Management and Sustainable Practices: On Corporate Social Responsability and Related Issues in the Market Economy

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Abstract

Corporate Social Responsibility (CSR) is a rewarding intellectual activity as well as an insight provider in dimensions that matter in man kind activities. The depth of one's involvement in the subject is probably proportional to one's engagement in the ongoing broad discourse of *fair management and sustainable economies and practices.* During the last decade or so, we have witnessed an increased interest in the subject triggered by many reasons. The ever increasing "market mania", its subsequent harsh environment and unstable labour situation create a strong sense of uncertainty with regard to how firms are handling their social responsibility. Turbulence on the market places jeopardises jobs and leads to an increased awareness of the general public that CRS or lack of it can have tremendous social effects on the everyday lives of communities. Especially those communities with strong economic dependencies to locally established firms. Many reports of misdeeds have invaded the front pages of the newspapers lately. The amplitude of some of these misdeeds are of such shocking magnitude that the issue of firm's honesty and responsibility have become the focus of the general public as well as that of the controlling and legislating instances. Thus the aim of this article to look at CSR from a broad perspective, that of business *ethics*, and *fairness* and *sustainability* of business practices.

Introduction

The governing ideas on CSR have acquired more and more acceptance and their manifestations are the subject of many studies. Furthermore, CSR seems to have become an integrated part of many firms everydayness. In many cases are accountable practices of CSR likely to increase the chances of a firm to keep its position and competitiveness in the view of the general public. What the public sees in the practices of CSR is the overall behavioural pattern of firms in terms of the business choices they make as well as in term of their societal attitude, or "societality". The public, the governments of different countries and firms are today equally interested in developing and implementing CSR in the market economy. Despite the fact that interest in this issue varies widely across different countries due to political traditions and degrees of awareness, it appears important that a convergence is achieved.

However, this is not always the case. Public institutions of different countries might be interventionist at various degrees. Different groups of consumers and other stakeholder around the world are certainly interested in different issues and looking for different solutions to their fundamental causes. Businesses might display a social responsibility for strategic reason. In some cases, although rare, they might also do the same simply for pure altruistic reasons. In yet other cases, firms might simply exclude CSR from their reflections and activities.

It is generally agreed that all these groups are becoming more interested in the development and implementation of CSR in the market economy. Furthermore, the dissimilarities that can be analysed in different areas have to be accurately examined and evaluated with particular focus on the consequences of globalisation. Thus, a visible lack of ethical conduct that translates into actions of misdeed is a source of a serious damage to the public trust in guilty firms. In the long run these firms will suffer from the unfair managerial actions and attitudes of their managers. The scandals that have exploded in the circles of investment firms, formerly believed to be solid and reliable institutions, such as Morgan Stanley and Marilyn Lynch have created a trauma in the public eyes. Similar scandals have appeared in the world of insurance companies such as Skandia in Sweden as well as in old and much respected traditional industries such as ABB. Even the state owned companies appear to have their share of corruption and misdeeds. The case of the Swedish System Bolaget, a state owned retailing companies providing the Swedish citizens with wines and other alcohol beverages through an extensive chain of stores all over the country, reflects the might of the dramaturgy embedded in the practices of unethical business behaviour. The ongoing investigation in this company (November-December 2003) have revealed that nearly a hundred people, mainly at the middle management level, have been bribed by suppliers in a systematic bargain providing them with substantial incentives for favouring their respective brands. Further news of misdeed, bribes, unfair treatment of employee, harassment and suppressions of minimal rights are now a daily routine.

It is quite obvious that a majority will agree that these speaking examples of unethical and unfair managerial practices. Through these illustrations and through a review of the relevant literature, this article suggests possible theoretical interpretations. We are not seeking common definitions or wondering why there are no common theoretical understandings of the phenomenon at hand. Our primary aim is a to make sense out of these events, to understand the rational behind, and to offer plausible theoretical explanations. We suggest an enhancement of the sense making about the issue of fair and unfair management by examining some illustrations.

1. Looking at some illustrations

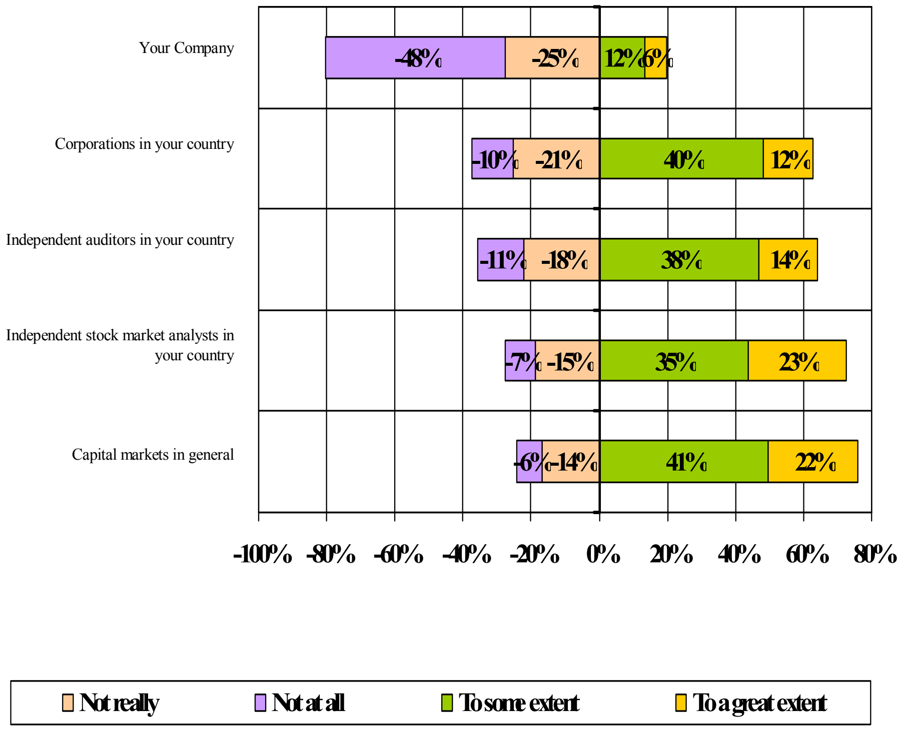
In the midst of the torment, PricewaterhouseCooper have conducted an extensive worldwide survey among 1000 CEOs from 43 countries asking them to share “their hopes and fears, and their insights”. This study is the 6th annual global CEO survey and it is being done in conjunction with the World Economic Forum. The study is entitled “*Leadership, Responsibility and Growth in Uncertain times*” (2003). The study deals with many problems that are felt to be significant for the business community such as regaining confidence in the wake of economic breakdown as well as the latest major terrorists actions. But the study is also about the prospect of building trust among investors, customers and employees and *reclaiming* “responsibility for being good corporate citizens and good shepherds of the global environment.” About half of the asked CEOs admit that corporations in their country had suffered great loss of public trust. They also are positive about the actions taken by legislators in order to impose standards of accountability to corporations. How can the opinions expressed in these interviews be interpreted? Are we looking at the manifestation of a wishful thought that expresses the dominant rhetoric in economics rather than any deep concern for ethical values in corporate business preoccupations.

