# JOURNAL OF INTERNATIONAL BUSINESS ETHICS

VOL.2 No.1 2009

Recycled Paper

# Journal of International Business Ethics

## Mission Statement

The Journal of International Business Ethics (JIBE) opens a platform for scholars, business practitioners and government officials to share research, perspectives, and action proposals on the topic of international business ethics with a special focus on the Chinese context. JIBE aims to bridge the gap between business ethics theory and Corporate Social Responsibility (CSR) practice in China and heighten awareness of implications of business ethics research and its application in the international context.

JIBE opens up an international and multidisciplinary platform for International Business Ethics and CSR Dialogue. Topics may include the following disciplines/research areas: corporate governance, finance, accounting, consumer rights, labor conditions, consumer relations, environmental protection and anti-corruption.

## Co-Sponsors

The Center for International Business Ethics (located at the University of International Business and Economics, Beijing, China) funds JIBE with the production collaboration of Paul Stillman School of Business, Seton Hall University (located in South Orange, New Jersey, USA).


## Publisher

The American Scholars Press, Inc
3238 Harvest Way,
Marietta, GA 30062 USA





ISSN: 1940-1485


**Manuscript**
The reviews and opinions expressed in the Journal are those of the authors and do not necessarily reflect the point of view of CIBE or the American Scholars Press.

**Advertising**
All advertisements in this journal represent CIBE partners and programs.

**Website:**
www.americanscholarspress.com/content/business_ethics.htm


Printed in the United States of America and China

# FOREWORD

In the past months since the launch of JIBE Volume 1, what significant events have happened and questions emerged in the international business ethics landscape? What does this mean for International Business Ethics and Corporate Social Responsibility now and in coming years?

The present financial crisis has clearly and profoundly shaken economies all over the world. It is certainly too early to assess the extent of its impact, however it is safe to claim that various critical issues of International Business Ethics are now at the center stage of public attention. These include for example, questions of the responsibility of financial institutions to their stakeholders; different aspects of fiduciary duties; and the issue of executive compensation. For example, what is an appropriate salary and bonus payment structure for managers?

From an international business ethics perspective the present financial crisis reveals the inadequacy of the global financial architecture developed over the last decades. A great deal of the crisis has been caused by reckless and irresponsible behavior from financial institutions in the United States and Europe, causing not only damage to themselves but also disastrous consequences for "the rest of the world." In this crisis, as the Chinese character « weiji » meaning both danger and opportunity, implies, we see an opening for the global community to redress some of the wrongs that had been imposed on the poor by the more powerful rich nations.

This issue of JIBE provides some ideas for achieving this outcome including essays on *Moral Leadership in Business* by Gerhold K. Becker; *Ethical Concerns at the Bottom of the Pyramid* by Dr. Kirk Davidson; *Multidisciplinary Mapping* by Margit Osterloh and Jetta Frost; *Ancient Poets and Prophets Speak for the Consumers* by Anand Amaladass.

For Corporate Social Responsibility to be really concerned about « the Bottom of the Pyramid » the current crisis should be seen as an opportunity to give all players in the global market an equal say. From an ethical angle it seems an inappropriate colonial hangover that financial institutions such as the World Bank and the International Monetary Fund are still dominated by a select few countries in Europe and the United States. It would be a great leap forward to readjust the moral leadership of the world of global finance, if such institutions were to change to reflect a better balance of interests so that the established powers from West Asia, Latin America and Africa would also have an equal say in the vital decisions affecting their people.

As far as we can see nobody has, as yet, emerged with a realistic road map on how to fix the current crisis. It may take many years for trust confidence to return. What is clear is that this is a crisis caused by humans and the solution cries out for an ethical perspective. It requires all major actors of the global economy to work together in order to figure out the next appropriate steps. Such a development will give ethical approaches the unique chance to refocus on the shared theme of the common good. This is what we hope to provide through the articles in this journal.

A change on such a fundamental scale would have far reaching consequences on a number of vital issues. If we consider the issue of tax payments, it would be vital to consider it as contributing to the common good and interest not only of national but also international entities. The subtle distinction between tax avoidance, evasion, and fraud has to be reevaluated.

While it is urgent and necessary to develop a truly international accounting system for stricter oversight, legal reform can only succeed if there is also a stronger ethical awakening to reflect the key values of justice, reliability, responsibility, and accountability towards the common good.

Besides the banking crisis, international capitalism’s failings have also extended to the area of product safety. The wave of scandals has affected both developing and developed countries. In China, more than 50,000 were sickened by the melamine-in-milk affair which tragically resulted in six deaths; while in the United States, salmonella found in peanut butter products has led to eight deaths and many more sick. Again simply to urge for stricter oversight over corporations and punishment of managers and corrupt officials is not enough to fix the problem. In China’s case, the key culprits have already paid the ultimate penalty with their lives, but such harsh punishments have not stopped new scandals from arising.

