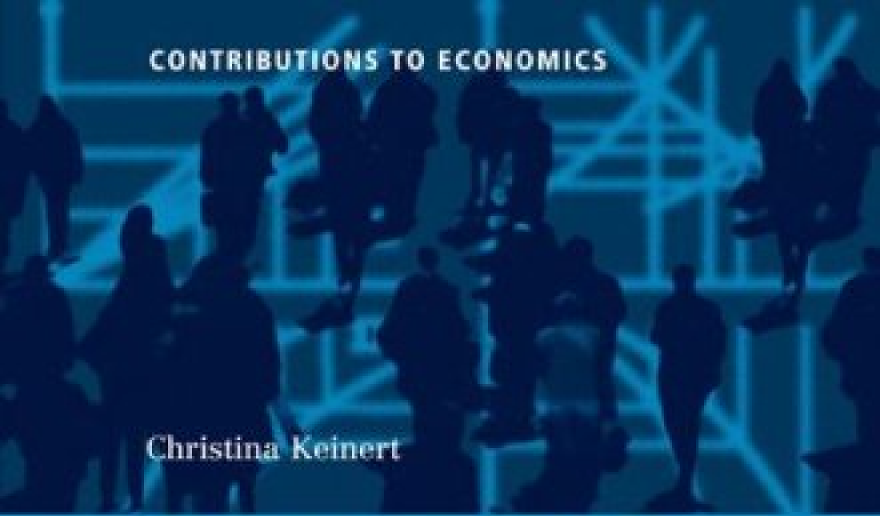

CONTRIBUTIONS TO ECONOMICS

Christina Keinert

Corporate Social Responsibility as an International Strategy

Physica-Verlag
A Springer Company

Corporate Social Responsibility
as an International Strategy

Contributions to Economics

www.springer.com/series/1262

Further volumes of this series can be found at our homepage.

Emilio Colombo/Luca Stanca
Financial Market Imperfections and Corporate Decisions
2006. ISBN 978-3-7908-1581-8

Birgit Mattil
Pension Systems
2006. ISBN 978-3-7908-1675-4

Francesco C. Billari/Thomas Fent/Alexia Prskawetz/Jürgen Scheffran (Eds.)
Agent-Based Computational Modelling
2006. ISBN 978-3-7908-1640-2

Kerstin Press
A Life Cycle for Clusters?
2006. ISBN 978-3-7908-1710-2

Russel Cooper/Gary Madden/Ashley Lloyd/Michael Schipp (Eds.)
The Economics of Online Markets and ICT Networks
2006. ISBN 978-3-7908-1706-5

Renato Giannetti/Michelangelo Vasta (Eds.)
Evolution of Italian Enterprises in the 20th Century
2006. ISBN 978-3-7908-1711-9

Ralph Setzer
The Politics of Exchange Rates in Developing Countries
2006. ISBN 978-3-7908-1715-7

Dora Borbély
Trade Specialization in the Enlarged European Union
2006. ISBN 978-3-7908-1704-1

Iris A. Hauswirth
Effective and Efficient Organisations?
2006. ISBN 978-3-7908-1730-0

Marco Neuhaus
The Impact of FDI on Economic Growth
2006. ISBN 978-3-7908-1734-8

Nicola Jentzsch
The Economics and Regulation of Financial Privacy
2006. ISBN 978-3-7908-1737-9

Klaus Winkler
Negotiations with Asymmetrical Distribution of Power
2006. ISBN 978-3-7908-1743-0

Sasha Tsenkova, Zorica Nedović-Budić (Eds.)
The Urban Mosaic of Post-Socialist Europe
2006. ISBN 978-3-7908-1726-3

Brigitte Preissl/Jürgen Müller (Eds.)
Governance of Communication Networks
2006. ISBN 978-3-7908-1745-4

Lei Delsen/Derek Bosworth/Hermann Groß
Rafael Muñoz de Bustillo y Llorente (Eds.)
Operating Hours and Working Times
2006. ISBN 978-3-7908-1759-1

Pablo Coto-Millán; Vicente Inglada (Eds.)
Essays on Transport Economics
2006. ISBN 978-3-7908-1764-5

Christian H. Fahrholz
New Political Economy of Exchange Rate Policies and the Enlargement of the Eurozone
2006. ISBN 978-3-7908-1761-4

Sandra Gruescu
Population Ageing and Economic Growth
2007. ISBN 978-3-7908-1905-2

Patrick S. Renz
Project Governance
2007. ISBN 978-3-7908-1926-7

Christian Schabbel
The Value Chain of Foreign Aid
2007. ISBN 978-3-7908-1931-1

Martina Eckardt
Insurance Intermediation
2007. ISBN 978-3-7908-1939-7

George M. Korres (Ed.)
Regionalisation, Growth, and Economic Integration
2007. ISBN 978-3-7908-1924-3

Kerstin Groß
Equity Ownership and Performance
2007. ISBN 978-3-7908-1933-5

Ulrike Neyer
The Design of the Eurosystem's Monetary Policy Instruments
2007. ISBN 978-3-7908-1977-9

Christian Roland
Banking Sector Liberalization in India
2008. ISBN 978-3-7908-1981-6

Nicole Brunhart
Individual Financial Planning for Retirement
2008. ISBN 978-3-7908-1997-7

Bas van Aarle/Klaus Weyerstrass (Eds.)
Economic Spillovers, Structural Reforms and Policy Coordination in the Euro Area
2008. ISBN 978-3-7908-1969-4

Karin Luger
Chinese Railways
2008. ISBN 978-3-7908-2001-0

Christina Keinert
Corporate Social Responsibility as an International Strategy
2008. ISBN 978-3-7908-2023-2

Christina Keinert

Corporate Social Responsibility as an International Strategy

Physica-Verlag
A Springer Company

Series Editors
Werner A. Müller
Martina Bihn

Author
Mag. Christina Keinert
Vienna, Austria
christina.keinert@gmx.net
christina.keinert@univie.ac.at

ISBN 978-3-7908-2023-2 e-ISBN 978-3-7908-2024-9

DOI 10.1007/978-3-7908-2024-9

Contributions to Economics ISSN 1431-1933

Library of Congress Control Number: 2008921559

Production: le-tex Jelonek, Schmidt & Vöckler GbR, Leipzig
Cover-design: WMX Design GmbH, Heidelberg

Printed on acid-free paper

9 8 7 6 5 4 3 2 1

springer.com

To my parents, in gratitude.

Meinen Eltern, in tief empfundener Dankbarkeit.

FOREWORD

Corporate Social Responsibility has turned out to be one of the most persistent "management fashions" and business key words of the last decade CSR is considered by corporation's world wide as an increasingly necessary practice, following huge corporate (ethical) scandals and company breakdowns that have surfaced among once highly reputable firms.

It appears that the more notorious CSR becomes, the more misconceptions are drawn around its meaning. One may argue that these misconceptions are due to the inconsistencies in the growing academic debate around not only Corporate Social Responsibility, but also Corporate Governance, Corporate Citizenship and so on. Still, the root of this problem may lie deeper.

The "social" in Corporate Social Responsibility has divided both opponents of and advocators for any such inclusion of social and environmental concerns in corporate activity into two strict camps, none of which is satisfied with CSR as a concept so far.

There is a corporation-critical ideological camp which is in favour of greater state control over private corporations, and therefore perceives CSR as the opportunity of shifting the responsibility for many of the world's most "burning" problems like global poverty, injustice and environmental degradation on corporate shoulders as part of their political vision, this leading to their perception of CSR as it is now to thinking it is nothing more than a fig leaf, and not carrying matters far enough at all.

Strictly opposed to this, traditionalist economists push back from the word "social" as a matter of principle, as they fear regulation, public intervention, social welfare states, and thus the outright end of corporate freedom as the "foundation of free societies" when thinking of CSR.

These matters occupy the largest part of the public debate on whether legitimate social and environmental concerns are currently included in corporate decision-making and accounted for to a sufficient extent, and, arguably, the answer being no, what ought to be done about this.

This forms not only an undesirable deadlock situation, characterized by emotionality and ideological narrow-mindedness on both sides, but also currently traps a potentially fruitful CSR debate in the public eye between the extreme ends of blaming corporations for every social ill plaguing this world, and outrightly denouncing CSR as a dangerously "subversive" idea.

By confining the potential of CSR, one is effectively putting an obstacle to a freer, less "prejudice-laden" approach to corporate business management; furthermore, suppressing what ought to be the main focus within the corporate world; which is 'actual business arguments'.

Decisions on what can be useful and beneficial to a corporation ought not to be rendered *prior* to having an honest look at them, and objectively weighing the respective opportunities and threats. Such ideologically biased thinking might hinder the exploitation of opportunities arising in today's faster than ever changing environments detectable only among "free spirits", true innovators, something that would ultimately do what is desirable for all involved in business, namely the best for private companies, for vivid, fair, and thus "sane", competition, and for societies at large.

The major goal of this work therefore is to have a look at this often used, but little known and understood concept of Corporate Social Responsibility as an increasingly important international corporate strategy.

For understanding CSR, its development closely linked to the history and social change of the 20th century has to be dealt with first. But equally important is a matter-of-fact approach to CSR for not only understanding it in theory, but for encircling *what* CSR is in concrete, in practice. This book thus has a look at the clear benefits a CSR strategy can offer to a company, as well as what is open to corporations when it comes to planning and implementing a CSR program other than a mere establishment of corporate codes of ethics. Can such value statements and sporadic charitable giving ever be enough to deserve the name "Corporate Social Responsibility engagement"? How much engagement is thus needed and *what* has to be done to render it effective rather than a "colossal waste" of time and money, as Bernie Ebbers, former World.com CEO cynically stated – *before* the huge corporate ethical scandal which made him and also his company stumble, obviously.

As for the practicability of CSR, driving and hindering factors impacting upon the respective success or failure of a company's CSR aspirations are, to my knowledge, for the very first time comprehensively elaborated here.

I want to make clear that while I do think sociological, philosophical, and socio-political as well as socio-legal viewpoints are all legitimate, and fruitful in their own respect, I deliberately want to stick to strictly business-oriented aspects here, for I believe that the former ones distract far too often from the actually very convincing business case supporting CSR, which will hopefully help further softening the strict viewpoints of determined CSR critics in the future.

The fundamental interest corporations take in avoiding ethical scandals as well as “mere” individual wrong-doing within their scope of activity is evident, as no one will deny the inherent threat of such malfeasance, and the consecutive damage done to the entire organisation’s reputation and goodwill, inevitably leading to the destruction of corporate intangible assets. Due to this organisational dependence on organisational, but also on the harder-to-manage individual ethical behaviour of every member and associate of the corporation, social responsibility and professional ethics enhancement clearly work to the advantage of the corporation, even if they come at a short-term cost at first.

Aside such negative incentives for corporations to behave in socially responsible ways, more positive incentives considered here include the building of organisational commitment, intangible assets, positive corporate climate, employee motivation, and, through these, enhanced financial performance, attraction of ethically conscious consumers and investors, and achievement of considerable competitive advantage, all of which are underestimated so far in the CSR debate in my opinion.

Hopefully, the understanding business is “not an island”, and can never be, as has been infamously stated many times, will be further enhanced for the sake of building and maintaining good stakeholder relations as well as a sane social and natural environment in which private business can prosper.

To sum up, the target of this book is to have a critical, yet friendly view on CSR from a business stance. The question to be dealt with here is how firms can, or should, help advance societal interests whilst acting in line with their own best self-interest, with due consideration granted to civil society’s legitimate interests in counter-balancing unlimited exercise of power and influence by large corporations, which inevitably carry a potential of power abuse through considerably shaping the social climate and environment they are operating in within societies of the beginning 21st century – priorly just a vague fear to many, which has proven all too justified during the past two decades.

To conclude, it remains to be said that after initial academic thoughts on CSR dating back to the first half of the last century, and the recently increasing attention paid to it by business practitioners, CSR has worked its way in the conscience of the broader public.

Despite, or maybe rather precisely for its recent excessive presence in popular and professional media, CSR related theoretical concepts and practical strategies deserve much more attention now, namely in *substance,* not in amount of lip service paid, an end for which this book intends making a contribution.

This book is supported by the Austrian Federal Ministry for Social Security and Consumer Protection.

From a business practitioners' side, Barry Callebaut as well as the consulting company IFB Austria have thankfully provided further substantial support for this publication.

Vienna, September 2007

Acknowledgements

First of all, I want to thank Prof. Josef Windsperger, who supervised this work at university, for professional advice, as well as for kindly providing me with support at university.

I also have to thank the public and private supporters for their interest in and substantial sponsoring for this publication, especially the Austrian Federal Ministry for Social Security and Consumer Protection, and Federal Minister Dr. Erwin Buchinger.

Furthermore, I want to thank the company Barry Callebaut for their generous sponsoring, as well as the consulting company IFB Austria, here above all Mag. Christian Schmidradner, for the same reason.

Big "thank you"s also to Mag. Sylvia Bierbaumer and Mag. Bernadette Gisinger-Schindler at the Federal Ministry, to Mag. Agnes Schulmeister and Dr. Sylvia Kölbl for the encouragement to quickly advance my master's thesis.

Dominique Dax, Karin Haslinger, Judith Rössl for those unforgettable BWZ years.

Thank you, Rana Hadid, my wise advisor and ever kind and helpful friend. Anna Nilsdotter, thanks for always offering support.

To Ümit Kisin, without whom this book's layout would not be what it is today. Thank you for patience, reliability, and always clever advice of the "external" observer.

My mother, father and sister deserve much more than simple words of gratitude for their patience and unconditional support, I want to thank especially my father for the inspiration in "book writing", encouragement and good advice.

Contents

Acronyms

CC	Corporate Citizenship
CER	Community and Environmental Responsibility
CG	Corporate Governance
CRM	Cause-Related Marketing
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSR2	Corporate Social Responsiveness
CSRO	Corporate Social Responsiveness Orientation
DJSI	Dow Jones Social Index
ECSF	European Corporate Sustainability Framework
EDM	Ethical Decision-Making
EEOC	Equal Employment Opportunity Commission
EIA	Environmental Investigation Agency
EPA	Environmental Protection Agency
EMAS	Eco Management and Audit Scheme
ERM	Environmental Resources Management
ESI Global	Ethibel Sustainability Index Global
etc.	etcetera
EU	European Union
Eurosif	European Social Investment Forum
f.e.	for example
ff.	the following (lines or pages)
I(C)T	Information (and Communication) Technology(ies)
ILO	International Labour Organization
ISO	International Standards Organization
MNC/MNEs	Multinational Companies/Enterprises
NAFTA	North American Free Trade Agreement
NASDAQ	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
OECD	Organisation for Economic Cooperation and Development
PR	Public Relations
R&D	Research and Development
SAM	Sustainable Asset Management Group
SEAAR	Social and Ethical Accounting, Auditing, and Reporting

SMEs	Small and Medium (Scale) Enterprises
SRI	Socially Responsible Investment
TNC	Transnational Companies
TQM	Total Quality Management
UK	United Kingdom
UN	United Nations
UNEP	United Nations Environment Programme
US(A)	United States (of America)
VBM	Values-based management
WBCSD	World Business Council on Sustainable Development
WECD	World Commission for Environment and Development
WHO	World Health Organization
WRI	World Resources Institute
WTO	World Trade Organization

1 Introduction

Modern corporations form an essential part of the "social fabric" the world of the later 20th and early 21st century is made of: They produce goods and foster innovations, which all satisfy needs and wants of consumers, mostly in the more developed countries, provide employment to millions, and carry with them even greater potential for advancing societies and the entire modern world. Nevertheless, large corporations, and especially MNCs, are increasingly faced with major distrust by the broad public. Contrary to quite wide-spread corporate belief, it is by far not only "anarchist" groups who portray corporations as the root of many social ills plaguing especially under-developed countries, but also the so-called 1st world – it may be them who go as far as rioting at all of the major trade summits since the infamous "Battle of Seattle",[1] but not only the "unwashed and unruly"[2] want corporations to behave in socially responsible ways:

The expectations of society at large regarding corporations have undoubtedly changed in the course of the 20th century. At its beginning, gratitude for corporate philanthropy was prevalent among the public, while nowadays corporations are *expected* to contribute to social justice and community welfare, apart from naturally continuing to provide welfare to their owners.[3] Demands of what corporations should do seem endless and are often mutually contradicting, so that observers might get the impression the more corporations or their leaders do, the more will be expected of them – and no matter how much "good" they do, a good deal of general suspicion might stay with them.

This dilemma corporations nowadays find themselves in does not entirely seem to be a result of single cases of corporate fraud, wrong-doing and scandal. Much of it might already root in classical economic thoughts, which stand for individualism rather than collectivism, for individual freedom and selfish pursuit of one's own interests over taking into account interests of weaker members of society, no matter what costs be levied on the rest of society like pollution and natural destruction. Ever since the scandals of power abuse which have deeply shaken the corporate system

---

1 Crowther (2004), p 247 ff.

2 Roger L. Martin in: Harvard Business Review (2003)p 84.

3 Crowther (2004), p 37.

during the last 20 years, concepts taking into account also social and environmental needs have gained considerable momentum. If they are not to be seen as the "cure" for all of the world's social problems, CSR has risen to the status of the most credible, wide-spread and long-lived suggestion among both scholars and business practitioners to prevent societies from social unrest and the planet from destruction through corporate behaviour.

The social responsibility of the powerful and wealthy actually has a long history from medieval chivalry and stewardship to charity done by the church or nobles. In business, the Quaker mentality can be named as well as the Far Eastern concept of *kyosei*, which enjoyed fame as the then latest management whim during the boom of the Asian tiger states.

However, the idea power shall bring with it some special responsibilities, which the dominating social institutions would then have to assume in order to not lose their legitimacy and with it their power in the long run, constitutes more than a mere whim: "*Noblesse oblige*" might have to be re-thought into a general "power obliges".

A preliminary question which should be dealt with first is whether corporations can actually dispose of any "social" or "moral" responsibility. Many scholars used to ferociously oppose the idea of organisations carrying any responsibilities, as, unlike the formerly powerful nobles or industrialists who assumed greater responsibilities for society, corporations do not constitute "natural" persons, and therefore are not capable of moral reasoning as such. So how could an organisation, and thus not a living, feeling, and thinking entity, but an organisational construct, be "moral" or "ethical" at all? The reasons for corporations to be able, but also *obliged* to assume responsibilities lies in their specific mode of functioning: They constitute (often immense) accumulations of individuals, and those individuals do have social and moral responsibilities that remain untouched by the state of belonging to an organisation. So the individual employee or executive remains liable for his or her wrong-doing, but what is important is that very often unethical conduct is not an individual issue, but fostered by unethical environments, rules, guidelines, requirements for performance, all of which are set by the corporation itself, and continue to exist even independent of individual leaders or executives, and thus form part of the organisational culture. Due to these complex processes of organisational identity, learning, and also due to the fact wrong-doing oftentimes occurs in whole "networks of corruption",[4] as the major corporate scandals have sadly proven, individual responsibility is clearly not enough to address the problem of corporate irresponsible or unethical conduct. "Catastrophic errors are rarely a failure of a single person", but "almost always a

4 Nielsen (2003), p 125 ff.

failure of a system"[5] – therefore corporations as entities of their own have to assume responsibilities independent of the concrete agents doing business on their behalf.

Corporations have only hesitantly started acting according to this rationale. That is why a variety of theories and different concepts around CSR, as well as a historical outlook at what made CSR the important management issue it is today are worth looking at.

Firstly, due to the vast scope of CSR, it is deemed necessary to start with a comprehensive theoretical part in order to clearly define what is understood by the different denominations used in the academic literature, as well as in the popular business press to more or less describe the same phenomenon: The rethinking of corporations' and private business's role, more generally speaking, within modern society. The historical development of CSR throughout the 20th century is dealt with in the beginning, taking into account, above all, developments in the US, where most of the academic and civil society debate originated, as well as the reasons why CSR has continuously gained the legitimacy it enjoys today: The accumulation of immense economic, political, and social power over whole people's lives in the hands of very few private actors, and capabilities to advance, but also harm environments, regions or countries through corporate business decisions. Other reasons include the excesses of corporate or top executive white collar crime that have shaken the whole corporate system during recent years, and the challenges posed by globalisation and corporate multinational or transnational activity.

Then, a clarification concerning the "overload" of different denominations in the field of corporation's role within society, including the likes of Corporate Social Responsibility and Responsiveness, Corporate Governance, Corporate Citizenship, Corporate Sustainability, is deemed a necessary prerequisite for further elaboration of the topic.

Secondly, the most influential scholarly theories on CSR are confronted to show CSR is not one homogenous concept scholars or practitioners might either embrace or reject, as one might be tempted to think when superficially dealing with it. Theories on its legitimacy and scope are indeed rather contradicting, and certainly very diverse. Milton Friedman's infamous neo-classical view on CSR states a corporation definitely has no social responsibility to shoulder other than making profits. Freeman's stakeholder theory, on the contrary, advocates the consideration of various constituencies' interests when making corporate decisions. Furthermore, the Triple (P) Bottom Line, Carroll's Pyramid of Social Responsibility, and the levels of social engagement constitute specific scholarly theories

5 Card (2005), p 400 ff.

on CSR that have gained broad acceptance in the management literature in the course of the past decades.

To continue with the more practical, "down-to-earth" side from a management-strategic point of view, the implementation of concrete CSR programs shall then be examined:

After having a look at what firms can actually do when speaking of CSR engagement, the positive outcomes of such involvement as a "pure" business case are elaborated: The "ethical consumer" is put under examination aside with socially responsible investment opportunities, which open up room for corporate differentiation and creation of competitive advantage through the generation of intangible assets like goodwill, corporate reputation, and reinforced brand images. The question of whether a positive correlation between good corporate social performance and financial performance can be proved is of particular interest in this context. What is largely undisputed is the existence of "negative" incentives to avoid corporate ethical scandals, as corporate irresponsibility is quickly punished through decline in share price, market share, or sales, and can thus lead into a corporate crisis. More positive incentives for CSR engagement that shall be considered include opportunities for partnerships with governments, non-profits, but also for-profits in the form of strategic alliances, and for enhancing labour relations through improving employees' organisational commitment.

Finally, both organisational and individual, but also environmental premises strongly determine a firm's degree of CSR engagement. In this sense, research about important determinants including individual decision-maker factors like CEO values, manager personality and other personal attributes like his or her degree of religiousness, minority background and ethical consciousness, but also institutional influences like organisational form, firm newness, resource availability, firm size, ethical climate, corporate culture, as well as conditions of the external environment like its dynamism and munificence, industry attributes and governmental programs are consecutively worked off to enhance the understanding of their respective impact upon CSR programs' development and implementation.

What remains to be noted is for both history and the diverse theoretical contributions, major emphasis is put on US literature and society. This is inevitable, as the US clearly forms the centre of CSR studies: It is where its early roots in the 1920ies lie, and where a controversial, but open debate since the 1950ies has brought life to the concept decades before Europe has finally discovered CSR:[6]

6 This might come as a surprise at first, as Europe seems a "fortress" of social welfare, and of respective social obligations of the better-off towards the poor compared to the rest of the 1st world; however, this "social" image of Europe combined with the late discovery of CSR do not necessarily constitute contradictions, but precisely the very root of such a "retarded" debate: Where unions and social partnerships between employers' and employees' representatives are strong, and regulation of corporate behaviour is also tight, the question about an existence of ethical and social obligations exceeding laws and regulations is not so necessary in the first place (let aside the fact that a large proportion of the world's most influential and biggest corporations are American, not European, anyway). However, deregulation, privatisation, liberalisation, and globalisation might have rendered it a more pressing point on governmental agendas in the final decades of the 20th century.

2 Overview Over the Historical Development

To start with the very beginning, today's corporations have their origins in century-old institutions which were founded for colonial purposes and put in charge for the management and execution of public projects – the foundation and existence of those early corporations remained a privilege granted by the state at first, and therefore, staid within its discretionary power alone. One might say, at this point, corporations were highly "socially responsible", as they were acting on behalf of public interests exclusively (although this was not a choice they had made).[1]

Industrialisation brought the first "boost" in corporate development, as it changed the legal system of incorporation from a state of dependence on concessions towards a *right* to existence in case of conformity with national corporate laws' requirements. From then on, corporations ceased to be a mere instrument for governments, and started acting in an independent way, governed by their statutes only and primarily serving private aims, namely shareholder rights and interests. It is at that point that one can observe the turn towards profit orientation and "negligence" of the interests of the society the firm is operating in, fuelled by classical economic theory and liberalism: Smith infamously states collective interests are best served through the "natural" pursuit of individual interests – the well-being of the individual provides an increase in general well-being. From the late 19th century on, classical and (neo-)liberal economists therefore stick to his doctrine when arguing that the pursuit of corporate self-interest would automatically benefit society as a whole. Evidence for the affirmation that "corporate selfishness" historically sparked societal development through investments and innovations, and therefore did contribute to general progress and welfare, can indeed be detected. This existing benefit was, of course, distributed unequally, as early corporate critics, especially Marxists, stated.[2] The Marxist view on corporations generally was not exactly flattering, they were seen as exploitative constructs, inherently "antithetical to socially responsible behaviour".[3]

[1] Crowther (2004), p 23.
[2] Crowther (2004), p 230.
[3] Crowther (2004), p 23.

The conflict between the orientation towards profits exclusively, and a "social conscience" of entrepreneurs and other actors in business has been especially observable in the US: Around the turn of the century, the profit "mantra" was cultivated to almost religious extents in the country of self-made millionaires on the one hand,[4] where Thomas Reed, one among many like-minded, stated proudly America was a "billion dollar country", and most of the entrepreneurs of the late 19th century cared "no longer for the damned human race".[5] But, on the other hand, even in this early capitalist age, criticism from within the system could be heard: Robert Owen expressed his dissatisfaction with the then prevalent focus on financial results exclusively, and built model housing for his workers.[6] Other industrialists exercised a "social and moral responsibility" they felt towards their work force by making them go to church and strictly scrutinizing (above all, the young female) workers in their residences, making them go to Sunday school and prohibiting alcohol consumption. However, those industrialists' "moral" responsibility for workers may have helped keep a certain standard of moral "soundness" among the workforce, but these ambitions did certainly not go far enough to address the grievances the workforce was in reality suffering from, namely health-damaging working conditions, 12-hour days, and child labour.[7] Industrialists' worries concercaning sinful behaviour can of course only look shallow from today's point of view.

More useful contributions to the well-being of the poor and underprivileged occurred under the paternalistic efforts by the famous "American philanthropists": Carnegie, Rockefeller, and Ford. In a time of almost "manic hunger for wealth and fortune", they generously used their (private) means for charitable donations and the voluntary provision of much-needed social services:

While Carnegie and Rockefeller donated for higher education institutions, among others, Ford went even further and built schools, and employed the most disadvantaged within American society. By 1934, 20% of his workforce was handicapped, others black, former prison or psychiatric hospital detainees, or suffering from epilepsy. So basically, without any reason for doing so other than personal conviction, given especially the absence of laws demanding equal opportunity, he voluntarily gave employ-

---

[4] Walton (1999), p 59 ff. And: *"You should be rich, you have no right to be poor.. there may be things more important than money.. love is the greatest gift in God's own world, but praise be to the loving person disposing of great wealth."* This enthusiasm about profits might sound offensive or strange today – it was voiced by the popular preacher and 1st president of the Temple University, Russel H. Conwell. Walton (1999), p 67.

[5] Walton (1999), p 15.

[6] Crowther (2004), p 3.

[7] Walton (1999), p 62 ff.

ment to the most deprived and hopeless. Furthermore, Ford handed out generous profit shares to his workforce, and set up company-owned alimentary shops offering key products with prices one fourth under the then current market prices. These policies stood in sharp contrast to other businesses of that time that were mainly following Ricardo's doctrine,[8] which declares workers just one of the factors of production costs, which can and must well be replaced whenever not profitable (enough).

However, Ford's measures always considered the company's interests, thereby benefiting its owners, managers, and employees.[9] If this paternalistic engagement sounds too good to be true, that is indeed what it was: Ford could behave quite unethically, too (for instance, when he struck down a strike with lethal consequences)[10] – the fact that this apparent contradiction of a company and its owner and decision-maker acting in socially responsible and irresponsible ways at the same time did not result in public criticism clearly shows the public used to react with gratitude and admiration when faced with corporate philanthropy and giving, and had not at all perceived this engagement as a corporate *responsibility* yet.[11]

On the contrary, fervent criticism for corporate philanthropic donations given by businessmen came from many sides, namely from the one of other industrialists themselves: The "Committee on Industrial Relations" condemned Carnegie's and Rockefeller's donations as a "threat to society", as they constituted an "unlawful intervention in state's business". According to the committee, such interventions by business brought with them a "dangerous degree of influence by private power circles" over domains reserved for the state and its actors.[12] Due emphasis must be given to the fact this scepticism was not directed towards social activity by corporations as such, but rather towards a potential "smearing" of the borders between public and private, and the fear of undue exercise of power by forces other than the lawful (and thus elected, for democracies) authorities in a legitimate manner – a preoccupation deeply rooted in (US) liberalism and classical economic thought.

In contrast to these individual charitable donations by a handful of wealthy entrepreneurs disposing of a huge "social conscience", companies themselves were shifted responsibility to during the World Economic Crisis and World War II: They became involved in health insurance and unemployment benefits,[13] and were "encouraged" to submit their private in-

---

[8] Walton (1999), p 66 ff.

[9] Walton (1999), p 72.

[10] Roger L. Martin in : Harvard Business Review (2003), p 89.

[11] Crowther (2004) p 37.

[12] Walton (1999), p 69.

[13] Walton (1999), p 192. Henry Nunn presented the famous "52 wages a year"-plan to his workers in the 1930ies.

terests to national interests, particularly when president Johnson asked firms to stop foreign investment for the sake of a stable trade balance.[14]

Legislators also reacted to this change in paradigm and contemporary necessities by passing laws encouraging corporate engagement in actions different from their core business activities: The Federal Revenue Act declared any corporate donation for charitable reasons fully deductible from taxes.[15]

It is probably not by coincidence that after this engagement of private businesses for national interests and for the well-being of society at large, thoughts on CSR began to blossom after the end of the World War. Statements like “organisations must be responsible to community values”, and they would therefore have to consider their “economic, legal, moral, and social” impacts on the environment could already be heard sporadically in the 40ies,[16] but the true “father of Corporate Social Responsibility”[17] according to Archie B. Carroll, one of the most distinguished contemporary scholars in the field of CSR, is Mark Bowen with his 1953 landmark book “The Social Responsibilities of the Businessman”.[18]

At that time, the alleged existence of “social responsibilities” was vividly rejected by most of Bowens’ contemporary scholars. The “classical” or traditional view on CSR thus does not accept any responsibility of business other than its producing goods and services for the market in the most efficient way, and thereby achieving “maximum profits” for its owners, the shareholders.[19] The major reproach towards managers negligent of this doctrine to make as much money as possible by engaging in social activities is that they are “spending other people’s money” – did they use their own funds following the example of the paternalistic industrialists like Rockefeller or Carnegie, the neo-classical scholars wouldn’t find anything wrong in doing charity. But diminishing their employers’ dividends means neglecting a fiduciary duty, which arises from their contract of employment between the company’s shareholders and its top management, legitimately put and kept in power by precisely these “owners” of the corporation.[20] This means the proponents of this way of negatively perceiving CSR engagement as an infraction of owner rights and a contract fraction are basically arguing with agency theory. Social issues are in the opinion of these scholars best served by public policy, a firm fulfils all of its obli-

[14] Walton (1999), p 199 ff.
[15] The famous 5% clause: Up to 5% of corporate revenues donated to charity became fully deductible from taxes. Walton (1999), p 23.
[16] Crowther (2004) p 111 ff.
[17] Carroll (1999), p 269 ff.
[18] Garriga and Melé (2004), p 51.
[19] Husted et al. (2000), p 27 ff.
[20] Milton Friedman in: Allhoff and Vaidya (2005).

gations by adhering to laws and regulations whilst running the actual business according to the best of one's knowledge.[21]

Some authors went so far to state anything more than offering efficient products and services, providing sufficient dividends to shareholders, as well as adequate circumstances for workers, and adhering to laws and regulations would constitute "a piece of folly".[22] Professor Ben Lewis claimed in front of the US Senate in 1959 that the theory managers would have to assume a social responsibility would seriously raise the question of whether the peopl voicing such demands would suffer from a "severely disturbed state of mind".[23]

Anyways, an increasing number of managers had a different opinion on this topic, and in order to have the acceptable scope of corporate "social action", namely charitable donations at that time, clarified by the legal authorities, a landmark case was soon brought to the courts:

A rather small company, the A.P. Smith Manufacturing Company, donated a mere US$ 1500 to Princeton University. This rather unspectacular case constituted indeed more of a "show case" than anything else, as large corporations wanted to test the reaction of the courts towards corporate donations, at the example of a relatively small case. The best lawyers in the field of commercial law and litigations involving corporations were hired to represent both the shareholders' and corporation's sides, and their line of argumentation reflected the ongoing (so far predominantly academic) debate on the permissibility of corporate social action:

The shareholder side on the one hand argued the corporation had been created with the "explicit purpose" of profit generation through business activity, "misuse" of corporate funds to private educational institution like Princeton therefore constituted an "abuse of entrepreneurial capital". The corporation should remain tied to its statutory purpose, the corporations' top executives would therefore have to abstain from further violations of owner and contractual rights. The management's lawyer, on the other side, relied on a law in New Jersey that authorised managers to provide funds for donations that they considered appropriate in the first place, and that simultaneously contributed to protect corporate interests – in short, they argued with the discretionary power of the management, sanctioned also by the law.

The verdict states that corporations, with their need for knowledge workers, are in their very business activity dependent on the value of education and skills of their (potential future) workforce. Adequate provisions of funds, especially from the private sector to keep educational institutions

[21] Fisher (2004), p 394.
[22] Walton (1999), p 11.
[23] Walton (1999), p 19.

free from political influence,[24] are thus vital for society at large, and: "What's beneficial for society at large is also beneficial for the corporation."[25] The judge stated donations (to institutions for higher education) constituted a "central entrepreneurial", if unwritten, "right", and even a "holy duty" in the perception of that court.*"[26]*

The second "landmark" case dealt with corporate charity without any connection to education and to the obvious and direct benefit of corporations derived from the availability of excellently educated employees. The Union Pacific Railroad Foundation had provided substantial emergency aid after a San Francisco earthquake, in detail it had provided 1600 wagons of alimentary and other goods, given additional donations, plus, had conducted the evacuation of some 250.000 people, all of this free of charge. These actions clearly had no immediate benefit for the company, but the court decided these actions constituted the building of considerable long-term competitive advantage through increased public benevolence and goodwill. The verdict went on to infamously state: *"Corporations are from now on allowed to love mankind."*

Very much like the A.P. Smith Manufacturing case, the lawsuit was also willingly launched by large businesses in order to obtain legal clarifications on the borderlines of what was permissible to them regarding charity and CSR.[27]´

Now that the legal system had made it clear that certain amounts of "corporate philanthropy" and care for issues society as a whole is concerned with is not only possible on a voluntary basis, but might be considered a "duty" by some in the US, opponents of CSR did their best to regain ground quickly:

Critics soon predicted shareholders would start "revolting" against these decisions. But to the same extent that the two model lawsuits were nothing more than showcases (without actual shareholder protests preceding them, and the lawyers being paid by the same large corporations),[28] many experts have doubted that these alleged "shareholder revolutions" and protests evoked by some scholars and analysts in the financial press have ever actually happened. Due to CSR critics' fundamental and unconditional ideo-

---

[24] It seems to be an American particularity to fear *public* intervention only, and not so much the possibility of influence of private power circles.

[25] This statement in the verdict might be quite surprising, keeping in mind the American cultural and ideological connection to classical economic theory stating this interdependence exactly vice versa: The well-being of the individual actor contributes to the well-being of society at large (point of departure is the individual with its freedom of action, not the well-being of the collective).

[26] Walton (1999), p 83.

[27] Walton (1999), p 166 ff.

[28] Walton (1999), p 83.

logical objections towards CSR, the validity of alleged shareholder revolts is indeed not secured, but it is, on the contrary, quite undoubted that in reality, these expected outcries by corporations' owners were almost completely absent. Only two corporations reported shareholder protests worth talking about at the beginning of the "CSR era" in 1963. Both protests were not durable and vivid enough to render any adaptation of the corporate strategy necessary at all. On the contrary, a large (and ever increasing) proportion of shareholders engages for social causes and insists the companies they invest in do the same – in the wake of the legal model "dispute" regarding donations to American colleges, many shareholders encouraged even greater donations for educational purposes by "their" corporations.[29] To sum up, shareholder revolts covered by some financial news media in the 70ies as an attempt to punish managers negligent of the very fundaments of free society by engaging in CSR appear more like ideological "wishful thinking", than reality.

While the neo-classical approach to CSR has kept insisting on its arguments and remained of considerable weight, especially in the US debate, until today, new theories and much support for the idea of firms taking on greater responsibility for the society they are operating in except for making profits and complying with laws have emerged with time:

The 1970ies brought a variety of contributions to the topical issue of CSR from various disciplines that split the CSR concept into different theories with slightly different goals, but still all of which have one basic aim in common: to rethink and redefine the relationship between society and business.

Corporate Social Responsiveness (also referred to as CSR_2 by some authors) constitutes a more action-oriented approach providing managers with strategies and tools for meeting ethical and social expectations (priorly to be determined by the more theoretical and near-philosophical discipline of Corporate Social Responsibility).[30] Corporate Social Performance (CSP) understands the measurement of outcomes and successes, thus how successful a firm fulfils its obligations towards society.[31]

In short, CSR sets the *principles* of social responsibility, Corporate Social Responsiveness determines the *process* of reacting to social demands,[32] and Corporate Social Performance measures the *results* of this process.

---

[29] Walton (1999), p 198.
[30] Garriga and Melé (2004), p 52.
[31] Garriga and Melé (2004), p 59 ff.
[32] Garriga and Melé (2004), p 60.

One of the new inter- and multidisciplinary concepts[33] is called Corporate Citizenship, which originally came from a political science background, but was increasingly taken up by business practitioners as an alternative to CSR in the 90ies. Corporate Citizenship states that the corporation, as one of the major actors within society,[34] has a duty to act as a "good (corporate) citizen" on the one hand, thus take on its responsibilities like paying taxes, participating in social debates they are concerned with, but also engage proactively in their social environment.[35]

Corporate Governance, on the other hand, is, as the name indicates, concerned with lawful and correct governance of the firm in the sense of accounting rules, reporting and all other requirements that may arise from "hard" or "soft" law, thus from legal obligation or voluntary self-regulation. This (more or less) voluntary self-commitment can include issues like transparency regarding executive payments, composition of the board, and independence of auditors.

To get back to CSR itself, the main criticism it faces from its opponents (but also partly from its advocators) is that it has always remained far too vague.[36] The primary question to be addressed when encircling its actual scope was whether companies were already fulfilling their social responsibilities by complying with laws and operating at a profit, by engaging in *any* kind of charity at the same time, or whether philanthropic donations every once in a while (that are even tax deductible in many countries) could rather not make up for honest consideration of what a company owes society and the diverse constituencies that are affected by its business activity.