As it is stated in the survey, there is a little doubt about the fact that the latest corporate scandals have been very negative to the international business community at large. Firms around the world are seriously considering different options for gaining or regaining the public trust. The case of Skandia in Sweden is certainly one of the most difficult to repair since the malefaction dealt with the pension funds of the ordinary men and women. People have seen their assets diminishing by more than a half while the bonuses of the responsible CEOs have increased astronomically. One CEO got out of the catastrophic situation of the company with a golden shake hand worth 25 millions euros. This and many likely events exploding in the media convey but disdain and despair.

Exhibit One (page 16 in the PricewaterhouseCoopers' CEO report, 2003) depicts the question as to what extent has the public trust in firms ethical abilities declined. The decline seems to impact on three key elements: the spirit of transparency, the culture of accountability and the integrity of people.

EXHIBIT 1: **Decline of public trust**

To what extent, if at all, has public trust decline in the following?



One striking finding, as it appears in this exhibit, is that more than 70% of the asked CEOs report that public trust has essentially declined in other corporations, in auditor's actions and in market analysts. However, they think that their particular firms still have the trust of the public. This is of course a somehow distorted view of the reality. It is the sort of selective perception that brings even more mistrust

Interestingly enough it is also reported, in this study, that "transparency and accountability can mean different things to different people". 53% of Asia-Pacific CEOs agree that transparency and accountability are "country specific and culturally sensitive". They also agree, that "the motivation of the transparency is more dependent on a company's visible involvement than on its visibility in the global marketplace". The same goes for "company's motivation for meeting its CSR".

Another survey, a small part of which is presented here, done by Ph. Daudi and Ch. Macdissi in 2003 among firms in Guadeloupe shows that managers in this region tend to associate CSR with a high awareness of the importance of the environment. The finding shows, for example, a rather positive attitude toward ecology, which is seen as the expression of national ethic, as a way of life and as the manifestation of the individual as well as the corporate social responsibility. When asked to respond to a set of objectives primarily related to their perception of an ethical behaviour as it might be displayed in their ecological actions, the ranking of the manager's responses show a clear positive attitude to CSR.

1- Personal responsibility	91,4 %
2- Common interest	91,3 %
3- National ethic	79,3 %
4- Need for survival	75,8 %
5- Tendencies	39,7 %
6- Restrictions	34,5 %
7- Business Opportunities	25,8 %

The managers have also been asked about their willingness and ability to see good environmental actions as embedded dimensions in their strategic efforts, thus viewing these positive environmental positions as competitive strategic advantages. The majority of the asked managers appear to see positive effects on their firms. The highest ranking is given to the image of the firm whilst the lowest to the prospect of increasing the profit.

1- Creating a positive image	98,3 %
2- Managing the competitive advantages	75,9 %
3- Attracting customer	74,1%
4- Generating added expenditures	63,8 %
5- Obtaining subsidies	58,6 %
6- Avoiding political sanctions	53,4 %
7- Increasing profits	50,0 %

This been said, a crucial question was asked as to what would constitute the most important obstacles preventing a CSR and environmental conscious manager from implementing his/her actions. The ranking hereunder emerging from the answers indicates a certain ambiguity if one keeps in mind the overwhelming general positive attitude, which emerges from the ranking above.

1- Financial restrictions	84,5 %

2- The firm concentrates solely on business	81,0 %
3- Lack of ecological awareness	79,3 %
4- Lack of ecological policy in the firm	77,5 %
5- Lack of demand from the customer	72,4 %
6- The complexity of the issue	70,7 %
7- Lack of time	62,1 %
8- Personal attitude	56,9 %

The majority quotes the financial restrictions as the primary obstacle to their projects of implementation, whilst still more than half refers to their own personal attitude. The lack of ecological policy in the firm and the complexity of the issue illustrates ambiguous attitude of the managers in relation to what they stated earlier and given the fact that they are the people responsible for the introduction of policy in their firms. Even if the managers in this specific region in Guadeloupe, might have some difficulties in implementing their ideas, we wanted nevertheless to get at their intentions, perfectly aware of the risk of their answers being more parade words than personal convictions.

1-Questions concerning environment ought to be integrated in the managerial decisions	86,1 %
2- Research & Development is important to limit the bad impacts on ecology	84,5 %
3- Questions concerning environment ought to be a major preoccupation for managers	84,5 %
4- Environmental concern can be perceived as a competitive advantage	79,4 %
5- There is a crisis of the environment	79,3 %
6- Firms ought to disseminate information about ecology and environment	58,7 %
7- The ecological situation is significant but not critical	53,5 %
8-The politics of ecology and environment is merely an effect of fashion	20,7 %

The intentions and visions of the majority of the asked managers in the Guadeloupe survey are compatible with those of the managers in the PricewaterhouseCooper survey indicating the overwhelming global character of the issue of CSR and related matters, and the will of many to cope with the problems deriving from it.