The Chinese Prime Minister, Mr. Wen Jiabao, mentioned one of the key issues: the lack of basic conscience which has been revealed by the melamine scandal, one which has seriously harmed the image of China abroad. It is the view of this journal that a sustainable solution for the global economy does not lie in either laws or ethics alone, but in a combination of the two, overseen by moral leaders who are able to integrate ethical values into their business strategies. There has never been a better time than this to bring about such a desirable outcome.

JIBE is committed to encourage rigorous dialogue between scholars and practitioners, and to draw attention to the critical ethical perspectives which result from the growing international interconnectedness between players from government, media, business and financial institutions. From the perspective of International Business Ethics we presume that all these players are challenged by the same issues. As the recent financial and product safety crises show, now is the time to get on board.

JIBE welcomes all stakeholders to join the growing CSR movement. However, with its distinctive placement as a bridge between China and the rest of the world, JIBE aims to make an especially deep footprint in China. The question raised in JIBE Volume 1 was, “whether China will become a main driving force in ethics.” The question is not a simple one, but JIBE believes that with its growing position on the world stage, China’s will continue to exert a positive influence on the world economy and global politics.

***Dr. Stephan Rothlin***
**April 25, 2009**

# CALL FOR INVOLVEMENT OF ACADEMICS AND COMMENTATORS

## INTEGRITY IN THE CHINESE CONTEXT

Due: June 30, 2009

### CALL FOR ACADEMIC PAPERS AND CASE STUDIES

The financial crisis and product safety scandals have drawn unprecedented public attention to key aspects of integrity. For the third issue of JIBE, the Journal for International Business Ethics, we seek submissions that focus on practically and ethically significant questions and topics pertaining to integrity, transparency, trust, and values, especially in the context of the financial crisis.

**Integrity**

1. Integrity in CSR and philanthropic efforts, sustainability reporting, and sustainability initiatives
2. The role of integrity, moral leadership, and business ethics in professional practice, training, and teaching
3. The relationship between integrity, bribery, and corruption
4. Transparency and integrity in accounting, reporting, and auditing in inter-organizational relationships within the financial services industry

To address these and other relevant questions, we seek a broad range of high quality submissions, and encourage both empirical and conceptual contributions from the perspective of corporate social responsibility, sustainable development, international business ethics or relevant fields of inquiry such as economics, finance, management and organizational studies, philosophy, sociology, and political science. We especially encourage case studies and investigations into ethical criteria, CSR tools, implementation, and CSR best practices.

Submissions should make a new contribution to an understanding of the concept of integrity in the Chinese context as applied to business practice, examine CSR practice in China and internationally, and provide practical action proposals for conduct of integrity on both organizational and individual levels.

### CALL FOR COMMENTATORS

Academics may work together with another individual in their specialization to develop a reaction article expressing contrasting viewpoints or commentary.

Business people, social entrepreneurs, and NGO leaders may serve as interview partners for academics submitting case studies and action proposals regarding corporate social responsibility. Commentators may:

- React to any of JIBE Volume 1-3 papers, topics, or ideas regarding the feasibility of

CSR action proposals from their industry, sector, or occupational perspective
- Express ideas about topics such as integrity, CSR, leadership, sustainability, and corporate philanthropy

*Integration of comments:*
Commentators' feedback will be printed in Vol. 2, No. 2 following a related article or in a special interview section.

**BOOK REVIEW SUBMISSIONS**
Academics and business people may submit book titles, reviews, and summaries of new books regarding innovative and significant business ethics and CSR publications. Books with a special focus on the Chinese context are preferred.

*Integration of book review:*
A book review section will be published in Vol. 2, No. 2, 2009

Expressions of interest, book reviews, and manuscripts must be submitted electronically by June 30, 2009, by using the JIBE submission website through the CIBE website (www.cibe.org.cn.) Manuscripts should not exceed 3000 words. Manuscripts will receive blind review. For further information contact the project manager, Ms. Teresa DeLaurentis at **delaurentis@cibe.org.cn.**

# TABLE OF CONTENTS

This page is left blank purposely.

# MORAL LEADERSHIP IN BUSINESS

**Gerhold K. Becker**
Assumption University, Graduate School of Philosophy, Bangkok, Thailand

**Abstract:** The paper argues for a new focus on moral leadership in business. Drawing on the Confucian vision of leadership, it explores, in the first part, the view that genuine leadership is based on moral principles and the vision of a good life for followers as well as leaders, and it is this that gives it legitimacy. The second part draws on both modern experimental research findings in psychological economics and ancient Confucian insights, to show that business is more deeply rooted in moral background institutions than commonly believed. In the third part, the paper concludes that while moral leadership is grounded in the personal morality of authenticity and the solid structures of corporate ethics, it can only succeed when leaders walk the talk. The article concludes with a case study of a scandal concerning Siemens and attempts by its top management to set the conditions for a fresh start.