To clarify the nature of businesses' responsibilities with regard to society at large, Carroll developed his "Pyramid of Social Responsibilities", which categorized for the first time a company's diverse obligations: At the bottom of the pyramid lie the economic responsibilities of the firm to indicate they constitute the very basis of corporate existence, followed by legal, ethical, and discretionary responsibilities.[37]

Another crucial advancement in CSR theory is Freeman's stakeholder theory: He declares not only the owners of a firm have a legitimate interest in and claims ("stakes") on the firm,[38] but every individual or group that

[33] Garriga and Melé (2004), p 52.
[34] Husted et al. (2000), p 24.
[35] Husted et al.(2000), p 24. For further distinctions between the concepts, please see II.
[36] Van Marrewijk (2003a), p 102.
[37] Carroll (1999), p 283.
[38] Walton (1999), p 144 ff.

may affect or be affected by the company's activity has a *right* to be considered in the process of decision-making.[39]

The consideration of such a wide range of constituencies may have been controversial in the beginning, but today, stakeholder theory is almost undisputedly acknowledged among both scholars and practitioners, and stakeholder relations management has become a difficult, but crucial task when running a successful business,[40] and managers of corporations are "naturally" expected to not only consider the interests of the firm's owners, but to balance a multiplicity of competing, heterogeneous interests and needs.[41]

Another way of re-assessing responsibilities of business firms towards society is the adaptation of the theory on a social contract between the members of society and the powerful ones governing this society:[42] This "new" social contract is today understood to be an implicit one between business and society:[43] Arthur Sloan states that society has granted the crucial concession for their business operations to corporations, therefore they would owe society "due respect for public interests and to behave like responsible corporate citizens".[44] Other authors also rely on the legitimacy and power, or even the "permission to exist"[45] society has given private business to determine the wider responsibilities and obligations towards society as a whole corporations will therefore have to assume.[46]

The "social contract" is of course not an actual contract, but a way of determining a possible point of origin, the legal "grounds", for corporations' social responsibilities.

The late 1970ies and 80ies saw an increase in conscience for and ever further enhancement of various stakeholder concerns: Both the consumer protection and the environmental movement could considerably gain ground in this period of time. In the case of consumer concerns, legislation providing consumer protection and an increased liability of companies for their products and services was passed. The movement for environmental protection and awareness raising for environmental degradation and a threatening depletion of natural resources[47] could also gain momentum when the harmful consequences of industrial activity on the environment could not be denied any more.

---

[39] Garriga and Melé (2004), p 60.
[40] Goll and Rasheed (2004), p 42.
[41] Van Marrewijk (2003a), p 96.
[42] Crowther (2004), p 4.
[43] Garriga and Melé (2004), p 56.
[44] Walton (1999), p 199 ff.
[45] Fisher (2004), p 396.
[46] Garriga and Melé (2004), p 65.
[47] Pinkston and Carroll (1996), p 202.

Out of this necessity of preserving the environment for future generations, the concept of sustainability was created, at first addressed to governments, but later also to private businesses[48] to ensure stable long-term growth instead of short-term profit achievement, whatever the cost.

Despite this increased observation of corporate activity from a social and environmental well-being point of view, the 80ies and 90ies saw a series of major corporate scandals, fraud, and white-collar crime, but also of human and environmental tragedies caused by irresponsible and ignorant corporate behaviour. The accident of Bophal, caused by negligence of human and environmental security, and Shell's Brent Spar plans are just the tip of the iceberg of corporate indifference towards environmental and broader social concerns. Other scandals involving corporate fraud (or top executive fraud, respectively) include the famous Robert Maxwell case in the UK,[49] and more recently, the huge corporate failures and company collapses of the young 21st century: The bankruptcy of the likes as Enron and World.Com, and the consecutive breakdown of the global accounting firm Anderson have seriously shaken public and investor confidence in corporations.[50] It is no wonder that a US survey dating back to 2002 shows 70% of US Americans do not trust corporations – only that this crisis in confidence is not as new, as the prior series of corporate scandals could suggest, but trust has remained at a level that low since the 1970ies.[51]

Public authorities have reacted to the increasing public consensus that many of the recent socio-economic and socio-legal developments have rendered changes in society's dealing with business, and in private firms' perception of their social responsibilities necessary. Therefore, as a response to the scandals, Corporate Governance initiatives have been undertaken in many countries, which have agreed upon (mostly discretionary) rules for corporations regarding transparency and good governance.[52] Such Corporate governance rules and laws have sequentially been passed in most industrialised countries, including the US, and also Austria (as the last EU member country).

Another new keyword in connection with corporate governance is director or executive *accountability,* whose intention it is to address the question on how to hold executives liable for the impact of their professional decisions. Increasingly, a certain will to expand legal liability and enforceability for top executives is perceivable: Bribery abroad has become pun-

---

[48] Garriga and Melé (2004), p 62.

[49] Business mogul (and founder of the firm he defrauded) Robert Maxwell served himself to the amount of $ 1 billion in employee pension funds. Boyd (1996), p 168.

[50] Crowther (2004), p 6.

[51] Crowther (2004), p 21.

[52] Boyd (1996), p 172 ff.

ishable in the US under the Foreign Corrupt Practices Act, even if a business "custom", common practice, or a so-called "necessity" when doing business or in the respective host country.[53] More and more companies feel pressured to issue codes of conduct – already in the late 80ies, 77% of large US corporations disposed of some sort of corporate code of conduct[54] – and, more recently, they have also been expanded to encompass their global suppliers ("Supplier Code of Conduct" or "Ethics").

The human-rights community has also become ever more involved in the concept of CSR during the 90ies, mainly through ILO conventions (that are directed at national states to ensure enforcement with private actors), and the concept of sustainable global development that increasingly intends placing responsibility also on private companies as a constituency being an ever more important driver of development.[55] The UN Global Compact clearly shows this shift in paradigm, encouraging private companies to help achieving more just and sustainable development at a global level. Another supranational community that has taken up the field of CSR is the European Commission, which has published a Green Book in 2001 with voluntary guidelines for European corporations that want to contribute, inter alia, to the achievement of the Lisbon goals.

Certifications like SA 8000 or EMAS constitute yet other ways for companies to signal their concern for social and environmental issues, and social and environmental reporting are to date equally increasing in importance.[56]

Another interesting development of recent years is the fast growing segment of the capital market called "Socially Responsible Investment" (SRI): Indices listing companies active in social and environmental issues have been established (among which such highly reputed as the "Dow Jones Social Index"), and SRI portfolios have augmented considerably in importance.[57] Also in the field of consumer activism social responsibility as a major trends has emerged, the most well-known of which probably is the "Fair Trade" branch.

These changes in consumer and investor perceptions regarding a firm's duties and responsibilities show that CSR has undoubtedly gained ground during the last decades. Nowadays, only very few would totally reject the existence of any corporate responsibility towards society and the environment. However, what's still disputed is the *scope* of these responsibilities a company has to take on.

[53] Roger L. Martin in: Harvard Business Review (2003), p 93.
[54] Cragg (2000), p 213.
[55] Crowther (2004), p 168.
[56] Crowther (2004), p 140.
[57] Crowther (2004), p 162 ff.

Nowadays, just having a look at corporate websites, and the general or professional media, CSR is almost everywhere: It seems to have become a "must", or has "turned virtue into a necessity"[58] Almost every corporation that intends to remain in business has already published codes of conduct on its corporate website. Nevertheless, or actually exactly because of this "overdose" of corporate promises and assertions much remains to be done to actually render revisable such corporate claims in the future. Wanting to achieve competitive advantages through nothing more than "nice words" is definitely not an option for those interested in truly advancing CSR, and it is not as easy to actually "do something", instead of just paying lip service to it.[59]

Anyways, notions of corporate responsibilities have changed dramatically, and highly irresponsible behaviour is punished immediately by dramatic drops in share values or sales, as many deterring examples have shown (for instance, Shell suffered a 50% decline in sales following the Brent Spar disaster).[60] So, in a neo-classical understanding, at least the negative excesses of unethical corporate behaviour won't go unpunished by the market itself,[61] and to an increasing extent, powerful lobbies within civil society now try and secure this punishment by putting corporate behaviour under scrutiny for the sake of all members of society. Companies apparently have to be afraid of the verdict "irresponsible corporation", as damaged reputations can harm supplier, government, consumer, and investor relations, thus seriously affect core business activity. So, nowadays, CSR definitely makes "good business sense"[62] – whether corporations and managers like it or not, firms just cannot afford irresponsible behaviour (anymore?).

[58] Valor (2005), p 196.
[59] Elsayed (2006), p 305.
[60] Morsing (2005), p 86. A Shell employee allegedly said to Anita Roddick, founder of the Body Shop and activist: "*We don't fear regulation, we fear consumer revolt*." Coomber (2005), p 82.
[61] Crowther (2004), p 215.
[62] Harvard Business School's professor Theodore Leavitt once stated CSR should only be considered an option when it makes „good business sense". Garriga and Melé (2004), p 66.

3 Why Exactly has CSR Become a Necessity?

One can observe CSR has emerged and been pushed forward throughout the 20th century, especially after socio-economic and socio-legal developments have shifted considerable social power to the private economy in general, and more specifically to (large) corporations.

Many of these developments have their point of origin in the comprehensive changes in economic structures, but also in corporate scope of activity and impact itself, which culminated to heights never known before during the second half of the last century.

Such almost revolutionary changes include the immense amount of technical progress achieved during the last decades, which has enabled greater mobility, faster decision-making and transactions, but also the changed economic circumstances brought about by liberalized trade, globalisation and by the internationalisation of economic activity. Out of these favourable new circumstances a potential for influence, but also for abuse of power by corporations can be derived, while at the same time CSR has risen in importance as a legitimate and widely accepted counter-balance for corporate power, influence and potential wrong-doing. Aside this negativistic stance on CSR as a necessity for controlling corporate power excesses at least to a certain degree, social changes like an increased perception of stakeholder rights, as opposed to the traditional free market view of "anything goes" as long as the market does not punish the company for selfishly pursuing its interests, and of a need for protecting and preserving the natural environment for future generations, have positively enhanced CSR's legitimacy.

3.1 Exercise of Immense Power

Large corporations have come to exercise considerable power over whole countries, national economies, political leaders, and the consumers, this influence being of both economic and political nature. Power and influence of some large corporations even exceed the respective ones of some national states: Some of them dispose of funds greater than budgets of whole (industrialised) countries,[1] and some multinationals' operations span more than 50 countries[2].

Corporations do, of course, exercise *economic* power in the first place: Power can be defined as "the ability to constrain or influence the options open to others"[3] – now obviously, the considerable size and market power large corporations dispose of due to the "large scale industrial change" that has taken place within the 20th century[4] largely allow them to dictate economic conditions for partners, consumers, or competitors within certain markets. Another aspect of economic power in the sense of setting limits for other actors' options is corporations' ability to pressure governments, and, as a consequence, whole countries with economic decisions like offshoring or downsizing[5] as means of rationalizing their production processes. Their home (and host) countries are economically dependent on the employment corporations provide and the taxes they pay, and therefore become more and more susceptible to "blackmail" in their decisions and dealing with corporations through laws, for these countries start competing over corporations' investments and increasingly engage in a "race to the bottom" concerning environmental and labour standards, as well as tax and banking laws.[6]

This directly leads to the next aspect of corporate exercise of influence, namely of political power: Corporations are pursuing aggressive lobbying in many parts of the world to ensure their needs are being met by governments; this includes activism for deregulation and liberalisation, but also for free markets and competition, and attempts to levy tax burdens imposed on companies.[7] While this is of course legitimate at the basis, corporate political activity involves also conduct that is, according to many authors, "constantly pushing the limits of what is acceptable",[8] namely the sponsoring of political candidates or parties. Given the economic power corporations dispose of, it is quite obviously worrying from a democratic perspective to see representatives of whole peoples funded by rather narrowly-interested organisations, giving way to speculations the latter ones would expect "services" in return for their support after won elections –

---

[1] To name some examples, General Motor's annual turnover is greater than Denmark's GDP, Daimler Chrysler's respective one exceeds the Polish, Indonesian, and South African GDPs. Gazdar and Kirchhoff cited in Wieser (2005).

[2] Crowther (2004), p 26.

[3] Beesley and Evans (1978), p 13.

[4] Tentati et al. (2004), p 176.

[5] Crowther (2004), p 66 ff.

[6] The first one especially concerns developing countries, while the latter is also the case within the industrialized world. Cragg (2000), p 209.

[7] Walton (1999), p 155 ff.

[8] Crowther (2004), p 231.

this is where a popular notion, and a source of distrust towards corporations, originates, namely “many policy-makers” supposedly are “in the hands of business”.[9]

Another factor of corporate power, and of the exercise of this power, is the internal structure of governance that has considerably changed since the industrialisation process: Ownership and control became separated, and with it the risk and rewards of business activity. The modern corporation is a legal construct enabling capital and skills to join together on the market. To encourage investment through financial markets, limited liability laws were introduced in the 19th century in most countries. This has the well-known effect of private investors risking relatively little while enjoying full rewards, and imposing the corresponding risks of business activity on other stakeholders – especially on the employees and contractors of the respective corporation. Simultaneously, the managers running the business are only within very narrow limits personally liable for the fulfilment of contracts they have concluded in the name of the corporation.[10] So, this restructuring of corporate organisation, which allowed for a hitherto “unprecedented growth” of the corporation through capital and skill accumulation, has had the effect of concentrating considerable power in the hands of very few. Taken together the populations and local communities of the 50 countries some MNCs operate in, managers exercise an impressive amount of power and influence, also of decision-making power, over these citizens’ lives without ever having to justify themselves in front of the masses through an election process similar to the one political leaders are undergoing. The owners they are responsible to and that have the power to replace managers are only liable to the amount of their shares, as mentioned, and therefore do not have to carry the full risk of corporate activity – and are, as a consequence, certainly not the only ones concerned by managerial decisions.[11]

Now obviously, while comparing corporate influence to the power of entire national states, one has to state the uncontrolled exercise of (discretionary) power by national states has come under – more or less effective – scrutiny by the establishment of the United Nations at an international level within the last century. Now given the fact many large corporations have exceeded them in financial and social power, the question of a counter-balancing weight for corporations’ power on such an international or supranational level needs to be asked: International organisations like the WTO or NAFTA have so far rather served to withdraw multinationals’

[9] This impression is also particularly prevalent among European populations who see the EU mainly as an “industry lobby”. Crowther (2004), p 232.
[10] Crowther (2004), p 1 and 42 ff.
[11] Crowther (2004), p 7 ff.

activity "from the effective reach of national legal systems"[12] – international agencies like the ILO, or also like the UN, can only put pressure on countries, and not on private individuals or companies. The idea of counter-balancing corporate power by interest group representatives is of course not new, and trade unions have done so, more or less successfully, since the emergence of the workers' rights movements. However, they are, unlike the "new" corporations, bound to their country of origin and cannot operate on a multinational scale, and thus on eye's height with multinationals (the EU is an exception, and perhaps "role model", as it is beginning to develop supra-national collective bargaining structures).

What remains to be said is corporations have enjoyed a considerable rise to power and influence, over employees, suppliers, consumers, competitors, governments, and thus over entire societies – the claim towards corporations to use their power in a socially responsible way therefore can not come unexpected.[13]

3.2 Increased Deregulation, Liberalisation and Privatisation of Formerly Public Industries

During the final decades of the 20th century, corporations have experienced a series of favourable developments: Especially formerly socialist countries have taken on large programs for privatisations, liberalisation, and deregulation, but such steps were equally taken by Western countries through neo-conservative and liberal agendas. Those policies served to reduce state regulation of the private economy, taxation and state expenditure, and thereby freed business from many constraints.[14]

Furthermore, private business has assumed many responsibilities that had formerly been up to the public hand. The reason for that being many governments simply lack the funds or skills to perform them,[15] and, additionally, the managerial model is perceived to increase efficiency. As a

[12] Cragg (2000), p 209.

[13] The powerful within societies have always been expected to care about the more disadvantaged and vulnerable, just thinking of *"noblesse oblige"*. Some scholars state that punishment for an abuse of power and neglecting these duties of the powerful can also be observed throughout history – in the case of the nobility, they were all ultimately forced to hand over power to representatives of their peoples if they didn't bear (enough) in mind their responsibilities towards society deriving from their privilege, social status and power. Crowther (2004), p 207 ff.

[14] Cragg (2000), p 209 ff.

[15] Beesley and Evans (1978).

consequence, public services have often been re-engineered according to the managerialist model of business administration that is believed to deliver formerly public services in a more efficient manner.[16] Such public-private partnerships can be observed in many areas as important to society as education and administration of certain key institutions like hospitals or prisons.[17]

This decrease in regulation is criticized by some scholars: In the post-industrialised age, and especially after World War II, the "formula" for best social development used to be postulated such that the largest degree of general well-being could be achieved through the establishment of a free market with private business, governed by a framework of laws. Now given the fact that law has increasingly dropped from the equation, either voluntarily through neo-conservative policies of deregulation and privatisation, or by the growth of international trade to formerly unimaginable extents without an appropriate framework of laws yet set up, resulting in a lack of political and legal control of multinational corporations, some mechanism of control would clearly need to be re-established.[18]

3.3 Potential for Innovation and Progress

The relationship between corporations and the society surrounding it is intertwined, and marked by mutual interdependence: The corporation is largely dependent on social stability, growth, due process guarantees, social peace and welfare of potential customers. Furthermore, managers and workers are of course, besides their work for the corporation, also members of other constituencies as citizens, consumers, and inhabitants of local communities.[19]

Because of its dependence on the society surrounding it, it seems quite natural corporate accounting should not stop at resource acquisition and sales of finished products (which still is precisely what traditional accounting does – accountants are the one professional group directly involved in corporate decision-making which continues to believe environmental and

---

[16] When arguing for an increased efficiency in the provision of services the managerial model's customer focus is often stressed. Crowther (2004), p 38. However, the increased private provision of formerly public services has shown some of its dark sides already in energy and water supply, for instance during the California electricity crisis or in Argentina, where clean water is reportedly supplied to "profitable" consumers only after privatisation.

[17] Beesley and Evans (1978).

[18] Cragg (2000), p 207 ff.

[19] Crowther (2004), p 236.

therefore "external" information irrelevant for economic "internal" decisions of the firm) as the only contact with the larger society surrounding the firm,[20] but integrate social and environmental concerns and risks into its strategies.

Of course, the dependence is at least equally strong from society's viewpoint: Corporations can push the development of a community much further with their R&D investments, and therefore advance the whole of society with their potential for innovations – needless to say that these investments occur out of corporate self-interest, but in the end corporations tend to invest much more in innovations than governments will ever (be able to) do. Much of the last century's technological development was in fact due to private investments. While the internet was, of course, originally developed for military reasons, as so many other technological innovations, but its triumphal growth within civil society probably wouldn't have happened without private firms developing and adapting it for individual customers' needs.[21]

Furthermore, corporations exercise a great deal of influence over citizens as (potential) consumers when deciding which innovation to launch on the market, which others to strategically withhold even though they would be technically feasible,[22] as they thereby decide over technological advancement, risks and opportunities of the particular society. Its dependence on corporations' economic decision-making gets even more concrete when it comes to employment and local (supplier) business structures: Economic decisions like outsourcing, merging or delayering[23] hold a high potential to social conflict, and the supposedly most unpopular managerial decisions within a society or community include off-shoring and downsizing. The reason behind this is that they directly concern citizens within the industrialised societies. Corporate scandals abroad do well receive media coverage and stir controversy, but when American or European citizens are harmed in their direct living conditions, public outrage knows practically no boundaries, and corporate executives may even be called "corporate killers" by popular media for deciding to lay off parts of the workforce.[24]

It seems clear that corporations can act both to the benefit, and to the detriment of the societies or communities they're operating in by investing

[20] Crowther (2004), p 143.

[21] For instance, it was Bill Gates who pushed the idea of providing a PC at such a reasonable price and size so that each private household could dispose of a PC, and with it IT development further.

[22] Large corporations are said to monopolize new patents even though they do not intend to introduce it on the market - just to prevent competitors from launching the product. Walton (1999), p 194 ff.

[23] Crowther (2004), p 66 ff.

[24] Van Buren III (2000), p 205.

or withdrawing capital, and thereby directly shape territories and populations, so it comes as no surprise that many governments make concessions to corporations in the fear of relocations, social problems and unrest.[25]

3.4 Increased Social Legislation

Recent socio-political and socio-legal movements have shaped the idea of corporations' accountability and liability towards broader social groups than the ones a corporation has directly contracted with, like its suppliers or employees, sharper legislation protecting the most vulnerable stakeholder groups exposed to corporate influence has gradually been introduced:

Since the late 1970ies, "good neighbour" legislation has been passed[26] to protect inhabitants of areas near industrial plants from externalities like noise harassment, emissions, corresponding health risks and pollution. More generally speaking, the environmentalist movement has curbed corporate activity to a noticeable extent since environmental degradation sparked by the ever increasing degree of industrial activity has become obvious and scientifically measurable.

Stricter legislation for consumer protection has also been passed, including rules for a general product liability. Vendors of goods can be held accountable for their products' defaults irrespective of guilt or negligence in due diligence under contemporary product liability laws. The arguments supporting this change in legislation are that given today's technological possibilities and the variety of product offers almost unmanageable for average consumers, as well as given the imbalance of power between consumers and corporations, the old principle of *caveat emptor*[27] (the buyer of a good shall carry the risk of its deficiency alone), has become intolerable for the weaker part of a product purchase, namely the consumer. So, instead of the consumers, corporations, or the vendors in general, should under certain conditions bear the risks connected with their business activity, and with the industrialized mass production of goods.[28] Yet other legal changes include strict consumer protection laws, enacted in connection with consumer interest groups that constitute powerful lobbies.

Just like consumer protectors, the environmentalist movement has been able to gain ground since the 80ies by bringing environmental degradation,

---

[25] Crowther (2004), p 6 and 66 ff.
[26] Crowther (2004), p 209, p 234 ff.
[27] Walton (1999), p 46 ff.
[28] See, for instance, the Austrian Product Liability Laws (PHG, Produkthaftungsgesetz).

sparked by industrial development and enhanced progress within the industrialised world, with their ever more visible (and scientifically verifiable) devastating consequences for the natural environment on political and economic agendas. More sustainable development with an integration of entire societies' and populations' interest in the preservation of finite natural resources and the environment at large has changed from a desirable and warmly welcomed, voluntary corporate contribution to general well-being to an absolute duty for private businesses, enforced by protective laws regulating the permissible amount of emissions and imposing strict measures for environmental protection on firms.

Another field of law for the sake of protecting certain stakeholders' rights and interests is labour regulation: Faced with human exploitation and unscrupulous business practices in parts of the world other than 1st world countries, where labour protection laws have a long tradition, protective legislation with the aim of extending protection to labour forces in developing countries was established with the help of ILO conventions. These conventions are, of course, aimed at UN member *states* only, but more recently, some Western countries attempt to extend the applicability of basic labour laws for domestic corporations acting abroad. The effectiveness in the sense of enforceability or, even more basically, observability, is of course a different issue.[29]

Recently, international trade organisations have issued anti-corruption rules corporations should stick to even if bribery was "custom" or a "necessity" when competing on certain markets. This development might be surprising at first, as it comes from a side that traditionally feels little need for regulation, namely from representatives of private business itself. The reason behind these initiatives is bribery is increasingly perceived as a crime that is in fact also *harming* the free market, and therefore hindering development of those countries, as well as impeding fair competition – and thereby is also detrimental to all business activity.[30]

Other developments during the past decade in the US include laws against racketeering and any other kind of doubtful business practice (RICO), or the Foreign Corrupt Practices Act that, for the first time, takes on corrupt business practices of US firms in foreign countries as a crime punishable by federal courts, and thereby also aims at constraining doubtful business activities on an international scale. The most recent developments in stakeholder or social legislation in most developing countries constitute Corporate Governance guidelines and codes, and increasing requirements to install and disclose corporate codes of business ethics.[31]

---

[29] Broadhurst (2000), p 96 ff.

[30] Cragg (2000), p 211 ff.

[31] For further detail, please see V.C.3. Governmental regulation and incentives.

So apparently, judging from these recent developments in the US, there is still room for further legislation and regulation of corporate ethics and more socially responsible behaviour.

3.5 Modern Technologies and the Mass Media

Modern technologies, especially ICTs, and the mass media have tremendously increased the scope of corporate influence. This is visible on the one hand in their enhancement of the possibilities for corporate positioning through advertising and for the communication of additional information, for instance on socially or environmentally responsible behaviour, via modern ICTs and mass media.[32] The internet has thus offered companies an ideal "stage", a cheap and fast way of communicating (often unverifiable) information, for example for corporate value statements and codes of conduct. Furthermore, ICTs have also considerably increased companies' options concerning the accumulation of funds through financial markets. The technical feasibility of financial transactions within seconds all around the globe has considerably facilitated corporate activity through greater velocity and mobility of capital.[33]

On the other hand, it cannot be stated that ICT and mass media have created a beneficial means for corporate communication only, but rather for *all* kinds of communication, also of the kind that is not beneficial to or desired by companies or by any other influential political, social, or economic actor. ICTs, other modern technologies and the mass media have established the well-known modern "information society" characterized by a "democratisation" of information and knowledge. With information that can be communicated in virtually no time around the globe, a new transparency has been created, and with it, what is of particular importance to corporations, a hitherto unknown degree of public scrutiny of corporate (mal-)practices around the world. To an ever increasing extent, in the new "global village" rules of behaviour valid in MNCs' countries of origin are expected to be applied equally in any host country, and companies have to fear negative media exposure for "shoddy" business practices more than anything else,[34] for this tends to have disastrous effects on firm reputation

[32] Crowther (2004), p 36.
[33] Crowther (2004), p 140 ff.
[34] The term "global village" was first introduced by Marshall McLuhan in 1967 to describe the rapid technological change that would bring the whole world closer together. Crowther (2004), p 5, 215.

and financial performance through negatively affecting market share and profitability almost instantly.[35]

What has created both opportunities and threats for corporations in connection with the media is the widening of a corporation's knowledgeable audience through professional financial news media, directed to institutional or individual potential investors, meaning corporations now have to respond to more specialised audiences, but can, on the other hand, reach specific audiences more efficiently through these media.[36]

Apart from that, modern ICTs have opened up new possibilities for detecting information on consumer preferences, market segments, or target groups through, inter alia, studies of browsing behaviour. Such studies of (potential) consumer needs and preferences are often welcome when it comes to society's expectation towards business to cater to its every need or whim, to detect and find ways for fulfilling needs even if the consumers themselves are not even conscious of them. However, they are less welcome when personal data collection and processing create the impression of "corporate surveillance". This perceived potential threat of "transparent" consumers or users in the race for satisfying consumer needs faster and more accurately than competitors has created fears of corporate abuse of information and knowledge whilst striving for innovations.[37]

So, to sum up, the "information revolution" sparked by the social advancement reached through ICTs has affected corporations regarding CSR in quite an ambiguous way, opening up huge opportunities to them on the one hand, but on the other hand also exposing them to increased surveillance of their own activities, and has thus rendered them also more vulnerable to civil society pressure and activism.[38]

3.6 Globalisation and its Influence on Cultures

Firms operating on an international scale have another reason for conducting their operations in a responsible manner, namely due respect for local cultures, customs, traditions, and religious feelings when moving to host countries. This respect MNCs carry as a responsibility towards cultures of host countries originates from vital self-interest to avoid boycotts and civil society action within those countries, but there is also increasing awareness of multicultural "sensitivity" for its own sake, as "diversity" has become a core value within many of the world's largest corporations. Such cultural

[35] Graafland et al. (2004), p 137.
[36] Crowther (2004), p 44.
[37] Crowther (2004), p 33, 64.
[38] Tencati et al. (2004), p 177.

sensitivity is uncontroversial, as long as it is concerned with local mores like prayer times, or religious holidays.

However, MNCs face some problems when having to choose between some of their "core values". For instance, respect for local cultures may collide with "equal opportunity" goals for all employees, irrespective of race or gender. Corporations may face difficult choices when having to decide on how to handle equal opportunity for female employees within countries that demand gender segregation, or do not accept women as negotiators. "Ethical imperialism" may thus be reproached when it comes to the application of corporate ethics or standards also in foreign countries they operate in.39 Decisions on appropriate handling of such issues might be understood with the umbrella term of CSR in the near future.

Another problem that is increasingly debated when speaking about room for CSR in trans-national business is the destruction of traditional structures within local cultures through the intrusion of multinational corporations. This obviously constitutes another highly sensitive issue, as there seems to be a very fine line between bringing progress and modernity to a country to clumsily trying to "westernise" it by lack of respect for the local culture. Further challenges arise with the increasing internationalisation of private business activity when developing countries dispose of underdeveloped legal structures, oligarchic or authoritarian political traditions, low education levels, and corrupt enforcement procedures.[40] It is up to companies, and therefore gives plenty of room to good CSR to consider this vulnerability to exploitation of certain countries and communities they're operating in by giving an "ethically-based response" to issues – even where legal redress for the most basic human and environmental rights is either inexistent, or highly problematic.[41]

So, undoubtedly, corporations that have gone international do face responsibilities also when taking advantage of multinational activity, and cannot totally refuse to try and solve some of the problems arising from "clashes" within different cultures – to quite a considerable extent primarily out of their best self-interest to avoid potential upheaval against foreign corporations in some less developed countries in the long run.

[39] For cultural relativism, see Napal (2005), p 29 ff.
[40] Broadhurst (2000), p. 89.
[41] Broadhurst (2000), p 90.

3.7 White-Collar Crimes: Corporate Fraud, Scandals and Excesses

White-collar crime is an attribute used for criminal action committed by people of high status within society in the "pursuit of their regular occupational activities", as opposed to so-called "street crime".[42] The engagement of corporate employees or executives, and thus people with a tendency to be highly educated and quite "well-off", in crimes seems paradoxical, as being caught with white-collar crime can seriously affect the perpetrators' future fate. Many professions, among them lawyers and certain medical professions, threaten members not complying with ethical guidelines of voluntary self-regulation with certain moral standards with lifelong loss of their professional licences.[43]

However, business executives, so far, do not fear extinction mechanisms, nor feel bound to anything similar to the Hippocratic Oath, nor is management self-regulated by some kind of "professional chamber". As a consequence, not only effective guidelines and punishment procedures for "black sheep" from within the corporate system are totally absent, but literature even suggests that given the major corporate scandals and failures in the 90ies businessmen, unlike disbarred lawyers, do not seem to be socially stigmatised to the same extent by business activity that seriously breaches laws. In point of fact, criminal managers do no become "inappropriate" partners for future business after having engaged in illegal and morally doubtful practices, and have in many cases remained fully respected members of society.[44]

Another paradox in connection with white-collar crime is that, until very recently, it has been only leniently punished compared to other crimes. This is often explained by its "non-violent" nature, wide-spread public opinion concerning white-collar crime suggests it is not considered "as bad" as street crime, for it does not "kill, wound, or maim people". The white-collar criminal himself does not appear a "habitual" or "violent criminal" to many.[45] Let aside the "violent" or "non-violent" nature of crimes, surveys have long shown that the damage done to society by

---

[42] Balsmaier and Kelly (1996), p 143.

[43] Beesley and Evans (1978).

[44] Some have even earned considerable amounts of money with their "memoirs", for instance Dennis B. Levine, insider trader – the impression created by the legal system and law enforcement authorities is that white, wealthy, middle or upper class criminals are handled with "kid gloves", while only the more underprivileged feel the "iron fist" of the law. Balsmaier andKelly (1996), p 144.

[45] John O'Sullivan expressed this view in an editorial in 1989. Balsmaier and Kelly (1996), p 144.

white-collar crime exceeds the respective one experienced through street crime *by far*: In 1987, the social damage done by white-collar crime was estimated to amount up to $ 12.5 to 19 billion, while the combined costs of burglary, auto theft, and robbery reached a mere $ 4.55 billion altogether.[46]

3.7.1 The Fairy Tale of "Less Detrimental" White-Collar Crime

Since the 80ies, many cases of corporate crime have sadly proven "far more abusive and detrimental than street crime", contrary to popular belief: One just needs to mention life and health-damaging effects as air pollution and acid rain, but also defective cars or mislabelled products that can seriously harm life and health of consumers, and of all citizens in general.[47]

Corporate white-collar crime and misconduct became notorious especially with the scandalous events in connection with Bophal, Brent Spar, and Enron, taking the lives or destroying the existence of thousands:

The deadly extent corporate white-collar crime can indeed reach is well-known at least since the humanitarian and environmental catastrophe following the "largest industrial disaster" in Bophal, India,[48] which is, obviously, outstanding in its top executive disregard of human life and health, and in its lack of assumption of responsibility for the community a corporation is operating in. The decision against basic security precautions taken by corporate executives in the exercise of their professions had thus not only risked life and health of the corporations' employees, but at the same time gravely endangered all other locals – and therefore constitutes *the* sad example for a highly "socially irresponsible" firm.[49]

Another grossly negligent corporate action concerning the natural environment is Shell's Brent Spar case in the 90ies, where the company had intended to dump industrial waste into the ocean.[50] Shell also received sad media coverage for its sweatshops in Nigeria at that time, making it one of

---

[46] However, "measuring" human pain and injury, as opposed to financial/material damage seems difficult to me. Balsmaier and Kelly (1996), p 144 ff.

[47] Balsmaier and Kelly (1996), p 144.

[48] In December 1984, Madya Pradesh, Bophal, India, experienced a terrible industrial accident killing thousands of local inhabitants and seriously polluting the environments when highly poisonous methyl isocyanate gas escaped Union Carbide's plant after corporate leaders had decided to not feel obliged to implement the most basic security mechanisms in its host country, which did not dispose of any legal requirements comparable to the ones prevalent in the developed world. I(nternet) S(ources) 5 to 8.

[49] IS 6.

[50] IS 9.

several proponents of corporate scandals in connection with the inhumane exploitation of legal loopholes or non-existent social protection laws in many parts of the world, further marginalizing the world's poorest and most deprived.[51]

However, fatal negligence of human life and health willingly decided by corporate top executives for the sake of profits can also happen in developed countries: In connection with automobile security many companies have opposed binding security requirements for a long time. A highly immoral decision was once made by Ford top management when they learned the technical construction of one of their cars enhanced probabilities of passenger deaths and serious injuries, a default that could have been corrected through re-designing the construction. Management calculated the costs cumulating in potential lawsuits to be paid to burned victims and relatives of killed passengers, and came to the decision no redesigning shall take place, as its costs would exceed the respective costs arising from potentially awarded damages to victims through the courts.[52] To these executives, the loss of human life and bodily integrity shockingly was just another "expense" that needed to be accounted for.[53]

3.7.2 A Shift in Paradigm When Dealing With White-Collar Crimes

Only recently, after a series of corporate scandals with hitherto unknown scope, top executive fraudulent activity has become punished more severely, which is probably due to its inherent devastating effects like im-

---

[51] Broadhurst (2000), p 90.

[52] Crowther (2004), p 209.

[53] One might interject some of these actions are highly immoral, but constitute no *crimes* in the sense of criminal law, as the corporations do nothing but inhumanely exploit the inefficiency or absence of such laws in many parts of the world, and therefore precisely can *not* be brought to court – so one might not want to speak about white-collar *crimes* in the narrowest meaning of the word. However, these acts clearly constitute violations of international law (both from the human rights, and the environmentally-based point of view). Apart from that, in most Western legal systems, sufficient knowledge about potential risks of death or injury resulting from a certain action or decision, followed by still conducting the activity or making the decision, while tacitly "accepting" damages as a consequence of one's action, *does* incur criminal liability for injuries or killings (*dolus eventualis*), let aside the possibility of liability on the grounds of lack of due diligence in case intentional breach of laws cannot be proven (which constitutes a fallacy, and not a crime, though, when observing it more accurately). So, speaking about corporate "white-collar crime" is deemed quite appropriate also in this context.

mense corporate failures, job and pension losses threatening the very existence of many employees, as well as “small shareholders”. As a rare case of maximum penalty application, the former Enron executives Ken Lay and Jeffrey Skilling were sentenced to (almost certain) lifelong imprisonment for fraud and conspiracy.[54]

This watershed in the punishment of white-collar crime – due to which it seems very appropriate to speak of the “post-Enron era” – follows the general logic of improved crime prevention by either raising penalties, or by increasing the likelihood of “getting caught”, thus by increasing the costs of the crime for the potential perpetrator to discourage white-collar criminals in the future.

Mass media coverage might have encouraged this development and made it (more) difficult for wrongdoers to cover up corporate malpractice and executive abuse of power, and it is certainly not a coincidence that the major corporate scandals treated publicly have pushed the debate about CSR much further than more “positive” campaigning for CSR development has ever been able to do. So, public outrage about the most “egregious” cases of corporate misbehaviour[55] have sparked a more persistent reform of society’s dealing with white-collar crime that is therefore largely “scandal-driven” and marked by occasional action following huge corporate scandals.[56]

Apart from that, general public opinion seems to have shifted from the view mentioned above (white-collar crime would be less “bad” because it doesn’t involve “real” violence) to a more critical perspective on white-collar crime: The general public has become so suspicious of and sensitive to corporate behaviour that popular belief now seems to carry a “pessimistic” notion. What is clearly observable is an “erosion of trust” in corporations that has taken place within the last decades. Nowadays Western societies seem to expect the worst of corporations and corporate criminality.[57]

To conclude, the excesses of lacking conscience within corporations have undoubtedly contributed to the calls for CSR, but, at the same time, prevention of white-collar crime and malfeasance is definitely in the best interest of the firm: Preventing such crimes against communities or against

---

[54] Ken Lay faces 45 years in prison, aside with another 120 years in a separate criminal case, Skilling faces 185 years in prison altogether for his convictions of conspiracy, fraud, and insider trading. IS 12.

[55] Broadhurst (2000), p 95.

[56] In the emergence of the UK corporate governance initiative “Cadbury Report” a major point of discussion concerning the reform was about “making the system Maxwell-proof”, referring to business mogul Robert Maxell, who embezzled $ 1 billion in employee pension funds. Boyd (1996), p 168.

[57] Crowther (2004), p 27.

humanity are certainly less costly than removing durable stains from corporate reputation.

3.8 A "Capitalist Imperative"

The final, but perhaps the single most convincing argument for the implementation of CSR strategies is that it "frequently makes good business sense":

The dramatic changes that have happened within society, but also in the way of business being done during the last one and a half centuries, have considerably extended the life duration of enterprises. Due to this new time horizon, a necessity of focusing on long-term survival and long-term profits rather than short-term success arose. Furthermore, the professionalised management of a firm is, inter alia, charged with creating *sustainable* competitive advantage, and, ideally, developing strategies that will secure also future survival and prosperity of the firm. So, in extremely short-lived times every short-term engagement needs to be weighted up against long-term plans and interests.[58]

Therefore, the traditional rationale of self-interest may directly lead to a strategic approach to CSR: The "mantra of profit maximization" may not always work to the best interest of the corporation, but can harm as much as benefit it. It will clearly work against the best interest of the corporation whenever long-term opportunities are foregone for the sake of short-term profits[59] – short-term profits may be favoured by owners who care about a maximum of profits within a minimum period of time and who are able to withdraw their capital in virtually no time,[60] or by managers who intend to keep profits high in order to maximize their own revenues from stock option incentive schemes, in the worst case, or to simply stay in power. All of these claims may be legitimate in their own respect, but the as much legitimate long-term interest of the firm itself is neglected in this calculation. So, only a long-term, balanced view on profit maximization will be reasonable, and *responsible,* also in the economic sense, for corporations, which means that CSR can constitute an opportunity for companies to protect their very own economic and existential interests when balancing the interests of a wider number of constituencies than just owners and managers.

It has been proven by various studies that CSR can make good business sense where long-term interest, survival, and success of the company and

---

[58] Walton (1999), p 197.
[59] Cragg (2000), p 207.
[60] Walton (1999), p 140 ff.

its core business are concerned. Arthur Andersen, the founder of the formerly well-established accounting firm that took an inglorious end due to shady business practices in connection with the Enron scandal, had a point when he insisted on standards of conduct for accountants already in the year 1932. He declared that if the "confidence of the public in the integrity of accountants' reports is shaken, their value is gone". So, he rightly understood irresponsible and distrustful behaviour could eventually undermine his company's core business interests.[61]

From a negativistic stance, companies have to fear being pilloried for irresponsible behaviour: "Nightmare court cases" and other negative media coverage equally deter consumers, investors, and potential employees. This negative incentive may "encourage" corporations to rather not risk drastic declines in corporate value through losses in market share, plunging turnovers and share prices through corporate scandals. Damages to corporate reputation and brand image are far too persistent and costly to correct that companies could ever afford to hazard these consequences.