Needless to say that the increasing magnitude of ethical issues and related events constitute disadvantages rather than advantages for firms, thus exposing their practices to the scrutiny of the public eye. Johnson & Johnson is a good illustration of a firm's capability to display and act in a visible ethical way. This was during the crisis concerning their product Tylenol in 1982 and 1986. The product was made by a subsidiary of the pharmaceutical company, whereby mysterious persons altered the product by placing deadly cyanide in it causing the death of seven people. Johnson & Johnson recalled the product suffering losses for 100 million USD. This was in 1982. Four years later, the act of sabotage was repeated. This time, Johnson & Johnson had no other choices but to stop the production of capsule forms altogether and to replace it with a more secure form called caplet. The situation, even if tragic in some respects and very costly in others, became however an opportunity for the firm to show its good will and ethical predispositions towards the stakeholders at large.

Examples of opposite behaviour to that of Johnson and Johnson are many, unfortunately. The largely "mediatised" Enron fraud is probably the most fastidious financial scandal of the past years. 12.000 employees were involved and thousands ordinary Americans lost billions of dollars because of frauds made by managers. Other spectacular examples of misdeeds are those of WorldCom, Tyco, Qwest, Imclone, Critical Path Inc etc. As James Surowiecki editor of the book "Best Business Crimes Writings of the Year", Anchor Books, 2002, asks:

How did this happen? [...] CEOs, fed on a diet of hefty stock-option packages and hyped-up publicity, who came to drink their own kool-Aid, imagining that they understood what no one else did, and that there were no obstacles to their visionary schemes. Instead, they made outrageous promises and then found themselves playing fast and loose with the rules in a desperate attempt to make those promises come true. Others, though, were more cynical about the process, using the hype machine to great effect and milking the system for all it was worth." (Surowiecki, 2002:4)

Scandals of such magnitude are spreading fear, suspicion and mistrust in Corporates, in CEOs, in the financial systems as well as in the entire economy (Greider in Business Ethics 02/03).

These first illustrations show that the interest in fair management and corporate social responsibility is not only a philosophical one: A lack of fair management harms the trust in the economical system and so will – in the long run – invite more and more people to fall into unfair management practices. The involved economic agents within an unfair system can but suffer from the consequences of every one's actions in an ever vicious circle.

These examples show that unfair management, if not a scandal per se, it is nevertheless likely to be perceived as a scandal by the public. The perception of the scandal is enhanced when the latter is associated with economical losses by ordinary people.

2. Exploring relevant theories

2-1. The Different facets of CSR

The concept of CSR has since more than a decade known a remarkable evolution in different ways, such as in the understanding of its relevance in the market economy, in its definition, in the related concepts as well as in the ways it is implemented. However, the words have had different meanings to different parties. The ambition here is to find the "nexus between what is in firm's self-interest and what is in the general public's interest". Merging economic, legal, ethical and philanthropic issues in the defining of CSR, Carroll (1999) highlights its vast context. Combined with the respect of the law, of the ethical values and of the company's principles of social contribution, a primacy is given to economic performances. The broad context of the concept can be better grasped by looking at some important theories depicting firm's economic and social behaviour in this respect.

2-2. Corporate citizenship

In literature as well as in common places, the concept of "corporate citizenship" is both widely used either as a parade, misinterpreted or misunderstood altogether. The general view of corporate citizenship merging the individual behaviour with that of an organisation, reifies firms actions that are then judged and condemned. Corporate Citizenship is thus associated to the firms' achievement that take social and environmental good measures simultaneously with strategic and financial actions as well as with the efforts of building a viable social image. To evaluate if a business is socially responsible, it is therefore necessary to compare what it does with what it can do against a set of criteria for external and internal possibilities, threats and pressures (Zadek 2001). The study of CSR should incorporate corporate citizenship and be central to management, since it is increasingly becoming at the heart of the managerial action, of that of leadership, and strategic choices. It is also central for building corporate image and gaining public trust.

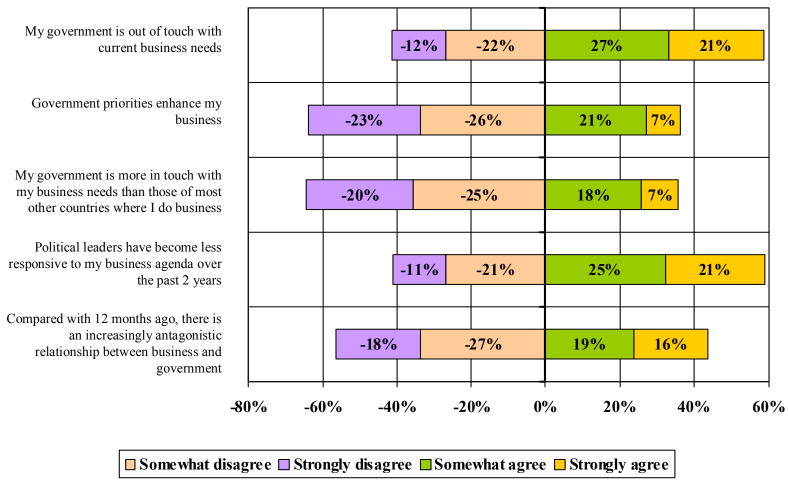
2-3. Stockholder and stakeholder

Originally based on Adam Smith's classical economic model, considering that each business must operate achieving its own interests, thus maximisation profits, since through the "invisible hand" the numerous interests of the society are simultaneously promoted in an economic, rational and spontaneous "natural order" (Poma, 1996), the idea has evolved since and, reinterpreted, it has entered many other spheres.