**Keywords:** moral leadership, self-interest, authenticity, corporate responsibility.

## LEADERSHIP

### *Two Contrasting Conceptions*

Considerations about moral leadership in business and government are challenged by the hard facts of business reality and inspired by the moral vision of a good life. In anthropological terms, moral leadership stands in the tension between a pessimistic outlook that regards human nature as morally flawed and self-centered and an optimistic perspective that points to the seeds of morality, cooperation, and fairness. "The gulf between how one should live and how one does live is so wide that a man who neglects what is actually done for what should be done moves towards self-destruction rather than self-preservation. The fact is that a man who wants to act virtuously in every way necessarily comes to grief among so many who are not virtuous. Therefore if a prince wants to maintain his rule he must be prepared not to be virtuous, and to make use of this or not according to need" (Machiavelli, 1999, p. 50).

Niccolo Machiavelli's book *The Prince* is arguably one of the most astute leadership manuals ever written that lays bare the mechanism of power and its underlying psychology. Its tenets apply almost as well to a modern corporation as to a Renaissance state. In *The Prince* Machiavelli painted for the new class of powerful individuals, who emerged during the Italian Renaissance, a leadership ideal that identifies self-interest as the overriding motivational force, and efficiency as its exclusive purpose. Ethics stands for a nice and lofty ideal that may be admired by simpletons but is ignored by the wise and manipulated for their own purposes by the hard-nosed realists who seek to make the most of the world as it is; they are the real leaders who know how to rule. Their political wisdom is grounded in the following observation: The answer to the question "whether it is better to be loved than feared" is that "one would like to be both the one and the other; but as it is difficult to combine them, it is far better to be feared than loved if you cannot be both...for love is secured by a bond of gratitude which men, wretched creatures that they are, break when it is to their advantage to do so; but fear is strengthened by a dread of punishment that is always effective" (Machiavelli, 1999, p. 54). Note the pessimistic outlook on both human nature and society: human beings are utterly selfish and their destructive tendencies can be held in check only by force from outside.

Now the other view. It presents a powerful concept of leadership that takes a positive and even optimistic approach to human nature. Perhaps for that reason, it never really failed to fascinate, from the early days of Chinese history up to the present. It is the Confucian vision of virtue (de) and morality that lies at the heart of every human activity, particularly at the heart of leadership: "The Master said: Exemplary persons (junzi) understand what is appropriate (yi); petty persons understand what is of personal advantage" (Ames & Rosemont, 4:16). Or: "Wealth and honor are what people want, but if they are the consequence of deviating from the way (dao), I would not have part in them" (Ames & Rosemont, 4:5). Further: "Governing with excellence (de) can be compared to being the North Star: the North Star dwells in its place, and the multitude of stars pay it tribute" (Ames & Rosemont, 2:1). Finally: "If people are proper (zheng) in personal conduct, others will follow suit without need of command. But if they are not proper, even when they command, others will not obey" (Ames & Rosemont, 13:6).

These words of wisdom encapsulate conceptual signposts that mark out the solid ground on which a viable theory of moral leadership can be built that is neither too lofty a construction nor too easily weighed down by fears of futility or pessimism.

### *The Power of Leadership – A Reminder*

Today, leadership has proliferated into many fields and leaders can now be found in various areas of society. While politicians and government leaders are still the most visible representatives of leadership, the enormous financial assets held by multinational corporations, which in some cases exceed the reserves of individual countries, suggest that the power of business leaders may compete with that of governments. In democratic governments, policy decisions typically represent compromises between elected members of parliament, their various factions, coalition partners, and interest groups. Business leaders, however, are accountable only to the shareholders and their board of directors. Bad decisions by government leaders may be remembered in the next elections at the ballot box and lead to the defeat of the government. While business leaders too can be dismissed for bad management or wrong decisions, they are, as various recent examples illustrate, usually handsomely compensated with a golden handshake - and always seem to fall on their feet by quickly finding another top position somewhere else.