The positive incentive for firms to engage in CSR could be called the current *zeitgeist:* Society's expectations of what role private business, and especially large corporations, should assume within the community have fundamentally changed over the last decades: Consumers and investors now demand socially responsible practices and products, so from a business point of view not complying would mean not adapting to changed circumstances – one of the core characteristics a firm has to fulfil in order to be and remain competitive.[62]

So apart from perceiving the capacity of adaptation to changed circumstances as a prerequisite of successful business activity, advantages connected with identifying such opportunities include the creation of competitive advantage, possibilities for differentiation from competitors, building stronger brand image, and generating considerable cost advantages from voluntarily anticipating potential regulation prior to one's competitors.[63]

[61] Crowther (2004), p 1.
[62] Kotler (2003), p 394.
[63] Crowther (2004), p 236 ff.

4 CSR Conceptualisation

As many reasons as there are for the increased inclusion of social and environmental concerns in corporate agendas, what CSR means as a concept, and, as a second step, what should be its scope, are necessary definitions when grossly having decided that there *are* legitimate claims to be brought towards corporations by society at large.

Firstly, there is a variety of different denominations, at a time used interchangeably, and thus referring to the same basic concept (like "Corporate Citizenship" is used in much of the US literature as a synonym preferred over "Corporate Social Responsibility"), but oftentimes different denominations stand for totally different ideas.

Secondly, when focusing on Corporate Social Responsibility following a certain definition of this concept, the scope of such responsibilities a socially responsible company should assume still remains highly controversial, and a variety of business scholars have developed their theoretical contributions to this question.

4.1 Clarification of Denominations and Underlying Concepts

The starting point of the whole CSR debate and development has been the question of whether the firm and its executives carry any responsibility towards society at large other than generating profits, and providing the products and services they're in business for. Another side of this debate is *who* the corporation and its managers are responsible to at all, and whether groups other than the owners should be considered when making business decisions.

As a matter of fact, concepts and theories around Corporate Social Responsibility and business ethics can ultimately be stripped down to their intention of re-thinking the relationship between business and society.[1] Dealing with "interaction phenomena" between business and society, they all encompass, more or less, the following dimensions of social reality: Eco-

[1] Van Marrewijk (2003a), p 100 ff.

nomics, politics, social integration, ethics, environmental and legal concerns.[2]

Various different scientific branches have therefore distinguished the theory on business's role within larger society under mutual influence: While the political sciences have rethought the firm as a "good citizen", with inherent rights, but also corresponding responsibilities, more business-oriented theories about "good governance" of the firm deal with the economic side of transparent and just relations with various stakeholder groups, especially with investors and employees. Other theories are concerned with sustainable development and the future of the planet, thus come from a more ecological background.

The following clarification of the different concepts shall, at the same time, make distinctions, but also show where the concepts overlap and complement each other:

4.1.1 Corporate Social Responsibility

Corporate Social Responsibility is at the same time the most comprehensive, but also least "meaningful" concept in the field of business and society research. As has been infamously repeated in many papers dealing with CSR, its problem is that it "means something", but "not always the same thing to everybody".[3] It certainly constitutes the basis or "point of departure" for all related concepts and themes,[4] but even though extended, enriched, and moved forward by many contributions, it has remained mostly vague as a concept.[5] More or less "moralistic catchwords" serve to express its meaning, as well as the most basic statements about "human dignity, equality, and the social good" – as unclear and subjective as these definitions might be.[6] Nevertheless, as a matter of fact, its vagueness in conceptualisation is not a default in itself, but rather inevitable:

Superficially stated, CSR, as a definitional construct, aims at describing the relationship between business and the larger society surrounding it, and at redefining the role and obligations of private business within that society, if deemed necessary. As business operations undoubtedly concern a larger group than the immediate corporation itself, given the immense power it exercises on contemporary societies from political, economic, and social perspectives,[7] CSR is driven by a need for inclusion of social and

[2] Garriga and Melé (2004), p 52 ff.
[3] Votaw in: Carroll (1999), p 280.
[4] Fisher (2004), p 392.
[5] Van Marrewijk (2003a), p 102.
[6] Frederick (1994), p 154.
[7] Frederick (1994), p 151.

environmental concerns into business decisions and operations, and for increased interaction with stakeholders.[8] But an exact definition of what a firm is responsible for must remain “elusive”, since beliefs and attitudes regarding the nature of these obligations necessarily fluctuate with time and place.[9] Therefore, theoretically defining CSR must necessarily limit it to very vague, hopefully undisputed ideas: CSR simply demands “corporate compliance with universal norms and guidelines”.[10] The practical relevance of such theoretical-philosophical thoughts can remain but small, though.

What can be said about CSR is that it carries both an internal and an external dimension. The firm is responsible to constituencies within its organisational hierarchy, like shareholders or employees, but also to groups outside the immediate organisational (contractual) surroundings, namely communities and society at large, not to forget the natural environment.[11] As this enumeration shows CSR largely parallels another important business research concept called “stakeholder theory”,[12] which first stated enterprises’ intertwined relationship with individuals and organisations larger than the ones traditionally accounted for by business professionals.[13]

To enter right into the definitional debate on CSR, already in the 1950ies scholars began to voice opinions business should consider social aspects in their decision-making, namely add dimensions exceeding mere “profit-and-loss statements”, and that “businessmen” would have to bring decisions and processes in line with the “objectives and values of their society”.[14] Even though this view remained so controversial that other scholars saw it as an almost “anarchistic” attempt to “threaten the basis of free society”, it has been able to gain momentum within the following decades, and now seems largely agreed upon: It is quite clear corporations have to consider economic and financial aspects at first when doing business, while at the same time obeying laws and regulations, but they are now expected to integrate ethical and social concerns in their business decisions and activity. Some scholars like Carroll see these different responsibilities as largely equal in importance within the corporate decision-making process, while others exclude the very basic responsibility of obeying laws from a company’s social responsibilities, according to them CSR can only “begin, where the law ends”.[15]

---

[8] Van Marrewijk (2003a), p 102 ff.
[9] Snider (2003), p 175.
[10] Broadhurst (2000), p 87.
[11] Tencati et al. (2004), p 177.
[12] Snider et al. (2003), p 176.
[13] Crowther (2004), p 236 ff.
[14] David Bowen in: Tencati et al. (2004), p 175.
[15] Gowri (2004), p 33.

This is consistent with another point made by most scholars, and also governments or international organizations, namely that CSR is to remain purely *voluntary*. Most advocates of CSR indeed seem "diametrically opposed" to any legal imposition of CSR behaviour on private firms. For many proponents, the concept thus constitutes an *alternative* to regulatory control, which counsels "voluntary structural and behavioural change" rather than an attempt for legal change.[16] This might have to be seen from the perspective that many doubt the effectiveness of regulation in today's globalised world, and think it impossible to altogether *prevent* many of the corporate excesses the business world has experienced within the last decades with mere laws. To them, laws seem more apt for punishing damage when it has already occurred, and this at a determination and pace so low that the deterring effect is minimised.[17] This would support the view that sustainable change in the way of doing business could eventually only be achieved when "corporate leadership" itself can be exercised in the development of suitable CSR policies instead of them being forced upon corporations by the majority within society.[18] Anyways, if CSR is seen as something inherently voluntary, legal responsibilities can hardly be part of it, as obeying binding laws can never be left to individual or corporate disposition.

However, some authors do not agree with the "dogmatic" repetition of the CSR attribute of voluntarism: Of course, business representatives and scholars opposed to regulation and state intervention will favour it if it remains merely voluntary. Nevertheless this is not a definition valid for eternity, and at least some binding measures might be taken by governments in the future, as it is, of course, legitimate for governments to "modify market arrangements" for the sake of enhancing public purposes.[19]

Leaving aside the possibility of some regulation on CSR, the fact that corporations will need to integrate and consider the interests of society, communities, the environment, and other stakeholder groups in their own business decisions is largely undisputed nowadays, and at least "indirectly" enforced by civil society. What has remained heatedly debated also throughout the 90ies is the *scope* CSR demands will reach, and still be acceptable to business itself:[20]

The potential scope ranges from no social responsibility other than "doing business" whilst obeying laws, to some activists' claims corporations should solve the world's most burning problems like poverty, social exclu-

[16] Gowri (2004), p 35.
[17] Sarre et al (2001), p 303 ff.
[18] Broadhurst (2000), p 86.
[19] Frederick (1994), p 150, 157.
[20] Crowther (2004), p 232 ff.

sion and unemployment through rebuilding inner cities, training the "hard-core unemployed", abstaining from closing highly unprofitable plants, and other quite controversial social demands business cannot reasonable be expected to bear – at least not on its own.[21] Some see firms obliged to "use resources in a way that benefits society", and to take into account society at large, "independent of direct gains to company".[22] Now this is, of course, a very broad perspective on what a firm shall be responsible for in the pursuit of its business activity. It is commonly justified with society's "right to grant or withhold legitimacy depending upon the extent to which the corporation fulfils assigned roles within society". Society may in this regard demand compliance with its expectations for granting a "licence to operate" to business.[23]

The fact that business is dependent on society's expectations is shared by most authors: Were corporations not pressed by public demands, very few would actually comply. This is quite easily observable when considering the evolution of CSR throughout the last century. At first, corporate philanthropy was a mere "hobby horse" of a handful of rich entrepreneurs. Then, an initially small number of US scholars started advocating it against major ideological and corporate resistance. The 50ies virtually saw no expectation of society towards business to consider anything other than its profits at all. After some academic debate on the wider social responsibilities of "the businessman",[24] some companies publicly took pride in "not playing Santa Clause for charitable causes" – with the result of them being able to reach a considerable increase in their share value. This proved then prevalent public consensus on the absence of corporate social responsibilities other than providing goods and services to society.[25]

However, with the constant evolution (at different rates in different societies) and ever growing expectations of corporate ethical behaviour and of the incorporation of wider interests in economic decisions in Western societies, especially in the US,[26] the majority within business seems to have changed its mind: A 2002 Ernst&Young survey among 114 Global 1000 companies has shown that 73% of them have CSR on their agenda.[27] So, clearly the general public has a major say in determining what business ought or ought not do.

Society's influence on what is considered "doing enough" has evolved to the same degree – some decades ago, corporate charitable giving was

[21] De George in: Fisher (2004), p 396.
[22] Snider et al. (2003), p 176 ff.
[23] Logsdon et al (1997), p
[24] Bowen; Carroll (1999), p 269.
[25] "*The public wants goods, not goodness*". Walton (1999), p 126.
[26] Logsdon et al (1997), p 1221.
[27] Van Marrewijk (2003a), p 103.

warmly welcomed with “gratitude”,[28] while nowadays “mere” donations are sometimes negatively perceived as marketing gags or PR hypes.[29] To put it as simple yet comprehensive as possible, the scope of corporations’ social responsibility can be stripped down to two main components:

Sufficient focus has to be put on the firm’s contribution to “public prosperity”. In the long run corporations are expected to create value not only in economic measures, but also to take part in advancing society at large. In contrast to the traditional bottom line, which measures success according to financial results only, the idea of a Triple Bottom Line originates in this expectation, as it measures business’s value creation according to their consistency with economic, social, and environmental goals. The other component of CSR is the management of relationships with stakeholders and with society at large: As the firm constitutes an organisational entity dependent on cooperation between different (and quite heterogeneous) stakeholder groups, the scope of CSR also comprises balancing partially conflicting stakeholder interests.[30]

To render matters even more controversial than the scope of a corporations’ social responsibilities, CSR is frequently renamed in the academic literature, without advancing it in substance though. Some scholars suggest speaking of “responsibilities” rather than responsibility to indicate a corporation has to father a diversity of obligations towards its social and environmental surroundings. Further-going attempts to rename the concept of CSR include the proposition of “Corporate Societal Accountability” some authors deem more useful: “Social”, in their point of view, carries too much of a “social welfare” notion, especially in Continental Europe, and this impression of firms having to fund social welfare seems counterproductive, as it might potentially fuel resistance against a concept that is legitimate in its claims. The fact that it’s society at large which business is one major actor of that carries legitimate interests in private firms’ limiting their harmful effects, while maximising the positive ones, inspires this new denomination of “societal accountability”.[31] While this “new” term Corporate Societal Accountability clearly goes in line with the key definitions of CSR, introducing ever new terms for the same concept instead of filling the original one with content seems to create nothing but confusion and uncertainty. It is probably for this reason that the term “CSA” has not gained ground, but CSR has ever since continuously been developed and argued in the direction “CSA” hinted at.

[28] Crowther (2004), p 37.
[29] Polonsky et al. p 69.
[30] The two components of CSR are derived from: Graafland et al. (2004), p 137 ff.
[31] Van Marrewijk (2003a), p 101.

Another quite recent denomination is Corporate Moral Responsibility.[32] On the one hand it does not express something fundamentally new, as moral responsibility is one natural part of the social and ethical responsibilities corporations have to assume according to CSR theory, anyway. On the other hand it does not seem practically relevant, as "morality" constitutes the least enforceable and narrowest perspective on CSR.[33]

Regardless of the denomination one might choose for the phenomenon related to corporations' responsibility and obligations towards society, the young academic discipline of CSR has well been able to justify its existence in the past years, as it has successfully proven how social and environmental corporate engagement can substantially benefit society and the enterprise itself. Every corporation is certainly dependent on the prosperity and growth of society as a whole for the sake of its future growth, let alone its dependency on stable social surroundings, and the potential threats to business operations if the society surrounding the corporation were characterized by social unrest, disruption, or fear of violence.[34] Other encouragements to socially responsible behaviour include the achievement of competitive advantage, especially through the creation of valuable intangible assets, attractive options to enter new markets (just to think of socially responsible investment and ethical products), and, as recent CSR research has shown, a correlation between social performance and sustained superior financial performance can be detected.[35]

4.1.2 Corporate Social Responsiveness

Corporate Social Responsiveness, also sometimes called the "other CSR" or "CSR_2", has a fundamentally different approach than Corporate Social Responsibility: While the latter asks questions about the nature and scope of responsibilities, the former is not normative, but practically oriented. It does not question the "rightness" of social expectations from an ethical-theoretical point of view, but seeks ways of *implementing* them. From the CSR_2 point of view, the question *whether* corporations should answer to external pressure has already been answered, be it by public opinion and scrutiny, or by governmental social regulation. So, its starting point are existing, and as such accepted expectations carried towards the company by

[32] González (2002), p 101 ff.

[33] Corporate Moral Responsibility refers to actions that are not illegal, but highly doubtful from a moral point of view. Indirect coercion on corporations is, of course, possible, boycotts, petitions etc. can have a very "encouraging" effect on corporate morality.

[34] Frederick (1994), p 152.

[35] Roberts and Dowling (2002), p 1078 ff.

its environment, and it sheds light on how the company should be dealing with these external demands (or "threats", negatively speaking) put forward by stakeholder groups.[36]

Its approach is clearly a managerial one, action-oriented[37] and it might sound somewhat reactive. As it takes a managerial approach to CSR, its stance undoubtedly is a protective one, namely to seal the corporation and its strategy off from external pressures – stakeholder "intrusions" – and essentially perceives the corporation and its stakeholders as antagonistic groups.[38]

CSR_2 is indeed concerned with establishing the capacity of responding to external pressures through appropriate "responsive" mechanisms, procedures, arrangements, and behavioural patterns. Its targets are both concrete acts of responding to current demands, but also setting up a "generally responsive posture" within the corporation.[39] This does not necessarily have to happen from a negativistic stance, it may include a "search for social legitimacy",[40] a way of better positioning the firm in some kind of stakeholder dialogue, with processes for giving appropriate responses, and for determining which claims to answer at which time and to what extent. So, in fact, it might also result in some kind of proactive corporate engagement, not remain a reactive "defendant" procedure.

As for the technical part on what issues and constituencies will be addressed through CSR_2, it is quite undisputed that some key issues "loom larger than others".[41] A corporation will necessarily have to select the issues or key stakeholder groups it will consider (first), and thereby choose which stakeholder demands to fulfil or to react to, and in which manner. In

[36] Frederick (1994), p 156 ff.
[37] Garriga and Melé (2004), p 52 ff.
[38] Husted and Allen (2000), p 24.
[39] Frederick (1994), p 154.
[40] Morsing (2005), p 86.
[41] However, stakeholder theory is not, as the name suggests, one theory, but Freeman himself has referred to it as stakeholder theor*ies* to clarify there is a diversity of opinions on the scope of stakeholders a firm has, and also on what basis decisions on how to deal with their claims (namely in which order they shall be satisfied) are to be made: Utilitarian stakeholder theory will strive to maximise total happiness among stakeholders (and potentially neglect some groups that do not contribute much to "total happiness", whilst they might be especially "worthy" of protection at the same time), Rawlsian stakeholder theory will be striving for justice, and therefore "prefer" the most deprived, discriminated, or exploited stakeholders that don't have a voice. Logsdon and Yuthas (1997), p 1216. Again, these might not be *key* stakeholders to the firm. So, as much as there is consensus on the fact priorities have to be set, as much controversy this process of selection will create – among scholars, but also practitioners, and civil society.

this (hopefully) coordinated process, policies will have to be formulated, programs and goals elaborated and defined, resources allocated, followed by an implementation, monitoring and evaluation phase.

To conclude, social responsiveness is not a concept corporations alone will consider in their business activity: In fact there are two perspectives which will be concerned with Corporate Social Responsiveness as a matter of great importance: On the one hand, at the micro-level of the individual company CSR_2 is an area of concern for the practical implementation of corporate values and culture into strategies. On the other hand, it is also something the broader public might potentially make use of. Governments, and civil society lobbies through them, might want to increase concrete Corporate Social Responsiveness through measures like positive or negative incentives for the achievement of desirable public goals in social and economic policies.[42]

4.1.3 Corporate Social Performance

Corporate Social Performance is, as its name tells, not a theory, but an indicator concerned with CSR results, and with it the respective successes or failures of CSR strategies, policies and programs. As a term, it nevertheless remains of fundamental importance, for it stresses measurable business success need not be just about financial results and traditional performance measurements like return on investments – something classical accounting still assumes, while it tends to neglect social and environmental costs of business activity when measuring firm performance. So, costs arising from social and economic side-effects of corporate activity not calculated for in classical accounting constitutes a *distortion* of financial results: It points out firm profits, whilst a given proportion of costs are not individual, but social costs, also termed externalities, levied upon society as a whole, invisible and thus neglected in the firm's profit and loss statement.[43] CSP can serve giving more accurate result of a corporation's *overall* performance, allocating due attention to social and environmental issues.

One problem arising with Corporate Social Performance is that it is less "measurable", or quantifiable compared with financial performance: First of all, values are not universal, but on the contrary highly diverse, varying not only with time and place, but also considerably with personal ideology. Secondly, also the evaluation of CSP is highly subjective.[44] Decisions about what shall constitute "good" or "bad" social or environmental per-

[42] Frederick (1994), p 157.
[43] Crowther (2004), p 168.
[44] Graafland et al. (2004), p 140 ff.

formance are difficult to make, even if areas like reduction of pollution or discrimination, increase in workplace safety, provision of consumer protection are easily detectable as important indicators. Still, the question of how to label corporate performance "responsible" or "irresponsible" remains in case the corporation performs well in some of these areas, while it fails in others.[45]

Despite the rather recent possibilities of external, and thus independent, social or environmental auditing, corresponding standards and certification procedures, shortcomings in truly "objective" evaluation of CSP are still evident. The majority of corporations does not make use of external CSP assessment, but rather issues its own periodic reports on their social and environmental performance[46] (the fact social and environmental performance are dealt with outside of the main reports on corporate performance indicates that these areas are not integrated in core business activity,[47] but rather still perceived as "accessories" to the "real" reports).

In connection with CSP, a fundamental concern often expressed by both scholars and practitioners is the alleged "trade-off" between good economic and social performance. However, research rather indicates that the two areas of performance are mutually reinforcing in their effects: From the least enthusiastic perspective, companies with good CSP perform at least equally well as the ones with low CSP results, while there is also substantial evidence for a strong positive correlation between both good CSP and CFP. Nevertheless, capital markets still over-dominantly emphasize CFP, and, as pointed out already, traditional accounting and auditing marginalize social and environmental concerns. As a consequence, independent and verifiable reporting on CSP is largely absent.

4.1.4 Corporate Governance

Corporate Governance comprises, most basically, a broad range of principles and mechanisms assuring due control of power in order to "protect the interests of stakeholders of business entities".[48] A broader definition of "good governance" is the "proper way" of doing business, while respecting "due diligence" in all aspects of business, to speak in legal, but also ethical terms. Basically, CG is concerned with *internal* processes and decisions rather than external stakeholder groups. Internal "good governance" rules date back well into the 19th and 20th century, when rights and responsibili-

[45] Frederick (1994), p 153.
[46] Sometimes these reports are referred to as "environmental" only, meant to comprise also the "social surroundings".
[47] Crowther (2004), p 147 ff.
[48] Sarre et al. (2001), p 308.

ties of corporations and their workers were first negotiated as a means of achieving just governance within the firm.[49]

Today, Corporate Governance comprises above all the assurance of sufficient transparency in decision-making processes: It addresses the way power and control are distributed, corporate boards are composed, what mechanisms of supervision and evaluation of executive performance are in place, how executive pay and incentives, as well as appointments and renewals of positions are determined, who has the right to nominate potential directors, how transparent internal procedures generally are, what degree of influence and information rights shareholders and directors dispose of, how well the flow of information between executives and the board, and thereby the firm's owners, works, and whether the corporation's "leadership climate" is characterized by exclusion or cooperation.[50]

Transparency requirements, as the single most dominant feature in today's CG discussions, are mostly concerned with shareholder/owner protection, and primarily directed towards increasing "shareholder justice" in the sense of opening up possibilities for owners to exercise influence on executive decisions. The same principle holds true for most of the Corporate Governance Codes and guidelines that have been consecutively issued in most industrialised countries: Most of these guidelines are about the establishment of efficient mechanisms of control and surveillance, be it through external (non-executive) directors or through truly independent auditing, which is frequently threatened in practice, above all, if the auditors are (re-)assigned by the same top executives they are expected to evaluate – a system that obviously reduces the risk for those top executives to be confronted with management-critical reports.[51] Increased independence and integrity in auditing, in the end, also aim at increasing investor confidence in the firm and at improving shareholder relations (for the sake of whole financial marketplaces).

In short, Corporate Governance is about constraining executive power to the benefit of certain stakeholder groups, with huge emphasis set on owners – so far. The existing CG initiatives are, as mentioned already, more focused on investor interests than the definition of Corporate Governance would actually demand. Another key stakeholder group that has as much of a vital interest in transparency and more open and inclusive decision-making processes, namely employees and their representatives, are largely neglected by CG legal or discretionary initiatives.[52]

---

[49] Broadhurst (2000), p 94 ff.

[50] Enumeration inspired by: Aguilera (2005), p 46 ff.

[51] Boyd (1996), p 169 ff.

[52] As Corporate Governance guidelines are concerned with board structure and competencies, to a large extent, employees and their interest representatives do

Another shortcoming of those initiatives is the lack of attempts to increase corporate and director accountability, another crucial point in the ongoing debate about Corporate Governance. Executives and corporations as a whole are generally perceived to be held liable to an insufficient degree for their wrong-doing. This touches two main areas of executive decision-making: Economically wrong or "bad" decisions, resulting in corporate failures, job losses and financial damage to other stakeholders,[53] and willingly taken irresponsible or unethical (if lawful) decisions that are deemed unacceptable according to common morals and values. Such decisions would include cases like Brent Spar or Bophal, and could be summed up by calling it "within the laws, but beyond morals". Both of these types of "wrong" managerial decisions have fuelled the debate on director accountability in recent years, but have not yet been dealt with by CG initiatives.

What's interesting to note is that most CG Codes constitute "soft law", compliance is therefore not enforceable. Many such codes or guidelines have "comply or explain" mechanisms, but sanctions for non-explanation are not foreseen in most countries disposing of such CG codes, nor is an institution charged with evaluating the explanation why a corporation cannot comply with transparency requirements. So legal enforcement of CG requirements is poor, if not inexistent.[54]

From a company perspective, Corporate Governance efforts and compliance can clearly work to the benefit of the company: Studies examining Fortune 500 companies that are sincerely dealing with shareholders and enhancing their interests in the company have shown CG efforts improve investor relations, and can help attract more capital – and hold it with the

take advantages out of CG legislation in countries with a dual board structure (notably German-speaking countries), where seats in the "supervisory board" (*Aufsichtsrat*) are reserved for employee representatives (Aguilera, 2005, p 44): Legislation concerning information and transparency requirements for executives towards the Board of Directors naturally involves them also to a greater degree.

[53] While directors are hardly held accountable for the damage done, recent scandals have, on the contrary, shed light on CEO compensations even in the case of complete professional failure by these executives - while shareholders and employees had to pay the full price for their mistakes.

[54] The Austrian Corporate Governance Code sets no additional binding rules, it simply reaffirms rules in place already for corporations listed at the stock market, that would thus also be in effect without the CG Code. A "soft law" sections urges firms to "comply or explain" with additional requirements, followed by a section of mere "recommendations" with no legal effect.

company.[55] So Corporate Governance clearly has a business case supporting it.

To conclude by drawing the line between CSR and CG, Corporate Governance is rather aimed at the way the business is run from an internal point of view, and therefore necessarily focused on internal stakeholders as primary interest groups. CSR, in contrast to this, comprises a firm's relation with both internal and external stakeholders.

4.1.5 Corporate Citizenship

The term Corporate Citizenship was first developed by the political sciences already in the 70ies. A corporation's citizenship is, of course, not comparable to an individual's citizenship, it constitutes only "secondary" citizenship. Originally, the term refers to corporations' role as a big "citizen", exercising rights and carrying responsibilities, at best building partnerships within the larger society surrounding it.[56] Good Corporate Citizenship can be summarised by "active community involvement":[57]

As suitable for the political science literature, the theoretical underpinning of corporations' philanthropic "helping the neighbourhood" engagement is based on the social contract theory: Due to the social revolutions that have reshaped societies through, inter alia, deregulation and globalisation, the firm is deemed obliged to assume a role consistent with its considerable power and advantages within the society it is an integral part of and it interacts with daily in multiple ways. Therefore, it is deemed only natural business would have to act in accordance with society's values.[58] However, throughout the 80ies and 90ies, the concept has increasingly been taken up by business scholars, and, to an even greater extent, by business practitioners. They seem to have a preference for the CC concept, rather than for CSR. This might be the case because Corporate Citizenship is predominantly about philanthropy, and more limited in scope than CSR: Corporations voluntarily assume responsibilities as a major actor within society by contributing to the enhancement of the quality of community life through "active, participative, and organized involvement". This means corporations remain totally free in determining whether or where they want to proactively engage in. The positive consequences of Corporate Citizenship are not strategic by intention, but the firm may well experience substantial positive side-effects of its community involvement

[55] Snider (2003), p 183 ff.
[56] Garriga and Melé (2004), p 57.
[57] Snider (2003), p 181.
[58] Garriga and Melé (2004), p 56 ff.

both in its financial performance, and also in improved relations with potential customers or employees in the community they're operating in.[59]

The latest notion of the Corporate Citizenship concept is the idea of the corporate "global citizen": Apart from a willingness to improve the local community, aside with concerns for local environments in host-countries, 34 of the largest multinational corporations have reacted to the ever more intense globalisation critic through signing a commitment to "Global Corporate Citizenship – The Leadership Challenge for CEOs and Boards" at the occasion of the World Economic Forum in New York in 2002.[60]

Corporate Citizenship could also carry different innovative notions aside its traditional meaning of discretionary philanthropy in the future, namely make corporations abstain from tax evasion and off-shoring as part of their good citizenship. Moral obligations arising from their role as "citizens" may "encourage" them to not only make use of the benefits arising from their home country they can actively shape thanks to their position in society, but to fulfil also the responsibilities connected with these privileges and options open to them. Corporations may thus ask themselves in the future what they could do for their country.

In the sense of "good citizenship", corporations have already started organising their political engagement, according to their values and best interests. Private corporations' response to political questions is naturally connected to those social and political issues that may potentially impact significantly upon them.[61] Their political campaigning is therefore mostly concerned with anti-regulation, especially concerning competition and environmental protection laws, and tax reduction lobbying.[62] Whilst it is of course legitimate in itself for corporations to have their interests heard through political lobbying, one has to consider the immense financial funds corporations dispose of when judging the legitimacy of corporate political engagement. Undemocratic influence on political decision-making where few financially strong industrial lobbies dictate their interests to the vast majority within society is a threat imminent in corporate funding of political candidates and campaigns.

If corporations engage for social causes rather than pursuing their own political interests there still is another issue one could be critical about: As a matter of fact, corporations want to take maximum benefit out of their

---

[59] Husted and Allen (2000), p 24 ff. Nevertheless, the definition of the Corporate Citizenship concept is not that simplistic. There are indeed four point of views: One sees CC in a restrictive way, reducing it to philanthropy, another one uses the term synonymously with CSR, and yet another one has an even more extensive perspective on CC.

[60] Garriga and Melé (2004), p 57.

[61] Garriga and Melé (2004), p 63.

[62] Walton (1999), p 155 ff.

philanthropic engagement for the sake of "bettering" society that they place utmost importance and vigilance on being on the "safe side" Thus, they tend to fund only "politically correct causes" and avoid controversial, but crucial causes. 80% of corporate philanthropy is directed towards such "safe causes", like helping the handicapped or underprivileged children, while some of the most serious social and political causes constitute "deterrents" for corporations. An important example for this attitude is corporate ignorance concerning diseases like AIDS, as it was long connected to the "unpopular" topic of homosexuality in the public mind. So, companies are definitely "conservative" in their choices to support social causes, when they are acting as "good citizens". Nevertheless, it is undisputed a rise in corporate "civil" engagement is in itself desirable – and with a total increase in projects funded by corporations, also the number of "unpopular" and controversial, but no less crucial projects will tend to increase over time.[63]

4.1.6 Corporate Sustainability[64]

Sustainability was at first directed to governments when environmental degradation and threatening resource depletion became an issue on the agenda of international organisations and governments. Even if it was developed at a macro-level, corporate contribution to it seemed increasingly essential[65] due to the huge demand for resources and the substantial impact on the environment exercised through industrial activity. The term "sustainability" itself was introduced by the UN World Commission on Environment and Development through its Brundtland Report in 1987, where sustainability was defined for the very first time as a development that "meets the needs of the present without compromising the ability of future generations to meet their own needs".[66] A more recent definition describes it as a "process of achieving human development in an inclusive, connected, equiparable, prudent and secure manner".[67]

Even if sustainability clearly had a major environment focus at first, it was soon expanded to include also consideration of social concerns, as they are deemed "inseparable from development". From a business point of view, the WBCSD declared sustainability "required the integration of social, environmental, and economic considerations to make balanced

[63] Husted and Allen (2000), p 27.

[64] Sometimes also referred to as *Corporate Sustainable Development,* or *Sustainable Entrepreneurship.*

[65] Garriga and Melé (2004), p 61.

[66] Van Marrewijk (2003a), p 101 ff.

[67] Gladwin and Kennelly, 1995. In: Garriga and Melé (2004), p 61 ff.

judgements for the long term".[68] Social sustainability thus comprises also human rights, transparency, stakeholder dialogue, sustainability reporting for governments and corporations, and other social rights and interests.[69]

Corporations should recognize their own interest and benefit from sustainable development at macro- and international levels: They have vital interests in the present and future welfare and health of the society they are part of.[70] However, sustainability has, with time, also become a challenge to businesses in the sense of *corporate* sustainable development, where corporations strive for growth with a focus on the longer term, and plan corporate development to happen in a "sane" manner, as opposed to short-sighted, often dangerous "growth at any price". For companies this tends to make excellent business sense, as "growth at any cost" often endangers and sacrifices beneficial future opportunities, making corporate sustainability an option that should be considered out of corporate self-interest.

So, sustainability has become an ideal towards which "society and business can continually strive", and this means making efforts at all levels and positions, be it within corporations or governments.[71]

4.1.7 Socially Responsible Investment

SRI denominates a rather young development within the investment market that promises to take into consideration not only measurements of financial success, but also corporate social (ir-)responsibility when presenting the overall-evaluation of attractiveness of a certain investment opportunity, in the case of ethical funds, or when listing companies with a socially responsible index.[72]

Socially Responsibility Investment definitely constitutes a remarkable success story: Total assets in SRI have grown from USD 22.7 billion in 1997 to 224.5 billion in 2001 (which equals an increase by almost 900% within those four years). But it is not only a growing market in quantitative dimensions, its success is also measurable from an "investment-quality" point of view: Socially responsible funds constituted "safe havens" when stock markets collapsed in the years of crisis around the turn of the cen-

[68] Garriga and Melé (2004), p 61 ff.
[69] Van Marrewijk (2003a), p 101.
[70] Crowther (2004), p 110.
[71] Garriga and Melé (2004), p 61 ff.
[72] The most important and well-known indices include the Calvert Social Index, KLD Broad Market Social Index, FTSE4Good, Dow Jones Sustainability Indexes (DJSI World), Ethibel Sustainability Index (ESI Global), ECP Ethical Global Return. Crowther (2004), p 179 ff.

tury. Their growth is safer and, above all, continuous, and they receive top marks for their performance by rating agencies.[73]

Only quite recently, ethical funds have got a whole new and religious meaning when both Catholic funds[74] and Islamic banks have experienced impressive series of popularity and financial success.[75]

SRI can hold great opportunities not only for corporations to differentiate from competitors by striving for being listed with socially responsible or sustainable indices, or investment portfolios, but also for those policy makers and activists that wish to render CSR more verifiable and enforceable: New reporting requirements to stay listed with SRI indices or portfolios can make companies comply without any further need for national legislation (with its necessarily limited scope in the era of a globalised economy). The threat of de-listing might considerably impact corporations' behaviour when it comes to serious social and environmental reporting and auditing efforts, especially from the side of independent auditors or institutes. It is likely to positively impact also upon the *contents* of corporate disclosure, and thus upon the quality of such reporting activities. Both consumers and investors have a considerable interest in more honest, balanced, and verifiable information on CSR activities that is "true" and "not misleading".[76] Therefore, studies have shown that, while two thirds of opinion leaders[77] generally find corporate communication about CSR activities "credible", to 91% of those opinion leaders interviewed, third-party

[73] Crowther, 2004, p 170 ff, 179 ff.

[74] Even more than CSR, SRI shows that a value-driven concept can often be reflected from two antagonistic stances: In the case of socially responsible Catholic funds, they guarantee no money is invested in companies that have to do with the porn industry, abortion, or even contraception (Crowther, 2004, p 170 ff.) – however, many may value investing in contraception highly socially responsible for the sake of preventing deaths of HIV-AIDS, or avoiding teenage pregnancies. So, the definition for SRI must remain quite value-neutral, in my point of view, denominating every kind of investment that is based on ethical/religious/social considerations more than on financial ones, no matter what ideology may be involved.

[75] One might interject there is a difference between socially responsible funds, which are based on ethical, purely voluntary, considerations, while Islamic banks follow Shari'an banking and business laws, so actually constitute religious *duties* for Muslims. However, this distinction is not very useful, for, at the basis, Islamic banks give preference to "higher" (more moral, "godly") considerations over more "uncontrolled" ways of doing business (charging of interests, for instance).

[76] Tencati et al. (2004), p 174.

[77] Defined by the top 10% in media consumption, interest in public policy, civic participation.

verification, especially from truly neutral sides like NGOs or governments, would still be important.[78]

Such potential future requirements for staying listed with prestigious SRI indices may well serve to compel companies disclose important information accurately, and timely, and have it verified by external 3rd parties.[79] This strict scrutiny on firms listed on an index can also substantially benefit the entire financial marketplace and the reputation of the respective index through enhanced credibility and investor confidence.[80]

4.1.8 Socially Responsible or Philanthropic Marketing Practices

In close connection with a firm's social engagement, marketing practices like Cause Related Marketing or Socially Responsible Pricing have gained momentum during recent years, and are today often part of the broader so-called "corporate strategic philanthropy" or, even more encompassing, "corporate social strategy". These marketing practices and strategies (help) build up brands and take advantage of opportunities concerning positioning and differentiation:

Cause Related Marketing (CRM) is a way of combining the advantages of doing charity, and thereby building stronger brand or corporate reputation, and customer loyalty, with marketing corporate products or services themselves. In most cases CRM establishes a strategy that links a company's product or service purchase, or product use, to the support of a social cause that might either constitute charity or NGO work, and thus creates a very unique selling proposition ("buy our product, and donate at the same time"). Such alliances between corporations and charitable causes can work to the benefit of both sides by achieving valuable PR, an enhancement of sales, as well as corporate image and identity for the enterprise, and last, but not least, tangible support for the cause. The same holds true for other forms of corporate "philanthropic" donations and project funding like arts mercenary or events sponsoring. In 1996 in the US alone, $ 2 billion were donated to non-profit events like concerts, exhibitions, golf tournaments, or literacy campaigns – this engagement does, of course,

---

[78] IS 1, "Global CSR Study".

[79] Crowther (2004), p 164 ff.

[80] Unethical, fraudulent or otherwise wrong behaviour by firms listed has already brought huge losses to stock exchanges: For instance, in 1963, the New York Stock Exchange voluntarily paid huge compensation sums for damages suffered by investors in the DuPont, Homsey&Co fraud scandal to re-establish investor confidence in the financial market place. Walton (1999), p 158.

constitute positive PR for the firms involved.[81] So, the reproach to CSR in general it would be nothing but "good PR" is most valid in the case of CRM.

Such corporate philanthropy can be "piecemeal", and rather seen as single PR efforts, or, on the contrary, be part of an entire strategy: From a marketing perspective, philanthropy can therefore only reasonably be termed "strategic" in the sense of the word, when it is "designed to create value for the firm", and when the engagement meets the general criteria of strategies, thus if it implies the determination (and formulation) of long-run goals, purposes and objectives of an enterprise, the adoption of a course of action, major corporate policies and programs to achieve those goals, allocation of the resources deemed necessary for carrying out the goals, implementation and evaluation thereof. If corporate philanthropy (and, more generally speaking, all CSR efforts) meet this criteria, speaking of "strategic philanthropy" seems appropriate, and its positive effects like the generation of goodwill or competitive advantage, and enhanced social and financial firm performance can be envisaged as part of the overall strategic orientation of the firm.[82]

Socially Responsible Pricing is concerned with the pricing procedure as an important stage of the marketing process. On the one hand, such socially responsible pricing can potentially mean a commitment of non-exploitation of consumers in the home market by outright setting a "fair" price for a product or service, but there is a far more important field to socially responsible pricing, namely the sale of products in developing countries. Especially the pharmaceutical industry frequently faces demands by international organisations, governments, and human rights activists to start setting affordable prices for different target markets. Differential pricing simply means selling the same product, for instance a drug for HIV-AIDS treatment, at different prices in different markets by taking due account of potential consumers' ability to pay.[83] This way of setting prices would not only satisfy social desirability considerations, but also possibly enhance turnover for the products, as the huge majority of potential consumers in 3rd world countries is, at the given prices, not able to purchase them, anyway.[84]

---

[81] Husted and Allen (2000), p 25.

[82] Husted and Allen (2000), p 22 ff.

[83] Vacchani and Smith (2005), p 78.

[84] 4 billion people worldwide, 65% of the global population, earn less than $ 2000/year – this huge consumer segment is not only neglected to their own detriment, but also to the respective detriment of corporations, as their aggregate purchasing power would be considerable(products or services might be sold to communities rather than individuals). Prahalad and Hammond in: Harvard Business Review (2003), p 4 ff.

An exceptional case for socially responsible marketing strategies, combined with a more consistent and credible implementation, are “social enterprises” or “socially responsible brands”, which deal with ethical issues not only in their social strategy, but integrate it into their whole business mission and into their core business activity. Successful “social entrepreneurs” or “social firms” include, above all, Anita Roddick and the Body-Shop, or Ben&Jerry’s.[85]

Albeit sometimes such efforts cannot honestly be termed corporate “philanthropy”: Negative examples of CRM include the Tesco supermarket which made negative headlines with supposedly “altruistic” donations to the poor that were actually conditional on product purchase.[86] The same objection holds true for some corporations’ marketing activity in developing countries for the “bottom of the economic pyramid”. The line between a firm’s engagement for bettering living circumstances of the poor through “simplified”, and cheaper, products like cell phones or computers (a process that is termed “disruptive innovations” for its taking technological progress a few steps back),[87] and unethically taking profit out of other people’s misery is a very fine one: What the corporations concerned will perceive as innovative efforts for having the world’s poorest participate in progress, others might see as highly unethical exploitation of the poor, who are marketed and sold product and services that do not constitute priorities to better development.