The stockholder theory was advocated by Friedman in 1962 in 'Capitalism and Freedom'. The author's leading thought is "laissez faire". It aims at the creation of an economic system based on the individuals' will and entrepreneurship and with a limited involvement by the state. Friedman argues that, "the social responsibility of business is to increase its profits [...] and the economic values, not the social values, [...] while acting legally, ethically and honestly (Friedman, 1962: 190). Clearly, even though other goals besides profits are identified, they are not given priority in the decision making process of the firm. Stockholders' interest in the firms and the increase of its value are the essential aspects that appear to be taken into account. The privileged position of the stockholders is directly related to them being the owners of the property right, the provider of the capital and the risk taker. Subsequently, a directed form of CSR is implemented only when it expected to boost efficiency and or to enhance the branding or the goodwill.

EXHIBIT 2: **Business and Government**

To what extent do you agree or disagree with the following statement?



The exhibit above (page 12 in the PricewaterhouseCoopers' CEO report, 2003) shows an "apparent disconnect between government and business". The asked CEOs do not think that the relationship is getting any better but they seem to expect this situation to remain in a status quo, i.e. not getting worst. Almost half of the asked CEOs agree that the governmental actions seem to be quite far from their own business preoccupations. Furthermore, they think that the political leaders are less and less responsive the CEOs "business agenda". The exhibit shows that there is an "increasing antagonistic relationship between business and government". (ibid)

Freedman's theory would seem to be somehow short sighted with respect to today's debate. Yet, the reality of business practices as it is widely illustrated by the latest scandals, depicts a picture rather closed to that of Freedman's prescriptions. Not that he encourages people to take bribes and to misuse company's assets, but he encourages them indeed, although indirectly, to espouse a selfish and a profit driven behaviour. It is perhaps naïve to think that the opposite is possible. The human nature might sometimes be driven by greed and self-interest, but we must nevertheless pursue the ideal of fairness and ethically viable practices. A narrow and limited view of the supremacy of economic performances of the firm as sole mark of legitimacy of its existence is often archaic and incomplete.

Stakeholder: Stakeholders can be satisfactorily defined as "everyone who directly or indirectly receives the benefits or sustains the costs that results from a firm's actions" (Hax in De Wit and Meyer 199: 32). The stakeholder theory considers that besides stockholders a company must take other internal and external actors into account, since they can have great impact on the position of the firm in the market economy. Moreover, as stated by Hardjono and Van Marrewijk (2001: 225), although " Adam Smith's concept of self-interest is still the driving force in postmodern society, sustainable progress will only occur when this self-interest is enriched with sufficient ethical, social and environmental elements". In order to be competitive firms must achieve the sustainability of their business practices.

The Exxon Valdez (today renamed as Sea River Mediterranean) oil spill occurred on the 24th of March 1989. The accident was the consequence of incorrect rigging, which caused the crash of the ship against an iceberg. Eleven million gallons of oil were spilled. At that time, the catastrophe had great proportions. The company spent four years and about 2.1 billion USD on the cleanup efforts, employing 10,000 workers and hundreds of aircrafts, helicopters and boats (Exxon Valdez Oil Spill Trustee Council). Needless to say that this seemingly commitment was driven by two main necessities: the necessity to respond to a strong governmental pressure and the necessity to restore some of the firm's image. In this case the " firm must make trade-offs between its goals and the ones of stakeholders" (Key 1999, p. 320) hoping to accommodate the broad context of CSR and ethics.
From a discursive stance, a decision can only be ethically founded if the firms take the stakeholders' interests into account in a non-coercive manner (Ulrich, 2001). The coercion-free discourse, "Herrschaftsfreier Diskurs", (Habermas, 1990; 1997) stipulates that each stakeholder is ideally given the chance to bring to the fore his or her specific interest. In reality, the circumstances will dictate whether the different stakeholder groups are taken into account. In times of a high unemployment it seems obvious that the employees' representatives will find it difficult to assert the interests of there members.

Furthermore it is not always obvious who the relevant stakeholders are. For example, Shell Expro – located in Great Britain – had to decide if they can dump the petroleum platform "Brent Spar" in the North Sea. The company was in contact with the Scottish Fishermen's Federation, the Joint Nature Conservation Committee, and the Scottish Natural Heritage. These associations – which have an essential interest in avoiding the pollution of the North Sea – agreed to the dump of "Brent Spar" by Shell Expro. The decision to damp the petroleum platform "Brent Spar" was taken and the process can be said to be ethically founded.

Before "Brent Spar" could be dumped strong protest rose especially in Germany. The German branch of Greenpeace mounted an aggressive public campaign against this action. Nearly every customer, every politician in Germany opposed the action of Shell Expro.. The customers boycotted the company. One Shell station was even firebombed. Shell Germany suffered economical and goodwill losses. Finally the headquarters of Shell stopped the dumping of "Brent Spar" and started negotiations with the new stakeholder representatives of all the countries neighboring the North Sea. What went wrong? Was the German section of Greenpeace a relevant stakeholder group for British Shell Expro? Who has to be involved in decision in order to consider it as ethically founded? Where is the limit?

The Germans were probably much more anxious about dumping "Brent Spar" because the German economical system is more stakeholder oriented than e.g. the British system (see Kolla, 2004).
Furthermore, Dumping "Brent Spar" was obviously an acceptable did for the British public and for British NGOs with environmental interests, whilst it was not for the German public and the German NGOs who opposed it strongly. This shows that the relativity of values in different cultures determine the fairness of the managerial decision and actions. This becomes a real problem in international management: In

2004 German managers of Mannesmann who were involved in a takeover by British Vodafone were taken to court because the golden parachutes they had agreed upon where seen illegitimate by German stakeholders – in the U.S. these bonuses would have been seen as legitimate. The accusation was breach of fiduciary duty. The case of Mannesmann will be accounted for later. Meanwhile, as Ulrich (2004) argues, what we are facing is "… a business ethics which sees ethical demands facing the economic logic (in theory and practice) neither just as an external corrective nor as an instrument (moral economics), but first of all traces the normative momentum in the economic categories and thinking patterns themselves. It matters to open these normative grounds to ethically critical reflection and argumentation. This way the symptomatic two-worlds-concept of 'value free' economic rationality on the one hand and 'irrational' morality on the other hand is at issue. Integrative Business Ethics understands itself as a trans-disciplinary, but methodically disciplined reflection on the prerequisite for legitimate and life-conducive economic 'value creation'."