Thus one of the questions usually asked when something went wrong is whether the checks and balances of business leaders are really adequate to their power. Business leadership is characterized by asymmetrical power-authority relationships in hierarchical organizations. It can be exercised by "coercion (the possession of, and threat to use, the means of inflicting pain), reward (the possession of, and the promise to bestow, pleasure) and legitimate authority (warrant to speak for the group)" (Newton, 1987, p. 74). Powerful CEOs can close down whole departments that no longer fit in with their favorite business strategy or seem too costly. They can move their factories to low-cost countries, they have the power to "fire or demote, they can pay bonuses and promote, and the organizational chart backs up their right to command the obedience of their subordinates" (Newton, 1987, p. 75). In addition, they are largely in charge of setting the parameters that will define their companies' corporate culture, code of conduct, or operational principles; and this is one aspect of leadership that is of greatest significance in our present context.

In most countries, most notably in the United States, the influence of business leaders even extends well beyond their own enterprises and into the heart of government. Through donations to political parties, lobbying activities, and direct pressure they seek to tip political decisions in their favor. In his farewell speech to the nation almost fifty years ago (17 January 1961), president Dwight D. Eisenhower felt the need to draw attention to one of the most powerful but shady influence groups in his country, for which he coined the term “military-industrial complex.” Due to its potential for a “disastrous rise of misplaced power,” he called all Americans to “guard against the acquisition of unwarranted influence (…) by the military-industrial complex” (Eisenhower, 1960). At the end of George W. Bush’s presidency, it seems that his advice has been largely ignored and the influence of the military-industrial complex on government has only grown stronger.

While in public life it is ultimately the law that sets enforceable limits to business leaders and their deals, the law is neither able nor the best possible tool for the protection of the interests of companies, shareholders, employees, and consumers. This suggests that a new focus on leadership in business is needed and that, above all, it must be on its moral implications.

### ***Semantic Connotations of Leadership***

Prior to exploring this moral dimension of business leadership further, we need to reflect in passing on the very terms “leader” or “leadership” as they carry some heavy emotional and normative baggage. Their meaning is historically and socially constructed and thus does not carry everywhere the honorific connotation it seems to have in the English language. In America, the phrase ‘he or she is a real leader’ is a compliment and leadership the focus of numerous training courses that promise to turn (average) managers into (great) leaders by teaching them some special skills and psychological tricks. The cultural attitude toward the word leadership seems also to influence the direction of research. “In America, leadership has positive moral connotations embedded in it, which may explain why an overwhelming number of articles focus on charismatic, transformational, transforming and, most recently, authentic leadership”(Ciulla, 2005, p. 325).

In Germany and Italy, however, the words Führer and duce sound very different and recall the dark episodes in their recent histories. This may be one of the reasons why in Germany leadership research is frequently located within an organizational and political discourse that is intertwined with and seeks justification from general ethics. Leadership ethics (Führungsethik) thus is a sub-discipline of managerial ethics, which in turn is a sub-discipline of organizational ethics (Steinmann & Löhr, 1994). The so-called Munich school of economic ethics even integrates it within the basic framework of economic activity or at the “macro” level, since on this view ethical decision making of individuals or organizations are of minor importance as their moral space is seriously limited by the economic system (Homann, 2001).

I will try to steer a middle-course by claiming a genuine moral responsibility for business leaders that is complemented by norms of corporate ethics. I will argue that leadership today would be impoverished if it were exclusively based on power or the fear of punishment. Neither would its implicit assumptions be sound, nor its strategy successful. My thesis is therefore: leadership must be equally based on moral principles and the ethical vision of a good life in the emphatic sense of the term. Its power and authority must have moral legitimacy by extending beyond individual selfishness, and its commitment to ethics must have not merely instrumental, but intrinsic value. That is to say, the moral dimension that gives leadership its authenticity transforms leaders from power-hungry individuals into persons respected by peers and subordinates alike. Moral leaders represent values that are not confined to the secrecy of boardrooms and centers of power but are universally recognized as the fundamental building blocks of a life worth living.

## FOUNDATIONS OF MORAL LEADERSHIP

### *The Standard View of Business Leadership*

Much of the skepticism about moral leadership in business is grounded in the strange but popular assumption that business operates in amoral space and any concern for ethics is either unproductive or outright detrimental. Why then would 'good' companies need moral leaders? For some, the very term 'business ethics' is little more than an oxymoron: either you do business, or you are ethical; you can't have both. It is not really surprising that such a view also affects the public perception of business leaders. Only a handful of them is seen as committed to moral principles, quite a number are regarded as outright immoral and unethical, but the vast majority is thought to be amoral as they lack moral awareness and believe that business is something like an ethics-free zone without a moral dimension. According to a recent survey, only nine percent of Germans have faith in business leaders and trust them; among all the elites, business leaders rank last, – and that was even before the global economic crisis (Jörges, 2008).