When corporate donations do not constitute real altruism, nor philanthropic engagement, but rather corporate PR, companies can also suffer considerably from criticism, bad media coverage, and activist protests or boycotts. Taking into consideration that the success of cause-related corporate efforts is by far not guaranteed either, companies have to handle them with care and sensitivity.[88] There is little more image-damaging media coverage than news about companies spending several times the amount donated on advertising the fact they have done charity.[89]

4.1.9 Business Ethics Theory

The relation between CSR and business ethics theory is quite debated, partly because scholars disagree on the distinction between what is covered by business ethics on the one hand, and what is the respective meaning and field of applicability of CSR on the other hand. A stance one could

[85] Smith (2005), p 62.
[86] Crowther (2004), p 231.
[87] Garriga and Melé (2004), p 55.
[88] Polonsky et al. p 69.
[89] Smith (2005), p 64.

take is that business ethics must by definition be an integral part of CSR, as the latter makes corporations assume obligations that exceed the ones set by law, because they are deemed "right" or "appropriate", or "morally" or "ethically" required. But as business ethics theory potentially concerns everybody who is doing business, inter alia also the smallest firms, sole entrepreneurs, or individual employees, it does not specifically address corporations. At the same time, CSR fills the gap of corporation-specific guidelines and rules of behaviour that take into account the power and status corporations enjoy within modern society.[90]

Yet another distinction is that business ethics are generally very broad in scope and can be divided into three main areas of studies: Ethics within business activity on the national, on the international level, and meta-theoretical ethics studies.[91]

To conclude the chapter on the most important and wide-spread denominations and concepts used in academic, political and practical debates, what can be observed in all of them is denominations are often used interchangeably, and with full "exploitation" of scholarly discretion. This lack of precision, even among business scholars, renders consistency in the use of denominations difficult. This book follows the extended definition of CSR (comprising Corporate Social Responsibility and Responsiveness),

---

[90] This is the point I make on the relationship between ethics and CSR, however the contributions found in the literature are quite different: Many assume only individuals dispose of "ethics", therefore organisations do not, and this vacuum therefore needs to be filled by CSR. Lozano (1996), p 227 ff. Business, according to them, is by definition "amoral", thus neither "good", nor "bad", and CSR should be nothing but "ethics in an organisational context", as only people have "ethics", while for organisations that do not hold "personal beliefs" another concept would have to be elaborated (this, of course, neglects the fact that not the corporation itself is acting, but individuals with values and personal beliefs are acting and running the business on its behalf). Yet another distinction made by scholars on the relation between ethics and CSR states that ethics has to do with people's conduct within the organisation, while social responsibility concentrates on the consequences of business activity. CSR would therefore examine the impact business activity has on "society at large", while "corporate ethics" concern the actions of people employed by the company, thus will address individual decision-makers to consider also organizational well-being, and social desirability in their selection of corporate goals – and basically create an "ethical workplace environment". Fisher (2004), p 392 ff. However, these considerations do not serve the purpose of this thesis, as they are of little relevance to practical feasibility, implementation, and advantages of CSR strategies.

[91] Broadhurst (2005), p 86. Such theoretical-philosophical discourses include question like "can it ever be ethical to use ethics as a strategy" (Husted and Allen, 2000), or what philosophical basis CSR could be based on, from Kantian ethics over Utilitarian approaches to Rawlsian justice thoughts.

and, for the sake of consistency, when some references cited use the denomination of Corporate Citizenship synonymously for CSR (which holds true, above all, for many American authors), it will still have to stick to the denomination "CSR".[92]

4.2 An Overview Over the Most Important Theories on CSR

The most important theories on CSR are those that have remained debated, cited, and thought over by generations of CSR scholars and practitioners interested in the concept. The following contributions to CSR theory are not all favourable to it. The first one is, on the contrary, the most negative view on CSR, rooted in agency theory and actually hostile to any social responsibility of business. A scholarly development paralleling and reinforcing CSR is stakeholder theory, which first stated the variety of constituencies a corporation is responsible to within society, or, as Drucker stated, the "firm is a set of identifiable interest groups to whom management has responsibilities".[93] Besides legitimate stakeholder groups' activism, scholars like Carroll pushed the concept of CSR forward by more clearly determining the nature of a firm's social responsibilities from economic over legal, to ethical and philanthropic responsibilities. Similar to the diversity of social obligations, a firm can occupy different stages or levels of CSR engagement on a continuum according to its fulfilment of responsibilities other than economic and legal ones. The Triple Bottom Line is a young concept indicating a firm's success is not only determined by following the traditional bottom line, but comprises also other performance measurements. Finally, authors like Drucker, Porter and Kotler have filled CSR theory with strategic meaning in the sense of it creating considerable and potentially very sustainable competitive advantage through concern for the social and natural environment.

---

[92] This does, of course, not "falsify" the sources referenced – the denomination is strictly adapted only when CC is used congruent with the here chosen definition of CSR.

[93] Husted and Allen (2000), p 26 ff.

4.2.1 (Neo-)Classical[94] View: Friedman

According to the neo-classical point of view, private business exists for delivering products and services to society, and thus for creating (economic) value, and thereby generating profits for its owners. The managers are in power to maximise these revenues for the shareholders, bound through the employment contract as agents for the owners of the firm, the principals.[95] Sayings like a "corporation has no conscience",[96] and the mentality that "business is business", and shall remain nothing but that, while "society and welfare is not part of corporations' business" easily serve to present the neo-classical view as the expression of some "predator capitalism", where the right of the more powerful prevails, and nothing but profit maximisation counts. Cynical comments on charity by some of its advocates like corporations shall not waste their funds by "building universities for idiots, […] community centres that will remain empty, [...] give alms to drinkers and numerous charity organisations")[97] reinforce this image of a "value-free" ideology.

However, the neo-classical view on CSR is not hostile towards values, but, on the contrary, ferociously defending the values underlying it like individualism, contribution to the common good by maximisation of one's own welfare, free society and market system, competition, the "holiness" and inviolability of property rights, and non-intervention by the state in private sector affairs.

According to this perspective, business fulfils its responsibility for society best if it engages in its core business activity as profitably as possible, constrained by the condition this shall happen in *lawful* ways. Especially Milton Friedman is oftentimes quoted in an incomplete manner that is not doing full justice to his thoughts. His saying "the only social responsibility of business is to maximise profits" is frequently used, but the words he continued with, namely firms were also bound by "the rules of the game" while pursuing profits, meaning they would have to "conform with the norms of society", and "engage in open and free competition without deception and fraud", are all too forgotten. Friedman later clarified what he understood by the "rules of the game", when he stated corporate executives' responsibility would be to "conduct the business according to their employers' desires", thus, in general, to "make as much money as possible", but all that under the assumption of obeying the "basic rules of soci-

[94] Also referred to as "neo-classicals", "classicals", "traditionalist" view (or „traditionalists"), or as "the narrow view on CSR".
[95] Milton Friedman in: Allhoff and Vaidya (2005).
[96] Walton (1999), p 101 ff.
[97] Walton (1999), p 189 ff.

ety", those "embodied in the law,[98] but also in *ethical custom*". Leavitt, on his behalf, wrote that corporations had two responsibilities in the end: "To obey the elementary canons of face-to-face civility", inter alia, honesty and good faith, and to "seek material gain".[99] It is striking to notice that many, if not most, of the corporate scandals from corporate fraud and governance to humanitarian or environmental disasters could have been avoided already, had the "scandalous" corporations like Enron stuck with the narrowest possible view on CSR, namely adhered at least to binding laws.

The social obligation of abiding by binding laws and most fundamental ethical values has recently been extended to fit the requirements of the now globalised economy: Informal obligations, local conventions, and cultural sensitivity and requirements shall be equally binding for companies.[100]

What remains unchallenged by the neo-classical view is traditional economic theory's focus on the predominance of property relations. Stakeholders other than shareholders are, if at all, treated as instrumental means for achieving owner interests, or, viewed from a negative stance, seen as potential threats to owner interests. Managers, on their behalf, remain nothing but agents in this conception, their "*raison d'être*" is the maximisation of net present value from the firm perspective, or of the respective returns from an owner perspective.[101]

Concerning the absolute obligation of respecting owner rights as a guarantee for "personal freedom", ideally, shareholders would be able to take any decision concerning their property themselves, especially the decision when to reinvest capital, or to rather withdraw dividends. The neo-classical view is generally marked by a high level of distrust towards professional managers, and towards the organisational form of the modern corporation altogether, namely towards the separation of power and control that is judged "artificial".[102] This criticism stands in the tradition of the likes as Adam Smith, who was himself extremely sceptical of the managerial model of firm governance. He took the stance that non-owning managers would not administrate other people's property with due "honesty and integrity".[103] Also from the point of agency theory, corporate (non-owner) executives pose an immanent threat of pursuing their very own self-

[98] With „embodied in laws", one should add *contractual* obligations, even if Friedman did not mention them explicitly – in the end, they are binding according to civil, commercial and/or corporate law. Cragg (2000), p 206.
[99] Fisher (2004), p 394 ff.
[100] Cragg (2000), p 206.
[101] Logsdon et al. (1997), p 1216.
[102] Walton (1999), p 100 ff.
[103] Walton (1999), p 42.

fulfilment and prestige goals rather than advancing the true interests oft their employees, the owners of the firm.

The narrow view on CSR, and generally on the role that the corporation and its top executives should play, can be summarized to some basic statements: Corporations should be "based on owner rights, not human rights" – spending of shareholders' money for social goals without their (explicit) permission would come close to "despotism", as funds are "alienated of their initial purpose", namely of multiplying investors' capital. And finally, the factual control over the corporation needs to lie with those owning it, rather than with those running it.[104]

Managers, as the paid employees of shareholders, shall not under any circumstances act as "protectors of public interest" or of society at large – this must remain the responsibility of the state alone, the division of tasks between the private and the public shall not be disturbed.[105] Friedman thinks it highly "undemocratic" if non-elected, "strictly private" individuals and groups shall determine what social interest ought to be, and place such a burden on themselves and on their shareholders.[106] Behind this view that private individuals shall not impede public obligations derives from the fear that if private power were extended, the balance within society might be in danger, and too much exercise of power by corporations would lead to regulation and thereby cause the loss of their present freedom of action.[107]

So, society therefore cannot, and must not, demand anything from corporations, other than dealing with their own business. It's then when the corporation "cares best about the community" surrounding it. If production of goods and services is a responsibility business carries towards society, it shall still remain without any strict obligation to produce goods that are necessary and useful for, or desired at all by society.[108] A striking formulation representative for this idea, which presumes the pursuit of individual self-interest best advances the whole of society, is the following saying: "What is good for General Motors is good for the country".[109]

---

[104] Walton (1999), p 101 ff.

[105] Cragg (2000), p 206.

[106] Husted and Allen (2000), p 26 ff.

[107] Walton (1999), p 90 ff.

[108] The author names an example: If the corporations of the pharmaceutical industry in a given society decided they would rather want to produce orange juice out of economic considerations, society would not have any claim to drugs being further on produced by the corporation, even if they were much more needed than orange juice within this society. The only mechanism private business is responsible to therefore is the market, deciding over its respective success or failure. Walton (1999), p 16 ff.

[109] Snider et al. (2003),p 185.

Scholars like Friedman are so irritated by the innovation of CSR that they judge it "highly subversive" for the capitalist system,[110] or even "destructive to free society",[111] as scarce resources would risk to not be allocated efficiently any more.[112]

Interestingly, also Friedman identifies a threatening degree of power exercised by some large corporations – the concentration of incredible power in the hands of very few, namely corporate top executives, leads him to fearing the menace of a "corporate state" instead of an "individualistic state".[113] According to the neo-classical economists the answer to corporate power abuse is to enhance competition. Friedman observes the claim for CSR is especially "fervent" in the existence of a monopoly, and its respective restrictions, threats, and market distortions, so to him, the solution is simple: Only increased competition serves as a cure for this illness of the system. A tightening of competition would strengthen the whole free market system, because competition is the "antithesis to a monopoly"[114] – and would thus automatically render the demands for CSR obsolete.

However, the traditionalist view does not exactly state there must not be any CSR engagement at all. It is theoretically possible if, and *only* if, "it makes good business sense". According to Harvard Business School Professor Theodore Leavitt corporate welfare "not infrequently makes economic sense" – but in case it does not, "sentiment or idealism ought not to let it in the door".[115]

As for donations, the traditionalists also fervently criticize the landmark case A.P. Smith, which establishes not only the right of managers to donate to educational institutions, but goes so far to declare it a "duty" for businesses. To the likes of Hayek and Friedman, it is highly doubtful that private business would have an obligation of any kind to contribute to the provision of the national or regional reservoir of a talented workforce. When determining whether such a donation is acceptable, they distinguish between "profitable investments" and donations to educational institutions "to the advantage of the general public". As expected, they are sceptical about the admissibility of the latter. Friedman judges "higher education and research no legitimate recipients of corporate funds"; if management were to decide to use funds entrusted to them for the explicit purpose of profitable multiplication for any other end they consider desirable, be it of

110 Frederick (1994), p 151 ff.

111 „Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for the stockholders as possible." Carroll (1999), p 277.

112 Walton (1999), p 99.

113 Walton (1999), p 125.

114 Walton (1999), p 99.

115 Garriga and Melé (2004), p 66.

scientific or cultural relevance, this development would constitute an "unbearable concentration of power in the hands of management".

Friedman is also an opponent of the tax deductibility of donations, as it would further increase the "gap between ownership and control", and simultaneously further enhance the undesirable power accumulation in the hands of managers.[116] Concerning donations in general, Friedman is not anti-charity, but actually welcomes them as philanthropic, socially desirable acts. As private individuals, managers can of course donate as much of their own money as they wish to do.[117]

The neo-classical view has been prevalent until well into the 1990ies among practitioners.[118] However, since its beginnings and especially after the series of enormous corporate scandals, the neo-classical view has "moderated" a lot. Claims CSR would "threaten free society" like Friedman observed have fallen silent. But to do justice to Friedman and like-minded economists, much of the natural destruction, environmental and social disruption, which are undoubted nowadays, have either not been present at all, or not that "pressing" at their time. The huge economic, social, technological and environmental overthrows and revolutions pointed out in the first chapter have rendered the necessity of CSR ever more necessary and uncontroversial, and have thus outdated neo-classical views on CSR to a great extent.

If today the International Chamber of Commerce actively campaigns against bribery, and criticizes the fact that the "*ethical code of companies used to be the criminal code*",[119] this apparently signals attitudes have already changed, and that it is now common sense a company's code of behaviour should not begin where corporate behaviour is close to breaching criminal law. The reactionary view on a company's ethical constraints within its business activity seems now bygone even among trade representatives and interest groups themselves. Societal consensus appears to be built on the grounds that laws constitute the absolute minimum standard of objectionable behaviour society is not willing to tolerate. So only the most striking cases of misbehaviour are covered by the law in most cases. Even if corporations decide to comply with this minimum standard only, they have to consider the fact laws evolve constantly because of public pressure and civil society scrutiny especially on corporations. As a consequence,

[116] Walton (1999), p 125 ff.

[117] Milton Friedman in: Allhoff and Vaidya (2005).

[118] This is commonly attributed to the "era of boundless greed" in the 80ies (Cragg, 2000, p 210), which led to a recession and, at the same time, to a reassessment of profitability in the sense of *sustainable* profitability (certainly influenced by parallel well-consolidated findings regarding environmental and social sustainability).

[119] Cragg (2000), p 207.

top executives face constant pressure to keep themselves updated with (upcoming) laws, so dealing with acceptable behaviour outside the narrowest boundaries is a necessity to anticipate changes and react to them in time, and not when it is already too late, and therefore a lot more costly.[120] Furthermore, equating legal with ethical behaviour brings with it the risk of "lagging behind" changing stakeholder expectations, and therefore on the one hand being "caught on the wrong foot", and facing costly adaptation to new laws and regulation, but on the other hand also foregoing benefits of meeting stakeholder expectations proactively that are not (yet) required by the law. Quality management is a good example of proactive engagement which has changed into an absolute business necessity: While the "pioneers" in quality management were able to generate considerable customer loyalty and reputation, quality assurance is now expected by consumers, and leaves no room for differentiation anymore.[121] To push it even further, it is increasingly protected by laws,[122] so what starts out as a voluntary commitment can turn into obligation later, and the firms complying earlier with it protect themselves against costly short-term adaptation.

Regarding the basic assumptions taken by the neo-classical economist school, some of them can be reviewed nowadays from a more CSR-friendly point of view:

Firstly, the assumption donating to charity always has to be detrimental to the firm due to the costs occurring through such CSR engagement is quite doubtful from a contemporary perspective. Neo-classical economists affirmed the respective costs would exceed potential benefits, and that profitability and shareholder wealth would inevitably decrease due to these additional costs leading directly into competitive disadvantage, and, in the end, into harm for the whole of society through increased product prices.[123] However, these remain nothing but assumptions failing to take into account intangible assets like goodwill and corporate reputation created through CSR engagement.[124]

Secondly, the underlying agency theory, which provides theoretical legitimacy for traditionalists in their wish to constrain managers as much as possible in their choices to the benefit of shareholders and to the possible detriment of other stakeholders, is nowadays widely accepted as generally compatible with satisfying claims by other legitimate stakeholders. Value-creation, especially when seen in the longer term, requires diverse trade-

[120] Logsdon and Yuthas (1997), p 1221 ff.
[121] Crowther (2004), p 205 ff.
[122] An example is the tightened warranty and consumer protection regulation within the EU.
[123] Snider (2003), p 175 ff.
[124] Goll and Rasheed (2004), p 42 ff.

offs among stakeholder interests,[125] and there is no absolute truth, nor standard "recipe" for what works best for all corporations.

Thirdly, other classical economic theories the neo-classicalists rely upon can only be conferred to today's requirements and changed circumstances in a very restricted manner: The most efficient allocation happens through then market mechanism alone according to classical economic theory; but the achievement of an optimum situation in the sense of Pareto, which achieves the greatest possible satisfaction without simultaneously being detrimental to others, is not possible whenever externalities are imposed on others. A decision that burdens other actors within society with negative effects and consequences of business activities can never be optimal, not only following basic considerations of justice or ethics, but also according to Pareto's thoughts. Let alone the fact that this theory of an optimal market solution assumes market participants with a free will and perfect knowledge[126] – requirements that seem unthinkable giving the knowledge and power imbalance between large corporations and other market participants. So, the "invisible hand of the market" clearly fails when thinking about (negative) externalities, and reaction of the political system through regulation, taxes, and a minimum of rights to those who carry unjust burdens,[127] as well as action from within the corporate system seem appropriate, especially in the case of today's visible market failures – even following classical economic thought.

Furthermore, the assumption socially responsible behaviour were incompatible with owner rights to generate as much profit as possible, has proven wrong in itself: Shareholder wealth definitely *de*creases when firms act in socially irresponsible, let alone illicit, manners.

This leads directly to the now prevalent "moderated" neo-classical point of view calling for "enlightened value maximization" that has come to advocate the integration of *some* social demands if profitable in the long run,[128] and it might be capable of even further-going compromise, as societal consensus of what can reasonably be expected of private business shifts.

4.2.2 Stakeholder Theory: Freeman

A research paradigm that parallels the evolution of Corporate Social Responsibility, at the same time complementing and pushing it further, is called stakeholder theory:

[125] Goll and Rasheed (2004), 53 ff.
[126] Garriga and Melé (2004), p 55 ff.
[127] Garriga and Melé (2004), p 64.
[128] Garriga and Melé (2004), p 54 ff.

The reason it advanced CSR is its notion of corporate responsibility towards a broader public than a firm's owners and customers, as it was the first economic theory advocating a departure from the classical, hitherto largely undisputed primate of shareholder rights in the 70ies, and demanded an increased focus on the intertwined nature of the relationship between society and business, and firms' dependency on the society surrounding it.[129] The "pioneer" of stakeholder theory, R. Edward Freeman, states that not only the needs of shareholders, but also of other groups concerned by corporate activity, so-called "stakeholders", are to be met, or at least considered, by the corporation. The groups "concerned" can be both internal and external to the firm, thereby including employees, executives, suppliers, consumers, but also the environment and society at large. Stakeholders can be defined as social groups that "affect or are affected by a firm's actions",[130] have an "interest, right, claim or ownership in an organization",[131]or a "stake" in the firm.[132] Management, according to stakeholder theory, carries fiduciary duties[133] towards the various constituencies, and its main task therefore is the reconciliation of competing stakeholder demands. A company's success can thus be expressed through how "successfully [it can] balance competing claims".[134] Nevertheless, it is important to note that according to stakeholder theory, stakeholder interests are of intrinsic value, which means they merit consideration for their own sake, independent of whether the corporation has a functional interest in them as well, or whether they can potentially enhance other stakeholder, especially shareholder, interests or not.[135]

Stakeholder (relations) management is therefore occupied with balancing a "multiplicity of stakeholder interests", some of which can be compatible, while others might oppose each other, a situation which is referred to as "the crux of ethical dilemmas for managers".[136] The ultimate goal of stakeholder management can be summed up with achieving "maximum overall cooperation between stakeholder groups and the objectives of the corporation".[137]

The reasons for doubting the sole focus on shareholders as the single most important group with rights and "a say" in the company's decision-making lie in the changed circumstances of the 20th century:

---

[129] Crowther (2004), p 236 ff.
[130] Garriga and Melé (2004), p 59.
[131] Snider et al. (2003), p 176.
[132] Garriga and Melé (2004), p 60.
[133] Crowther (2004), p 232 ff.
[134] Goll and Rasheed (2004), p 42.
[135] Walton (1999), p 140 ff.
[136] Husted and Allen (2000), p
[137] Garriga and Melé (2004), p 59 ff.

First of all, modern ICTs have rendered investment decisions feasible almost "at the speed of light" due to minimal transaction time. Property is, when corporate shares are concerned, highly dispersed and very mobile.[138] Therefore some authors deem a distinction between "real" and "liquid" property adequate, as today's shareholders are not involved with the firm in the same way "traditional" owners were. In most cases, they do not care as much about the corporation's long-term survival or sustainability as they are interested in short-term multiplication of their capital. As a consequence, in case of difficulty or crisis they quickly withdraw capital – and thereby potentially put the corporation in even bigger trouble. For this reason, the concentration on the interests of owners only marginally interested, if at all, in firm continuity and survival, thus in the corporation as such, seems outdated. Shareholders for whom this reproach does not hold true tend to not share objections against the consideration of other group's rights, anyway, but to rather encourage fostering good stakeholder relations for the sake of long-term success of the corporation.[139]

Secondly, as pointed out already, the market mechanisms traditional economic theory relies on fail when it comes to externalities, imperfect information, and power imbalances. Theoretically, markets leave businesses without any social power, hence also without social responsibility, but the assumed "pure competition" with perfect information is inconsistent with the power realities valid for modern organisations. Corporations indeed cause "tremendous social effects" through their power over entire societies.[140] Another observable market failure constitutes the (lack of) allocation of the "common goods" like fresh air, clean water – more generally speaking: the natural environment – through the market.

All of these developments render an increased focus on groups other than owners necessary, especially if participants on the market lack free will to contract, thus in case they are dependent, vulnerable, or exploitable by a more powerful actor. Furthermore, Ricardo's thoughts on employees as just another factor of production, which can and needs to be replaced whenever not profitable (enough),[141] are not applicable in modern corporations: The costs of employee turnover, and the ever increasing dependency on knowledge workers that constitute a more than valuable asset has rendered these theories quite obsolete (not even taking into account labour protection laws including, among other protective mechanisms, maternity

---

[138] Snider et al. (2003), p 183.

[139] Walton (1999), p 140 ff. Such shareholder activism includes the wish for increased corporate engagement for the environment, health and safety, race and gender, working conditions, human rights, but also for higher education institutions. Crowther (2004), 172 ff.

[140] Davis, 1967. Garriga and Melé (2004), p 66 ff.

[141] Walton (1999), p 72 ff.

leave and considerable compensation payments in case of dismissal in most industrialised countries).[142]

Now if stakeholder theory has long since proved the legitimacy of the questions it evoked and its justification in the modern business world, and if the existence of various stakeholder groups' legitimate claims on the firm is largely undisputed in modern economic theory nowadays, the decision which of these groups a firm should respond to (at first) remains quite debated. Stakeholder theory is not one theory, and therefore cannot provide a consistent answer to this question, but rather offers a variety of stakeholder theor*ies,* as Freeman put it, with varying outcomes about what constituencies are most important. Some take a narrow stance choosing one constituency like consumers or employees the firm should primarily respond to. Others have a broader, but no more consistent view, from caring for the stakeholder groups that maximize total well-being, to responding to the most deprived groups[143] first (both of which might yield very different results, as the most beneficial groups to the firm are very probably not identical with the most deprived ones).[144]

Anyway, the idea of "more" or "less important" stakeholders has gained ground, as firms seek to meet *key* stakeholders' interests, or distinguish between *primary* and *secondary* stakeholders.

Similar "rankings" of stakeholder groups seem inevitable due to the vast field of applicability of the stakeholder concept, namely to the whole of society, in its most extended sense. Different corporations might determine their key stakeholders slightly differently, but what seems to be common ground is that the circle of constituencies a firm is "more responsible to" compared to other groups, must include consumers, employees, and shareholders. This is justified by some authors by giving more weight to groups that make part of a "structural consultation" process with the managers of the firm if their interests are concerned.[145] Others draw the line between primary and secondary stakeholders when they identify internal constituencies the firm has "contracted with and that have a direct connection within the organisational or production functions" (namely shareholders, employees and executives), plus external constituencies that have contracted with the corporation (like suppliers, partner firms, or consumers), with whom the corporation therefore has more clearly, "legally defined", obligations and responsibilities – as opposed to the remaining constituencies that do not enjoy protection through laws or contracts to the same ex-

---

142 Crowther (2004), p 215.
143 Logsdon and Yuthas (1997), p 1216.
144 Utilitarian vs. Rawlsian approach. Husted and Allen (2000), p 24.
145 Graafland et al. (2004), p 138.

tent, including “neighbouring communities, society at large, and the natural environment”.[146]

The primary achievement of stakeholder theory is to present the firm as a set of identifiable interest groups to whom management has responsibilities, and to set the task for the corporation as the most dominant social institution to respond as fully as possible to the needs of its stakeholders. However, the value it creates is not necessarily understood as value-added for entire society by stakeholder theory, but may be limited to “relevant” stakeholders – an approach, which may create controversy when corporate executives make their decisions.[147]

4.2.3 The Pyramid of Corporate Social Responsibility: Carroll

The single most valuable theory concerning the actual content of a firm’s social responsibility is Carroll’s pyramid of CSR: The very basis of a firm’s responsibility is of economic nature,[148] so its primary obligation is to operate at a profit and to “legitimately pursue” growth, and to provide society with goods and services at “fair prices”.[149] Moving up the pyramid; Carroll identifies legal, ethical and philanthropic responsibilities a company faces next to its most fundamental – economic – responsibility.[150] This might seem broad as a scope for CSR, but the responsibilities encompassed are actually self-evident, as they do not carry the same weight in their degree of obligation.

Aside the economic basis of activity, corporations are *required* to “play by the rules of the game”, to speak with Friedman, society further *expects* corporations to fulfil its ethical responsibilities,[151] namely to respect also the rights of others that are *not* embodied in laws[152] (and therefore not legally enforceable), and it *desires* companies to assume also philanthropic responsibilities, which can comprise any kind of charity or “good corporate citizenship” or “good neighbourliness”, especially support for the broader community the corporation is operating in.[153]

What is important to add is this pyramid of responsibilities, unlike Maslow’s pyramid of human needs, does not indicate any necessity to complete the preceding stage before a company can move up to the next

[146] Tencati et al. (2004), p 177.
[147] Husted and Allen (2000), p 28.
[148] Pinkston and Carroll (1996), p 205.
[149] Pinkston and Carroll (1996), p 199 ff.
[150] Snider et al. (2003), p 177.
[151] Fisher (2004), p 394.
[152] Pinkston and Carroll (1996), p 200.
[153] Snider et al. (2003), p 177.

one. This is especially striking when views like "if you don't make money, you can't follow the law"[154] are expressed by some managers. It seems quite pathetic, anyway, to imagine someone, be it an individual or a body corporate, would not feel bound by laws due to "not making money". Carroll's theory clearly does not support this (exotic) perspective, as the most *basic,* and absolutely enforceable, obligations in his model are the ones of economic and legal nature. So while the different forms of responsibilities are not mutually exclusive, but exist simultaneously and without a general primate of one of the categories over the others, the form of the pyramid does indicate the difference in scope:

While the economic responsibilities are the "broadest" and most encompassing, the tip of the pyramid, namely the discretionary/philanthropic responsibilities, are the narrowest in scope, and, as the name indicates, the only ones within the discretionary power of the firm, and thus "truly" *voluntary* responsibilities. Concerning the relation between legal and social responsibilities, Carroll's model clearly demonstrates the point of view a corporation's conscience would be "the Criminal Code" solely[155] is outdated, and that laws constitute an "absolute minimum of guidelines for appropriate (corporate) behaviour" society is willing to tolerate. The scope of what society expects is indeed quite different from the law in many cases – what is well within the boundaries defined by the law can by far exceed what is "morally" or "ethically" accepted.[156] Therefore, it seems quite appropriate to consider the quote "CSR begins, where the law ends"[157] in the light of Carroll's model: He does consider economic and legal obligations as not only a part of CSR, but as the most fundamental and comprehensive responsibilities it contends, but as they are enforceable by the state (or enforce themselves through the market), real engagement without the force of regulation does start only where the law ends. This is also implied in Carroll's distinction between the "requirements" (economic and legal responsibilities), and society's "expectations" (social responsibilities).

Legal and social responsibilities are clearly intertwined,[158] but a firm's social obligations *exceed* the legal ones,[159] and therefore prove a popular viewpoint, namely social demands would be considered by business only

[154] Pinkston and Carroll (1996), p 205.

[155] International Chamber of Commerce, see also II.B.1., p 47.

[156] Logsdon and Yuthas (1997), 1221 ff.

[157] Gowri (2004), p 33.

[158] Abiding by laws is a social obligation in and for itself. Ostas (2004), p 561.

[159] This is, of course, conditional on time and place, namely on industrialised societies since the later 20th century. Given the difficulty of conferring values that "fluctuate with time and place" from one context to another, see: Snider et al. (2003), p 175.

because of binding laws,[160] wrong. Society's expectations may constitute just another means of pressuring companies to comply with norms (moral or customary ones instead of laws), and thus constitute just another pressure mechanism aside state authority, but one of Carroll's major theoretical achievements is to show social responsibilities are to be considered by corporations independent of what is *legally* required. Setting up the first CSR definition, paralleling stakeholder theory, he points out the various dimensions of corporate responsibilities towards all internal and external constituencies.[161]

An older, often cited "grouping" of CSR in inner and outer circles of corporate responsibilities by the Committee on Economic Development in 1971 is quite similar to and compatible with Carroll's model: The circles refer to the current status of responsibilities in contemporary society rather than to their abstract nature. The "inner circle" refers to very basic, undisputed responsibilities (jobs, products, growth, thus largely paralleling Carroll's economic responsibilities). The "intermediate circle" refers to a corporation's attention to changed attitudes, values, and expectations within society (inter alia, environmental and customer protection, or fair advertising – this category therefore comprises legal and social obligations, depending on the respective status quo of national legislation). Finally, the "outer circle" understands a corporation's obligation to react proactively to newly emerging and still amorphous responsibilities (like "poverty and urban blight" – congruent with philanthropic responsibilities).[162]

4.2.4 The Triple (P) Bottom Line

The "traditional" bottom line refers to financial success only, measurable by changes in market share, growth, and profits,[163] and therefore may display a distorted picture of success, or opposed costs and benefits, of corporate business activity: As traditional bottom-line accounting considers only purely internal factors in its profit-and-loss statement, it ignores costs arising from corporate activity externalised outside the corporation,[164] and therefore does not account for the important factor of externalities[165] at all.

---

[160] Garriga and Melé (2004), p 65.
[161] Snider et al. (2003), p 177.
[162] Carroll (1999), p 275 ff.
[163] Pinkston and Carroll (1996), p 202.
[164] Crowther (2004), p 122.
[165] Theoretically, externalities may be negative or positive. A positive example of externalities may be an open-air concert that can be heard not only by the people who have paid for it through the purchase of tickets, but also by neighbours. Economically, the neighbours would be referred to as „free riders", enjoying benefits without providing any service in return. However, in most cases, externalities have a negative notion exclusively, and may include pollutants, noise or

As a result, the traditional bottom line measures corporate success by accounting for the whole benefit it derives from its business activity, while negative side-effects are only partly borne by the corporation, and the rest is imposed on society at large. Ideas for internalising the “social costs” (as opposed to private costs) in corporations include principles like the “polluter pays”, where firms are held liable for costs and measures taken for environmental recovery.[166]

The problem of externalities was at first limited to the environment and pollution in general perception, because this is the area negative by-products and detrimental effects of industrial activity as societal costs are most visible in, but suggestions for a different way of accounting and measuring profits in a more comprehensive way have since then been developed to also include social and environmental dimensions of profits and losses.

Therefore the “Triple (P) Bottom Line” encompasses three areas of profit-and-loss evaluation, instead of just one in the sense of the traditional bottom line: Profits, People, Planet (not necessarily in that order).[167] This triple bottom line therefore clearly states the pursuit of profits is an important component of the bottom line, but in the meantime care for the environment and for social concerns constitute underestimated, but equally important dimensions – the firm as a “value-creating entity” is not exclusively dedicated to generating economic value, but it ought to strive for value-creation concerning human-beings in and outside of the corporation, as well as concerning the natural environment.[168] Or, to put it more negatively, to “prosper over the long term, [a corporation] must continuously meet society’s needs for goods and services, without destroying natural or social capital”.[169]

4.2.5 Competitive Advantage: Porter

Another perspective on CSR is the one advocated, inter alia, by Drucker and Porter, namely that CSR is of utmost strategic importance, as “corporate philanthropy can often be the most cost-effective way” to improve the competitive context”[170] if used wisely. A positive relationship between CSR and business opportunities in terms of “market opportunities, productivity, [and] human competence” can be detected, and, if exploited, im-

smell harassment, detrimental effects on health or well-being, or other negative by-products of business activity.

166 Crowther (2004), p 168 ff; p 209 ff.

167 Van Marrewijk (2003a), p 101.

168 Graafland et al. (2004), p 138.

169 Elkington in: Sarre et al. (2001), p 310.

170 Porter and Kramer in: Harvard Business Review (2003), p 35.

prove the "quality of the business environment", both in the home market, and in any of the "locations where companies operate".[171] What is most important for drawing competitive advantage out of CSR engagement is to avoid "ad-hoc", "piecemeal", or dispersed and unfocused donating.[172] The primary mistake hindering context improvements through social responsibility according to these authors is the deliberate effort of many business leaders to "do good" completely independent of the firm's core business, competencies, and strategies, thus to support social issues "least associated with their line of business".[173] This leads not only to missed business opportunities for the corporation, but also to foregone chances to considerably advance the charitable cause the company wants to engage in by making it benefit from the unique skills and resources the corporations disposes of. If a company focuses on its current competitive context, its strategic goals and future needs, it can exercise positive influence on all of the four major elements of the business environment that shape also the individual firm's current and future productivity, namely on factor conditions, demand conditions, the context for strategy and rivalry, and related or supporting industries.[174]

With well-elaborated and meaningful CSR programs, the company can thus at the same time serve its strategic goals while creating benefits for a worthy cause by far exceeding the respective ones created by individual donations – and at the same time generate positive PR and goodwill for the corporation.[175]

Independent of concrete CSR strategies or strategic engagement with certain causes, organisations or programs, corporations can clearly improve their competitiveness through CSR in the form of enhanced relations with various stakeholder groups: As for a qualified workforce, when it comes to current or prospective workers and to attracting "top notch"

[171] Tencati et al. (2004), p 175.
[172] Porter and Kramer in: Harvard Business Review (2003), p 31 ff.
[173] Craig Smith in: Kotler and Lee (2005), p 7 ff.
[174] Porter and Kramer in: Harvard Business Review (2003), p 35 ff.
[175] Porter and Kramer in: Harvard Business Review (2003), p 29 ff. The most famous example for a corporation that successfully implemented such a CSR program and considerably enhanced its competitive standing is Cisco Systems and its "Cisco Networking Academy": As the company perceived a future shortage of web administrators that posed a threat to future growth of the company and its product market, Cisco developed a free education program aimed at the most economically depressed US regions and neighbourhoods – and later extended the program to developing countries, forming a partnership with the UN – and thus gave deprived and poor populations education of a value that donations could have never achieved, while at the same time confronting and solving a business threat to the company.

knowledge workers, which the modern corporation is dependent on,[176] a socially responsible employer is highly valued by this crucial target group.[177] In the end, it is in the best self-interest of every firm to "attract, recruit and retain the most talented employees", and if key stakeholder groups increasingly expect CSR commitments, social criteria become essential in the competition for the likes as employees, consumers, and investors. Building good customer and investor relations is a "must" out of self-interest, sane relations with all kinds of stakeholders have become a necessity to compete and continue competing successfully also in the long run.[178]

4.2.6 The Different Levels of Engagement

A variety of theories deals with the question of how to detect the stage a firm finds itself in with respect to CSR, or its level of engagement on a given scale:

One early suggestion about the "four faces" a firm can have regarding its social responsibilities is represented by a 2x2 matrix with four cells, while one axis represents "legal" and "illegal", the other one "responsible" and "irresponsible" at its extremes. So, a firm can choose its strategy from acting illegally and irresponsibly, at the extreme, to acting within the boundaries of laws, but still irresponsibly, to the ideal behaviour of legal and responsible corporate action.[179]

Another approach is the corporate "Levels of Ambition" model, where a firm can move from a compliance-driven, over the profit-driven, to a caring, then to the synergistic, and, finally, reach the holistic stage. The connection to Carroll's dimensions of CSR is obvious, as a compliance-driven corporation accepts laws and regulations coming from "rightful authorities", but does nothing exceeding duties and obligations, while a firm entering the profit-driven stage views CSR as a part of the bottom line, and as a business case: Ethical aspects are considered when profitable (if they result in, inter alia, enhanced reputation on various markets). Their "caring" counterparts balance economic, social, and ecological concerns that are all of intrinsic value (following stakeholder theory) – "human potential, social responsibility, care for the planet" are all important "as such". A corporation in the synergistic stage strives for creating value and win-win situations for all stakeholders involved. Finally, the holistic stage is achieved by a firm that has CSR "embedded and fully integrated" in all of its actions, as it assumes a "universal responsibility towards all other be-

[176] Crowther (2002), p 212.
[177] Kotler and Lee (2005), p 8.
[178] Tencati et al. (2003), p 176.
[179] Dalton and Cosier, 1982, in: Carroll (1999), p 285.

ings" due to the state of interdependency and interrelatedness of the firm with its surroundings.[180]

Another approach sees five phases of possible levels of commitment lying on a continuum from social obstruction over social obligation to social response and social contribution: This theory is different from the "levels of ambition", because at one extreme, the firm actively resists society's demands; the second level is of defensive nature, marked by mere compliance. If the firm decides to move further on the continuum of CSR, it develops certain responsiveness to social expectations, and, as the highest level, it takes on a proactive stance towards society and its needs.[181]

4.2.7 A Human-Rights Based Approach to CSR

In countless international human rights documents, the international organisations refer to governments' obligations to also ensure human and labour rights in the private sector as one part of the international struggle against human rights abuses.