The Mannesmann case illustrates the cultural impact of the managerial practices and actions. From the perspective of Agent theory, this case also exemplifies the difficulty to see what is in the owners' and what is of the agents' interest; the fact that stakeholders (including shareholders) are being used for the manager's private interests and the public helplessness in face of the matter at hand.

The Mannesmann case

In October 1999 a rumour is spread that British Vodafone Airtouch plans to takeover the German Mannesmann. A share of Mannesmann costs 144 Euro at that time. One month later Vodafone offers to acquire Mannesmann. This offer is rejected by Esser the CEO of Mannesmann. Subsequently, It becomes obvious that Vodafone is willing to follow the strategy of a hostile takeover. In the meantime a Mannesmann share change hands for 209.90 Euro on the stock exchange. At the end of January 2004 Mannesmann turns to the public to gain support against the takeover by Vodafone. Large and purposefully emotional advertisements boards displaying babies were shown. Mannesmann argued that the best for the firm is to stay independent.

Esser spended 200 million Euro resisting Vodafone's hostile takeover bid. This fight was followed and supported by the German public. At the same time, in yet another effort to prevent the takeover, the board of directors of the company was examining a possible cooperation with the French Vivendi and with the American AOL in Europe. The 3rd of February all negotiations were abruptly ended. The evening of the same day, Esser of Mannesmann and Gent of Vodafone announced that an agreement has bee reached. On the next day the supervisory board (Aufsichtsrat) of Mannesmann decides to pay a bonus of about 24 Million Euros to six members of the board including Esser. Another gigantic bonus of about 30 Million Euros was granted by the supervisory board to Esser

Quite understandably, the German public was indignant. The whole thing was perceived as a bottomless swamp with traps of unfairness, cheating and personal gain. Among other things, Esser was suspected to have mobilized the German public against the takeover as a tactical maneuver leading to the rhetorical legitimating of the gold-egg-bonuses. Exceeded by any reasonable standards, the case was finally taken to court. Six former directors of Mannesmann are accused of breach of fiduciary duty. The punishment for this crime can bring sentences of up to 10 years of prison. Among these accused managers is Josef Ackermann, the current chief executive of Germany's largest bank Deutsche Bank, and Klaus Zwickel, a former leader of one of the world's largest workers' union IG Metall. Both had been members of the non-executive compensation committee, a part of the former supervisory board of Mannesmann. Esser argued that his bonus was legitimate, thus, as a consequence of his fight against the takeover, the value of Mannesmann had risen. In other words, he had acted in the owners interests.

On July, 22nd, 2004 the court decided that the accused managers acted according to the law. Their behavior was perceived and interpreted as legal managers conducted a behavior. The German public is of a different opinion, of course. The golden parachute for Mannesmann managers was not legitimate, nor of any reasonable proportion. Subsequently, a public debate was initiated about the "rules of good corporate governance". Nearly all the big German firms are committed to these "rules of good corporate governance" under the lead of the Deutsche Bank.

What can be learned from this case is that

- The public interest is both important and immense especially when it feels that unfairness prevails and that the personal interests of the managers are served at the expense of those of the stakeholders.
- Initiating a debate a debate about fair management and sustainable practices is itself an asset in this context but the fact remains that unfair behavior or interpretations of facts, events and situations to one's advantage will always find room even in the tightest of codes of conduct.
- The employed managers fatally become more proficient with regards to the nature of the business they lead that those who own it. The owners will never be able to exercise a full control over the managerial behavior and the subsequent practices. The arguments of the latter, if supported by positive figures, will be accepted by the first.

- According to the theory of the incentives, within an organization, the incentives could lead to the reduction or the elimination of the moral hazard. The inciting mechanisms permit the firms to circumvent the difficulties of the moral hazard. Among these mechanisms, one can mention the wage incentives, the premiums, the profit-sharing, the contracts of objectives, etc. A form of incentive was born initially in the USA and then in Europe: stock options. As we have seen earlier, the consequences of this system, in some cases, have had quite negative effects on the morality of leaders. The problematic related to incentive has to do with several aspects such as the raison d'être of stock options, the "roof" for incentives if these are related to stock market performances, the number of people concerned with incentives in the firm, and the role of the leadership versus that of the board

- In the case of the Swedish Scandia, for example, the authors (2003) of the scrutinising report examining the "Scandia Scandal" are very critical to Scandia's incentive system where no roof for how large a bonus could be is a central issue. Other issues are those of incentives related to the so- called "embedded value", "sharetracker" and " wealthbuilder". In all cases, clear and well defined criteria are missing. Decisions to "compensate" managers for their deeds became a rather funny play-like piece of bad theatre where good old boys are rewarding each other the best they can. When the scandal became a fact for every one to behold, the guilty pleaded that they are merely misunderstood by all and that there must be somebody somewhere who is to blame for all that went wrong. In my childhood, when we did something wrong, we had to pay tree times: one time for the bad thing that we did; one time for being caught and one time for not taking responsibility of what we did. The grownup children who manage Scandia obviously have other principles.