If we examine the philosophical implications of this view a little more deeply, we discover a specific picture of humanity, human agency, and – in particular – of the business person. In ideal-typical overexposure, it is the picture of the lonely, highly rational individual whose sole interest is self-preservation. All actions are, ultimately, motivated by self-interest. In a world in which everyone is my potential enemy, self-preservation is always a shifting goal, since I can never know how much self-protection is enough. This explains much of the stressful dynamics of modern life, particularly in business and politics, which requires ever increasing efforts to secure (individual and collective) survival.

It is an extension of this view that sees business exclusively defined by economic factors, which are driven by the rationality of individual self-interest. This is the familiar construct of the homo economicus that still holds sway over many. While they may complain about the cold world of self-interest, they have nevertheless resigned to it as the best possible play-ground for doing business, since it still holds the promise of general predictability of human interaction. On the assumption of self-interest as the sole motivation in each and every market player, the specter of irrational markets gives way to the calculations of economics and its scientific models of markets and consumer behavior. To the extent that ethical values do in fact hold influence on the general public, economists of this persuasion tend to regard it as an aberration in the system that can be taken care of either by mere conformity of economic activity with ethical norms, or by instrumentalizing ethics as a means to increase profit. It is not important whether something is being done for genuine ethical reasons, all that counts is that it is seen as such by the general public. If ethics helps increase profit, - all the better and it will be employed exactly as long as it delivers.

To illustrate this point, look at environmental concerns. Since the public cares about the environment and expects business to minimize ecological damage, companies around the globe all of a sudden have discovered their heart for nature and are presenting themselves as environmentally responsible actors. Not everyone, however, is sincere, and in a number of cases critics have argued that what is being claimed as environmental responsibility amounts in fact to little more than "green-washing." Companies are proud to take credit for some well publicized protective measures, but hide the fact that they still cling to their old and wasteful ways of production.

A case in point is the trading of environmental certificates under the Clean Development Mechanism (CDM), an offshoot from the Kyoto Protocol that allows the crediting of emission reductions from greenhouse gas abatement projects in developing countries. Ten years after the adoption of the Kyoto Protocol, the CDM has become an immense global market of a value of several billion Euros. Yet the CDM has also recently been heavily criticized for not delivering on its environmental and sustainable development objectives. In various instances, companies simply bought certificates without assuring the stipulated additionality of sustainable development projects in developing countries. The overall contribution of the CDM to assisting host countries to achieve sustainable development is therefore rather small.

Similar doubts have been raised about some companies' honesty in their commitment to Corporate Social Responsibility (CSR). Since good CSR seems to increase the value of companies, it is tempting to use it for the appeasement of a weary public and to avert legislation on emission standards that would decrease profit.

The philosophy of self-interest and self-preservation is thus incapable to recognize any genuine role for ethics in business transactions and instead responds to conflicts through evasion of responsibility and make-belief. The famous Kantian alternative between acting merely in conformity with moral principles and acting on moral principles is unavailable. Though this picture of the human being has been painted in rough strokes, it may explain some of the deep-seated aversion against a positive role of ethics in business. At the same time it challenges us to reconsider the question about the public relevance of ethics.

***Societal Relevance of Ethics***

Recently, the standard model of business activity has lost ground. In one of the most frequently cited new papers of experimental economics, Gary E. Bolton and Axel Ockenfels have argued that it is psychologically flawed by inadequate moral assumptions. While it takes for granted that people are guided solely by selfish, particularly pecuniary concerns, in reality people care about other things as well. In accordance with psychologists and sociologists, their research has identified several non-pecuniary motives as important drivers of behavior, - above all concerns for fairness and reciprocity. "Social preference models assume that traders care about their own monetary payoff but that some traders may additionally be concerned with the social impact of their behavior. Reciprocity models conjecture that people tend to be kind in response to kindness and unkind in response to unkindness, while fairness models posit that some individuals may have a preference for equitably sharing the efficiency gains from trade" (Bolton & Ockenfels, 2006). On their account, economic theory underestimates the degree of fairness in business transactions. Instead of reducing business to self-interest and market forces, they see it dominated by the ERC triple principle: equity, reciprocity, and competition.

What is missing in the standard view is the perspective in which we see ourselves not only as role-bearers and functionaries of economic systems but also as social beings and morally concerned citizens with a shared history of beliefs about "the good life." As social beings, we can only expect to further our self-interest when we recognize the needs of others as well. The necessary rules for effective cooperation between individual players are not only the result of rational behavior and economic prudence but derive also from the common interest in "the good."