Even though international human rights documents are negotiated by government delegations, and have little impact on corporations' daily business so far, the increased interest of those international agencies and organisations, but also of numerous NGOs, provides insight in what is today expected of private actors, but also what solutions involving corporations the human rights community might propose for the world's "most burning problems".182 Of particular relevance to private corporations are the ILO conventions, as they are directly tackling daily corporate activity, more specifically working conditions, job security, and basic human rights in connection with work and employment. However, the conventions are directed towards governments, which, on their part, promise to enforce their content upon private actors. The same holds true for other human rights and sustainability commitments.

Nevertheless, the human-rights community can be relevant for corporations, namely when it specifically addresses private actors, especially "large multinationals", to render their contribution to sustainable development, as they "increasingly replace governments as the most powerful

---

[180] Van Marrewijk (2003a), p 102 ff.

[181] Davidson and Griffin, Schermerhorn in: Fisher (2004), p 395. A similar terminology is used by Black and Porter: Defenders, accommodators, reactors and anticipators. Yet other scholars adapt the stages of individual moral development pointed out by Kohlberg to organisations and their specific motivations and needs – Kohlberg's stages of moral development will be further elaborated in the section dealing with institutional factors fostering CSR. V.A. Institutional Factors.

[182] Crowther (2004), p 232 ff.

global institutions”[183] according to widespread belief. Some MNCs voluntarily assume responsibility themselves under the banner of their corporate “core values”[184] – either through signing agreements like the Global Compact, which is a voluntary commitment of nine principles based on the Universal Declaration of Human Rights, the ILO’s “Fundamental Principles on Rights at Work” and the Rio Declaration on Environment and Development,[185] or through engaging proactively in human rights issues, for instance by setting up supplier codes of conduct as a prerequisite for doing business, or by partnering with NGOs.

The World Bank, as well as international development agencies and the OECD have all also dealt with CSR (or CG, respectively),[186] so human rights defence has clearly reached out to the private sector, as well as positive commitment to making the new “global village” more balanced and just. Therefore, many corporations have contributed to an enhanced enjoyment of the human rights to education and development, making, inter alia, a reduction of the digital divide[187] a top priority also for private sector commitment. These issues are now increasingly being addressed by the human-rights community in cooperation with multinational corporations, bringing it to another level due to this highly effective international public-private partnership, which makes use of the unique resources and skills corporations dispose of.

To conclude this chapter, there is no such thing as an explicit theory called the “human-rights based approach of CSR”, but it rather constitutes a potential field of commitment parallel to national or local political and economic “daily affairs” corporations engage in, providing them with further opportunities to engage in the empowerment of the world’s most deprived through bettering their human rights situation – a field that may well grow in importance and general awareness in the near future, as this is where the world’s most pressing problems originate.

[183] Garriga and Melé (2004), p 57.
[184] Cragg (2000), p 212.
[185] Tencati et al. (2004), 175 ff.
[186] Jenkins (2005), p 529.
[187] A term referring to the “backwardness” and lack of opportunities concerning ICTs prevalent in the developing world, as opposed to industrialised countries.

5 Concrete CSR Measures: What can a Firm do?

Demands for private firms' assumption of greater responsibilities toward society is not new, nor surprising, as the preceding historical and theoretical part has elaborated. Furthermore, business representatives try hard to excel each other in the CSRs they claim to take on – allegations that are frequently disqualified as PR fuzz. Therefore, a closer look at what can be done by corporations, besides mere CSR rhetoric, is useful:

The "classical" domain for corporate fulfilment of social responsibilities is the vast field of corporate giving, be it in the form of charity or sponsorship, the most traditional options for engagement thereby being education, arts, culture, health, social services, and community projects assistance. A wide-spread rule of thumb used to state 1 to 2% of pre-tax profits ought to be donated by "major firms" as their contribution to societal well-being.[1] Not only was this approach to social responsibilities little focused, but also rather aimed at managing stakeholder relations through being *seen* by stakeholders to behave in a responsible manner. Whether the charitable donations actually effected good, sad enough, oftentimes remained of little relevance.[2] As corporate philanthropy grew more strategic since the 80ies, monetary donations were increasingly replaced, or accompanied by other forms of donations, including in-kind or product donations.[3] Even if "mere" philanthropic giving seems quite outdated in the light of entire CSR programs and strategies on their own, one can only conclude that under the "umbrella" of corporate philanthropy, donations still form an important part of CSR activities: At least 25 US corporations still donated a minimum of $ 50 million *apiece* in the year 1999.[4]

One of the reasons the "classics" of CSR like donations and sponsoring receive less attention now for the development of CSR responses and strategies, both by scholars and by practitioners, is the fact they are perceived to yield unsatisfactory results only: In general, the valuation of sponsorships was found to be rather low in various studies, especially in case the company linked with a massive event clearly pursues a commer-

---

[1] Seifert et al. (2003), p 198.
[2] Hemingway (2005), p 233.
[3] Wulfson (2001), p 141 ff.
[4] Seifert et al. (2003), p 195.

cial purpose exclusively. Corporations thus have to be very careful with activities that might be perceived as pure PR. If sponsoring and donations are chosen as part of a CSR strategy, cultural events or social and humanitarian causes shall be selected where the role of the patron is "less prominent", and no immediate return is expected by the donor.[5] Unless these guidelines are respected, well-meaning charitable contributions might "backfire" on corporate reputation through the creation of negative public opinion on PR and marketing "gags"[6] – and thus spark the opposite effect of its original intention, namely the creation of goodwill and positive corporate reputation.

As much as the surroundings of corporate giving have changed – from a generally positive public attitude towards general suspicion concerning corporate donations – the way of donating has also undergone major developments: "Piecemeal" giving behaviour, where firms give on an "ad-hoc" basis[7] and thus disperse their funds more or less coincidentally, may still be a reality for parts of the corporate world, but has long been "denounced" as a means of foregoing major opportunities. Giving to as many causes and organisations as feasible, with as little connection to core business as possible used to constitute a credo, which not only proved unable to diminish public suspicions and scrutiny on corporations' behaviour, but also meant sacrificing unique win-win situations of more structured, more comprehensive, and thus more strategic, corporate donations:[8]

Today, the focus has shifted away from the paternalistic idea of charity represented by the likes of Carnegie or Rockefeller, which could be summed up to "do good *because* you are doing well", toward an understanding of strategic philanthropy that allows for "doing well *and* doing good". Firms are likely to pick few strategic areas of focus which fit their corporate values, and thus select initiatives that also support broader business goals and, more generally speaking, issues in some way related to the firm's core products and markets. This focus on core business allows for philanthropy to embody opportunities for meeting marketing objectives like increased market share, future market penetration, or building brand identity. Furthermore, such a strategic approach to corporate giving holds the potential for building up support for the case of corporate crises, especially if it concerns issues that are of particular interest to key stakeholders as employees, consumers, and communities. In a short-sighted point of view, the strategic version of corporate philanthropy may be judged unethical in itself, as it seems to use ethics for "making money". However, a

---

[5] Del Mar García de los Salmones et al. (2005), p 376.
[6] Polonsky et al. p 69 ff.
[7] Campbell et al. (1999), p 376.
[8] Kotler and Lee (2005), p 8 ff.

closer look shows such more focused, but also more extensive corporate aid to charity or charitable causes has, indeed, something up its sleeve:

Corporations, comparable with no other institution within society, dispose not only of incredible amounts of resources, but also of unique expertise and skills, and unlike individual donors, they can form effective partnerships with non-profit organisations.[9] This combination of hitherto unknown opportunities for both worthy causes, non-profit organisations or NGOs, paired with business opportunities for corporations, offers the potential of creating clear win-win situations[10] (or even win-win-win situations if a local community takes also part in the corporate engagement).[11]

Corporate giving today is generally better organised and thought over than it used to be some years ago: Corporations either set up formal internal structures, or create corporate foundations as totally separate legal entities for the distribution of monetary gifts or grants. While not all firms follow this very systematic approach, many corporations have turned away from cash contributions to the provision of goods or services instead of money. "Worthy causes" are frequently given corporate assistance, be it right in the charity's solicitation process through mention in company's advertisements,[12] or through in-kind gifts in the form of firm's products, services, or the free use of facilities, and the provision of managerial expertise.[13]

Even though these new forms of corporate giving clearly enhance social policies and interests, they are only marginally treated in the field of CSR, both by researchers, as well as by practitioners, who all seem to have moved far beyond corporate donations as means of fulfilling CSR. More sophisticated CSR policies can basically be grouped into two kinds of measures, on an internal and an external basis. The internal level governs social and ethical expectations within the corporation, be it concerning organisational climate and justice, which manifest into the treatment of employees or conduct between the members of the organisation themselves, regarding especially respect for each other and freedom of harassment. The external sphere, quite obviously, lays down rules on how to deal best with external constituencies.

More comprehensive CSR programs therefore should comprise both internal and external dimensions, and are clearly more than just a public relations effort.[14] Such a structured approach to corporate responsibilities may

[9] Porter and Kramer in: Harvard Business Review (2003).
[10] Kotler and Lee (2005), p 9 ff.
[11] Loza (2004), 299 ff.
[12] Campbell et al. (1999), p. 376.
[13] Seifert et al. (2003), p 196 ff.
[14] Card (2005), p 400.

be understood as a sequence of behavioural patterns ranging from the recognition of stakeholder demands and interests, over the understanding of having to meet (at least some) of these claims in order to "uphold institutional legitimacy", over selecting the individual firm's ethical priorities, and finally responding to these chosen priority goals and claims through appropriate issues management to move the system to, or at least "further toward the preferred state".[15]

In order to "move beyond the rhetoric of social responsibility talk" as a corporation,[16] and to actively take on an ethically and socially desirable role within the (business) world, clear policies need to be formalized, and decisions on whether to establish a code of ethics or conduct, broader CSR reforms involving ethics offices or advisers, employee and executive training, and implementation and monitoring mechanisms ought to be made.

Corporate codes, first of all, form the basis of most corporations' CSR efforts as popular instruments for improving ethics and preventing wrongdoing. The smaller a firm is, the easier it is to lay down the values and ethics to be adhered to whilst doing business. Managers and leaders simply communicate them to their subordinates through personal contact and thereby have the capacity to function as role models. Such word-of-mouth policies lose their efficiency as corporations grow[17] – and need to be replaced by more formal control systems. Expectations concerning ethical values and conduct have to be made explicit among employees to an ever increasing extent, not only due to firm growth and size, but also because similar cultural or even class background within whole industries are long bygone. Modern managers rather have to cope with immense cultural differences, a diverse workforce with different social assumptions, traditions and value systems. Clarification of common values and establishment of ethical minimum requirements are therefore deemed essential for diverse and multicultural groups in the corporate working place for the sake of harmony and effectiveness at work, but also as a means of assuring "moral literacy" among all members of the organisation.[18]

To work toward this aim, a whole set of policies for the creation of an organisational climate which succeeds in establishing clear-cut practices

---

[15] Kuhn's three stage model of adaptive behaviour of the firm comprises thus stakeholder perception, ethical deliberation, issues management. His original model was adapted to fit CSR by authors like Freeman, Brenner and Cochran, Carroll, among others; his original three-stage sequence was termed more generally perception of stimulus, selection of response, performance of response. Litz (1996), p 1358 ff.

[16] Loza (2004), p 298.

[17] Grojean et al. (2004), 228 ff.

[18] Kuhn (1998), p 297 ff.

and procedures "common, expected or shared within the corporation" is essential:[19]

Codes of conduct or ethics constitute the most obvious option for expressing a corporation's intention "to act strategically towards the attainment of specified goals", be it in the field of responsibility towards society or the community, or of ethical questions.[20] Corporate codes are ever increasing in popularity, and their general degree of diffusion may even suggest they have become a requirement for firms exceeding a certain size or degree of exposure. The Fortune 1000 companies have experienced a dramatic growth in code development during the past decades.[21] While in the early 1990ies, 80% of Fortune 500 companies disposed of codes already,[22] nowadays this figure is approaching 100%. The reason for the incredible rise in popularity of this management instrument may be its very time and resource-efficient capability of communicating the core values a company upholds (or claims to uphold) to both internal and external constituencies, furthermore the responsibilities toward stakeholder groups it assumes, and the conduct it expects from its employees. Very basically, to be recognized as a code of ethics or conduct, the policy document must not be a mere mission statement, nor simply lay down rules of conduct for employees. Still, when it comes to actual content, codes are by far not homogeneous, but can only be grouped, very roughly, into several types of codes:

A clarification of "stakeholder responsibilities" specifies what kind of stakeholders the corporation feels most responsible for and intends paying special attention to, for instance consumers, investors, employees, society, or the natural environment. What is observable is that competitors and suppliers are less likely to be mentioned as key stakeholder groups. Aside this articulation of the stakeholder groups a company views as top priorities, a "stakeholder principle" document can be used to assure the kinds of values which shall drive corporate behaviour whilst doing business: Transparency, fairness (in the sense of fair distribution of benefits and burdens, but also in the assessment of employee performance), honesty, dignity, respect for others, teamwork, open communication, innovation and highest quality standards constitute the most often cited principles corporations claim to uphold and see as basic requirements for the good governance of their stakeholder relations.[23] Yet another type of code is the statement of required internal conduct which lays down what is expected of employees with regard to the corporation as a whole, like usage of company property,

[19] Grojean et al. (2004), p 224.
[20] Hemingway (2005), p 237.
[21] Ruhnka and Boerstler (1998), p 309.
[22] Referring to data from 1991 and 1994. Ruhnka and Boerstler (1998), p 324.
[23] Kaptein (2004), p 15 ff.

adherence to confidentiality standards and gift acceptance policies, abstaining from fraudulent behaviour, but also with regard to fellow employees, like the prohibition of discrimination, intimidation, and sexual harassment.[24]

Still, after this rough code typology an immense degree of diversity among corporate codes remains observable, partly because they rarely fall into any single one of the categories described above, but rather constitute mixed types.[25] They are company-specific, and therefore adapted to the firm's specific needs and policies, which is a good sign for the sincerity of corporate CSR engagement: If declarations of intent and values are not just copied, but developed with a perspective on the firm's field of business and particularities, the engagement seems authentic[26] and truly interested in advancing morals and ethical reasoning within the individual corporation. Corporate codes are also strongly influenced by cultural context-specific circumstances, which render them even more heterogeneous, and national or regional differences are of particular interest to multinational corporations or firms that intend to go international. European corporations tend to strongly emphasize responsibilities toward the natural environment (engagement for the environment is mentioned 45% more often in European codes than, for instance, in American ones), and stress a corporation's work for the advancement and "betterment" of society at large, and are thus more idealistic and ambitious, in general, when developing a code. Apart from that, European codes emphasize "transparency" and "fairness", while Asian countries state core values as "empathy" and "trust", and for most Northern American corporations "honesty" in all stakeholder relations constitutes the basis their business activity and all outcomes shall be grounded on.[27]

Companies operating on an international scale will obviously be better off if they adapt their codes to local environments that may have a different focus on core values than their home country has, and therefore should consult local codes for understanding what kinds of values are endorsed in their target market.

Aside from what is said with the code, the procedure of developing it can be equally important for the corporation: To make it more than "just another document", but on the contrary a truly effective management instrument for governing conduct of organisational members, *how* the code

---

[24] Kaptein (2004), p 21 ff.

[25] 72% of the corporations that have a code use a stakeholder statute, 49% a corporate values statement, and 46% set up norms for employee conduct in their code. Kaptein (2004), p 15 ff.

[26] Kaptein (2004), p 26.

[27] Kaptein (2004), p 22.

is made might be even more important than what it actually states. To create commitment from all employees, it should not be developed "in the backroom" by a small group, but the process of creation ought to be inclusive to render its impact far more valuable.[28] Apart from the mere selection of issues treated in the code, a justification for the choices is crucial, as it fosters willingness to abide with the principles laid down once they are understood as indispensable. Furthermore, the provision of examples has been proved to exercise a deeper impact on employees' understanding of the kind of behaviour expected of them – concrete illustration of appropriate and desired conduct, as opposed to abstract ideals, makes it easier for employees and executives on all levels to translate theory into practice. Some controversy can be detected when it comes to the question on whether positive or negative language should be used. While positive language might be more inspiring or encouraging to employees, it also holds the danger of not conveying the attitude that positions are clear and not to be compromised under any circumstance, and thus an absolute "must" for the corporation.[29]

Another important point when developing a code is the realism of expected behaviour and the consistency in application of the ethical and social expectations throughout the company: In case there is no consistency between the policies and other strategies and operations, for instance if the code on the one hand is about customers deserving the best treatment and quality, but on the other hand firm policy tells employees to keep customer conversation as short as possible, or if the core values are said to oppose discrimination and harassment, whilst employees have had to experience this discrimination on the basis of race, gender or religion even from top executives, cynicism will be created among the employees, and with it the exact opposite of what the code was supposed to spark, namely commitment to the company's values and encouragement for ethical behaviour. As much as a "disconnect in what is said and done" and a lack of coherence within the issues selected must be avoided, the expected behaviour must be realistic and achievable in order to not cause frustration. Furthermore, issues shall not be assembled at random, but be thought over and apt to create a "unique identity" for the firm.[30]

Apart from the fact members should be directly involved in the creation process, wide distribution and availability, as well as other methods of providing the code with visibility like clear signs of senior management support should be used for making the code known. Sign-off provisions for

[28] Scalet (2006), p 318.
[29] Formulations like employees should "try to" stick to a certain conduct do indeed lack severity and firmness. Schwartz (2004), p 329.
[30] Schwartz (2004), 335 ff.

employees can also be used to enhance awareness. Nevertheless, opinions on whether having employees sign the code offers benefits remain divided: Such provisions may on the one hand increase the feeling of absolute obligation and accountability, on the other hand employees might feel patronised and experience this way of making the code known to everybody within the organisation as highly forceful.[31]

Another crucial point when a code is to be effective and credible is transparency and clarification of the actual status of the code: Most firms are unclear on whether it is a mere declaration of intent, or to be transferred into actual business practice.[32] This question can be answered indirectly by interested constituencies on the basis of whether implementation and monitoring are dealt with at all. Only about one quarter of all codes refers to their implementation, and as little as 52% of the corporations disposing of a code ascertain monitoring compliance with it. It is obvious that both impact and credibility can be boosted if implementation and compliance are to be periodically accounted for.[33] Another source of major credibility a corporation can choose to benefit from is inviting feedback from both internal and external stakeholders. Periodic updates or reviews, be it on an annual basis or otherwise regularly, make sure important developments and emerging requirements are not missed, but also establish a clear and convincing account of code implementation.[34]

However, to render a code effective, more than adherence to certain principles concerning its content and process of creation is necessary: Generally speaking, corporate CSR engagement will be most likely to succeed if it comprises a whole *set* of policies and procedures:[35] Without sufficient training and education in ethics, even well-articulated corporate principles are threatened to not gain sufficient momentum for “lasting changes”, and thus to not exercise any impact upon daily behaviour of corporate employees and executives. To truly appeal to employees’ sense of responsibility[36] and to effectively reduce the occurrence of incidents,[37] reinforcement, for instance through newsletters and executive speeches is key, and constant and continuous education confirms the importance attached to the code. As for ethics training, it is proven to be most efficient when ongoing and specific, and thus not abstract and too far away from “self-related events”, but closely connected to actual tasks and “real” ethical dilemmas that can arise in the given setting. Systematic learning processes to

[31] Schwartz (2004), p 328 ff.
[32] Kaptein (2005), p 28.
[33] Kaptein (2005), p 24 ff.
[34] Schwartz (2004), p 332.
[35] Grojean et al. (2004), p 224.
[36] Kaptein (2005), p 28 ff.
[37] Kaptein (2005), p 13 ff.

change the work environment can be achieved through case studies or role play exercises, ideally *prior* to ethically doubtful situations. As follow-up support to facilitate compliance with corporate values, coaching or mentoring, both as individualized as possible, and feedback on specific aspects of ethical conduct considerably increase ethical awareness among employees.[38] Another option for increasing awareness of the code and its underlying values is testing of employees – which again is doubtful due to its two-edged nature: On the one hand, testing is likely to be not effective, anyway, as its results do not relate to actual behaviour. On the other hand, it might constitute a method too forceful to contribute to good ethical climate.[39]

To sum up, business codes are valuable management instruments to clearly lay down the responsibilities a corporation claims to uphold, but it does not imply strict compliance with this document. So a code can only reveal core values or expected guidelines for behaviour, but is *not* a corporate compliance program in itself. At best, it constitutes evidence such a process of complying to values and of displaying ethical behaviour has begun, without any guarantee how completion or effectiveness have advanced.[40] As pointed out, continuous and more comprehensive policies need to be put in place to make the code and what is demanded with it known and understood within the corporation. To truly implement desirable behaviour and make certain core values become shared and respected among all employees and on all levels, especially when a multinational corporation is concerned, an "institutionalised normative system" guiding behaviour and comprising policy, practice, and procedure[41] will become necessary for the sake of integrating social and ethical standards throughout the whole organisation. Ethical advisers, internal ethics committees[42] and offices, or making use of the full-term services of an ombudsman may help institutionalise the concept of ethics in a corporation.[43]

Furthermore, for the sake of helping desired ethical attitudes to prevail inside a corporation, internal monitoring, compliance and enforcement systems regarding adherence to the code and values are crucial. Therefore, explicit mechanisms for monitoring compliance are to be built up, both in-

[38] Grojean et al. (2004), p 229 ff.
[39] Schwartz (2004), p 334.
[40] Ruhnka and Boerstler (1998), p 324 ff.
[41] Grojean et al. (2004), p 233 ff.
[42] Ibrahim et al. (2003), p 398.
[43] Already in 1986, 18% of Fortune 500 companies had an institutionalised ethics committee, 8% employed an Ombudsman. Desai and Rittenburg (1997), p 796. In 1997, the proportion of ethics offices rose to 45% from 11% in 1987.

ternal and external[44] constituencies are to be encouraged to report code violations, for instance through a hotline, internal executives and employees might be informed through complaint procedures manuals,[45] and safeguards like fraud awareness programs, internal or even external audits and reviews effectively remedy circumstances which could lead to unethical conduct.[46] One might interject such complaints procedures could be harmful to the organisational climate – this worry can easily be refuted once the possibility of external whistle-blowing is taken into account: Such denunciation of internal wrong-doing outside the corporation is absolutely detrimental to the firm in various regards: First of all, and very obviously, it seriously affects reputation, goodwill, and stakeholder relations. The less visible damages done to the corporation result form loss of human resources: The employees that have "blown the whistle", for they could not compromise their values with certain prevailing practices within their organisation, are likely the ones with the highest standards of consciousness and integrity, are in most cases immediately lost for the corporation, or will at the latest quit in the aftermath of the scandal because of harmed interpersonal relations and poisoned work climate.[47] Secondly, it is in the best interest of the corporation to make sure the standards of the more sensitive employees will dominate, as if, on the contrary, the ethically insensitive do, the corporation will only risk suffering from scandals in the long run.[48]

Internal detection and punishment of wrong-doing is also essential from an organisational psychology point of view, as it is generally agreed upon that the organisation learning process needs to pass the observation of behavioural patterns, and their respective consequences to the individuals. If wrongful actions lead to sharp consequences including investigations and punishment of violations, individual employees or managers will truly internalise the standards required, and "translate them into actual behaviour".[49] Therefore, reporting and monitoring requirements form the basis of true change within the corporation. Obstacles to reporting through mem-

[44] External constituencies can be reached through responsive systems like websites or e-mail lists to remain alert to relevant changes in those constituencies. Hummels (1998), p 1415 ff.

[45] Grojean et al. (2004), p 232 ff.

[46] Ruhnka and Boerstler (1998), p 318.

[47] The whistleblower of the Challenger disaster faced "frozen" reactions after reporting he had warned decision-makers about the risks before the take-off, and was virtually mobbed out of the firm. Kuhn (1998), p 295 ff.

[48] Weeks et al. (1999), p 311.

[49] Grojean et al. (2004), p 228 ff.

bers of the organisation[50] ought to be removed, (un-)ethical behaviour needs to result in consequences through either positive rewards for socially responsible behaviour, or sharp consequences for ethically doubtful actions (an approach to wrong-doing that would have prevented most, if not all, of the recent corporate scandals).[51] Nevertheless, tying ethical and socially responsible behaviour to rewards and promotions can pose problems, as they are hard, if not impossible, to measure, in the first place, and, additionally, the provision of incentives has proven to carry ambiguous results with it on a general basis: Incentives based on single performance outcomes frequently lead to the negligence of other, equally important, tasks that are not rewarded.[52]

Finally, for policies and whole systems to be consistent, they must include leaders, and therefore executive trainings are necessary. Special emphasis ought to be put on middle level management, as it constitutes the primary direct transmitter of organisational values,[53] in the first place, but also of potential conflict through boycotts of top management decisions in case it is not duly involved with CSR programs and systems.[54]

To conclude, the measure 95% of Fortune 500 firms have taken, namely establishing a corporate code of ethics,[55] is a necessary step, but remains incomplete without further action. The value of such efforts will increasingly be measured by concrete outcomes, and the "real code" of the company will have to stand monitoring actual employee behaviour, and thus "real life" results.[56] Successful CSR systems that send consistent signals to all levels of the organisation,[57] promise to create comprehensive social support for upholding standards of social responsibility and ethics,[58] and thereby help employees "resist a downward spiral" of unethical conduct,[59] which has already pushed major corporations into deep crises or even into their breakdown.

---

[50] Studies have shown the huge majority of employees is quite unwilling to report wrong-doing, depending on various circumstances as their relation to the wrongdoer (superior, colleague, close friendship), the nature and severity of the violation, and its respective persistence, the fact whether other people also know about it or not, and whether they will have to continue working with the person in question. Schwartz (2004), p 335 ff.

[51] Grojean et al (2004), p 228 ff.

[52] Schwartz (2004), p 337; Grojean et al (2004), p 230 ff.

[53] Grojean et al (2004), p 232.

[54] Husted and Allen (2000).

[55] Grojean et al (2004), p 229 ff.

[56] Scalet (2006), p 317.

[57] Zahra (1994), p 61.

[58] Grojean et al. (2004), p 236.

[59] Scalet (2006), p 318.

6 Major Potential Benefits of CSR Engagement

Much has been written on the advantages good CSR policy would create in practice and on the potential it might offer for doing better financially. Such speculations include assumptions, or rather speculations, 3rd world governments would soon require companies for future bids to have CSR policies in place, and consumers would sooner or later abandon any company which does not engage in CSR. However, the following analysis mentions no speculative or wishful-thinking advantages of CSR, but on the contrary only those that have withstood empirical analyses. Such proven benefits good CSR can bring include the achievement of competitive advantage, better reaching market segments like ethical consumers and socially responsible investors, and enhanced opportunities for strategic alliances or other partnerships as major business opportunities for corporations with external constituencies, and, from an internal point of view, enhancement of labour relations and employee commitment, and the achievement of overall better financial and strategic results.

6.1 Achievement of Competitive Advantage

CSR has long been discovered as a major source of competitive advantage out of various reasons:

First of all, and perhaps most importantly, social responsibility, outstanding ethical principles and adherence to such core values in business activity helps creating intangible assets – the credo "do good because you are doing well", which held true for the nobility as well as paternalistic industrialists, has long changed to the strategic approach to charity: "Do good *in order* to do well".[1] One reason for doing good certainly is the favourable influence exercised on key stakeholder attitudes and public opinion[2] toward corporations outstanding in their engagement for society or the environment. From a resource-based point of view, differences in firm performance and the often highly heterogeneous nature of competitors,[3] even

---

[1] Seifert et al. (2003), p 196.
[2] Campbell et al. (1999), p 376 ff.
[3] Litz (1996), p 1355 ff.

within the same industry, is to a large extent determined by the fact whether a participant in the market disposes of "key resources", which are at the same time "valuable, rare, non-substitutable, and inimitable".[4] Now even though social and ethical resources are not yet fully recognized as "organisational resources" in the narrow sense of the term, and are deemed "not worthy being considered" as resources by some, the impact of outrage over unethical corporate conduct, and thereof resulting devastated corporate or brand image and goodwill have shown corporate reputations can all too easily be affected – enhanced or devastated – "in the blink of an eye" by CSR-relevant actions and principles. Considering reputation constitutes a crucial intangible, carrying with it a considerable "potential for value creation" for the firm, and is at the same time virtually impossible to duplicate for competitors,[5] it undoubtedly *is* a key resource, even in the narrowest possible sense of the term. Management theory states, according to both the quantity and the quality of key resources at the disposition of a firm, it will experience opportunities for creating competitive advantage, leading to increased firm performance and sustainability,[6] dependent on its existing abilities to accumulate, exploit and manage them.[7] So with the help of good CSR strategy, corporate or brand identity, as well as stakeholder goodwill, trust, and benevolence toward the corporation can be considerably enhanced.

Another source of major competitive advantage possibly achievable through CSR is the lowering of operational costs: This can happen at first through saving disposal costs of IT or other equipment when donating it.[8] Apart from that, investments in environment-friendly or otherwise socially beneficial business processes or products can incur incredible cost advantages in case they later become either regulated, or an industry standard. Some companies exploit their anticipative engagement through pushing for regulation once they have achieved environmental sustainability. Such "Raising Rivals' Costs" strategies[9] have already proven successful when originally more cost-efficient competitors lost their cost advantage as their rivals lobbied for sharper environmental regulation they could already comply with due to R&D competitive edge.[10] Some argue this represents a distortion of competition, as cost-leaders are outperformed on the basis of

[4] De la Cruz Déniz Déniz and Katiuska Cabrera Suárez (2005), p 29.
[5] Roberts and Dowling (2002), p 1077 ff.
[6] Litz (1996), p 1356.
[7] Elsayed (2006), p 304.
[8] Campbell et al. (1999), p
[9] Elsayed (2006), p 297 ff.
[10] Referring to Chrysler's urging the US Congress to pass stricter fuel efficiency requirements it could already meet, but not its main competitor, General Motors. Husted and Allen (2000), p 26.

non-economic "tricks" – obviously, this is not a valid argument, as competitive advantage can be created wherever new opportunities emerge, and the first one to take them will legitimately enjoy their benefits (and no one will want to argue on the point corporate engagement in revolutionary environmental protection is objectively beneficial to the whole world, and to be rewarded also out of social desirability considerations). Competitors' costs can, more generally, also be increased through the building of reputational capital through superior social responsiveness.[11]

Yet another important source of competitive advantage can be created via CSR engagement with the generation of superior revenues, through, inter alia, the enhancement of the market position, the indirect impact upon sales through the creation of positive publicity and enhanced reputation, but also the possible direct impact on sales CSR might bring, through CRM for instance. Finally, government incentives might also generate tax benefits in this respect.[12] Another important aspect not to be neglected is the potential for yielding superior profits in the role of a "CSR pioneer", which could allow the firm to "skim cream" due to its early and well-accepted response to emerging social demands.

Aside these diverse favourable implications of CSR engagement, which clearly prove the narrow view it would constitute additional costs wrong, long-term benefits of corporate social engagement[13] like PR, goodwill, political access,[14] the development of core competencies and critical success factors are undoubted.[15] Besides, not dealing with CSR can in fact incur incremental costs: Pollution can rather be seen as a sign for inefficiency or outdated technology, which incur high costs in terms of low productivity or poor product quality. At the same time, environmentally friendly technology can lead to greater resource productivity[16] in terms of reduced operational costs.[17]

[11] Elsayed (2006), p 297 ff.
[12] Campbell et al. (1999), 376 ff.
[13] De la Cruz Déniz Déniz and Katiuska Cabrera Suárez (2005), p 29.
[14] Wulfson (2001), p 141.
[15] Lin and Lin (2006), p 95.
[16] Quazi and O'Brien (2000), p 35.
[17] Other aspects of competitive advantage, like taking opportunities within the market, appeal to consumers or investors, build partnerships and alliances, develop strong ties with suppliers please note the following sub-chapters B und G, respectively.

6.2 Value-Added to Products and Services

An advantage potentially implied in CSR engagement is the creation of new business opportunities through value-added to products and services, and raising consumers' and investors' interest in the corporation and its respective offers. Catering to the needs of the "ethical consumer" and "socially responsible investor" constitutes a target market, so far, not considerably exploited. Research suggests consumers prefer to buy products and services, and investors prefer shares from socially responsible firms,[18] so this field seems worth being considered by corporations:

Broad evidence suggests some kind of "ethical consumerism" has emerged, meaning consumers seem to "increasingly care about non-commercial product attributes", namely ethical components of products and business processes.[19] But even if a large number of consumers claims to be willing to buy more from companies involved in social causes,[20] many sceptics state what is observable is an immense amount of lip service being paid to ethical shopping, and very little else, as no one would like to admit they do not care about social or ethical concerns when surveyed about them. Talk about the "myth of the ethical consumer" and denominations like "arm chair ethicists" therefore come as no surprise, and many experts doubt consumer values ever result in corresponding observable behaviour at all. Still, this judgment might be overhasty – consumers generally tend to be quite intolerant with regard to ethical abuses, and punish notorious wrong-doers consistently by "avoiding transactions with [such] dishonest, unethical sellers". 75% of consumers thus declare they would "avoid shopping in a store if they knew goods were produced under bad circumstances". So, consensus about the commercial disadvantage of unethical behaviour (even for products with superior features) is much easier to achieve than agreement on whether pro-social behaviour actually results in perceptions of value-added to product or service offers.[21]

When having a look at the objections to the actual impact of ethical consumerism, the "social desirability bias" detected by some, which means consumers would not admit they do not attach importance to ethical or social questions when purchasing goods, does not seem to be as considerable as has been taken for granted for too long: A 1996 study revealed 39% of consumers openly declare themselves indifferent towards ethical concerns.[22] Consequently, consumer assertions on the perceived value of so-

[18] De la Cruz Déniz Déniz and Katiuska Cabrera Suárez (2005), p 29.
[19] Auger et al. (2003), 281 ff.
[20] Del Mar García de los Salmones et al. (2005), p 373.
[21] Auger et al. (2003), 281 ff.
[22] Auger et al. (2003), 281 ff.

cial product or service attributes might be more than just hollow words, which is also confirmed by the recent success stories of fair trade and some social enterprises.[23] They have been able to extend their market share in both a consistent and sustainable manner to the degree that they have even entered the "mainstream" market after gaining strength and visibility in a market niche.[24]

Empirical research has given credible evidence to the fact consumers might even be inclined to pay a certain premium on products produced in a socially or environmentally sustainable manner – under certain premises, and especially depending on the price class of the product or service: For $ 10 items consumers indicated willingness to pay up to 28% more for it given it were fabricated under "ethically acceptable" conditions, while for $ 100 items, a premium of 15% seems a realistic price cap.[25] Again, this kind of findings carries a certain risk of not resulting into actual buying behaviour, but this worry has been proven wrong at least for products of the lower-cost range, for which a strong socially inspired consumer response is observable. In the case of eggs, for instance, in most developed countries, a 25% premium for free-range eggs compared with their battery equivalents is well-accepted by consumers, probably due to the overall low cost and the thereof resulting near-unobservable price margins.[26] The same might hold true for the success of fairly traded coffee, cocoa, and chocolate, while crafts products do indeed lack the same dynamism in attracting ethical consumption – so far.

Another crucial point in creating satisfactory consumer response to ethical product attributes is sufficient education and provision of information, through objective institutions, at best. The poor relation between CSR attributes and consumer attitudes might be, at least partly, a result of difficulties for consumers to acquire accurate and comprehensive information on what firms are doing in environmental and social regards, as well as their inability to judge the overall social performance of a company due to the multi-dimensional nature of social responsibilities.[27]

[23] The most well-known "social enterprise" is The Body Shop, as the whole business concept, from its beginnings in a socially deprived area over the business principles to the extensive use of fair trade products has relied on ethical and social values supported by a purchase of the brands. Coomber (2005), p 80 ff.

[24] Randall (2005), p 65 ff.

[25] Auger et al. (2003), 283 ff.

[26] Smith (2005), p 63 ff.

[27] Consumers might not be aware, for instance, of economic responsibilities belonging to a firm's set of social responsibilities, something scholars have long agreed on. So consumers might have a reduced view on how socially responsible a company is.

Nevertheless, a considerable amount of consumers seems to possess at least *some* affinity for ethically and socially responsible products and services, and even if the proportion of the most ethical or truly "green consumers", namely those who would trade off product features for the sake of ethics, might be negligible, and the huge majority of those 61% of consumers generally interested in social concerns will *not* be willing to sacrifice product quality and price,[28] this segment of the market still remains very attractive. Corporations recognizing the signs of the time will exploit considerable opportunities by fulfilling these needs in the near future, differentiating themselves from competitors, building "stronger bonds of trust", confidence and consumer loyalty[29] through the positioning of the firm as highly responsible and "upright" with its product.[30]

Furthermore, it would be a mistake to let aside the interesting, if small in size, group of highly socially and ethically oriented "green consumers", for members of this group are likely to be opinion leaders, knowledgeable information seekers, and careful shoppers – traits that might prove crucial, as only active information seekers would switch brands for the sake of social product attributes. As this group tends to be willing to even switch to less effective, yet environmentally "safer" products, niche products are likely to be highly successful within this group. Furthermore, due to their high level of education and interest in social and environmental issues, and their function as opinion leaders, they might be targeted as multipliers for corporate information.[31]

To conclude, consumer response to firm engagement is clearly conditional on consumers' support for the social cause involved,[32] but what seems to matter the most is salience: The more outstanding a company's engagement or unique selling proposition is, the more likely it is to yield strong consumer responses. Salience can be impacted upon through education and the display of relevant ethical information[33] through appropriate information channels. Once consumers dispose of sufficient knowledge

[28] Auger et al. (2003), p 299 ff.

[29] CSR has not been found to directly impact upon consumer loyalty (which is observable in repeated purchase, or willingness to pay a premium), but overall product evaluation clearly does, and CSR has been found to be also part of overall product or service evaluation – and thus exercises at least an indirect influence on consumer loyalty. Del Mar García de los Salmones et al. (2005), p 370 ff.

[30] Del Mar García de los Salmones et al. (2005), p 379.

[31] Auger et al. (2003), p 283 ff.

[32] Brown and Dacin, Sen and Battacharya, respectively. Del Mar García de los Salmones et al. (2005), p 372.

[33] Auger et al. (2003), p 298 ff.

about the combination of quality *and* ethics a corporation proposes, such products are likely to yield stronger consumer responses.