2-4. Social contracts

Based on the discourses of important philosophers like Hobbes and Rousseau, this theory is based on the concept of society as "a series of social contracts between members of the society and the society itself" (Gray et al. 1996 in Moir 2001). This notion of contract, virtual or real, reflects the expectations and requirements of the society at large and of the subsequent necessity for firms to comply with them. Naturally, it is essential to consider the temporal and contextual changes of the idea of the contracts and their contents in order to meet their criteria successfully. Society and all the actors that operate in it are indeed stakeholders and as such, their influences on the activities of firms are related to the terms of contracts binding the different parties to each other and regulating their contributions. Thus, the social contacts theory, in it support of the stakeholder theory, may bee seen as the broad field within which CSR can be explained and understood. Donaldson and Dunfee (2002), argue that about 50 years ago companies were simply expected to charge fair prices for their products and services, while nowadays they are asked to be involved in a large variety of social issues such as racial and environmental problems.

2-5. Ethical, altruistic and strategic social responsibility

Geoffrey Lantos (2001) has correctly underlined that companies can be responsible in different ways. Responsible behaviour might be the consequence of external impositions such as governmental obligations or it might be the result of a voluntary decision. In other words, the reasons can be the prospect of gaining some economical advantages or satisfying the stakeholders' expectations. Accordingly, it is interesting to discern ethical, altruistic and strategic CSR.

Ethical CSR refers to all obligations, which have an ethical nature and that a firm should accomplish by being morally responsible for the effects that its actions can have on individuals or groups of stakeholders in the society. Since responsible behaviour is usually expensive and in this view it is the result of a free choice of the company, ethical CSR reveals that the firm might choose to put moral values over self-interests and stakeholders' protection over profits. " Sometimes actions need to be taken because they are right, not because they are profitable" (Chewing et al. 1990, Goodpaster 1996, Miller and Ahrens 1993 in Lantos 2001).

In other cases, however, an organisation might act responsibly also in relation to harms and situations it has not caused, for example for solving public welfare deficiencies. Since it embraces a broader set of tasks than ethical CSR, this behaviour is an *altruistic* CSR. It is seen as charitable or patriotic contributions that will remain unaccountable in terms of loss and profits. LensCrafters donates eye exams and glasses to needy people and of Ben & Jerry's uses five percent of their profits to sustain causes in which its founders believe e.g. antinuclear campaigns, gay rights groups (Lantos 2001). In some sense, these activities are intended as contributions into the great endeavour of enhancing the general quality of life and making the world "a better place". However, sceptics claim that a corporation is primarily created for economic ends and it can never act as a welfare agency.

However, socially responsible behaviour can be embedded within the frame of calculated actions in order to achieve strategic goal and, in the same token, display fair and sustainable dimensions. This *strategic* CSR behaviour is intimately related to the stockholder theory and to pure economics. The costs of these strategies are looked at with a strict accountability in terms of hard return in mind.

3. The broad context of CSR within business ethics, Fairness and Sustainability

Looking at the available literature about CSR and ethics in business, it is easy to be convinced that the subject do have gained scholars favour and is being now researched and discussed extensively. Many and different arguments are put forward all of which contribute to convey the importance of CSR and business ethics. Some of the most obvious arguments are that representing the stakeholder and shareholder perspectives. When supported by proper motivations and explanations, different points of view can coexist. Dissimilarities can also be found in the definition of CSR, which has evolved and expanded during the time. For this study the most complete and meaningful definition appears to be Carroll's, since it is based on both economic and non-economic criteria embracing a full range of responsibilities of the business to the society. For this author "CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive" (Carroll 1999, p. 279). From this definition four main types of CSR can be singled out: economic, legal, ethical and philanthropic. It means that a company is simultaneously required to produce goods and services offered in the market, to operate within the legal framework, to respect the ethical principles of the society and to define and follow its own values. As can be easily understood the respect of the legal requirements is not sufficient; conversely, "CSR begins [only] where the law ends" (Davis 1973 in Carroll 1999, p. 274) and it means that it is broader than the minimum standards.

CSR, from the view of stakeholder theory (Dawkins and Lewis, 2003) shows the increasing importance of corporate responsibility in relation to stakeholders from a wide spectrum; from consumers and employees to legislators and investors. Other writers as Maignan and Ferrell, 2003, argue that even though businesses adopt social responsibility based on the assumption that consumers support CSR, there is still little knowledge of the meaning and importance of CSR for consumers in different countries. Use of stakeholder analysis through HR practices (Simmons, 2003) examines issues of performance, accountability and equity in organizations.

In order to make a good use of a stakeholder analysis (Vos, 2003) it is vital for managers to identify these stakeholders. Attempts to legitimize actions and decisions, with CSR connotations (Woodward, Edwards and Birkin, 2001), are also discussed. It is suggested that the public economy of accounting and agency theory, in combination with stakeholder analysis is used to analyze the attitudes towards the executives' perceived social responsibility. Some scholars focus on CSR's role in development (Bryane, 2003) and give an overview of different "schools of practices". While others (Burke and Logsdon, 1996) examines social responsibility programmes which create *strategic* benefits for the firms by identifying value created such as centrality, specificity, pro-activity, voluntarism and visibility. Within a competitive business environment (Husted, 2003) managers should measure return on corporate social activity as well as return on investment. Corporate strategies can make the difference between environmental damage disaster and pollution prevention, and responsible business practices (Warhurst and Michelle, 2000). In the 21st century (Zwetsloot, 2003) there is a shift from management system to corporate social responsibility in enhancing a greater potential for innovating business practices with a positive impact on people, planet and profit. In other words, it is a matter of good business conduct (Beu, Buckley and Harvey, 2003) through ethical decision-making. Thus, as recent events show, self-interest have set aside business ethics (Carson, 2003). Others writers show (Cullen, Parboteeah and Victor, 2003) that the effect of the ethical climate depends on the organizational commitment. This can be achieved (Dando and Swift, 2003) through transparency and assurance to close the credibility gap. Another way to assure good business conduct (Driscoll and Hoffman, 1999) is gaining an ethical edge by delivering values-driven management.