We should remind ourselves that, as a matter of fact, business never lacks moral background institutions and internalized normative standards, and would be impossible without them. We all depend on them and usually take for granted that we can trust each other, that people normally keep their promises, and that they are not without compassion or a sense of justice. The amorality of business may therefore indeed be a myth (DeGeorge, 1993) that is still characteristic of certain types of economic theory but not of business culture in general, despite all the scandals and widespread moral shortcomings of individuals. Thus a truly amoral economic system, should it be feasible at all, would have to be parasitic on the embedded ethical norms the average citizen could normally be expected to adhere to. It is like truth-telling and lying: A lie can only do the trick when people normally tell the truth so that it can take advantage of their truthfulness as a parasite feeds on its healthy host. In conclusion, the business of business is not business but human flourishing, and this cannot be had without ethics.

### *Ethics and Economic Space*

If all this is true, then moral leadership is based on the assumption that business is not exclusively determined by economic and social forces, as these would leave no space for moral decision-making. The economic system as well as its key players depend on, and thus benefit from, the common ethos that they did not generate on their own. Even the autonomy of the economic system is not absolute, contrary to popular perception, and its rules do not have the status of immutable laws of nature. Instead, it is the product of human culture whose further development can be directed in accordance with human needs and the moral vision of the good society.

Business leaders therefore retain sufficient space for responsible acting even within the parameters of economic imperative, i.e. profitability, and its constraining objectivity. Economic rationality is relative to cultural settings and societal preferences, and both the economic and the ethical are interrelated dimensions of human agency. What lacks economic rationality is lacking in justice as well, and what contradicts human justice cannot really be economically rational (Rich, 2006). In other words, business leaders are not simply prisoners of the economic system. They do have a choice.

### *Ethics as the Heart of Leadership*

If ethics does in fact play an important role in society, or if human flourishing is possible only on the basis of internalized moral norms, then business actions – like all other human actions – have a moral dimension that can neither be ignored nor be merely superficially attended to. Thus business leaders must walk the talk and instead of paying lip-service and engaging in some ethical window-dressing, they must genuinely be concerned about ethics.

In the words of Confucius this reads as follows: "Exemplary persons (junzi) first accomplish what they are going to say, and only then say it" (Ames & Rosemont, 2:13). They would also feel "shame if their words were better than their deeds" (Ames & Rosemont, 14: 27). This is echoed in modern companies. In the BASF statement of Vision, Values, and Principles we read: "We act in accordance with our words and Values. We comply with the laws and respect the good business practices of the countries in which we operate." Needless to say, the test case for such statements has come when profit and ethics clash, or rather seem to clash, and in the mind of the average manager and business leader, this is regarded as the standard situation. It is then tempting for ethics consultants to prove, or at least try to prove that ethics in fact pays and that this should be a sufficient reason to behave ethically even in difficult situations. While such a strategy of selling ethics as a means for greater profit may be psychologically advisable so as to persuade doubting and reluctant business leaders to do what would be morally required of them, we should be mindful that ethics is not for sale and must not be traded off against profit. We may manoeuvre as long as we like, in the end it will be decisive whether or not we believe in such a simple truth that former Bosch CEO Hans Merkle summarized in one sentence: "There are certain things an honest person simply does not do – period."

Obviously, the coincidence of ethics and good business on the one hand and the reasons for behaving ethically on the other are two quite different concerns. To argue that ethics will "enhance the bottom line" offers little more than "an easy, prudentially acceptable, attractive, and enticing reason for business to be ethical" (Cohen, 1999, p. 15). It ignores, however, the fact that every one of us, including business leaders, stands under the moral obligation. The ethical imperative demands that one does first what is good and right and just – and looks for personal gain later.

There is a long tradition in moral philosophy East and West arguing that ethics is never only a means of profit or well-being but an integral and most fundamental component of what we call the good life. When the ancient Chinese philosopher Mencius went to see King Hui of Liang and the latter expected him to "profit" his state, Mencius replied: "Your Majesty, what is the point of mentioning the word 'profit'? All that matters is that there should be benevolence and righteousness. If Your Majesty says, 'How can I profit my state?' and the Counselors say, 'How can I profit my family?' and the Gentlemen and Commoners say, 'How can I profit my person?' then those above and below will be trying to profit at the expense of one another and the state will be imperiled (...) if profit is put before righteousness, there is no satisfaction short of total usurpation" (Mencius, 1984, 1A:1).

Again, this typical statement from the Confucian tradition is not as "ancient" as it may at first appear: Leadership consultant Peter Koestenbaum recalls a business leader who came across his true self: "I am the top executive in a very large organization and I live with a deep conflict. There is a fundamental 'bad' in business, a pervasive cancer. Business lives in a cutthroat, ruthless, dishonest atmosphere. You do what it takes and care nothing about morality. You are not true to your word. In the end, you cheat, deceive, and lie. Eventually, even the most determined among us must contract this disease. This presents me with a fundamental dilemma: Can you win being 'good'?" And he states in his own words what I call the priority of ethics: "I do not want to take on the characteristics that disturb me in some of my colleagues" (Koestenbaum, 2002, p. 127).

