability in Europe, including, but not limited to, the "20/20/20" climate and emissions targets; European Commission's road map for a competitive low carbon economy in 2050; the "Spread 2050" scenarios for sustainable lifestyles in Europe; and the "Vision 2050" from the World Business Council for Sustainable Development, already implemented in several European countries. The initiatives identify transformative pathways to achieve sustainability for all citizens in the future, and recommend concrete public policy actions and leadership for achieving them. In doing so, it focuses above all on the ethical responsibility in Europe and the active role of politics in advancing sustainability and the values-driven economy.

Sustainability

The last element of the ethical responsibility framework presented here in this volume is sustainability. Sustainability can provide an integrating opportunity for businesses, communities, governments, and civil society members to construct a virtuous cycle of growth and long-term outcomes. We can observe that many large and small businesses are firmly engaged in the sustainability agenda and a number are fundamentally reexamining the way they do business as a result. Social and environmental issues, once assumed to be the domains of government and nongovernmental organizations, continue to move up the corporate leadership agenda in terms of ethical responsibility.

Modern business practice suggests that we are moving with ethical responsibility into a new phase of the debate, focused on creativity, innovation, greening supply chains, emerging regulatory and voluntary measures, and scalable solutions to sustainability challenges. Business is a dynamic process of value creation. The traditional, firm-centric view of value creation is being challenged by active, connected, and informed stakeholders, employees and customers, by governments, both local and national, nongovernmental organizations, and business partners. Sustainable value is being jointly created by stakeholders and the company in an interactive way. Co-creation experiences with a network of companies and stakeholders communities enabled by technical and social infrastructures (like in the case of web 2.0 tools) allow co-creating unique sustainable value.

Conceptually, this type of approach needs to be distinguished from a defensive or reactive approach, where social responsibility is essentially treated as a supplementary function to a non-CSR-oriented core. CSR as a concept acknowledges now the fact that company behavior is subject to basic business operating principles such as profitability and competitive performance. The emerging model of CSR is much more focused on operating the core business in an innovative, socially responsible way, complemented by investment in communities for solid business case reasons. But at the same time CSR recognizes that company behavior is crucial for the promotion of societal goals, including the achievement of national or international strategies on sustainable development.

The new trend is based on achieving sustainability in overall business activity. According to ISO 26000, which is an emerging norm in this field, social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, including health and the welfare of society. It takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behavior, and is integrated throughout the organization and practiced in its relationships (ISO 2010).

Responsible and sustainable business is now starting to be a widely recognized model for entrepreneurship as well. These entrepreneurs and their businesses are motivated primarily by "make a difference" goals. They seek economic and environmental sustainability and social equity goals, and poverty alleviation, often aiming to transform the system whose dysfunction help create or aggravate major socioeconomic, environmental, or political problems. Responsible entrepreneurship is seen to represent a route both to solving some of the main social and environmental problems that the world faces and to new ways of creating jobs and social and environmental sustainability in a post-financial crisis world.

For a successful and inclusive business, those entrepreneurs usually are working with NGOs and public sector organizations on a co-creation basis to launch affordable products, services that function perfectly, for example, in the low-income markets. Their hybrid models leverage the capabilities of other actors in the market where they operate and find innovative ways to reduce transaction costs despite imperfect market conditions and drive innovation. Nevertheless, different kinds of support from governments for innovative business models that demonstrate commercial and development impact, and at the same time have the potential of reaching sustainability and scale, are crucial.

It forces us to rethink the conventional wisdom about business itself, its role in the society and motivation which lies behind the entrepreneurship. For sustainability-oriented entrepreneurs the new objective—instead of profit maximization—is to optimize all business operations to minimize negative environmental impact and at the same time improve positive social outcomes and impact. From an ethical perspective, poverty alleviation is an integral part of a true sustainable development. It becomes evident that new ways of sustainable consumption and production must be found to achieve short-term, intragenerational sustainability goal of meeting the needs of the present and its long-term, intergenerational goal of an enduring utilization of resources. In fact, we need the new conceptual and institutional framework to align ethical responsibility, environmental protection, and human development.