As for socially responsible investors, they pose important opportunities to corporations, for they differ considerably from "ordinary" investors in their decision-making styles: They show clear patterns of grounding investment decisions on perfectionism, which means they hold exceptionally high standards and expectations for companies and seek only highest quality products – as opposed to impulsive or time-saving investors, who invest money without giving the decision much thought. As a consequence, "ordinary" investors tend to be more careless and rapid in their investment decision-making, they involve not so much planning and attach importance also to the time and convenience the investment involves. Socially oriented investors, on the contrary, want to be well-informed and provided with "good reason" for why they should invest in a company – once they've done so and are thus convinced of the high quality and standards of the firm, they tend to be loyal, not interested in portfolio "fashions and fads",[34] and less inclined to quickly separate from the company like impulsive investors or those seeking satisfaction out of keeping "up to date" would be. Socially responsible investors' loyalty also shows when it comes to shareholder activism: They tend to prefer strategies like seeking dialogue with executives over public confrontation or quick exit, resulting in the risk of embarrassment for the corporation in public to be significantly lower, as those investors truly engage with the company, are interested in its stability and sustainability, and place less emphasis on quick financial returns.[35]

To sum up, the ever emerging markets for consumer and investment products and services suggest companies can create offers with considerable value-added by incorporating a "solid ethical and social component".[36]

6.3 Achievement of Organisational Commitment

CSR engagement and an excellent corporate reputation for high values and ethical standards in the treatment of various stakeholder groups can, in the first place, increase employer attractiveness of a corporation, and thereby help recruit the highest qualified and motivated workforce, which is crucial for continuous growth in a time where "top-notch knowledge workers" constitute the key resource advancing an organisation,[37] even more wherever multi- or transnational corporations are concerned. Aside its ability of

[34] McLachlan and Gardner (2004), p 13 ff.
[35] McLachlan and Gardner (2004), p 20 ff.
[36] Randall (2005), p 55 ff.
[37] Crowther (2004), p 212.

enhancing the corporation's attractiveness, a socially responsible or ethical climate is capable of lessening workplace alienation and increasing loyalty and identification with the corporation, and thereby rendering employees more committed to the interests of the organisation:[38]

Organizational commitment, one of the key factors to success for large corporations, is defined as the "strong belief and acceptance of organisation's goals and values, the willingness to make efforts for the organisation, and the strong desire to remain a member of this organisation". Factors fostering the building of organisational commitment include, most prominently, the prevalence of a "socially concerned" climate within the organisation, which takes into account interests of others, and strong enforcement of ethical rules and codes. While a benevolent climate builds strong interpersonal relations, group cohesion, a sense of teamwork and collective pursuit of the "common good", quite obviously, socially irresponsible, or simply "morally less developed" climates rather encourage the adoption of an egocentric position, and thus the pursuit of self-interest, exclusively, rather than attachment to the corporation and its members. As a consequence, doubtful practices for achieving one's own ends, going as far as unjust enrichment, will be significantly more likely to occur in selfish organisational climates.[39]

An organisation which builds employee commitment through social responsibility engagement not only alters attitudes of employees already within its organisational structure, but will also be more likely to attract, and consecutively retain employees with equally high standards: Consistency between personal and organisational values and beliefs make part of the organisational fit between employee and employer. If an individual fits well into the corporation, he or she will not only be less likely to leave it,[40] but this good organisational fit also impacts upon the employee's performance and determines what kind of employee he or she will be: Motivation, achievement, and sincere commitment can only benefit if personal values and ethics are congruent with the ones held by the organisation.[41] In such a case, the employee is likely to draw greater satisfaction out of his or her job, and starts appreciating the intrinsic value provided by working in the organisation, which results into greater job tenure, loyalty and trust, and

[38] Del Mar García de los Salmones et al. (2005), p 370.

[39] Referred to as "benevolent" climate in Cullen et al. (2003), p 137 – for further distinction between egoistic and benevolent ethical climates within an organisation please see V.A.5. Corporate Culture and Organisational Ethical Climate.

[40] Hemingway (2005), p 240.

[41] Grojean et al. (2004), p 232.

thus higher quality of work life,[42] all of which are considered key organisational values positively affecting employee retention.[43]

In contrast to this, problems likely to arise in corporate climates that do not foster high ethical standards, nor organisational commitment, include conflicts between middle management and employees if the latter insist on lawful and ethical conduct, but management pressures them to overlook such standards for the sake of performance goals. Such a situation will in any case lead to losses for the firm: In the best case, the ethically alert employee will experience growing alienation and continuously detach him- or herself from the corporation, and finally leave it. In the worst-case scenario, he or she might become an external whistleblower, denouncing the wrong-doing and thereby do harm to the entire corporation.[44]

For these reasons, corporations would act in their best self-interest did they encourage the development associated with more benevolent, inclusive and cooperative ethical climate: The likelihood of employee commitment to the organisation could considerably be enhanced, leading to benefits not only as a result of costly employee turnover reduction, but also through enhanced employee job satisfaction and increased (intrinsic) motivation.[45]

6.4 Equal Opportunity Compliance, Diversity and Their Inherent Benefits

Compliance with Equal Opportunity legislation has (theoretically) become a "must" within the developed world. No company would want to wait for harsher government enforcement of existing binding laws banning discrimination on the basis of, above all, race and gender.

Norway is currently undergoing efforts to show the corporate world increased regulation is deemed an option, if compliance with Equal Opportunity Laws is consistently amiss: A law from fall 2006 states companies listed on the Oslo bourse will be threatened with de-listing in case they do not have 40 % women on corporate Boards of Directors by 2008.[46] Even if this will remain nothing but a *shot across the bow*, it might serve to make global corporate executives take note of some national governments' discontent with the lugging improvements concerning equal opportunity in employment and promotion:

---

[42] Luthar et al. (1997), p 205.
[43] Lin and Lin (2006), p 96.
[44] Ruhnka and Boerstler (1998), p 321.
[45] Cullen et al. (2003), p 128 ff.
[46] IS 60.

Today, only 5 % of the partners in the biggest US accounting firms are women, and 95-97 % of Fortune 500 top executives are male – given constant continuation of past efforts, full equality for women in executive positions will be reached 450 years from now. As far as race is concerned, the same holds true, as 97 % of US top executives are white.[47] Clearly, a glass ceiling prevents women and people of colour from moving up corporate career ladders beyond a certain point.[48] Given the fact women outnumber men in business schools in most developed countries, and tend to be over-represented among the best graduates, barriers other than performance and skills, like social stereotypes and white male power structures – the notorious "old boys network" – are likely to be the root of the problem. If corporations and their top executives do not feel the glass ceiling should be shattered out of reasons of justice, namely people who followed the same paths of education and work experience should enjoy upward career mobility on the basis of nothing but their qualification, their proper business interest might encourage them to take on this ethical and social problem: Companies that "mirror the general population" on all levels are apt to better understanding the needs and wants of customers, and to develop products and services that meet their needs more accurately.[49]

Another point is that an increasing number of businesses is owned by members of minorities or women in the US, and a growing presence of women and minorities in the workplace might facilitate doing business with those firms, as those entrepreneurs might prefer business partners living equal opportunity,[50] not to forget the public goodwill and credibility a firm can gain if equal opportunity and freedom of discrimination is not just part of its code, but corporate reality.

But the major point why a firm might want to anticipate equal opportunity enforcement by authorities lies in the benefits arising from diversity and its underlying potential for innovation:

Diversity, defined as a "variation among members", be it regarding expertise, managerial background, personalities, leadership styles, age, education, values, ethnic belonging or gender,[51] is key for MNEs that face cultural barriers, for instance in the Arab, Asian, or Latin American world. For meeting today's business world's requirements, namely understanding varied cultures, ages, and lifestyles, representatives of those target groups are crucial in planning teams. Furthermore, evidence suggests diversity leads to overall improved decision-making, as a diverse group takes advan-

[47] Eyring (1998), p 246.
[48] Oakley (2000), p 321.
[49] Eyring (1998), p 245 ff.
[50] Kuhn (1998), p 298.
[51] Coffey and Wang (1998), p 1596.

tage of increased awareness of global opportunities, and might find a more cogent approach to the identification and solution of upcoming problems. The "insidious effect" of diverse groups has resulted in overall improved performance in various studies: Mixed group of experts seem to yield superior results when freely contributing ideas to the decision-making process, and intermingling minorities and opposite sexed participants has proven advisable in such tests.[52] Also, the corporate world seems to be increasingly aware of the importance that ought to be attached to diversity, as "diversity trainings" have emerged as a recent new management whim.[53]

At the end of the day, no corporation wants to see itself in the spotlight and in the headlines at the occasion of discrimination lawsuits or procedures in front of specialised Equal Opportunity Commissions like the EEOC in the US, or the "*Gleichbehandlungskommission*" in Austria.[54] Corporations could rather use clever CSR policies for the enhancement of career opportunities for high potentials coming from disadvantaged social groups, and in the meantime generate benefits with their talent, unique background and experience.[55]

6.5 Enhanced Corporate Financial Performance

Ample evidence has been brought forward for a significantly positive relation between Corporate Social and Firm Financial Performance, even though traditional economic thought, and especially agency theory, would presuppose a negative relationship between the two:

Social engagement would necessarily have to incur costs, but no corresponding benefits. This argument does, of course, not hold when considering other theories as established as the resource-based point of view on the firm, which tells investment in intangible assets might, conditional on their quality and quantity, create competitive advantage. Even more evidence than for the correlation between CSP and FFP has been found for a strong positive correlation between CSR (especially corporate giving) and firm's

[52] Dunphy (2004), p 327 ff.
[53] Dunphy (2004), p 325 ff.
[54] Ruhnka and Boerstler (1998), p 313.
[55] As for female talent, female high potentials seem to prefer entrepreneurship over the "White Male Brigade" system prevalent in corporations – in the 90ies, already 6.5 million women-owned businesses in the US, employing more people than the Fortune 500 companies worldwide. Corporations would be better advised to try and hold them in the corporate world. Oakley (2000), p 330.

return on sales, return on assets, and return on equity, all relative to industry averages.[56]

Critics, and even many advocates, of CSR have been puzzled with the strength and persistence of these findings across extensive and diverse empirical studies. Explanations have been put forward, and include the theory firm size might in fact constitute an exogenous determinant for both financial and social performance, and thus function as a moderator of the relation between the two. The reasoning behind this theory is that most studies were limited to Fortune 500, and thus very large, firms, whose size would account for enhancements in both financial and social performance, first of all through the generation of net economies of scale, but also through greater control over stakeholder groups, through increased promotional opportunities, and through the attraction and retention of better employees.[57] Even if this sounds plausible, studies that controlled for firm size were able to prove firm size does *not* confound the relationship between Corporate Social and Firm Financial Performance – a significant positive correlation between the two indicators persists even independent of firm size.

As the positive relation between CSP and FFP seems to be generalisable, the question whether good corporate social engagement yields superior profits, or whether superior profits, resulting in a sufficient amount of "slack"[58] resources, on the contrary, cause good social responsiveness remains. High CSP might be both a predictor, and a consequence of high FFP, and the "virtuous circle" that firms with good performances in both areas find themselves in might rather be a consequence of good strategic management, managerial talent or other factors enhancing both social and financial results.[59]

As these questions are impossible to answer with the given amount of research, further evidence supporting the theory social engagement might pay off should be named: Environmentally friendly companies are found to outperform their rivals in terms of productivity, innovation market growth, return on investment, and overall profitability.[60] The clear impact of environmental concern on profits can be observed in various examples, such companies tend to be more innovative and "daring" in finding solutions to environmental problems, while at the same time creating business

[56] Seifert et al. (2003), p 199 ff.
[57] Orlitzky (2001), p 167 ff.
[58] For further elaboration, please note V.A.2. Available Resources.
[59] Orlitzky (2001), p 175.
[60] Loza (2004), p 299.

innovations, for instance when they find ways to convert waste into business opportunities, or by-products into new commodities.[61]

Other than that, a clear correlation between the production of high quality products and good working conditions can also be detected.[62]

To conclude, it can definitely be of interest to corporations to have a look at the relationship between social or ethical efforts and financial results of a firm from an opposite perspective: *Bad* CSP, and information spread on poor business practices *undoubtedly* damage company profits, or, in other words: "Minimal compliance with legal standards can be deadly to the firm." The long-term costs of lost trust, especially given the high dependency on excellent workers, specialists, managers, suppliers, customers, distributors, creditors, and international agencies companies face,[63] and the tremendous losses of tarnished public image almost impossible to re-establish[64] are all too under-estimated, whilst the dormant potential for financial performance inherent in good CSR is unfortunately often neglected.[65]

6.6 Prevention of or Exit Strategies to Organisational Crises

Another major benefit good CSR has to offer is its potential function to cut corporate losses in the aftermath of major crises, be it if a corporation faces eroded trust and devastated corporate reputation due to "ethical infractions" that have occurred within it, or be it a bad situation it finds itself in through no fault of its own, but as a consequence of external incidents or even catastrophes. Corporate policy regarding social responsibilities can fulfil yet another function with regard to crises, namely their effective prevention altogether.[66]

An organisational crisis can be defined as a "specific, unexpected, nonroutine event" with the ability to "threaten the organisation's high priority

[61] Quazi and O'Brien (2000), p 35.
[62] Auger et al. (2003), p 282.
[63] Ibrahim et al. (2003), p 398.
[64] Randall (2005), p 57.
[65] Still, in some industries rivals that were shaken by (ethical) scandals continue to financially outperform their more socially responsible competitors (Nike/Reebok is an example for this phenomenon) – but, generally speaking, one would assume the opposite to hold true due to massive evidence of financial slumps following an erosion of public trust and corporate image. Auger et al. (2003), p 282.
[66] Grojean et al. (2004), p 237.

goals", whilst creating "high levels of uncertainty".[67] Such an event is likely to shake the fundaments of the organisation on the one hand, and burdens all the members, but above all the leaders of the corporation, with immense levels of tension and distress on the other hand. Given these exceptional circumstances employees and management find themselves in, the crisis can be seen as a high impact event that "strips an organisation to its core values". The kind of early reaction set by leaders is of fundamental importance and will be decisive for future developments. Immediate reaction, in the first place, may minimize damage and avert additional ones. Still, what is more important than the mere response time is the quality of measures set: While social and ethical orientation of key actors, measurable, inter alia, through the supportiveness displayed towards victims,[68] can not only substantially contribute to successful crisis management through the elaboration of guidelines which promise to be effective in the mitigation and relief process, but also serves as an indicator for the degree of "decisional vigilance and openness" prevalent in the corporation. If a corporation succeeds in upholding its core values and remains virtuous even "in the face of disaster", with all the stress and uncertainty involved, it can even more credibly affirm doing so in its daily business activity. Aside the potential positive attention, notoriety, the building of solid trust and reputation in the corporation, which will affect the company's goodwill in the future, this socially responsible way of dealing with the crisis might exactly be the key of getting the corporation out of the crisis: Mitigating harmful consequences also for important stakeholder groups like employees or the community,[69] and not solely for the corporation itself, does not only help to regain trust, but will at the same time increase the efforts undertaken by them to help the corporation out of its crisis.[70]

---

[67] Seeger and Ulmer (2001), p 369 ff.

[68] Seeger and Ulmer (2001), p 374 ff.

[69] Seeger and Ulmer (2001), p 369 ff.

[70] This might sound like utopian thinking at first, but two famous cases of firms ("innocently") facing crises in the 1990ies serve as evidence for the feasibility of such ways of dealing with a crisis: Aaron Feuerstein's Malden Mills, and Cole Hardwoods, with its CEO Milt Cole, saw their production sites devastated by fire; instead of closing the plants and relocating them at this occasion with the insurance payments in low-wage countries, the CEOs acted in the exact opposite way: They not only immediately announced they would rebuild the plants "when fire was not even out", but promised to continue the payment of all wages throughout the whole process. With this virtuous response, both firms secured employee loyalty and support, and Cole Hardwoods rebuilt the facility in a more efficient manner, and was able to yield record profits in the following year. Seeger and Ulmer (2001), p 372 ff.

The crisis might, ideally, even function as a source of learning and renewal, or rejuvenation of the company, and capable leaders can "exploit it as an opportunity".[71]

A lack in social responsibility, in sharp contrast to this, would put questions of profitability over ethical and harmed stakeholder concerns, and short-sightedly avert damage to the corporation through denial of responsibility and attempts to limit legal liabilities wherever possible.[72] Such actions might waste precious time by simply shifting the blame onto others, result in further wrong-doing like cover-ups, and thereby prolong or even deepen the crisis, lead to further escalation and, in the worst case, to a total breakdown of stakeholder support.

CSR is not only associated with accurate responses to crises, but it has on the contrary *led* to many crises, or more accurately, the negligence of corporate responsibilities towards society and broader constituencies has done so: Non-compliance with social expectations can indeed be costly and even push corporations into existence-threatening controversy – poor labour relations or public hostility, and threatening government or civil society action can lead to a slump in sales, lost market share and withdrawal of capital.[73] Instead of further neglecting social or ethical considerations due to "more important" worries in the face of crisis, the corporation can seek its way out in increased social responsibility. This paradoxical effect of corporate wrong-doers turning into CSR champions can be explained by the "spotlight effect": Once they come under public scrutiny for socially irresponsible behaviour, they may choose comprehensive change and break with the past by taking on a new, proactive social stance.[74]

Yet a different perspective on the role of corporate social orientation in organisational crises is its exploitation as a preventive measure. The establishment of a culture of participation, respect for values, rights, and interests, and actual business practices supporting these ideas might help avert crises altogether, and such socially inclusive and responsible companies can help to detect signals for crises early by lending an "open ear" to internal and external constituencies,[75] and thus be warned[76] earlier and able to take immediate action.[77]

Leadership integrity, openness and opportunities for employees and other stakeholders to voice concerns and corresponding reactions, all of

[71] Drucker in Seeger and Ulmer (2001), p 374.
[72] Seeger and Ulmer (2001), p 369 ff.
[73] Quazi and O'Brien (2000), p 35.
[74] D.L. Spar quoted in: Jenkins (2005), p 528.
[75] Hummels (1998), p1416.
[76] Loza (2004), p 303.
[77] Simola (2005), p 341 ff.

which are key elements of CSR engagement, might thus even exercise a "prophylactic" effect on corporate crises.

6.7 Opportunities for Partnerships and Alliances

The globalised economy businesses are operating in demands fast reactions, extensive funds, and engagements so diverse that working partnerships, privileged agreements, and various other types of strategic alliances have become a necessity for operating successfully in this competitive environment:

For the sake of sharing resources, costs, and access to markets, networks of firms competing against each other[78] gain in importance to an ever increasing extent – technological agreements, joint ventures, joint purchase centres or franchises help corporations overcome obstacles such as cultural or legislative barriers, no access to appropriate distribution channels, and facilitate market penetration without "unduly compromising" too many resources, and share risks, resources and knowledge among the partners.[79] Due to the incompleteness of contracts and the considerable risk inherent in strategic partnerships to "self-servingly breach" the cooperative agreement,[80] mutual trust in the economic sense, more concretely the expectation the other part will make a "good faith effort to behave in accordance" with the commitments made, be honest, and thus pursue no hidden agenda, and not take "excessive advantage" of the other,[81] is crucial for the successful execution of strategic partnerships altogether. Trust can for this reason reduce costs and delays, and prevent failure of the whole alliance project.

When taking into account what is at stake for a partner fearing betrayal from the other side of the alliance, namely disastrous losses, especially if confidential knowledge as a major source of competitive advantage is concerned, the potential role of CSR therein becomes clearer: CSR engagement and sincerely upheld values and principles clearly build confidence in a company,[82] therefore a CSR champion is likely to be a more trustworthy partner for strategic alliances than a firm not known for its social orientation. Traits like honesty, truthfulness, fairness, integrity must be more pronounced in alliances than in any other business activity, and a reputation for virtue and reliability can constitute a major advantage when

[78] Volery and Mensik (1998), p 987 ff.
[79] Argandoña (1999), p 217 ff.
[80] Argandoña (1999), p 224.
[81] Bromily and Cummings in: Volery and Mensik (1998), p 989.
[82] Kaptein (2005), p 14.

searching for a "strategic ally". Even if ad-hoc control mechanisms and traditional monitoring systems remain advisable for strategic alliances, given what is at risk when companies cooperate on some aspects of business activity, and keep competing in others,[83] high standards of conduct and an attitude of taking into account also interests other than the corporation's own as sources of intercorporate trust can significantly reduce potentials for conflict, fears of exploitation by the partner, and thereby enhance the probability of success for the alliance.[84]

Special types of partnerships which undoubtedly favour corporations with a strong social or environmental profile include philanthropic ventures and Public-Private Partnerships.

In philanthropic ventures, for-profit organisations join with non-profits for a common goal, which is apt to provide both of them with unique opportunities: Corporations may sponsor or otherwise support the non-profit, while environmental or human rights groups can use their unique knowledge and expertise to provide their partner corporations with valuable input for key areas such as product design or packaging, especially when recyclability and reusability are concerned. Corporations may precede sharper legislation for environmental sustainability when engaging with non-profits on time,[85] or gain considerable competitive advantage through the enhancement of their image and the reinforcement of product or service awareness[86] through such "immaculately" objective external constituencies as reputed non-profit organisations, making also use of their function as multipliers even to critical and difficult-to-reach consumer segments as "green consumers".

Partnerships with governments or communities may serve to reduce criticism and distrust towards corporations, grant them access to community knowledge, and thus provide them with valuable new insights. The transmission of respective knowledge and expertise should ideally create win-win situations, rendering public administration more efficient and opening up business opportunities to the corporation involved.[87]

---

[83] Argandoña (1999), p 223 ff.
[84] Volery and Mensik (1998), p 987 ff.
[85] Quazi and O'Brien (2000), p 34.
[86] Wulfson (2001), p 138 ff.
[87] Loza (2004), p 303. For government requirements concerning CSR engagement of the corporations they are contracting with, see V.C.3. Governmental Regulation and Incentives.

7 Factors Impacting Upon CSR Engagement

After having discussed diverse choices for concrete CSR measures to be taken by corporate executives as part of their business strategy, and the good business reason potentially underlying such choices, the most crucial strategic implications seem to not lie in the fundamental willingness of corporations and their respective key decision-makers to engage in CSR, as the huge majority of corporate managers sureyed suggest they do have CSR on their agenda.[1] What seems to be key rather is the implementation stage, and thus the practical feasibility of such measures. A variety of factors will impact not only upon the mere decision-making itself on what the corporation is to engage in, but precisely those factors will further constitute a major influence on whether a corporation's CSR strategy will eventually succeed or fail. Factors both internal and external to the organisation may work as barriers, obstacles or, on the contrary, as drivers for "good" CSR. They can mainly be detected on three different levels:

On the individual firm level, one can distinguish between internal institutional factors and individual decision-maker factors.

As for institutional determinants for or against CSR engagement, factors like, inter alia, the firm's organisational form, corporate culture and stage of development will be key when it comes to deciding to implement CSR policies. The same holds true for its resource availability and, a very significant element, as mentioned already, its individual decision-makers' willingness to think CSR over.

This leads directly to the second level of CSR relevant factors. Personal attributes and character traits of individual executives likely to make a difference between individual top executives meriting consideration include sex, race, minority or religious background, marital status, career stage, or completed ethics education.

Finally, the external environment must not be neglected as an important factor for the feasibility of CSR policies and programs, determined, inter alia, by the industry and broader environment context, but also by government interventions and regulative initiatives.

---

[1] Referring to the 2002 Ernst&Young survey mentioned earlier in the chapter on CSR Conceptualisation: 73% of 114 Global 1000 companies surveyed have CSR on corporate agendas. Van Marrewijk (2003a), p 103.

7.1 Institutional Factors

7.1.1 Organisational Structure and Firm Size

One of the major factors impacting upon a company's CSR engagement is its organisational structure: Highly bureaucratic structures or authoritarian organisations with rigid rules[2] to be adhered to tend to be less favourable for CSR efforts, while more flexible, participative structures which put emphasis on team-working and member empowerment, encourage more of a collectivist or socially oriented climate.[3] Aside ethical climate and organisational culture, which will be elaborated in greater detail later, firm size is a key determinant for the scope, quality and communication of CSR efforts:

Corporations that can be defined as large in firm size, measured by the scale of operations conducted in the organisation, engage in "more and better CSR initiatives" than relatively smaller firms.[4] Reasons for this greater CSR engagement of large firms are mostly self-explaining, namely the disposal of greater amounts of resources, the better ability to obtain and process information concerning the social and natural environment, and an increased likelihood of creating competitive advantage for themselves out of this information (one could think of different means for communicating their efforts compared with smaller firms, for instance). Another reason for large corporations to engage in CSR is their ability to generate economies of scale out of socially or environmentally oriented investments. A negative incentive is large corporations' exposure and vulnerability to public scrutiny: They are more likely to have to explain themselves in public for their impact on society, but they are also more threatened to suffer from perceived asocial or unethical behaviour, and might therefore "feel the need to strive for social legitimacy more than smaller firms". This holds true especially for industry leaders, but independent of the company's degree of visibility, larger corporations also pose "greater threats to the environment" than smaller ones – this holds true not only for pollution, but also for social surroundings' dependency on the large corporation.

All of these points give large corporations good reason for being or becoming socially responsive. An explanation for their greater quality of CSR engagement might be the need for consistency within their policies, for many even on an international or global scale, and thus their more

[2] Neubaum (2004), p 244.
[3] Hemingway (2005), p 235.
[4] Orlitzky (2001), p 169 ff.

structured approach toward social engagement.[5] Small firms, on their part, are generally reported to not care much about CSR, and empirical studies support this assumption through proving their primary concern is survival and strive for growth.[6]

As pointed out already, not only size per se determines the necessity of CSR engagement, but also the visibility of the firm. Therefore, companies going international might feel the need to care more about it, as expanding firms always attract more attention from various stakeholder groups, and therefore have to deal with their demands more attentively.[7] With a growing degree of internationalisation, corporations will be pressured to adequately react to social and cultural challenges like diversity in the workforce and on target markets, and differing moral standards and values within these systems – and therefore have to make increased efforts in determining what the company's core values and issues are.[8]

Another factor of distinction that may be of interest when looking at the relation between organisational form and CSR engagement is whether the firm is a family business or not: Corporations with noteworthy CSR efforts are almost exclusively non-family controlled.[9] On the one hand, this seems logical as family businesses are generally associated with nepotism, selfish pursuit of family interests only, with no chance for external employees to get promoted, and with a thereof resulting lack of professionalism and joint decision-making. This view of a family business would suggest shortcomings in or non-fulfilment of social responsibilities. Nevertheless another, equally persistent view opposing these assumptions on family businesses links them with values like tradition, integrity, continuity, "outstanding" product and service quality, major concern for firm reputation and a long-term strategic focus on doing business, sacrifice brought by the family for the sake of the company, and major involvement in the community. Such companies would tend to be managed in a paternalistic manner, and CSR, above all corporate philanthropy, could well fit into the concept of firm sustainability. In case these efforts remain "arbitrary altruism" rather than real stakeholder management, the family business might be missing opportunities to take advantage of CSR as a competitive tool. However, generalizations are likely to yield ambiguous results with regard to so-called "family businesses", as they differ greatly on aspects as generational evolution, actual family influence, size, degree of professional-

[5] Elsayed (2006), p 305.
[6] Crowther (2004), p 117.
[7] Orlitzky (2001), p 169 ff.
[8] Lu et al. (1999), p 91 ff.
[9] Elsayed (2006), p 299.

ism, way of governance and existence of non-family CEOs.[10] Given greater size, exposure, and degree of professionalism, CSR may be an organisational tool and reality also in family businesses.

Even if results for the impact of firm size on social engagement seem consistent, some factors may still slightly alter this picture: Despite the observable link between firm size and overall Corporate Social Performance, some studies have indicated small companies, despite their primary concern about survival and consolidation, be more *environmentally* responsive than larger firms.[11] Furthermore, large firms with highly bureaucratic organisational structures may be less responsive to social and environmental concerns,[12] as opposed to less complex hierarchies of smaller firms, where dominant leaders with social aspirations are better able to monitor the adherence with ethical guidelines through word-of-mouth spread of information and direct personal contact between leaders and subordinates.[13] In contrast to this, the multiple subsystems and levels of leadership within highly complex large corporations might render implementation of CSR programs more difficult.[14]

7.1.2 Resource Availability

An institutional prerequisite for corporate CSR engagement is the availability of resources: The more funds decision-makers have at their discretion, the less they are constrained in their planning and implementation of social or environmental strategies. Resource availability thus determines the "organizational capacity for creation and implementation of social initiatives"; quite interestingly, this finding holds true even in studies that could not find a correlation between firm size and CSR.[15] The theoretical underpinning of this relation is called "slack resource" theory and states the better financial performance is, the greater the extent of resources available for engagement is likely to be – and with it the pool of discretionary funds, and also the decision makers' perception of benefits achievable through CSR.[16]

While various studies have shown a positive relationship between resource availability and social orientation, others have found no great impact of slack resources on general CSR orientation and importance at-

[10] De la Cruz Déniz Déniz and Katiuska Cabrera Suárez (2005), p 30 ff.
[11] Elsayed (2006), p 299 ff.
[12] Neubaum (2004), p 344.
[13] Grojean et al. (2004), p 229.
[14] Heming (2005), p 234 ff.
[15] Elsayed (2006), p 304 ff.
[16] Seifert et al. (2003), p 196 ff.

tached to it by executives, but rather on Corporate Social *Performance*: This would hint at a general consensus on the importance of CSR among practitioners, while the ability to really *do* something requires sufficient resource availability. This would explain why a 2002 survey among Global 1000 companies has shown 94% believe CSR might result in better financial performance, 73% therefore have it on corporate agendas, but only 11% are actually implementing it.[17]

Executives of firms not engaging in CSR do indeed state the high costs, insufficient resources, and too lengthy pay-back periods as reasons for not implementing CSR programs, and "big givers" do not only have more resources available in "absolute dollars", but are also financially stronger in terms of sales and assets. Further studies have also been able to show a clear correlation between the availability of resources, and the respective level of integration of socially relevant issues in the corporate strategic planning process.[18]

7.1.3 Development Stage of the Firm

The developmental stage a corporation finds itself in can be viewed from two different perspectives: From an organisational life-cycle stance, moving through phases like newness and increasing organisational maturity, but also from a *moral* development perspective, following Kohlberg's stages of moral development.

The newness of a firm can impact on the strength of its CSR engagement under various aspects: First of all, new firms are more likely to lack a well-established formal structure,[19] resources at their discretion, and stable ties with stakeholder groups. All of these factors can potentially hinder the development of strong social responsiveness. Furthermore, the "pressures and hazards" new firms feel in their struggle for survival and the acute resource scarcity might cause members of the organisation to "run counter […] more mature and ethical reasoning" in their actions and decisions, and foster more individualistic orientations and a major focus on economic responsibilities.[20] Knowledge about excessively high failure rates of new companies might reinforce this "liability of newness", and thus a potential lack in CSR ambition,[21] while companies in more mature lifecycle stages are more likely to consider the options CSR has to offer for enhancing sta-

[17] Survey conducted by Ernst&Young, Sept. 2002, 114 companies from the Global 1000 surveyed. Van Marrewijk (2003a), p 103.
[18] Elsayed (2006), p 298 ff.
[19] Neubaum et al. (2004), p 339.
[20] Orlitzky (2001), p 169.
[21] Neubaum et al. (2004), p 335 ff.

bility, growth, and efficiency through its formalized and institutionalised procedures.[22]

Nevertheless managers would be well-advised to establish rules of conduct and ethical principles in such early stages already, as rules develop at a quick pace when moving through the organizational life cycle, so they require managing right from the beginning.[23] By the way, the role models of founders or early top leaders and soon developed rules have an especially profound impact on the future development of the corporation,[24] and therefore lay the foundation for the corporate culture, climate, structures, and future strategies – so an extraordinarily socially oriented leader of a new firm has better chances to create a stronger CSR affinity than executives in most mature firms, as he or she can most directly shape organisational values.

Apart from that, age, and with it firm maturity, is not a guarantee for social responsiveness, as many barriers to (strategic) change are "rooted in time",[25] and thus exacerbate a shift versus increased CSR. In contrast to mature firms, younger companies are less likely to be constrained by such path dependency, and could better be able to position the firm in congruence with CSR ideas right from the beginning – especially as their founders and early managers are now socialized in a climate where CSR is given greater importance. Also young firms will probably dispose of newer assets, which are therefore less likely to breach environmental regulations, and tend to be more energy-efficient. Yet another potential advantage of younger firms with regard to CSR is the low probability of facing employee resistance, problems with new technology, and lack of managerial communication when developing socially and environmentally sustainable strategies and programs.[26] Last, but not least, new firms could be more curious and have "fresher" ideas regarding their ability to positively impact upon the community and larger society the firm is operating in, and its leaders might be less narrow-minded about short-term financial interests and favour long-term growth of the firm, and especially consider stakeholder management not as an expense the firm cannot afford in its beginnings, but an investment crucial for surviving the rocky early phase of development.[27]

In contrast to the organisational life-cycle model, development of the corporation can be seen not only in terms of mere "aging", but in terms of

---

[22] Grojean et al. (2004), p 229.
[23] Neubaum et al. (2004), p 345.
[24] Grojean et al. (2004), p 224.
[25] Elsayed (2006), p 302.
[26] Elsayed (2006), p 305.
[27] Neubaum et al. (2004), p 339.

qualitative social or moral development, depending on the stance it takes towards its surroundings. Kohlberg developed a three-stage model for the description of individual moral development to answer the question why individuals differ in their response to ethical dilemmas. Even though this scheme was developed for human-beings, important parallels between individual and organisational learning have been found, and Kohlberg's scheme therefore can be applied also to corporations:

Organisations were found to learn by "encoding inferences from history into routines", which then serve as guidelines for appropriate conduct in the future. With the help of conventions, strategies and policies, members of the organisation "collectively adopt a sense of what is right and wrong". These perceptions of "good behaviour" are totally independent of the individuals within the organisation, and can for this reason survive employee turnover. Such routines, values, paradigms, myths and legends are shared, reinforced and monitored within the whole organisation, and this over long periods of time. Interestingly they persist even in geographically highly dispersed organisations.[28]

As this serves as a proof for similarities between the learning capacity of organisations with human learning behaviour, Kohlberg's pre-conventional, conventional, and post-conventional stages of moral development hold true also for corporations. A corporation which finds itself in the pre-conventional stage of moral development is willing to consider only its own consequences when deciding about the right- or wrongness of its actions. As the organisation grows morally, it becomes less "selfish" and starts respecting social surroundings, conventions and expectations. Finally, fully morally developed corporations are led by "universalistic ethical principles" when making decisions and taking actions.[29] This categorization of firms into different stages in moral development might yield results considerably differing from a simple life-cycle distinction: Some corporations mature also morally as time passes, others might not, and some might start out right away as highly ethically oriented and socially responsive firms. So, to conclude, the stages of moral development and the status in the organisational life-cycle can provide information on how a given corporation will perform in social and ethical concerns.[30]

7.1.4 Decision-Maker Personality and Values

Individual managers' personality and ethical values form an important part of a company's CSR interest due to existing managerial discretion: Lead-

[28] Sridhar and Camburn (1993), p 730 ff.
[29] Neubaum et al. (2004), p 336 ff.
[30] Neubaum et al. (2004), p 336 ff.

ers are in general able to considerably shape a company's standing with regard to social and ethical interests – even if standards of "right" and "wrong" crystallize out over the organisational life-cycle independent of individual decision-makers' support, managers can use their discretionary power to speed up such processes, or to give them a certain direction.[31]

Manager personality traits that are deemed decisive include the stage of moral development the decision-maker has achieved himself, more concretely how egocentric or caring her or she is, and, perhaps most importantly, what his or her personal values are. As much as leaders act as drivers for the direction a company takes,[32] personal values, defined as "enduring prescriptive or proscriptive beliefs" about what is considered right and wrong, and what "modes of behaviour" or goals are preferred over others, constitute an "integral facet of human decision-making", and therefore guide every individual's behaviour.[33]

Top executives' value commitments are of particular importance, for it is them who "set the tone" in the corporation and build the framework for organisational strategies and actions,[34] and can put issues on the corporate agenda. They are also most likely the ones in constant interaction with the environment and can detect important emerging stakeholder claims and forces earlier than others. Additionally, their power gives them the discretion to apply "interpretive frames", when deciding which demands and interests to consider in the process of decision-making.

But "CSR champions" can be found on a variety of levels within the corporation, and it is not necessarily only senior managers, who act as "formally appointed or self-appointed agents of change"[35]. Lower level managers have indeed been associated with higher social orientations than middle managers in some studies, and those managers might exercise the most direct impact through supervision "on the task"[36] and transmission of corporate values and standards to employees through personal contact.

Nevertheless top management undoubtedly carries the biggest responsibility regarding values and conduct among their subordinates, as it is part of top leaders' task to coin key criteria for rewards, resource allocation, and strategy formulation through which genuine relevance of social responsibility can be communicated and demonstrated to employees at all levels. Strategic decisions are thus said to reflect the personal background of the organisation's most powerful managers,[37] particularly of the CEO,

---

[31] Neubaum et al. (2004), p 339 ff.
[32] Hemingway (2005), p 235.
[33] Hemingway (2005), p 240 ff.
[34] Neubaum et al. (2004), p 339.
[35] Grojean et al. (2004), p 234 ff.
[36] Referring to a study conducted in Germany. Grojean et al. (2004), p 227 ff.
[37] Ibrahim et al. (2003), p 394.

whose personal values set norms that become “gradually integrated” within the whole corporate culture and all policies.[38]

However, some studies have portrayed the “vast majority” of corporate managers to be “amoral”, or “morally mute”, meaning individuals’ courage to act morally is severely compromised out of fear of marginalisation at work.[39] Still, individuals *can* make a difference, as many positive examples of successful CSR policies and achievements show. They often result from the personal engagement of only a few managers, despite potential risks involved for their personal careers. Such ethical leadership impacts upon organisational members in various ways: On the one hand, interpersonal relationships and role models within the organisation are more effective in conveying message then mere documents, and superiors’ behaviour tends to be imitated (for psychological reasons like admiration as well as out of pragmatic concerns like personal career enhancement). New members, n the other hand, tend to be especially receptive to leaders’ role models, as their example makes up an integral part of their socialization experience.[40]

When searching for more concrete character traits that facilitate a prosocial decision-maker orientation, entrepreneurial personalities come to mind: While “regular” entrepreneurs are associated with SMEs, ”intrapreneurs” or “corporate entrepreneurs” appear also in the corporate setting and exhibit talents like “vision and drive”, creativity, pursuit of innovative ideas from their “development to complete profitable reality”, an affinity for flatter organizational structures, less bureaucracy and more autonomy. This “entrepreneurial spirit” fosters a corporate culture of innovation, and such manager personalities are associated with a high drive for accomplishments and personal fulfilment, rather than monetary or short-term orientation.[41]

Charismatic leaders, for their part, inspire subordinates and encourage excellence through the creation of emotional attachment to the outstanding leader and his or her vision. Such exemplary managers or CEOs often become part of organisational stories, legends and myths, especially if they appeared at an early stage. Charismatic leaders can even more than others affect the hierarchy of values, influence followers’ identification with the organisation and its standards, achieve unique personal commitment by followers, and thereby transform the climate of an organisation to a so-

[38] Desai and Rittenburg (1997), p 796.

[39] Carroll draws the distinction between immoral, amoral, and moral managers. “Moral muteness” as a form of organisational behaviour shown by executives has been infamously proved by the Stanford Prison experiment. Hemingway (2005), p 234 ff.

[40] Grojean et al. (2004), p 226 ff.

[41] Hemingway (2005), p 236.

cially responsible and ethically conscious one. Very rarely, such exemplary leaders instil new values, but rather raise awareness of existing ones and stress their importance to the organisation.[42]

As for corporate giving as a special part of CSR, it is especially dependent on how empathetic the individual decision-maker is: Individual discretion provides him or her with the opportunity to allocate funds in accordance with personal values and judgements. They incorporate their own attitudes and feelings of social desirability in giving decisions, and, not surprisingly, the more socially conscious and empathetic a decision-maker is, the more donations he or she is likely to give. Generally, every philanthropic giving procedure is conditional on the donor's judgement on how "needy" the recipient is, and willingness to give declines if the reason for the "victim's plight" is perceived to be "self-induced".[43] Now, obviously, less empathetic decision-makers will be quicker in their judgement and more intolerant towards the needy, and thus direct no attention, nor funds to their cause.[44] This result indicates that knowledge about CEO or other decision-makers' personal attitudes, especially on how worthy he or she deems certain stakeholder groups for support,[45] allows accurate prediction about whether a firm will be likely to donate or not[46] – a finding that can be of particular relevance for non-profits which plan to address corporate decision-makers.

To sum up, ethically and socially alert leadership remains a crucial part, perhaps even the single most decisive factor for CSR, ranking even before company size or resource availability[47] (at least with regard to corporate philanthropy).[48]

[42] Grojean et al. (2004), p 227 ff.

[43] This might be the sad reason why so long no considerable corporate support for HIV/AIDS victims was felt – another reason might, of course, be the fact corporations tend to avoid controversial issues when donating. Husted and Allen (2000), p 27.

[44] What is interesting to note is that managers with low social conscience do not even donate to the poor if their industry is "predisposed" to do so, like the food industry, where over-supply will have to be destroyed, anyway. Ibrahim et al. (2003), p 395 ff.

[45] Seifert et al. (2003), p 198.

[46] Campbell et al. (1999), p 377 ff[46]

[47] Ibrahim et al. (2003), p 382.

[48] For greater detail on manager personalities please see chapter V.B.