Obviously, the moral imperative cannot be ignored indefinitely. There is a moral self in each of us, which proves that ethics defines our very humanity. The vision we hold of the "good" life in the emphatic sense of the term gives priority to moral principles and values that certainly include reciprocal relationships of justice, trust, sympathy, compassion, and care. If we need another warning about the unpleasant alternatives, Thomas Hobbes is a good witness. He reminds us very clearly that the options we have for individual and social life outside moral norms are either the severe restriction of human freedom through an over-powering government that alone can secure collective survival, or – the war of all against all in which life will be "solitary, poor, nasty, brutish, and short" (Hobbes, 1981, p. 186).

## TWO MAJOR FAC TORS OF MORAL LEADERSHIP

***Moral Leadership, Character, and Authenticity***

If we now look a little more closely at the most important characteristics and practical requirements of moral leadership, we will quickly notice that they have an individual and an organizational dimension. For Bill George, former chairman and CEO of Medtronic, the world's leading medical technology company, the various qualities of a moral leader can be summarized in one word: authenticity. It is the "most important characteristics one has to have to be a leader." It stands for moral commitment to a purpose or a mission: Authentic leaders "are people who live by their values every day and who know the true north of their moral compass." "Without a moral compass, any leader can wind up like the executives who are facing possible prison sentences today because they lacked a sense of right and wrong"(George, 2003, p. 20).

Not everyone, however, agrees. Rainer Niermeyer, a psychologist and Kienbaum Management Consultant, has argued that in today's business environment of lean management, shareholder value, and fierce competition, authenticity is the best recipe for self-destruction. In his view, it is not the quality of authenticity that is required of business leaders, but the ability to convincingly play any role, including the role of the authentic leader. Authentic leaders are simply incapable of responding to ever changing business environments with the appropriate role. His prudential imperative is therefore: grasp the expectations of your business environment and perform the role in which you can answer them best.

I submit to disagree. If it is true that amoral business is a myth, business leadership has an indispensable moral dimension that must not be ignored in daily operations and strategic decisions. Leaders without a moral backbone who change roles as fast as they change their clothes will quickly lose trust and will be seen as people who lack sincerity and honesty. When business consultants James M. Kouzes and Barry Z. Posner asked in a survey of thousands of managers what they wanted in their leaders, honesty came out on top (87%). The authors concluded: "Honesty is absolutely essential to leadership. After all, if we are willing to follow someone, whether it be into battle or into the boardroom, we first want to assure ourselves that the person is worthy of our trust. We want to know that he or she is being truthful, ethical, and principled. We want to be fully confident in the integrity of our leaders" (Kouzes & Posner, 1993, p. 255).

It is universally agreed that a good reputation is one of the most important business assets. Good reputation, however, must be earned through a proven commitment to honesty and sincerity, – and that is what gives a leader his or her authenticity. Unfortunately, the authentic commitment to moral values is one of the earliest casualties when the going gets rough and the morally tough are no longer going. This has as much to do with human psychology as with the basic function of business: business is no charity, but looks for profit as the well-deserved reward for all the troubles that come with it in the first place. In Milton Friedman's memorable phrase: "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits." Yet he adds a phrase that is frequently ignored: "to increase its profits – so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud" (Friedman, 1962, p.133). As we have seen, those rules of the game are not and cannot be exclusively defined by business. Most obviously, they are derived from the law and grounded in common morality.

The line that separates the genuine desire for profit from greed is, however, rather thin. From the perspective of self-interest as sole motivation in business, the temptation is nearly overwhelming to do whatever it takes to increase profit. Critics have argued that the current financial crisis has one of its major causes in instruments of remuneration for top executives that link salaries to short-term increases in company value and encourage risky or even irresponsible business operations through attractive bonuses and share options. It is the carrot-approach without the stick that fuels greed and ignores accountability. Economist and Nobel laureate Myron Scholes has therefore suggested a radical change in the remuneration system, which should exclusively be tied to long-term business success.

While this may prevent some irresponsible operations motivated by greed, moral leadership requires more. Most fundamental is what may be called moral sensibility, a sense for right and wrong, and a competence of signaling morally relevant elements in business situations. Moral leaders will also need to develop a competence for moral reasoning and the ability to argue convincingly on moral grounds. This competence is of particular importance in today's media society and communication age where various groups challenge not only individual business operations but the capitalist free-market society as a whole. Business leaders should not shy away from taking part in the debate about social values and market systems and be capable of persuasively explaining strategic decisions to an ethically doubtful public.