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Bud Reid, director of the Corporate Help Line of Lockheed Martin, in an interview says: "we do have the external-relations office, which is responsible for problems like supporting the community in fields like the education system. However, we do not refer to this kind of issues as social responsibilities but we use the term ethics". In this case activities that are clearly part of socially responsible programmes are still simply considered in the broad term of ethics. CSR is the whole of the private and voluntary actions undertaken by a company in order to support and solve problems that affect the society.

3-1. Business Ethics, or lack thereof, have lately been discussed as *ethical distance* in terms of moral responsibility (Mellema, 2003). The concept of ethical distance helps to shed some light on situations in which several people are involved in bringing about a state of affairs where, in order to diminish the ethical distance, organizations need to introduce modes of "managing morality" (Rossouw and van Vuuren, 2003). This means that organizations will improve their sophistication in managing ethical performance. The level of sophistication in managing ethical performance means the application of moral principles in making choices between right and wrong courses of action (Rushton, 2002). If ethics comes from the top management who set the codes of conduct regarding the proper business behaviour, they are also bound to achieve a good degree of sophistication in managing the subsequent ethical performances (Schroeder, 2002), the importance of which is underlined by Schwartz, 2002. Sustainability of economic practices is certainly achieved by play by the rules (Skrabec, 2003) In the best of words, profit can be generated, technology breakthrough encouraged and corporate suffocation prevented. In this sense, Webley, 2001 even suggests to conduct a SWOT analysis regarding business ethics in order to improve sophistication in ethical performance measurements. Although, it may appear a far-reaching endeavour, this model might help to uncover potential discrepancies (VanSandt and Neck, 2003) or gaps between organizational and individual ethical standards.

3-2. Corporate Governance varies from country to country. In Italy, for instance the model of corporate governance (Bianco and Casavola, 1999) is characterized by a high degree of ownership concentration both for unlisted and listed companies. In Germany (Gugler and Yurtoglu, 2003) the dividend pay-out policy signal the severity of conflict between the large controlling owner and small outside shareholder. Other writers such as Lehmann and Weigard, (2000) argue that ownership concentration is actually significantly affecting profitability in a negative way. In a survey of corporate performance and board structure in Belgian companies Dehaene, De Vuyst and Ooghe, (2001) found evidence that board size and percentage of outside directors are positively related to company size in relation to return on equity and return on assets. On the other hand, a very British solution (Goldenberg, 2003) in reforming corporate governance is to use combined code on corporate governance. All in all, the view on corporate governance varies depending on the chosen perspective (Husted, 2003) but, in all cases, it may be referred to as a choice for a particular form of corporate social responsibility (Lai and Sudarsanam, 1997).

3-3. Fairness as a concept and pattern of practices rests on the discourse of organizational justice and equity (Cropanzano, Byrne, Bobocel and Rupp, 2001). These authors argue that it requires a formulation of an appraisal of justice whilst the quest of Gilliland and Schepers, (2003) goes through the analysis of that which seems to determine the just treatment in specific decisions. It is argued elsewhere that the perception of organizational fairness (Greenberg, 2003) might be enhanced by the introduction of a formal system. Given the fact that such system can jeopardize the perception of fairness and reduce its impact, formally mandating fair procedures is an effective way of creating unfairness by. However, on a meta theoretical level the notion of fairness is associated to
that of justice (Rawls 2001). Following the overall argumentation scheme of Rawls', we suggest that a fair form of organisation ought to be viewed as social system of cooperation where the organising idea of social cooperation is based on fair terms and includes advantages for each participant.

Rawls (2001), quoting the arguments of Sibley (1953), makes a distinction between the reasonable and the rational in terms of people's behaviour within the frame of a fair system of cooperation. "Reasonable persons" he suggests, " also understand that they are to honour these principles, even at the expense of their own interests as circumstances may require, provided others likewise may be expected to honour them" (Rawls 2001:7). In the cases reported earlier, such as that of Skandia or of Mannesmann, it is clear that when the leaders in question "merely pretend to honour the principles of fairness but are ready to violate them to their own advantages as the occasion permits", the rational behind people's behaviour is far from the limits of reason in fairness. Thus the behaviour of the actors in Skandia or in Mannesmann case, although not reasonable or fair, is rational, nonetheless, from the individual perpetrator's perspective. The superior bargaining power of the faulty leaders make their proposals perfectly rational in the board room, but unreasonable all the same. Thus, as argued by Sibley (1953) and Rawls (2001) common sense dictates that the reasonable rather than the rational is a prerequisite for moral sensibility. The principle of fairness, being at the heart of the cooperation in social systems, it is in the same token a condition sine qua none for a professional cooperation in organisations.