7.1.5 Corporate Culture and Organisational Ethical Climate

Both corporate culture and organisational climate can already give a hint on whether a corporation will take into account external and internal constituencies' and society's interests at all, but they also constitute the basis CSR measures can grow on.

The climate within an organisation serves as an indicator for the system of perceptions, practices and procedures shared among all the members of the corporation, and determines what is deemed "ethically correct" behaviour, and how ethical issues are to be handled within the given organisation. While multiple factors both internal and external to the corporation may influence members' general ethical values, the climate provides with "norms, criteria and expectations of ethical conduct" whilst being a member of the organisation, and might therefore lead to different perceptions of what is right and wrong, acceptable or even expected, when the individual finds itself in the organisation compared with his or her personal life. The climate decides what kind of behaviour is sanctioned or discouraged and determines what kind of employees will be "fitting in" with the organization.[49]

While climate tells "how things are", corporate culture sheds light on the question "*why* things are as they are", namely through shared stories, legends, organisational myths, symbols, rituals or language.[50]

As both climate and culture exercise tremendous impact on the way business is done within a corporation, they constitute key determinants for corporate social (ir) responsibility:

Both the values articulated and modes of behaviour expected influence members' behavioural choices and motivate them to act "in manners consistent with the ethical climate" (and the corporate culture).[51] Therefore, it seems not surprising corporate cultures have been termed the "major source of corporate crime", as many of the company breakdowns and huge corporate scandals have been associated with climates and cultures that placed profits above the most basic requirements of morality,[52] and even encouraged ethically doubtful practices through a "cut-throat mentality" towards competitors with the sole aim of maximising short-term profits.[53] Such corporate climates and cultures can, of course, not be expected to foster CSR, and strongly increase the occurrence and persistence of "anti-

[49] What needs to be said is that an organisation does not have "one" climate, but it can have multiple forms of climates, for instance regarding safety, customer service etc. Grojean et al. (2004), p 225 ff.

[50] Noll (2005).

[51] Grojean et al. (2004), p 225 ff.

[52] Hemingway (2005), p 234.

[53] Grojean et al. (2004), p 224.

social conduct", not only with regard to external stakeholders, but also the detriment of the corporation itself, as interpersonal competition is driven, role distress and group conflict seem almost inevitable, and, in sharp contrast to this, social cohesion is impossible due to the isolation of the self-focused individual members of the organisation.[54]

Even if such CSR-hostile cultures and climates seem to be wide-spread, organisational climate and corporate culture still pose incredible opportunities for enhancing ethical and social consciousness within business organisations, as they may impact strongly on the degree of appreciation of socially responsible decision-making.[55] So CSR can best be implemented with these "tools of organisational design", especially through the building of compatible "shared beliefs, values, norms, and morals of members".[56] Even if corporate cultures are too diverse to extensively be dealt with under the aspect of what kind of culture comprises obstacles, barriers, or drivers for CSR development, some distinctions can be made:

Egoistic or authoritarian cultures foster mechanical structures, asymmetrical systems of communication, mediocrity, and ineffectiveness, while more participative cultures allow for autonomy, communication, negotiation, and compromise. In the latter, dialogue tends to be higher valued, systems are more open and two-way flows of communication bring greater inclusiveness, justice, equality and hold greater potential for innovation – be it in the fields of social or environmental innovativeness, or in general business activity.[57] Furthermore, the notorious "agentic shift", denominating a social phenomenon where individual morality is foregone because "duty" or orders are to be adhered to,[58] is persistent in authoritarian cultures – it is those structures that demand and encourage strict "obedience", sticking with rules, and consecutive shifting of the blame towards the authority rather than proactive and autonomous acting, thinking or moral reasoning of the individual employee.

Entrepreneurial climates, again, carry traits fostering and potentially hindering the degree to which an organisation is socially responsive: They may exhibit "proactive, risk-taking, and innovative tendencies", but are also associated with competitive aggressiveness.[59]

Next to the general type of corporate culture, also the emphasis put on ethical standards and expected behaviour by the culture can be of significance when it comes to the quality of corporate social responsiveness: The

[54] Grojean et al. (2004), p 236.
[55] Bowen (2004), p 312.
[56] Desai and Rittenburg (1997), p 796.
[57] Bowen (2004), p 320 ff.
[58] Card (2005), p 397 ff.
[59] Neubaum et al. (2004), p 340 ff.

more closely connected the value statements are to firm identity and the more prominent the place they hold within the corporate culture, the deeper rooted and present they will be in employees' and managers' minds, and therefore show significant effects in decision-making, especially in ethically difficult situations.

But not only climate or culture type, and their respective rootedness in daily corporate activity determine the likelihood of CSR implementation in a corporation. The interaction between personal values and organisational culture impacts upon their effects to an equally strong extent: The decision-maker's ethical orientation may either lean towards more individualistic or collectivistic personal values, but it is not just his or her values that will decide about CSR engagement. To the same extent decisive is the more or less supportive corporate culture: While a CSR-friendly manager will be active or frustrated conditional on an encouraging or discouraging culture, a less socially oriented decision-maker might silently adapt to the expectations of a CSR-supportive corporate culture and start practicing it, or, on the contrary, remain apathetic towards CSR in case the surroundings are equally little concerned with environmental or social impacts of business activity as he or she is.[60] Incompatible personal orientation and corporate culture or ethical climate may create substantial distress, in such a case negative climate strains a socially responsive manager's patience, he then might turn into a whistle-blower. Managers who think CSR is a waste of time might on the other hand sabotage CSR measures in a favourable climate.[61]

So, the organisational fit between individual employees and executives with the corporation in connection with more or less favourable corporate cultures and climates strongly determine the development of CSR policies and strategies.[62]

7.1.6 Board Composition

The composition of corporate boards is not by coincidence the primary target of most Corporate Governance measures, be they legal requirements or mere recommendations by the state:

Inside directors have sadly proven to show the tendency to tolerate mediocre managements and bad policies, and are thus not fulfilling their statutory purpose, and even less their social and environmental responsibilities. They are threatened to fall into an "operating bias" with regard to

[60] Hemingway (2005), p 238 ff.
[61] Frederick (1994), p 159 ff.
[62] Grojean et al. (2004), p 232.

social strategic planning,[63] and close working relations with executives discourage critical action, not to speak about threats posed by inside directors disposing of stock-options. CEO dominance of boards further enhances this risk of a narrow-minded focus on financial results exclusively, and shortcomings in virtually all other domains.

Contrary to those "creatures of the CEO",[64] outside directors are expected to be more vigilant "overseers" of corporate strategic decisions by governing behaviour of top executives, routinely monitoring management's performance, and ensuring executive functions are properly carried out, and they are known to better block phenomena like golden parachutes and greenmailing. Companies in which the board actively participates in organizational decision-making were found to have a higher financial performance than other firms, therefore active board can be seen as a valuable asset and a major competitive and strategic tool for enhanced corporate (overall) performance. But yet another good reason for the inclusion of outside directors can be detected, namely the fact they are expected to more credibly "form a bridge between professional management and stakeholder groups". Enhanced Corporate Social Performance, and a more balanced view on due responsiveness to external constituencies' claims, as well as a general orientation towards the more discretionary components of CSR rather than mere financial performance, are expected of outside directors.

Furthermore, board diversity thesis states directors with a broad range of experience and interests will be beneficial to efficient board governance and firm performance – and a diverse board ideally consists of owners, non-owning managers, and outside directors. This diversity will lead to the representation of groups traditionally not appointed to boards, and thereby shift the focus from executive and shareholder interests to a broader perspective on stakeholder interests. Overall firm performance is hoped to be enhanced by such a diverse, balanced board firstly through the reduction of excessive compensation and privileges, and thus more just and accurate procedures within the corporation for the sake of all stakeholders, and secondly through the long-term benefits of CSR engagement they may boost.[65]

[63] Coffey and Wang (1998), p 1595 ff.
[64] Ibrahim et al. (2003), p 394 ff.
[65] Ibrahim et al. (2003), p 395 ff.

7.2 Individual Factors

7.2.1 Gender Influence

One of the most interesting questions when attempting to draw conclusions from demographic features on a lesser or greater affinity for socially responsible behaviour is whether differences between women and men are observable:

Sociological studies from the 1970ies portrayed women as human-beings with a "greater sense of commitment to doing things for others", valuing care, empathy, personal relationships and compassion more than men, who would tend to act more aggressively and competitively, and be driven by ambition for money and advancement. This theory, introduced by such capacities as Kohlberg, suggests men and women are fundamentally different in their response to ethical dilemmas when presented with the exactly "same set of conditions".[66] The fact that male and female employees would bring different sets of priorities and values to work should therefore mean men and women differed in their willingness to engage in CSR – women, with their alleged greater sense of care and compassion, would have to put greater emphasis on CSR once in the position of making strategic decisions. This theory is of course dangerous as far as it speaks of "female" thinking or acting, as opposed to "male", indicating biological traits, and thus "nature", would determine (alleged) sex differences once and for all in a lifetime. One would therefore have to make sure these assumptions on differences between women and men are not taken as "biological" features of the two sexes, but are undoubtedly shaped by culture, education, socialization and societal expectations.

Other sociological theories do not take the differences in ethical perceptions and responses to dilemmas between men and women as an unalterable fixed determinant, but state differences occur only if men and women do not experience similar occupational conditions. Socialization of women at work with men might thus make women react "like men" in the long run. Yet another scientific point of view believes women who show character traits opposing their gender stereotype will feel more attracted by "male industries" like the business world – the "self-selection theory" thus objects to speculations on general differences in decision-making behaviour of men and women.[67]

---

[66] Roxas and Stoneback (2004), p 150.
[67] Weeks et al. (1999), p 310 ff.

Extensive research has been conducted to find evidence for one of those theories. However, the results have been mixed and remain quite inconsistent: Many studies have not found any differences between male and female decision-makers in ethical nor social regards, while others have done so under certain circumstances:

Female business students have been found "more sensitive and less tolerant" of general unethical conduct, but no gender differences could be detected regarding *business* rules on ethics, which may confirm the theory on socialization in the work environment and prove women and men react similarly when given the same education. What is especially stunning in this regard is that studies among IT students showed no gender differences at all in contrast to business students – a "male"-dominated environment thus seems to counteract the potential differing predispositions resulting from general socialization.[68] Other US studies yielded the results males are more likely to engage in controversial behaviour, and twice as many males as females would skirt company rules.[69] These differences in behaviour and ego-centrism are very likely to result from general socialization that, from an early age on, accepts or even encourages aggressive male behaviour, while for aggressive female behaviour the opposite holds true. In perfect accordance with these findings, women were found to have higher ethical judgements when asked about violating environmental standards, ignoring product safety issues, granting unacceptable CEO compensation increases, bribery, corporate espionage, and impartial promotion practices.[70]

Nevertheless, differences that could be detected in some US studies still do not hold for women and men in general, as culture seems to be a much stronger determinant: In multicultural studies, women in Western countries were found more ethically sensitive than men, but for Chinese and Thai studies, the opposite result holds true, and those men were proven more ethically sensitive and caring.[71] These findings give more credibility to the viewpoint gender differences are in fact constructed by cultural expectations, and boys and girls are educated in the way society wants them to be.

Furthermore, initial differences in ethical judgements among male and female students, most probably caused by different upbringing, have also shown to decrease with the amount of work experience gained, indicating

---

[68] Roxas and Stoneback (2004), p 151.

[69] Ameen, Guffey, McMillan (1996), and Betz, O'Connell, Shephard (1989), respectively. Roxas and Stoneback (2004), p 152.

[70] What has to be mentioned is that in some fields also males were found more sensitive, for instance with regard to copying computer software or collusion in bidding situations. Weeks et al. (1999), p 307.

[71] Roxas and Stoneback (2004), p 157 ff.

similar experience and knowledge do indeed balance different "starting points" between the sexes.

Another reason for today's studies showing no considerable gender differences could lie in the fact that a large proportion of females works alongside men today, and traditional gender stereotypes have had to be rethought.[72] But besides gender stereotypes that have simply proven wrong, the "apparent narrowing in the "differential between female and male ethical perceptions" might also be a result of the major social changes that have occurred in the past decades: Women now have work experience consistent with men's, which was definitely not the case in the 1970ies, when most sociological theories on "female" and "male" ethical reasoning originated, and therefore now share more of the socialization men have always experienced.[73]

Some specific differences between male and female managers are likely to persist, namely women's greater favour for fairness in rewards, remuneration and promotion,[74] but these differences are clearly associated with experiences of discrimination and injustice inherent in the business world, as a consequence of the biological sex rather than determined by it. Such greater sensitivities toward just promotion and remuneration practices are likely to be found to an equal extent among managers of colour or minority descent, who face the same problems in the corporate world. It therefore comes as no surprise that sex is a significant factor when predicting attitudes toward job-hiring and job-promotion practices, and women were found especially sensitive to the hiring of friends, less qualified candidates, and allocation of higher bonus or compensation payments according to "informal" power structures, namely the "old boys networks".[75]

Given the fact experienced injustice and unfairness considerably shape people's way of feeling and thinking, in gender-biased professional surroundings females with a certain amount of work experience are almost certainly highly sensitised for issues of just labour relations and exploitation of human potentials within corporations without ethnic or gender bias. Corporations might therefore want to make use of qualified women's experience in advancing the actual implementation of corporate values statements that almost invariably state non-discrimination and equal opportunity as a priority. Female executives could thus function as ideal "agents of change", as there is "no substitute to living through a personal experience of discrimination".[76]

[72] Weeks et al. (1999), p 302
[73] Serwinek (1992), p 562.
[74] Luthar et al. (1997), p 214 ff.
[75] Weeks et al. (1999), p 307.
[76] Serwinek (1992), p 563.

7.2.2 Cultural Background

Culture forms the primary framework for ethical perceptions,[77] so individuals from different "traditions, heritages, rituals, customs or religions" will show significant variations in the perceptions of right and wrong, acceptable or unacceptable, ethical or unethical even given similar settings, and are therefore likely to respond differently due to the cultural norms they have been shaped by.[78]

Hofstede's typology of cultures can be used in order to show the different dimensions in which culture can affect work-related managerial decisions. According to him, four basic dimensions coin an individual's cultural orientation: The amount of *power distance* indicates the extent to which the unequal distribution of power, relations of superiority and subordination between followers and leaders, and the latter's entitlement to privileges are accepted. *Power uncertainty* refers to the degree of need for clear "hierarchical structures, written rules and procedures, and intolerance towards deviations from standard practices", and of unease with uncertain or ambiguous situations. The extent of *individualism* prevalent in the culture obviously stands for the importance attached to the pursuit of self-interest, self-actualization, self-expression, and the existence of loose ties only between individuals. Whether a culture be characterized by "*masculinity*" or "*femininity*" in the sense of Hofstede is determined by the weight placed on values like achievement, material success, recognition, placement of one's own interests above the ones of the organisation on the one hand, or modesty, humbleness, responsibility and care for others on the other hand.[79] *Confucian dynamism* is a fifth criterion that was added later to Hofstede's cultural typology and stands for firm conformity to social norms, otherwise felt shame and guilt, and a strong need for order in relationships, group consensus and cohesion.

Implications for corporations, especially multinationals, are diverse: Problems regarding ethical standards are likely to arise once a conflict of interest is detectable between the individual and the corporation. In highly individualistic and "masculine" cultures, individual employees or execu-

---

[77] Roxas and Stoneback (2004), p 149 ff.

[78] Lu et al. (1999), p 91 ff.

[79] Roxas and Stoneback (2004), p 150 ff. It is important to note that "masculinity" and "femininity" shall not be understood in strict categories of patriarchal or matriarchal structures within a culture: Saudi Arabia is classified as a "feminine" culture due to the high value assigned to care and responsibility for others, respect for sensitivities, and the requirement of modesty. Please note that also Chinese men were found to be more caring than Chinese women in: Roxas and Stoneback (2004), p 157 ff, so Chinese culture might also show traits of so-called "femininity".

tives will not easily have themselves influenced or guided by codes once their personal advancement is at stake. If these cultures also show less affinity for clear and structured procedures to be adhered to, and less reluctance toward uncertain or ambiguous situations, CSR policies clearly operate in a more difficult environment, and better reasons for employees to adhere to the guidelines and respect the core values will have to be found than a simple "because that's the way it is" reference to hierarchical and discretionary power settings. Employees belonging to more collectivist cultures will react better to exactly this last point rejected by individualist cultures: Rules are to be kept at all times, and shall under no circumstances be broken, any ambiguous behaviour or situation that would create uncertainty is therefore to be avoided. The members of the organisation rely heavily on employers' authority and quality of decision-making, and owe them obedience, respect, and maintenance of loyalty. The extraordinary importance attached to interpersonal relationships that generally outweigh personal interests, paired with the strong sense of duty and obligation, may constitute a safeguard against unethical practices: Fair treatment is crucial for avoiding shame, group cohesion remains the most important good.

However, to paint everything in black and white is certainly too simplistic. The huge disadvantage of collectivist systems is that rules, and adherence to them, are of intrinsic value, and even ethically doubtful guidelines might not be challenged by members of the organisation. Reluctance to think autonomously or even contrary to orders issued by lawful authorities might prevent members from acting in truly socially responsible ways, but rather make them feel helpless when faced with ethical dilemmas where there is no strict procedure to adhere to.[80]

This capacity of free thinking and individual moral reasoning is, then again, a trait of more individualistic cultures, which can be useful to CSR, and key employees can bring about considerable progress on their own, dependent on their strength of ethical decision-making.[81]

7.2.3 Minority Background

(Ethnic) Minority questions have been examined for their relevance to CSR almost exclusively for the US; and here mostly with regard to the black minority:

CSR was found to look back on a long tradition within the black community, and surveys conducted by the Wall Street Journal have come to the conclusion black business owners and decision-makers are considera-

[80] Lu et al. (1999, p 92 ff.

[81] Lu et al. (1999, p 102.

bly more philanthropic in their business activity than others. 86% of black business owners perceive "giving back to the Black community" as a responsibility, and they dedicate both monetary funds and time to philanthropic activities within the community. A major focus is hereby placed on youth activities, speaking engagements, participation in community events, provision of free services to community members, and advice to other minority-owned firms. What is especially stunning for researchers is the fact that priorities for CSR vary to an outstanding extent between black and other decision-makers: Ethical responsibilities are perceived to be more important than legal ones, and significantly greater emphasis is put on philanthropic responsibilities by black than other managers would do.[82] This might be either due to a much more pronounced ethical orientation, or a consequence of lost confidence in the state and its laws resulting from past experience of isolation, discrimination, and disadvantage.

For other minorities than African Americans, like for instance Asian or Middle Eastern minorities in Europe, no research is available so far, but the US findings are very likely to be generalisable for the following reasons: Ethnic or racial minorities face similar difficulties, a hostile environment marked by low social status and income, feelings of exclusion, and perceived or actual barriers for advancement. Out of this feeling of isolation, attachment to the community and a strong feeling of belonging there seems natural, no matter what minority is concerned. As managers generally tend to support causes they are personally affiliated with, and personal experience is a major driver for action, managers belonging to certain communities might feel more strongly inclined to take on some kind of social responsibility with regard to them. Corporations actually make use of this "minority knowledge" and unique experience, especially the ones who have a large proportion of black employees or other ethnic minority stakeholder groups by appointing black directors to their boards, probably not only for representation and general board diversity purposes, but also for having someone "aboard" who better understands the experiences of members of ethnic minorities, and is more likely to show social responsiveness towards them, also to the benefit and enhanced reputation of the corporation.

7.2.4 Religious Background

An interesting individual and cultural factor that may exercise strong influence on decisions for CSR measures is religion, and the respective degree of religiousness of decision-makers.

[82] Edmondson and Carroll (1999), p 171 ff.

One might think religious convictions potentially facilitate ethical engagement, as values like giving, caring for the weak or disadvantaged, and compassion are inherent in all of the world's major religions. Honesty, loyalty and fair treatment of internal and external constituencies may be upheld out of religious convictions, and values as discipline and work ethics, sometimes associated with "Protestant capitalism", might lead to greater economic results out of religious conviction.

Research indeed confirmed higher income of religious people in some cases, yet not generalisable for members of all religious traditions: Jews do indeed show an earning premium, but this might be more of the result of socio-economic settings,[83] rather than out of religious reasons. Christians generally also show a higher income than followers of other religions, especially of Far Eastern ones. However, no earning premium is detectable between Catholics and Protestants, which might be a result of Christian faiths' general compatibility with the pursuit of growth and material gain, and the inherent encouragement for wealth creation as long as it happens within ethical boundaries, a principle that is equally known to Judaism and Islam. Far Eastern philosophies, on the contrary, generally repudiate the pursuit of material advantage, as well as attachment to "the here and now", and therefore seem less "compatible" with economic philosophies.[84]

Not only work ethics, growth and profitability may be enhanced through the adherence to religions like Judaism, Christianity, and Islam, studies have so far shown more religious managers tend to be "more socially and humanistically" oriented, less "self-actualizing" or merely economically motivated, and more interested in ethics. Generally, the knowledge about ethics is higher among religious decision-makers.[85] Also charitable giving should tend to increase with the degree of religiousness, as care for the more disadvantaged is favoured in all major religions – Islam goes even further and sets a percentage of yearly income that has to be donated as a duty of the believers. Also in terms of social investment, studies have shown Jewish business owners to be more likely to invest into human capital. However, this might rather be a result of "past expropriation experiences", than of actual religious convictions.

Still, religious managers tend to be more predictable in the sense of not engaging in corporate fraud or wrong-doing, it has been empirically proven they are less economically motivated and may therefore spend more money and time on social issues, be it in the sense of strategic CSR

[83] For instance, isolation and close cohesion within communities, also caused by historical isolation and exclusion, might foster better results within the religious community.
[84] Lam and Hung (2005), p 200 ff.
[85] Lam and Hung (2005), p 204 ff.

programs or perhaps to an even greater extent for corporate philanthropic giving.[86]

Understanding religions, their underlying ethics and priorities within the respective value systems should become a top corporate priority, anyway, on the one hand for knowing how to deal with managers of certain religious traditions, inter alia, in negotiations, or for better determining what kind of products to offer to their markets. But religious feelings and convictions are also crucial in the "newer" field of CSR, when a company wants to position itself as a "good citizen"; for instance in a Muslim country, it has to be highly sensitive and familiar with the different priorities in values and ethics.[87] Such considerations will become ever more important for multi- or transnational business activity, not only for predicting and making use of social and ethical orientations of individual managers and decision-makers, but also for enhancing business opportunities through a socially responsible corporate image on an international scale.

7.2.5 Ethics Education

Many scholars have already stressed the importance of the "schooling effect", meaning more ethical business attitudes and behavioural patterns can be achieved through the "positive effect of moral education" in the first place.[88] Therefore, 90% of US business schools provide courses on business ethics now – however, these courses are not mandatory, and therefore reach but a specialized segment of business students.[89]

One reason for its insufficient implementation in business school curricula lies in doubts concerning the overall benefit created through such ethics education, as the empirical evidence for its impact is quite inconsistent. Some studies have shown positive effects, others could not do so, but have rather found little change in attitudes after the completion of ethics courses.[90] Nevertheless, more distinction seems appropriate when judging the value of ethics education, as the mixed results yielded by research have shown significant impact of such courses depending on *what* is taught and *to whom.* Ethics instruction sensitises business students to ethical issues, and it is has been proven capable of affecting their behaviour *at the margin*. The earlier such ethics sensitisation, the more effective it is likely to be, as the more progressed students are in business education, the less they

[86] Lam and Hung (2005), p 199 ff.
[87] Rice (1999), p 356.
[88] Lam and Hung (2005), p 208.
[89] Luthar et al. (1997), p 208.
[90] Lam and Hung (2005), p 208.

believe in the positive implications CSR offers to business.[91] This might be due to various reasons, first of all either wrong education and priority setting in business schools with an over-emphasis on financial results, or students might become cynical due to their initial work experiences. Another reason might be younger students today might have been socialized with the importance of CSR to a different extent after the major corporate scandals than more senior students had been at the time they had enrolled in their respective institutions. Furthermore women showed a greater impact of ethics education on their attitudes and behaviour than their male counterparts did.[92]

Anyways, to render ethics education less superficial and more powerful, it should be granted greater attention by business schools and become integrated into all business studies and core subjects as accounting, marketing, finance, where it could give students hints at what kind of ethically ambiguous situations they will likely face in their professional reality, and what kind of impact their wrong decisions might have on "real" peoples' lives.[93] Such "core ethics education" would be truly apt at *socializing* business students in a different way, something that is not Utopian thinking, but rather becoming a standard in professions that have seen major recent scandals. For instance, the accounting profession seems to be in a period of re-positioning, and organisations like the Association for Integrity in Accounting aim at rendering education and "on the job"-training more focused on questions of ethics, honesty and transparency, probably largely due to the fact recent and major corporate scandals would not have been possible had accountants shown greater courage and responsibility.[94] Increasing importance is thus now attached to awareness-raising, education and internalisation of values and principles, both during, and now even after the completion of formal education through ethics trainings whilst already carrying out one's profession.[95]

To conclude, substantial evidence suggests professionals who have been exposed to ethical issues, dilemmas and "close-to-reality" problems in courses show increased ethical sensitivity and are more likely to believe that "good ethics are positively related to successful business outcomes",

---

[91] Luthar et al. (1997), p 208 ff.

[92] Luthar et al. (1997), p 214.

[93] Role plays have proven highly effective in this regard: For instance role plays presenting the Challenger decision dilemma to students, without giving its name, of course, can raise great awareness about the fact wrong business decisions can impact lives and existences of "real" people. Kuhn (1998).

[94] Crowther (2004), p 245 ff.

[95] Cullen et al. (2003), p 138.

even if the degree of impact may differ according to demographic attributes like age, stage of education, or gender.[96]

7.2.6 Other Demographic Factors

Demographic attributes aside gender and cultural or religious background have likewise been examined with regard to their impact on individuals' social orientation: Years of work experience, career stage,[97] age, marital status, or income are likely to impact upon an individual's friendly, indifferent or hostile perspective on CSR.

As far as income is concerned, at least in some parts of the world a positive relation with socially and ethically responsible behaviour has been proven, and interest in ethics tends to be more pronounced for people with higher income, interestingly disconnected of cultural or religious background.[98]

Age, amount of work experience and career stage achieved are, of course, highly interconnected categories: Younger managers show the tendency to be more "liberal" concerning what is or is not ethically acceptable, and might therefore be more likely and willing to compromise standards, or set their personal standards of ethical conduct lower from the beginning for the sake of advancing quickly. They tend to assign less importance to values as trust, integrity and honour, and more importance to money and their own career. It is therefore not surprising that early career stages with their strong competitiveness and promises of high pay-offs for superior performance show a significantly positive relation with "Macchiavellian" orientations, while increasing age, work experience, and higher career stage tend to foster stronger ethical orientations.[99]

Aside these preoccupations with monetary benefits and career advancement, another reason for the differences between younger and older employees or managers could lie in the fact the latter are more solid in their own convictions with growing age, while the younger ones are still all too easily pressured by a wish for peer acceptance, and influenced by their immediate superiors. This can lead to ethically doubtful actions, especially

---

96 Luthar et al. (1997), p 215.

97 The stages of career development are defined as exploration in the early phase, followed by establishment, maintenance, and disengagement towards the end of the career. Weeks et al (1999), p 305.

98 The examined country is China, so the results might not be generalizable without reservations: Chinese culture puts a specific emphasis on the responsibilities of the wealthy towards those that are not so „well off". Lam and Hung (2005), p 201 ff.

99 Luthar et al. (1997), p 207 ff.

if huge emphasis is put on standards of performance, and of course even more if supervisors are not modelling high standards and have a compromising interpretation of ethical standards, even if the individual employee does not share them – at first. Reasons for older and more established decision-makers to become more and more conservative and uncompromising in their ethical values can be found in their self-esteem of past achievements, reduced competitiveness, and increased security in their position, but also to the longer period of time they have been "exposed to ethical norms", and the experience they have been able to gain through observing both ethical and unethical behaviour[100]. This last point, on the other hand, also increases their attention to ethical guidelines and fear of breaching them, as they do not want to jeopardize their secure position, and are better aware of the fact unethical conduct might be "disruptive to their status quo" – so they basically have more to lose than younger decision-makers, who are just about to climb up the corporate ladder.[101]

Other demographic attributes like marital status or parenthood have not shown impact on decision-makers' ethical perceptions, so clearly age and some other characteristics like work experience and career stage constitute the greatest demographic influences on the likelihood of openness to CSR among corporate decision-makers besides culture.[102]

7.3 Environmental Factors

7.3.1 Industry Attributes

Research has found the "industry effect" to be significant for the strength of CSR,[103] meaning different industries vary greatly with regard to their prevalent CSR orientations: While some industries dispose of semi-mandatory codes of conduct,[104] others remain so marked by fierce competition and aggressiveness that there is little or no room for CSR at all.[105]

One of the crucial factors for industry-specific CSR conditions is industry complexity, as high complexity poses specific challenges to the firm operating in it, and companies there have a tendency to rely more heavily

[100] Weeks et al. (1999), p 303.
[101] Serwinek (1992), p 560 ff.
[102] Serwinek (1992), p 565.
[103] Elsayed (2006), p 305.
[104] Husted and Allen (2000), p 26.
[105] Neubaum et al. (2004), p 345

on well-established structures and formal policies.[106] So, if firms decide to attach importance to CSR in highly complex environments, they are likely to do it “the right way”. Another key element is the differentiation of the industry, as the more differentiated an industry is, the more likely firms are to “resort to CSR” for attracting consumers.[107] This can be observed, for instance, in the food or cosmetics industry, where differentiation and enhanced appeal for consumers are extremely difficult to achieve next to uncountable similar products, so that ethical or social features can open up valuable new opportunities for “unique and compelling [product or service] benefits”.[108]

Furthermore, in an ever changing industry CSR may be a top priority to help the corporation adapt to ever new challenges.[109] As for the industry life cycle, firms in an emerging industry with a high proportion of new firms encounter the drivers and obstacles already mentioned for individual new firms: The emerging industry has little professionalised or formalized structures, and processes,[110] which might hinder the development of CSR on the one hand due to this lack of professionalism, but on the other hand an emerging industry might well dispose of more innovative “verve” boosting CSR within that industry.

Also characteristics and the respective strength of the industry leader are highly relevant for the CSR climate within the industry:[111] Near-monopolistic leaders might be in the position to exploit their power without having to fear sanctions, and pursue highly aggressive competition that is primarily directed at driving rivals out of the market. In contrast to such a type of industry leader, leading firms, which nurture CSR, might exercise a strong positive impact on the whole industry through the guidelines they implement. With such a “role model” industry leader, “positive” competitiveness with emphasis on better or more innovative product features rather than “cut-throat” competition is more likely to prevail, and thereby shape the whole social and ethical climate within the industry.

7.3.2 Competitive Environment

The competitive environment as a pre-determinant of CSR is closely connected to industry characteristics, but it is much broader: Environmental factors can on the one hand affect ethical perceptions and judgement

[106] Grojean et al. (2004), p 229.
[107] Elsayed (2006) 302
[108] Lin and Lin (2006), p 94.
[109] Bowen (2004), p 316.
[110] Neubaum et al. (2004), p 339.
[111] Lin and Lin (2006), p 94.

through cultural factors, the professional or industrial environment,[112] but also independent of values shared in a given setting environmental factors may serve to facilitate or hinder firms' social responsibility aspirations:

Within competitive environments which are branded with high uncertainty and dynamism, and thus change fast and in unpredictable manners, corporations may on the one hand feel the need to exploit CSR as an instrument of ensuring protection and support from stakeholders as a means of better shielding themselves at least from some uncertainties. CSR initiatives creating, for instance strategic partnerships with key stakeholders, can thus be seen as stabilizers in highly uncertain or dynamic environments. But the high uncertainty may, on the other hand, put the firm under so much pressure that it finds itself unable to fulfil interests other than its own, or dispose of no slack resources, which could be utilized for CSR efforts. Furthermore, a company is certainly better able to identify its key stakeholder groups[113] and to "internalise ethical norms" in a stable environment. But lack of stability could also exercise a positive effect on CSR orientations and adherence to ethical norms, as highly litigious environment like the US, where firms are "keenly aware of the importance of ethical behaviour", may coerce corporations to live up to higher standards of morality and justice benefiting, again, CSR.[114]

As for greater distinction on the nature of competitive contexts and business environments, they can be as diverse as climates within organisations. Very simplistically, they can be constructive in the sense of creating win-win arrangements through reliance on innovations and competing on the basis of value creation for customers. Clusters, and to a lesser extent also strategic alliances or partnerships, certainly create such favourable environments, where a variety of interests can be taken into account.

In contrast to this, a highly aggressive or hostile competitive context can rather be aimed at win-lose frameworks, where either rivals compete just on the basis of taking market shares from other participants on the market, or on trying to lock consumers into systems.[115] Other unethical practices may include aggressive competitive analysis, where rivals are observed with intelligence methods to outsmart and outperform them later. Such an environment where deliberate efforts to harm competitors[116] are undertaken must be quite detrimental to CSR in the first place, but then again individuals willing to change could understand such kind of competition as harmful to the free market and damaging to careers and corporate reputa-

[112] Roxas and Stoneback (2004), p 149.
[113] Goll and Rasheed (2004), p 44 ff
[114] Ibrahim et al. (2003), p 398.
[115] Lin and Lin (2006), p 95.
[116] Zahra (1994), p 53 ff

tions, which, again, may lead them to the conviction laying the basis for fast CSR development within their environment would be beneficial.

Generally, firms are quick to put the blame for unethical conduct on their environment, mostly competition is allegedly responsible for their compromising standards of behaviour,[117] but what they clearly neglect is the fact CSR may provide them with unique opportunities to (better) survive in fierce competitive environments, rather than just incur costs.

7.3.3 Governmental Regulation and Incentives

The public hand can at any time use its discretionary power to enforce or encourage more socially or environmentally responsible corporate behaviour:

It can either exert its authority with negative incentives, which are aimed at punishing unlawful behaviour, or through more positive incentives, and thus rewards to corporations for desired behaviour. "Punitive" incentives have the advantage of making disapproval for actions very clear, but governmental surveillance, investigation and prosecution incur high costs for society at large.

Only in recent years, sharper government legislation with regard to CSR and CG has been developed in most industrialised countries: Companies are pressured through (mostly soft) law[118] to establish written documents ascertaining their ethical standards and conduct. In the US, the lack of such written documents can even have severe consequences now: The "Federal Sentencing Guidelines for Organizations" state corporate directors can be held accountable for employee wrong-doing already if no "effective compliance program" or compliance standards "reasonably capable of reducing prospect of criminal activity" have been in place prior to the offence. Furthermore, the Sarbanes-Oxley Act 2002 requires publicly held companies to disclose whether they dispose of a code of ethics or not – in case they do not, they are obliged to explain themselves on the reasons for this non-compliance. Finally, the NY Stock Exchange and Nasdaq Stock Market require companies listed with them to adopt and disclose their code of ethics.[119]

More positive incentives to encourage desired behaviour, which comprise, up to now, almost exclusively the establishment of private rather

[117] Hemingway (2005), p 241.

[118] In most countries, soft law provisions are in place with regard to CG, which means non-compliance does not lead to criminal prosecution, but causes the need to explain why the firm does not want to comply – without any "real" sanctions designated by most of those soft law provisions.

[119] Schwartz (2004), p 323 ff.

than public compliance systems, reduce the incidence of unlawful or unethical behaviour by making it advantageous to the corporation to do so (without raising the costs of better compliance for taxpayers):[120]

Positive incentives include announced amnesty policies for self-reporting,[121] the grant of mitigating circumstances in criminal prosecutions on sexual harassment at work, if *meaningful* corporate policies against harassment were in place prior to the wrong-doing. Similar provisions exist for liability according to the Foreign Corrupt Practices Act, where internal control systems and meaningful policies against bribery may also shield the corporation from criminal prosecution in the case of employee wrong-doing. Apart from that, powerful incentives for efficient corporate self-regulation can also be provided through the ease of inspections for firms that voluntarily comply with environmental guidelines above the legal minimum requirements. The firms can on the one hand advertise their certified status of voluntarily submitting themselves to a stricter environmental protection regime, on the other hand both corporations and authorities can save on the costly inspections.[122]

Public bids constitute one particular component of positive incentives that can form a highly effective instrument for achieving desired corporate conduct: Through laying down strict rules on what a company has to do with regard to CSR or CG, the government can debar firms from their eligibility for future government contracts. An example for such an approach is the US Ministry of Defence's contracting policy, which requires firms it collaborates with to install corporate codes, put effective mechanisms in place to ensure those ethical standards, and have them externally verified and periodically reviewed. Such government severity for dealing with CSR certainly constitutes a powerful instrument to make private firms alter their behaviour without incurring additional costs for the national budget. [123]

An additional positive effect of governmental incentives is the awareness-raising effect among corporate representatives:

Not only are the authorities signalling they have started taking notice of business practices or circumstances they consider undesirable, and are in principle prepared to take increased action against these patterns of behaviour, such positive incentives undoubtedly contain an imminent threat of future regulation. So corporations can be "helped" to understand the issue in question is one that is dear to the government, and becomes notorious

[120] Ruhnka and Boerstler (1998), p 309 ff.
[121] Ruhnka and Boerstler (1998), p 314.
[122] Referring to the EPA guideline system in the US. In case an incident occurs, the corporation is of course held liable for it, and that to an even sharper extent. Ruhnka and Boerstler (1998), p 317.
[123] Ruhnka and Boerstler (1998), p 315 ff.

with the media and thus the larger public through the increased government focus on it. Corporate representatives will be better off to engage in voluntary self-regulation soon rather than to remain inactive for too long a period of time, and thereby risk having to submit to binding, and perhaps stricter, regulations later; at the greater cost quick and short-term adaptation to changed legislation means, without drawing the benefits out of voluntary and early compliance with arising social or environmental issues, just to name positive media coverage for pioneer engagement, benevolent government and stakeholder relations, and the building or reinforcement of an "innovator" reputation.

8 Conclusions

The goal of this book was to have a differentiated look at CSR under two main aspects:

First of all, to examine civil society expectations on corporate behaviour from a generally corporation-friendly point of view, acknowledging much of the civil society activism and "corporation bashing" is not objective, and often demanding not only enough, but virtually the impossible of private businesses, namely combating social ills from illness over poverty to increased social and distributive justice. As many CSR advocates fall into this trap, much of the CSR demands are biased, and are therefore not "workable" in corporate settings – something this work tried to avoid. But also corporate viewpoints and pragmatic to neo-liberal perspectives are dealt with critically:

Resistance to increased legislation against corporate fraud and wrong-doing brought forward by arguments like the "stubborn non-compliance" of corporations so far had shown legislation would not be an effective instrument seems highly doubtful from a democratic point of view: Non-compliance with basic laws must not have leaders shrug their shoulders, and abandon their claims for the sake of "voluntary compliance", but to sharper, maybe multi-dimensional action. It can never be reason enough to outright abandon the idea of sharper punitive measures in the face of massive wrong-doing and immense damages to populations, citizens, investors, employees and thus whole societies.

Many economists have long advocated the need for greater societal accountability of large corporations and their agents, and proven many neo-classical assumptions wrong, above all with regard to the failure of markets, when public goods like the (clean) environment are concerned, and insofar as corporations have grown so large that many assumptions of classical economy, like perfect knowledge and contracting freedom among individuals, have largely been rendered inapplicable.

Corporations themselves have not seen the signs of the time for far too long, with the exception of some prominent counter-examples, and have therefore had to see trust and images eroded, not only of the corporations actually engaged in scandals, but also of the whole corporate system. Given general perceptions on the amorality of corporate executives and deeply rooted distrust, corporations undoubtedly feel the need for action to regain trust of society it is so fundamentally dependent on. The measures taken already, especially the development of corporate codes of ethics is a well-received first effort, and not negligible: The most notorious wrong-doers have arrogantly rejected even this very basic concession to ethics and social responsibility: Bernie Ebbers, scandalous World.Com CEO called employee efforts to implement such a code a “colossal waste of time” – with the well-known consequences to countless stakeholders harmed, but also to the corporation that finally collapsed. So, rather undoubtedly and generally agreed upon, corporations carry responsibilities, as they do not only oftentimes let employee or executive wrong-doing happen, but some organisational climates even encourage such behaviour. Corporations therefore cannot remain value-neutral, but have to clearly lay down the acceptable guidelines for behaviour, and assume their fundamental responsibility to enforce it on all levels of the organisation.