The practical solutions are as diverse as the national environments in which innovative entrepreneurs are operating, the legal status of an enterprise, its scale or sector, the entrepreneur's personality, and their choice of partners. The social innovation that happens from these activities, solving problems stemming from poverty and exclusion, is almost certain to have positive implications for both private and public sectors and establishment of more effective business models. This effectiveness is perceived not only in financial terms but also as a tool for social and economic empowerment of the low-income population. Those models seen in a partnership perspective represent a form of radical innovation for long-term sustainability that may enforce real social responsibilities in corporate practice and bring to life new ideas, creating value for business and the low-income population at the same time.

As it was pointed out by Zadek: "Pursuing sustainability is no more or less than acting responsibly, ethically, and with common purpose with those who have less, have been treated badly by history: those who should have more, more to eat, more to earn, and more to say" (2013). Twenty years ago, the call for a new, more inclusive, and accountable and environmentally sustainable economy fell largely on deaf ears. It was, according to Zadek, the heyday of the neoliberal revolution marked by massive privatization, liberalization of markets, dismantling of major parts of the state, and myopic technological optimism. Now we have many political, business, and civic leaders who are "shouting about this stuff from the rooftops," we have technology and financial capital, but there is no action for real change. The necessary action with the mindset of responsibility should be placed somewhere at the interface between government and business, between cooperation and competition, and between private gain and public benefit. It should be based on the new framework for ethical responsibility, with education, leadership, politics, and sustainability as the main elements.

References

Ciulla, J. B. (2007). Ethics and effectiveness: The fabric of leadership. In C. Stampford & C. Connors (Eds.), *World ethics forum conference proceedings*. Brisbane: Institute for Ethics, Governance and Law.

Godemann, J., Haertle, J., Herzig, C., & Moon, J. (2014). United Nations supported principles for responsible management education: Purpose, progress and prospects. *Journal of Cleaner Production, 62*, 16–23.

Cone CL (2014) Trust and the corporations' role in society. http://www.edelman.com/post/trust-and-the-corporations-role-in-society/. Accessed on 15 May 2014.

Gasparski, W. (2004). Business expectation beyond profit. In A. Habisch, J. Jonker, et al. (Eds.), *Corporate social responsibility across Europe*. Berlin: Springer.

Gasparski, W., Lewicka-Strzalecka, A., Rok, B., & Bak, D. (2010). In search for a new balance: the ethical dimension of the crisis. In B. Fryzel & P. H. Dembinski (Eds.), *The role of large enterprises in democracy and society* (pp. 189–206). Basingstoke: Palgrave Macmillan.

Harrison, S. (2007). *The manager's book of decencies: How small gestures build great companies*. New York: McGraw-Hill.

ISO. (2010). *Guidance on Social Responsibility. ISO 26000:2010(E)*, Geneva

Moon, J., & Orlitzky, M. (2010). Assessing corporate social responsibility in Europe. In D. Swanson & D. Fisher (Eds.), *Toward assessing business ethics education* (pp. 143–175). Charlotte: Information Age Publishing.

[No author]. http://www.undp.org/content/undp/en/home/blog/2014/4/28.html. Accessed 10 May 2014.

Rok, B. (2009). Ethical context of the participative leadership model: Taking people into account. *Corporate Governance: The International Journal of Business in Society, 9*(4), 461–472.

Waddock, S. (2008). Building a new institutional infrastructure for corporate responsibility. *Academy of Management Perspectives, 22*, 87–108.

Waddock, S., Rasche, A., Werhane, P., & Unruh, G. (2011). The principles for responsible management education: Implications for implementation and assessment. In D. Swanson & D. Fisher (Eds.), *Toward assessing business ethics education* (pp. 13–28). Charlotte: Information Age Publishing.

Zadek, S. (2013). Reshaping the political (green) economy. *Journal of Corporate Citizenship, 2013*(51), 5–16.