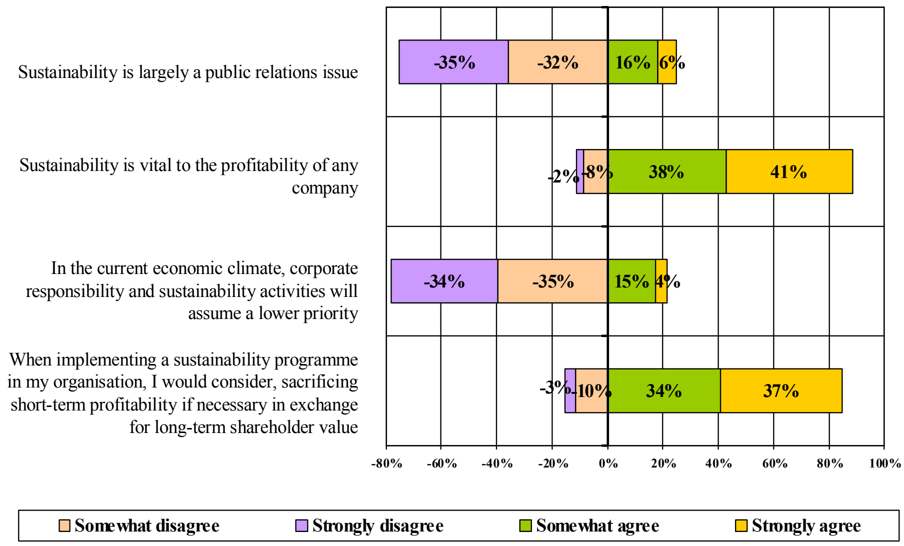
3-4. Sustainability, would seem to be achieved, according to Lovins et al, (2001) by natural capitalism, whereby four principles enable business to behave responsibly toward both nature and people while increasing profit, inspiring their workforce and gaining competitive advantages. As it where, this is easier said than done. Putting these principles into practice (Sweet, Roome and Sweet, 2003), taking into account the harsh environment where corporate are operating while sustaining the good business practices demands a special bread of managers. These must show the ability to focus on and integrate all the different facets of their business environment. They must also show the ability to engage in far-reaching collaborative efforts involving a multiplicity of partners. For example the implications in the shift of power relationships between states, firms and households (Cramer, 2002) is emphasising the trend toward a more viable attitude to sustainable business where firms consciously need to focus on creating socially responsible values in the same time as financial values. Partnerships between corporations and other spheres of interest are wished for. Juniper and Moore, (2002) report that such partnership with local and regional stakeholders provide a whole system of solutions and lead to unexpected benefits, including within the frame of an international context (Epstein and Roy, 2001).

There is no doubt about the fact that the corporate social responsibility is gaining more ground worldwide. Corporate and their leaders are moved by a strong desire to do the right thing but they are also seeking for ways of understanding, defining and disseminating solutions what might constitute *sustainable business practices*. Sustainability is not merely a parade word; it stands for a set of practice that constitutes responsible corporate behaviour. It is a guideline by which one can define the intersection between the general public interest and the interest of the firms. It is true, though, that corporate cannot act in place of governments. Their primary goal is to make profit and ensure a good value for their shareholders. However, there is no contradiction in the fact that the ability of corporations to organise actions implement them efficiently can and should be used to make the world a better place and to ensure the sustainability of business practices. One of the CEOs from the global survey by PricewaterhouseCooper (ibid) says:

"People in the world are better educated now. Corporations should be more socially responsible toward their employees and the public. Many companies in the US and EU have already adopted high levels of social standards. Companies in developing countries should follow this lead and voluntarily provide better care toward society and their employees. Responsible companies should not only ensure that their social standards be high; they should also enforce such high social standards onto their suppliers" (ibid, page 25)

EXHIBIT 3 **Sustainability**

To what extent do you agree or disagree with the following statements?



The Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme has provided a mean for moving forward toward *sustainability*. The Global Reporting Initiative (GRI) was initiated in 1977 with the aim of helping corporations with viable guidelines for their voluntary use in order to report the economic, environmental, and social aspects of their business activities. It is encouraging to observe that companies are paying attention to this issue. As per January 2003, more that 180 companies have published sustainability reports using the GRI guideline.

Exhibit 3 (page 26 in the PricewaterhouseCoopers' CEO report, 2003) highlights interesting aspects about corporation's perception of *sustainability*. More that 67 percent of the asked CEOs think that *sustainability* is not merely a public relation issue or a parade word. On the contrary, 79 percent of them agree that sustainability is vital for the profitability of firms. Moreover, 71 percent state that they are willing to sacrifice the short-term profitability in exchange for long-term shareholders value through *sustainable business practices*

Concluding remarks:

It is argued by many authors that a code, constituting a "a set of rules about how people should behave or about how something should be done" (Collins Cobuild 1997, p. 302) can be used to formally include CSR in the organisational environment with the purpose of creating an ethical environment and positively influencing attitudes toward issues of ethics and CSR. Others mean that this code is a set of "moral standards used to guide employees or corporate behaviour" (Schwartz 2001, p. 256); (O'Donovan, 2002; Nijhof, 2002)). In the lights of the latest corporate scandals worldwide, it appears that the majority of these corporate, if not all, did have a code of conduct, which did not prevent managers and employees from pursuing their personal interest and, in many cases, leading their company into catastrophe. The code is usually the result of the interaction among different actors such as managers, employees and other stakeholders. When it exists as document, it is usually introduced to gain recognition and legitimacy from the external environment. Generally, the existence of such a document has positive effect on the stakeholders, who sees it as a sign of commitment on the relevant nexus between business and society. The question is whether people's sense of integrity and perception of ethical behaviour can be changed by codes. Codes and laws may have a controlling power to refrain the most deviant behaviour, but, on the main, they would seem to be without effects on the choices people make, especially those subjected to one's own interpretations. We have earlier in this text evocated numerous cases where crossed many borderlines in the belief that they where doing no harms. Whether it is their interpretation or the public expectation that are exaggerated is still open to debates. The fact remains that we are being made aware that unethical behaviour is more in the eye of the beholder than in the insight of the perpetrator. The public has been shocked by news of misdeeds times after times wondering each time how could such thing happens. However, we slowly but surely realise that it is perhaps not a recrudescence of bad behaviour that we are witnessing, but rather our increased awareness and intensified scrutiny of businesses and their captains.

The notion of *fairness* needs also to be addressed from a wider perspective, that of the dominant school of modern moral and legal philosophy. A deconstruction of this discourse may reveal that CSR as well as personal decisions are not always based on the moral philosophy covering *fairness*, right and justice. The argument of human welfare is perhaps better criteria for reinterpreting *fairness* against the background of social and psychological theory and practices. However, fairness, as a locus for the democratic tradition, offers an alternative to utilitarianism, which had dominated the Anglo-Saxon tradition of political thought since the nineteenth century. The ideal of the social contract (Rousseau; Kant; Emerson) is a more satisfactory account of the basic regulatory processes directing and governing people's behaviour and actions in the complicated web of communities.

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