Besides corporate codes as a first step, more comprehensive and above all *qualitative* measures have to be taken – CSR shall be recognized as something dynamic that should be filled with meaning for ever new emerging needs, issues and concerns.[1] Further room for action is observable in the disclosure of social and environmental data – as US regulation, and stock exchange rules, respectively, have proved such disclosure can quickly become mandatory, and it would certainly constitute a step forward with regard to living up to the lip service paid through codes of conduct.

Generally, more objective assessment of corporate allegations and affirmations regarding social and environmental engagement is crucial – so far, CSP is more about how well a company markets its engagement and values, and not so much about what is actually being done.[2] Therefore it is time for corporations to present also measurable outcomes;[3] social and environmental accounting and auditing promise to bring this issue further in the future.

But the primary goal of this paper was to show CSR can bring substantial benefits for the corporations themselves – the fact short-sighted views like “only the shareholder has a right to know me”[4] are now rarely voiced by managers shows this message seems to have come through already. The argument of shareholder wealth as a primary duty, and therefore barrier to CSR, can be refuted easily, as it has been demonstrated: Firstly, shareholder wealth definitely decreases when firms act in socially irresponsible

[1] Freeman coined this saying for stakeholder management, but it seems equally valid for CSR. Hummels (1998), p 1403 ff.
[2] Elsayed (2006), p 301.
[3] Ruhnka and Boerstler (1998), p 325.
[4] Hummels (1998), p 1405.

or illicit manners.[5] Secondly, the economic benefits of CSR engagement manifold: Substantial opportunities include the generation of considerable competitive advantage, intangible assets, unique product offers. But also advantages rarely associated with CSR shall be named, that is to say having a lead for strategic alliances or Public Private Partnerships, and providing ways out of corporate crises. Also fields as unpopular among some powerful business circles as equal opportunity employment should be considered to an increased extent, on the one hand because little things are so damaging to reputations as trials for unjust dismissal, sexual harassment, or discriminatory hiring or promotion practices with regard to women or minorities. On the other hand, benefits resulting from a diverse, multicultural workforce shall not be neglected, and discrimination has proven to incur costs to the victim, but also to the perpetrator, measurable in potential damage payments, but also in losses concerning potential and talent.[6]

The analysis concerning institutional, individual, and external factors has shown the ground for CSR efforts can be influenced in multiple ways, through diverse internal and external determinants either to the benefit, or to the detriment of corporate responsibility.

Two interesting findings are especially stunning: Firstly, the fact that fierce competitive environments might actually be better manageable through CSR, which proves general assumptions CSR can only be "afforded" if in a stable and secure position wrong, and rather indicates a different, perhaps more successful way of competing. Secondly, firm size has been proved fundamental, in the sense that small and medium enterprises do not engage in CSR due to their difficult situation and struggle for growth, or even for survival. This carries with it an important implication, namely that CSR is an important approach to positively impacting upon the business community for considering harm done to society at large, but in its given definition it covers only a minimal part of private businesses: In Europe, only 0.2% of private businesses are large companies. SMEs, on their part, account for most of the economic growth and prosperity in the private sector, and increased attention should be awarded to them. A broader concept might have to be introduced, perhaps in the sense of the French term for CSR which literally translates into "Social Responsibility of the Enterprise".[7]

To conclude, the 21st century holds many challenges for global business that will find itself increasingly intertwined with global political, social, environmental issues and forced to "redefine its role as a powerful actor

[5] Goll and Rasheed (2004), p 41 ff.
[6] Litz (1996), p 1360.
[7] *Responsabilité Sociale de l'Entreprise (RSE).*

within the new world order”,[8] and modern managers will see their performance judged also dependent on their “artful skills” to do the splits between making a profit, and not doing harm to society surrounding the firm, and to present ”creatively presented, attractively packaged solutions”[9] to problems that might lie outside the traditional scope of corporate managers’ tasks.

[8] Loza (2004), p 298.
[9] Kuhn (1998), p 302.

References

Monographs

Allhoff F, Vaidya A (2005) Business Ethics –Ethical Theory, Distributive Justice, and Corporate Social Responsibility. Vol 1. Sage Publications Ltd

Beesley M, Evans T (1978) Corporate Social Responsibility – A Reassessment. Croom Helm, London

Crowther D (2004) Perspectives on Corporate Social Responsibility. Ashgate Publishing

European Commission, Directorate-General for Employment and Social Affairs Unit D.1, Manuscript (2004) Corporate Social Responsibility National public policies in the European Union Series Employment and social affairs – Industrial relations and industrial change

Fietz G, Schadhauser W (2004) Soziale Verantwortlichkeit in Unternehmen – Erfahrungen mit „Corporate Social Responsibility“ (CSR) in Deutschland. Bertelsmann, Bielefeld

Harvard Business Review on: Corporate Responsibility. (2003) Harvard Business School Press

Kastner, Doralt, Nowotny (1990) Grundriss des österreichischen Gesellschaftsrechts. Edn 5. Manz, Wien

Köppl P, Neureiter M (2004) Corporate Social Responsibility – Leitlinien und Konzepte im Management der gesellschaftlichen Verantwortung von Unternehmen. Linde, Wien

Kotler P (2002) Marketing Management. Edn 11 (international). Prentice Hall

Kotler P, Lee N (2004) Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause. Wiley

Noll J (2005) Rechtsökonomie.Verlag Österreich

Stern J (2004) Corporate Social Responsibility – Handlungsanleitung zur Umsetzung von gesellschaftlicher Verantwortung im Unternehmen („CSR-Leitfaden“). Österreichisches Normungsinstitut (Austrian Standards Institute)

Wallner HP, Schauer K, Kresse D (2004) Erfolg mit der Business Agenda 21 – Nachhaltige Wirtschaft und Corporate Social Responsibility. Oekom

Walton CC (1999) Soziale Verantwortung von Unternehmen. Murmann (originally: Walton CC (1967) Corporate Social Responsibilities.)

Wieser C (2005) Corporate Social Responsibility - Ethik, Kosmetik oder Strategie?. Über die Relevanz der sozialen Verantwortung in der Strategischen Unternehmensführung. LIT

Journal Articles

Acha V, Martin L (2005) Not what you want to hear. Business Strategy Review, Special report: Corporate Social Responsibility: 66-70
Agócs C (1997) Institutionalized Resistance to Organizational Change: Denial, Inaction and Repression. Journal of Business Ethics 16: 917-931
Aguilera, RV (2005) Corporate Governance and Director Accountability: an Institutional Comparative Perspective. British Journal of Management 16: 39-53
Alas R, Ennulo J, Türnpuu L (2006) Managerial Values in the Institutional Context. Journal of Business Ethics 65: 269-278
Albert PJ (2004) An Analysis of the Competitive Advantage of Corporate Philanthropy "Do Well by Doing Good"". Perspectives in Business, see I(nternet) S(ource) 4.
Angelidis J; Ibrahim N (2004) An Exploratory Study of the Impact of Degree of Religiousness Upon an Individual's Corporate Social Responsiveness Orientation. Journal of Business Ethics 51: 119-128
Argandoña A (1999) Sharing Out in Alliances: Trust and Ethics". Journal of Business Ethics 21: 217-228
Arce M, Daniel G (2004) Conspicuous By Its Absence: Ethics and Managerial Economics. Journal of Business Ethics 54: 261-277
Auger P, Burke P, Devinney TM, Louviere JJ (2003) What Will Consumers Pay for Social Product Features?. Journal of Business Ethics 42: 281-304
Balsmaier P, Kelly J (1996) The Ethics of Sentencing White-Collar Criminals. Journal of Business Ethics 15: 143-152
Benson KL, Brailsford TJ, Humphrey JE (2006) Do Socially Responsible Fund Managers Really Invest Differently?. Journal of Business Ethics 65: 337-357
Bowen SA (2004) Organizational Factors Encouraging Ethical Decision-Making: An Exploration into the Case of an Exemplar. Journal of Business Ethics 52: 311-321
Boyd C (1996) Ethics and Corporate Governance: The Issues Raised by the Cadbury Report in the United Kingdom. Journal of Business Ethics 15: 167–182
Broadhurst AI (2000) Corporations and the Ethics of Social Responsibility: An Emerging Regime of Expansion and Compliance. Business Ethics: A European Review 9/2: 86-98
Campbell L, Gulas CS, Gruca TS (1999) Corporate Giving Behaviour and Decision-Maker Social Consciousness. Journal of Business Ethics 19: 375-383
Card RF (2005) Individual Responsibility within Organizational Contexts. Journal of Business Ethics 62: 397-405
Carroll AB (1984) Managing Public Affairs – When Business Closes Down: Social Responsibilities and Management Actions. California Management Review XXVI/2: 125-140

Carroll AB (1994) Social Issues in Management Research – Experts' Views, Analysis, and Commentary. Business and Society 33/1: 5-29

Carroll AB (1999) Corporate social responsibility – Evolution of a Definitional Construct. Business and Society: 38/3, 268-195

Clark CW (1997) Renewable resources and economic growth. Ecological Economics 22: 275-276

Coffey BS, Wang J (1998) Board Diversity and Managerial Control as Predictors of Corporate Social Performance. Journal of Business Ethics 17: 1595-1603

Coomber S (2005) Radical Roddick. Business Strategy Review, Special report: Corporate Social Responsibility, 80-83

Corporate Sustainability Conference 2002 (2003) The Impact of CSR on Management Disciplines. Journal of Business Ethics 44: 89-93

Cragg W (2000) Human Rights and Business Ethics: Fashioning a New Social Contract. Journal of Business Ethics 27: 205–214

Crane A (1999) Are You Ethical? Pleas Tick Yes Or No On Researching Ethics in Business Organization. Journal of Business Ethics 20: 237-248

Creyer EH (1997) CSR influence on Purchase Decisions: The influence of firm behaviour on purchase intention: do consumers really care about business ethics?. Journal of Consumer Marketing 14/6: 421-432

Cullen JB, Praveen Parboteeah K, Victor B (2003) The Effects of Ethical Climates on Organizational Commitment: A Two-Study Analysis. Journal of Business Ethics 46: 127-141

Daly HE (1997) Reply to Solow/Stiglitz. Ecological Economics 22: 271-273

Dawson S (2004) Balancing Self-interest and Altruism: corporate governance alone is not enough. Corporate Governance 12/2: 130-133

De la Cruz Déniz Déniz M, Katiuska Cabrera Suárez M (2005) Corporate Social Responsibility and Family Business in Spain. Journal of Business Ethics 56: 27-41

Del Mar García de los Salmones M, Herrero Crespo A, Rodríguez des Bosque I (2005) Influence of Corporate Social Responsibility on Loyalty and Valuation of Services. Journal of Business Ethics 61: 369-385

Desai AB, Rittenburg T (1997) Global Ethics: An Integrative Framework for MNEs. Journal of Business Ethics 16: 791-800

Drucker PF (1984) The New Meaning of Corporate Social Responsibility. California Management Review XXVI/2: 53-63

Dunphy SM (2004) Demonstrating the Value of Diversity for Improved Decision-Making: The "Wuzzle-Puzzle" Exercise. Journal of Business Ethics 53: 325-331

Dworkin TM, Baucus MS (1998) Internal vs. External Whistleblowers: A Comparison of Whistleblowering Processes. Journal of Business Ethics 17: 1281-1298

Edmondson VC, Caroll AB (1999) Giving Back: An Examination of the Philanthropic Motivations, Orientations and Activities of Large Black-Owned Businesses. Journal of Business Ethics 19: 171-179

Elsayed K (2006) Re-examining the Expected Effect of Available Resources and Firm Size on Firm Environmental Orientation: An Empirical Study of UK Firms. Journal of Business Ethics 65: 297-308

Eyring A, Stead BA (1998) Shattering the Glass Ceiling: Some Successful Corporate Practices. Journal of Business Ethics 17: 245-251

Falkenberg AW (2004) When in Rome.. Moral Maturity and Ethics for International Economic Organizations. Journal of Business Ethics 54: 17-32

Fisher J (2004) Social Responsibility and Ethics: Clarifying the Concepts. Journal of Business Ethics 52: 391-400

Frederick WC (1994) From CSR1 To CSR2 – The Maturing of Business and Society Thought. Business and Society 33/ 2: 150-164

Garriga E, Melé D (2004) Corporate Social Responsibility Theories: Mapping the Territory. Journal of Business Ethics 53: 51-71

Gauthier C (2005) Measuring Corporate Social and Financial Performance: The Extended Life-Cycle Assessment. Journal of Business Ethics 59: 199-206

Goll I, Rasheed AA (2004) The Moderating Effect of Environmental Munificence and Dynamism on the Relationship Between Discretionary Social Responsibility and Firm Performance. Journal of Business Ethics 49: 41-54

González E (2002) Defining a Post-Conventional Corporate Moral Responsibility. Journal of Business Ethics 39: 101-108

Gowri A (2004) When Responsibility Can't Do It. Journal of Business Ethics 54: 33-50

Graafland JJ, Van de Ven B, Stoffele N (2003) Strategies and Instruments for Organising CSR by Small and Large Businesses in the Netherlands. Journal of Business Ethics 47: 45-60

Graafland JJ, Eijffinger SCW, Smid H (2004) Benchmarking of Corporate Social Responsibility: Methodological Problems and Robustness. Journal of Business Ethics 53: 137-15

Grit K (2004) Corporate Citizenship: How to Strengthen the Social Responsibility of Managers?. Journal of Business Ethics 53: 97-106

Grojean MW, Resick CJ, Dickson MW, Smith DB (2004) Leaders, Values, and Organizational Climate: Examining Leadership Strategies for Establishing an Organizational Climate Regarding Ethics. Journal of Business Ethics 55: 223-241

Hammerle G (2004) Corporate Social Responsibility – A Descriptive-Empirical-Research Analysis of the Concept, its Forms and the Causes that Multinational Corporations Take Over Social Responsibility From The State and Civil Sector.

Harding R (2005) Debunking The Social Myth. Business Strategy Review, Special report Corporate Social Responsibility: 71-73

Hemingway CA (2005) Personal Values as A Catalyst for Corporate Social Entrepreneurship. Journal of Business Ethics 60: 233-249

Hill RP, Stephens D, Smith I (2003) Corporate Social Responsibility: An Examination of Individual Firm Behaviour. Business and Society Review 108/3: 339-364

Hing N (2001) Changing The Odds: A Study of Corporate Social Principles and Practices in Addressing Problem Gambling.$ Journal of Business Ethics 33: 115-144

Hockerts K, Moir L (2004) Communicating Corporate Social Responsibility to Investors: The Changing Role of the Investor Relations Function. Journal of Business Ethics 52: 85-98

Hummels H (1998) Organizing Ethics: A Stakeholder Debate. Journal of Business Ethics 17: 1403-1419

Husted BW, Allen D (2000) Is It Ethical to Use Ethics as Strategy?. Journal of Business Ethics 27: 21-31

Ibrahim NA, Howard DP, Angelidis JP (2003) Board Members in the Service Industry: An Empirical Examination of the Relationship Between Corporate Social Responsibility Orientation and Directorial Type. Journal of Business Ethics 47: 393-401

Jenkins R (2005) Globalization, Corporate Social Responsibility and Poverty. International Affairs 81, 3: 525-540

Jones MT (1999) The Institutional Determinants of Social Responsibility". Journal of Business Ethics 20: 163-179

Joyner BE, Payne D (2002) Evolution and Implementation: A Study of Values, Business Ethics and Corporate Social Responsibility. Journal of Business Ethics 41: 297-311

Kaptein M (2004) Business Codes of Multinational Firms: What Do They Say?. Journal of Business Ethics 50: 13-31

Keeble JJ, Topiol S, Berkeley S (2003) Using Indicators to Measure Sustainability Performance at a Corporate and Project Level. Journal of Business Ethics 44: 149-158

Kuhn JW (1998) Emotion As Well As Reason: Getting Students Beyond "Interpersonal Accountability". Journal of Business Ethics 17: 295-308

Kujala J, Pietiläinen T (2004) Female Managers' Ethical Decision-Making: A Multidimensional Approach. Journal of Business Ethics 53: 153-163

Lam KC, Hung BWS (2005) Ethics, Income and Religion. Journal of Business Ethics 61: 199-214

Lin GTR, Lin J (2006) Ethical Customer Value Creation: Drivers and Barriers. Journal of Business Ethics 67: 93-105

Litz RA (1996) A Resource-based view of the Socially Responsible Firm: Stakeholder Interdependence, Ethical Awareness, and Issue Responsiveness as Strategic Assets. Journal of Business Ethics 15: 1355-1363

Logsdon JM, Yuthas K (1997) Corporate Social Performance, Stakeholder Orientation, and Organizational Moral Development. Journal of Business Ethics 16: 1213-1226

Loza J (2004) Business-Community Partnerships: The Case for Community Organization Capacity Building. Journal of Business Ethics 53: 297-311

Lozano JM (1996) Ethics and Management: A Controversial Issue. Journal of Business Ethics 15: 227-236

Lu LC, Rose GM, Blodgett JG (1999) The Effects of Cultural Dimensions on Ethical Decision-Making in Marketing: An Exploratory Study. Journal of Business Ethics 18: 91-105

Luthar HK, DiBattista RA, Gautschi T (1997) Perception of What the Ethical Climate is and What it Should be: The Role of Gender, Academic Status, and Ethical Education. Journal of Business Ethics 16: 205-217

Marz JW, Powers TL, Queisser T (2003) Corporate and Individual Influences on Managers' Social Orientation. Journal of Business Ethics 46: 1-11, 2003.

McGuire J, Dow S, Argheyd K (2003) CEO Incentives and Corporate Social Performance. Journal of Business Ethics 45: 341-359

McKendall M (1993) The Tyranny of Change: Organizational Development Revisited. Journal of Business Ethics 12: 93-104

McLachlan J, Gardner J (2004) A Comparison of Socially Responsible and Conventional Investors. Journal of Business Ethics 52: 11-25

McMahon TF C.S.V. (1999) From Social Irresponsibility to Social Responsiveness: The Chrysler/Kenosha Plant Closing. Journal of Business Ethics 20: 101-111

Milton-Smith J (1995) Ethics as Excellence: A Strategic Management Perspective. Journal of Business Ethics 14: 683-693

Mohr LA Webb DJ (2005) The Effects of Corporate Social Responsibility and Price on Consumer Responses. The Journal of Consumer Affairs 39/1: 121-147

Moore G (2001) Corporate Social and Financial Performance: An Investigation in the U.K. Supermarket Industry. Journal of Business Ethics 34: 299-315

Morsing M (2005) Communicating Responsibility. Business Strategy Review, Special report: Corporate Social Responsibility, 84-88

Napal G (2005) An Assessment of Power Abuse under Ethics Philosophies. EJBO (Electronic Journal of Business Ethics and Organization Studies) 10/1: 29-34

Neubaum DO, Mitchell MS, Schminke M (2004) Firm Newness, Entrepreneurial Orientation, and Ethical Climate. Journal of Business Ethics 52: 335-347

Neville BA, Menguc B (2006) Stakeholder Multiplicity: Toward an Understanding of the Interactions between Stakeholders. Journal of Business Ethics 66: 377-391

Nielsen RP (2003) Corruption Networks and Implications for Ethical Corruption Reform. Journal of Business Ethics 42: 125-149

Oakley J (2000) Gender-based Barriers to Senior Management Positions: Understanding the Scarcity of Female CEOs. Journal of Business Ethics 27: 321-334

Ocampo JA (2004) Corporate Social Responsibility (Editorial). Natural Resources Forum 28: 249–250

Orlitzky M (2001) Does Firm Size Confound The Relationship Between Corporate Social Performance and Firm Financial Performance?. Journal of Business Ethics 33: 167-180

Orth UR, Holancova D (2003) Consumer Response to Sex Role Portrayals in Advertisements. Journal of Advertising 32/4: 77-89

Ostas DT (2004) Cooperate, Comply or Evade? A Corporate Executive's Responsibilities With Regard to Law. American Business Law Journal 41/4, 559-594

Peloza J Corporate Social Responsibility as Reputation Insurance. see I(nternet) S(ource) 2.

Peters G (2005) Capitalism moves on. Business Strategy Review, Special report: Corporate Social Responsibility 60-61

Peterson D, Rhoads A, Vaught BC (2001) Ethical Beliefs of Business Professionals: A Study of Gender, Age and External Factors. Journal of Business Ethics 31: 225-232

Pinkston TS, Carroll AB (1996) A Retrospective Examination of CSR Orientations: Have They Changed?. Journal of Business Ethics 15: 199-206

Pless NM, Maak T (2004) Building an Inclusive Diversity Culture: Principles, Processes and Practice. Journal of Business Ethics 54: 129-147

Polonsky MJ, Jevons C Building a Corporate Socially Responsible Brand: An Investigation of Issue Complexity. see I(nternet) S(ource) 3.

Prasad JN, Marlow N, Hattwick RE (1998) Gender-Based Differences in Perception of a Just Society. Journal of Business Ethics 17: 219-228

Pruzan P (2001) The Question of Organizational Consciousness: Can Organizations Have Values, Virtues and Visions?. Journal of Business Ethics 29: 271-284

Quazi AM, O'Brien D (2000) An Empirical Test of a Cross-national Model of Corporate Social Responsibility. Journal of Business Ethics 25: 33-51

Randall DC (2005) An Exploration of Opportunities for the Growth of the Fair Trade Market: Three Cases of Craft Organisations. Journal of Business Ethics 56: 55-67

Reidenbach RE, Robin DP (1991) A Conceptual Model of Corporate Moral Development. Journal of usiness Ethics 10: 273-284

Rice G (1999) Islamic Ethics and the Implications for Business. Journal of Business Ethics 18: 345-358

Roberts PW, Dowling GR (2002) Corporate Reputation and Sustained Superior Financial Performance. Strategic Management Journal 23: 1077-1093

Romar EJ (2002) Virtue Is Good Business: Confucianism as a Practical Business Ethic. Journal of Business Ethics 38: 119-131

Roxas ML, Stoneback JY (2004) The Importance of Gender Across Cultures in Ethical Decision-Making. Journal of Business Ethics 50: 149-165

Ruhnka JC, Boerstler H (1998) Governmental Incentives for Corporate Self-Regulation. Journal of Business Ethics 17: 309-326

Sarre R, Doig M, Fiedler B (2001) Reducing The Risk of Corporate Irresponsibility: The Trend To Corporate Social Responsibility. Accounting Forum 25/3: 300-317

Scalet S (2006) Prisoner's Dilemmas, Cooperative Norms, and Codes of Business Ethics. Journal of Business Ethics 65: 309-323

Schwartz MS (2004) Effective Corporate Codes of Ethics: Perceptions of Code Users. Journal of Business Ethics 55: 323-343

Seeger MW, Ulmer RR (2001) Virtuous Responses to Organizational Crises: Aaron Feuerstein and Milt Cole. Journal of Business Ethics 31: 369-376

Seifert B, Morris SA, Bartkus BR (2003) Comparing Big Givers and Small Givers: Financial Correlates of Corporate Philanthropy. Journal of Business Ethics 45: 195-211

Serwinek PJ (1992) Demographic and Related Differences in Ethical Views Among Small Businesses. Journal of Business Ethics 11: 555-566

Shevket Neap H, Aysal S (2004) Owner's Factor in Value-Based Project Management in Construction. Journal of Business Ethics 50: 97-103

Simola S (2005) Concepts of Care in Organizational Crisis Prevention. Journal of Business Ethics 62: 341-353

Smeltzer LR, Jennings MM (1998) Why An International Code of Business Would Be Good For Business. Journal of Business Ethics 17: 57-66

Smith NC (2005) Responsibility Inc.. Business Strategy Review, Special report: Corporate Social Responsibility, 62-65

Snider J, Hill RP, Martin D (2003) Corporate Social Responsiblity in the 21st Century: A View from the World's Most Successful Firms. Journal of Business Ethics 48: 175-187

Soares C (2003) Corporate Versus Individual Moral Responsibility. Journal of Business Ethics 46: 143-150

Sridhar BS, Camburn A (1993) Stages of Moral Development of Corporations. Journal of Business Ethics 12: 727-739

Srnka KJ (2004) Culture's Role in Marketers' Ethical Decision Making: An Integrated Theoretical Framework. Academy of Marketing Science Review 01: 1-32

Tencati A, Perrini F, Pogutz S (2004) New Tools To Foster Corporate Socially Responsible Behavior. Journal of Business Ethics 53: 173-190

Vacchani S, Smith NC (2005) When the price isn't right. Business Strategy Review, Special report: Corporate Social Responsibility, 74-79

Valor C (2005) Corporate Social Responsibility and Corporate Citizenship: Towards Corporate Accountability. Business and Society Review 110/2: 191-212

Van Buren III H (2000) The Bindingness of Social and Psychological Contracts: Toward a Theory of Responsibility in Downsizing. Journal of Business Ethics 25: 205-219

Van Marrewijk M (2003a) Concepts and Definitions of CSR and Corporate Sustainability: Between Agency and Communion. Journal of Business Ethics 44: 95–105

Van Marrewijk M, Were M (2003b): "Multiple Levels of Corporate Sustainability. Journal of Business Ethics 44: 107-119

Verschoor CC (1998) A Study of The Link Between a Corporation's Financial Performance and Its Commitment to Ethics. Journal of Business Ethics 17: 1509-1516

Volery T, Mensik S (1998) The Role of Trust in Creating Effective Alliances: A Managerial Perspective. Journal of Business Ethics 17: 987-994

Weeks WA, Moore CW, McKinney JA, Longenecker JG (1999) The Effects of Gender and Career Stage on Ethical Judgement. Journal of Business Ethics 20: 301-313

Wilmot S (2001) Corporate Moral Responsibility: What Can We Infer from Our Understanding of Organisations?. Journal of Business Ethics 30: 161-169

Wulfson M (2001) The Ethics of Corporate Social Responsibility and Philanthropic Ventures. Journal of Business Ethics 29:135-145

Zahra SA (1994) Unethical Practices in Competitive Analysis: Patterns, Causes and Effects. Journal of Business Ethics 13: 53-62

Multimedia sources

REBUS – CSR (Relations between Business and Society) bfz Bildungsforschung, Europäische Union ESF Artikel 6 Innovative Maßnahmen, Fallstudien aus deutschen Unternehmen

Internet sources

IS 1: APCP Worldwide Global CSR Study "Talking to People Who Listen"; http://www.apcoworldwide.com/content/PDFs/Global_CSR_Study.pdf Last visit: Nov. 15th, 2006

IS 2: Peloza J; "Corporate Social Responsibility as Reputation Insurance"; http://www.haas.berkeley.edu/responsiblebusiness/conference/documents/CorporateSocialResponsibilityasReputation.docJohnPeloza.pdf; Last visit: Nov. 15th, 2006

IS 3: Polonsky MJ, Jevons C; "Building A Corporate Socially Responsible Brand: An Investigation Of Issue Complexity"; http://smib.vuw.ac.nz:8081/WWW/ANZMA C2005/cd-site/pdfs/20-Corporate-Resp/20-Polonsky.pdf; Last visit: Nov. 15th, 2006

IS 4: Albert PJ; "An Analysis of the Competitive Advantage of Corporate Philanthropy "Do Well by Doing Good""; in: "Perspectives in Business" at St. Edward's University; http://www.stedwards.edu/business/pdf/Perspectives_in_Business.pdf; Last visit: Nov. 15th, 2006

IS 5: International Campaign for Justice in Bophal Homepage; http://www.bhopal.net; Last visit: Nov. 15th, 2006

IS 6: "20 Jahre Bophal – Die Fratze eines multinationalen Konzerns", 12 December 2004; http://notizen.typepad.com/aus_der_provinz/2004/12/20_jahre_bophal.html; Last visit: Nov. 15th, 2006

IS 7: Siliconeer.com: "Bophal 20 years later – The misery continues", December 2004 ; http://www.siliconeer.com/past_issues/2004/december2004.html #Anchor--MA-40616; Last visit: Nov. 15th, 2006

IS 8: Amnesty International: "Bophal: Les nuages de l'injustice" http://www.anestyinternational.be/act/article.php3?id_article=534; Last visit: Nov. 15th, 2006

IS 9: Greenpeace: "Brent Spar: Das Meer ist kein Mistkübel"; http://www. greenpeace.at/293.html , Last visit: Nov. 15th, 2006

IS 10: Vistaverde News Wirtschaft und Energie: „Shell-Chef: Brent-Spar-Debakel war ein "Weckruf""; http://www.vistaverde.de/news/Wirtschaft/0504/28_brent_spar.php; Last visit: Nov. 15th, 2006

IS 11: Telepolis: „Das Brent Spar Syndrom: Shell und die Angst vor Pressure Groups", 6 October 1998; http://www.heise.de/tp/r4/artikel/2/2488/1.html; Last visit: Nov. 15th, 2006

IS 12: Chron Com Special Report: "The Fall Of Enron", 21 November 2006; http://www.chron.com/news/specials/enron/; Last visit: Nov. 15th, 2006

IS 13: World Economic Forum Davos; http://www.weforum.org/en/index.htm; Last visit: Nov. 15th, 2006
IS 14: EU "Green Paper Promoting a European framework for Corporate Social Responsibility"/Industrial Relations and Industrial Change; http://ec.europa.eu/employment_social/soc-dial/csr/greenpaper_en.pdf; Last visit: Nov. 15th, 2006
IS 15: EurActiv.com: Lisbon Agenda, 17 August 2004; http://www.euractiv.com/en/agenda2004/lisbon-agenda/article-117510; Last visit: Nov. 15th, 2006
IS 16: UN Global Compact; http://www.unglobalcompact.org; Last visit: Nov. 15th, 2006
IS 17: Global Compact Business Associations; http://www.unglobalcompact.org/ParticipantsAndStakeholders/business_associations.html; Last visit: Nov. 15th, 2006
IS 18: Caux Round Table – Charting a New Course For Business; http://www.cauxroundtable.org/; Last visit: Nov. 15th, 2006
IS 19: Caux Roundtable Principles for Business; http://www.cauxroundtable.org/documents/Princples%20for%20Business.PDF; Last visit: Nov. 15th, 2006
IS 20: UN Millenium Development Goals; http://www.un.org/millenniumgoals; Last visit: Nov. 15th, 2006
IS 21: Global Sullivan Principles of Social Responsibility; http://www.globalsullivanprinciples.org/principles.htm; Last visit: Nov. 15th, 2006
IS 22: International Organization for Standardization (ISO); http://www.iso.org/iso/en/ISOOnline.frontpage; Last visit: Nov. 15th, 2006
IS 23: ISO Social Responsibility Standardization – An Outline of the Issues; http://www.iisd.org/pdf/2004/standards_iso_srs.pdf; Last visit: Nov. 15th, 2006
IS 24: IISD (International Institute for Sustainable Development): ISO CSR Standards; http://www.iisd.org/standards/csr.asp; Last visit: Nov. 15th, 2006
IS 25: ESG (Ecole des Sciences de la Gestion): The ISO 26000 Social Responsibility Guidance Standard – Progress So Far ; http://www.crsdd.uqam.ca/pdf/pdfCahiersRecherche/09-2005.pdf; Last visit: Nov. 15th, 2006
IS 26: SAI Social Accountability International – Promoting The Human Rights of Workers Around The World; http://www.sa-intl.org/; Last visit: Nov. 15th, 2006
IS 27: Overview of SA 8000; http://www.sa-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=473; Last visit: Nov. 15th, 2006
IS 28: EMAS Eco-Management and Audit Scheme; http://www.emas.de/content-categorie-5.html; Last visit: Nov. 15th, 2006
IS 29: The European Corporate Sustainability Framework Website; http://www.ecsf.info/ecsf; Last visit: Nov. 15th, 2006
IS 30: The OECD Guidelines for Multinational Enterprises Revision 2000; http://www.oecd.org/dataoecd/56/36/1922428.pdf; Last visit: Nov. 15th, 2006
IS 31: Business and Industry Advisory Committee to the OECD – The OECD MNE Guidelines: An Overview; http://www.biac.org/pubs/mne_guidelines/business-brief-1-1-final.pdf; Last visit: Nov. 15th, 2006

IS 32: Friends of the Earth: The OECD's revised 'Guidelines for Multinational Enterprises': A step towards corporate accountability?; http://www.foe.co.uk /resource/briefings/oecd_guidelines_multinational.html; Last visit: Nov. 15th, 2006

IS 33: ILO conventions; http://www.union-network.org/UNIsite/Sectors/Commer ce/index_labour_conventions.htm; Last visit: Nov. 15th, 2006

IS 34: The Financial Aspects of Corporate Governance (The “Cadbury Report”); http://www.uksa.org.uk/Corporate_Governance_Cadbury_1992.pdf; Last visit: Nov. 15th, 2006

IS 35: Milestones in UK Corporate Governance; http://www.manifest.co.uk /reports/governance/UK%20Corporate%20Governance%20Milestones.pdf; Last visit: Nov. 15th, 2006

IS 36: Greenbury Recommendations – Code of Best Practice; http://www.football-research.org/docs/greenbury.pdf; Last visit: Nov. 15th, 2006

IS 37: Kesteven and Associates Corporate Governance Documentation: Corporate governance reports and papers; http://www.kesteven.com.au/governance /reports.htm; Last visit: Nov. 15th, 2006

IS 38: US Sarbanes Oaxley Act 2002: One Hundred Seventh Congress of the United States of America; http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_bills&docid=f:h3763enr.tst.pdf; Last visit: Nov. 15th, 2006

IS 39: Governmental White Paper Sarbanes Oaxley Act 2002; http://whitepapers.government.zdnet.com/whitepaper.aspx?&cname=Regulato ry+Compliance&docid=110500; Last visit: Nov. 15th, 2006

IS 40: Sarbanes Oxley – Financial and Accounting Disclosure Information; http://www.sarbanes-oxley.com; Last visit: Nov. 27th, 2006

IS 41: International Chamber of Commerce (ICC) Germany: “Internationale Aspekte von CSR”; http://www.bda-online.de/www/bdaonline.nsf/id/ 4AECA001049E6917C12570EB00395493/$file/Leitfaden_CSR.pdf; Last visit: Nov. 15th, 2006

IS 42: ICC Germany Documents; http://www.icc-deutschland.de/icc/1.3.php?sid= 90f43447c5c24cfc4ef81116550d44ca; Last visit: Nov. 15th, 2006

IS 43: CSR Germany – Unternehmen tragen gesellschaftliche Verantwortung; http://www.csrgermany.de/www/CSRcms.nsf/ID/home_de; Last visit: Nov. 15th, 2006

IS 44: Europäische Allianz für CSR; http://www.csrgermany.de/www/csrcms.nsf /id/FA4EFBFAEAFC9B92C125719A002A11CC; Last visit: Nov. 15th, 2006

IS 45: Regierungskommission: Deutscher Corporate Governance Kodex; http://www.corporate-governance-code.de/ger/kodex/index.html; Last visit: Nov. 15th, 2006

IS 46: Business in Society: Making A Positive and Responsible Contribution – ICC 9 Steps on Responsible Business Conduct; http://www.iccwbo.org/ corporateresponsibilityguide/BusinessInSociety.swf; Last visit: Nov. 15th, 2006

IS 47: ICC Corporate Governance: A Basic Guide For Business Practitioners Everywhere; http://www.iccwbo.org/corporate-governance/?cookies=no; Last visit: Nov. 15th, 2006

IS 48: Corporate Governance Kodex für Familienunternehmen; http://www.intes-akademie.de/cms; Last visit: Nov. 15th, 2006
IS 49: The Business Charter for Sustainable Development; http://www.icc-deutschland.de/icc/1.3.php?sid=90f43447c5c24cfc4ef81116550d44ca; Last visit: Nov. 15th, 2006
IS 50: ICC-Verhaltensrichtlinien zur Bekämpfung der Korruption im Geschäftsverkehr - ein Verhaltenskodex, August 1998; http: //www.icc-deutschland.de /icc/1.3.php?sid=90f43447c5c24cfc4ef81116550d44ca; Last visit: Nov. 15th, 2006
IS 51: ICC Guidelines on Advertising and Marketing on the Internet, April 1998; http://www.iccwbo.org/home/statements_rules/rules/1998/internet_guidelines.asp; Last visit: Nov. 15th, 2006
IS 52: http://www.icc-deutschland.de/icc/1.3.php?sid=90f43447c5c24cfc4ef8111 6550d44ca; Last visit: Nov. 15th, 2006
IS 53: ICC International Code of Environmental Advertising; http://www.iccwbo.org/home/statements_rules/rules/1996/envicod.asp; Last visit: Nov. 15th, 2006
IS 54: ICC International Code on Sponsoring; http://www.iccwbo.org /home/statements_rules/rules/1996/sponcod.asp; Last visit: Nov. 15th, 2006
IS 55: ICC: Policy and Business Practices – New ethical code guides marketing communications worldwide, Paris 28 September 2006; http://www.iccwbo .org/policy/marketing/icciifc/index.html; Last visit: Nov. 15th, 2006
IS 56: ICC Framework For Responsible Food and Beverage Marketing Communication; http://www.iccwbo.org/uploadedFiles/ICC/Policy_pages/332%20 FINAL_Framework_Food_and_Beverage.pdf; Last visit: Nov. 15th, 2006
IS 57: Consolidated ICC Code – Advertising and Marketing Communication Practices; http://www.iccwbo.org/uploadedFiles/ICC/policy/marketing/Statements/330%20Final%20version%20of%20the%20Consolidated%20Code%20with%20covers.pdf; Last visit: Nov. 15th, 2006
IS 58: EU Bargaining – European Collective Bargaining; http://www.ictu.ie /html/services/eubarg.html; Last visit: Nov. 15th, 2006
IS 59: World Business Council for Sustainable Development (WBCSD); http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?MenuID=1; Last visit: Nov. 15th, 2006
IS 60: Guardian Unlimited: "In Norway, A Woman's Place is in the Boardroom", January 9, 2006; http://business.guardian.co.uk/story/0,16781,1682083,00 .html; Last visit: Nov. 15th, 2006
IS 61: BBC News Business: "Norway To Rule On Boardroom Girl Power", August 8, 2002; http://news.bbc.co.uk/1/hi/business/2173178.stm; Last visit: Nov. 15th, 2006
IS 62: Cisco Networking Academy Program – Preparing tomorrow's technology leaders; http://www.cisco.com/web/learning/netacad/index.html; Last visit: Nov. 15th, 2006
IS 63: GreenBiz.com: Communicating Corporate Social Responsibility to Internal Stakeholders; http://www.greenbiz.com/toolbox/howto_third.cfm?LinkAdvID =60877; Last visit: Nov. 15th, 2006

IS 64: Ethical Corporation: Analysis, Comment, Conferences; http://www.ethicalcorp.com/; Last visit: Nov. 15th, 2006
IS 65: Ethical Corporation: Business Ethics: Acting Responsibly Is A Crucial Line of Defence, November 27, 2006; http://www.ethicalcorp.com/content.asp?ContentID=4716; Last visit: Nov. 27th, 2006
IS 66: Calvert Online: Calvert Social Index; http://www.calvert.com; Last visit: Nov. 27th, 2006
IS 67: KLD Broad Market Social Index; http://www.kld.com/indexes/bmsindex/index.html; Last visit: Nov. 27th, 2006
IS 68: FTSE4GOOD Index Series; http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp; Last visit: Nov. 27th, 2006
IS 69: Dow Jones Sustainability Indexes; http://www.sustainability-indexes.com/; Last visit: Nov. 27th, 2006
IS 70: Ethibel Sustainability Index; http://www.ethibel.org/subs_e/4_index/main.html; Last visit: Nov. 27th, 2006