### *Moral Leadership and Organizational Structure*

Moral leadership, however, is not restricted to individuals only, but includes business organizations and corporations as well. The best qualities of moral leadership are useless unless they are embedded in a supportive company structure. That is to say, moral leadership not only interacts with internal environments, corporate cultures, and hierarchical structures, it also influences their development.

While leaders may be the most visible representatives of an enterprise, companies, particularly corporations, are themselves moral agents with their own sets of values and objectives. CEOs come and go, while companies are usually there for the long term. Corporations are moral persons on equal footing with natural persons with all the privileges, rights, and duties moral persons normally have. In France and the UK, companies and not only individuals can be sued and brought before the courts. In Germany, in the wake of recent scandals, calls for a criminal law for corporations have become louder. The head of the European Anti-Fraud Office (OLAF), Franz-Hermann Brüner, proposed to blacklist corrupt companies and to temporarily exclude them from applying for new contracts.

The public too expects companies to be committed to moral standards so as to earn the moral license to operate. Organizational ethics of leadership must therefore be seen as an operational factor and not merely as an expense or cost factor. Internally, a variety of company-wide mechanisms have become available that seek to bring moral leadership to bear. They include codes of ethics, mission or core value statements, ethical training programs and reporting channels for ethical grievances (ethics office).

Thus ethical principles help define the corporate mission, determine obligations to various constituencies, and set guidelines for the organization's policies and practices. While in some cases unethical behavior of managers may have its root causes in character flaws, most often in greed and selfishness, in other instances it is facilitated by a lack of guidelines or by conflicting guidelines. Surveys indicate that many ethics violations by mid-level managers signal in fact conflicts of loyalty resulting from their leaders' inconclusive, ambiguous, or outright misleading value statements and personal behavior. Harvard business ethicist Lynn Sharp Paine recalls how she once met a businessman on a plane who told her frankly that his job was to be “a liar”: After his company had been bought by a large global enterprise his first truthful report as regional manager was received with such hostile response “that he never again dared to tell the truth.” Since then he regularly fabricated reports for headquarters (Sharp Paine, 2003, p. 40).

It is easy to condemn this manager for false reporting and dishonesty. Yet, the company’s leadership failed even more severely by encouraging a climate of untruthfulness and not defining clear and unambiguous values. Its insensitivity to the humiliating treatment of its employees produced an unethical environment that would undermine not only its reputation but also its profitability.

Morally committed leaders will therefore not only define their companies’ values and principles, they will also pay close attention to value ambiguities. They will take measures to assure the development of moral sensibility and morally sound judgment in their subordinates and throughout the company. Through exemplary behavior, compliance standards, and ethics training of employees, they will see to it that the moral point of view becomes an integral part of company performance and strategy.

A written code enables an organization to clarify standards that may otherwise be vague expectations left to individual interpretation. Where there is disagreement, codes can achieve a certain degree of consensus. Codes are also effective means to disseminate easily understandable rules and principles to all employees, including top-down from leaders and management to front-line employees. A code that is enforceable and enforced in an organization provides employees with a tool for resisting pressures to perform unethical or illegal actions. Thus it will encourage as well as protect employees to do what is right.

BASF’s statement of their Vision, Values, and Principles is just one such example; it stands in glaring contrast to companies that pressure their employees to report only what the top wants to hear. Among the key values, BASF lists mutual respect and integrity. The principles that translate the values into action-guiding statements include: “We involve our employees in work and decision processes in a timely manner through open communication and information sharing not hindered by hierarchical and organizational boundaries.” “Every executive is expected to be a role model and to set an appropriate example in accordance with our Vision and Values. We abstain

– from any practice that is illegal

– from any practice that violates fair trade” (BASF, 2004).

There are many ways how moral leaders can tie the strategic interests of their companies to common morality. Yet above all, they must recognize the fundamental importance of issues of human rights, global justice, and environmental sustainability. One possibility is the adoption of global codes that apply the moral point of view to all areas of business activities. They include codes of corporate responsibility as well as international standards concerning labor practices, corruption, and the environment. Examples are: The UN Global Compact, (which since its official launch on 26 July 2000 has grown to more than 5600 participants, including over 4300 businesses in 120 countries around the world), the Global Reporting Initiative GRI); the UN Convention Against Corruption (UNCAC); Transparency International.

### *Corporate Ethics and Compliance*

The best codes, however, are not worth the paper on which they are printed if business leaders do not ensure that they are adhered to, especially when times are rough – and that means: always. In the final analysis, it is individuals who will determine the ethical quality of business conduct. Many companies still seem to regard their codes as what business ethicist Daryl Koehn has called "good times" codes of ethics that presuppose "that everything is going well with the core business, but doesn't address what happens when the core business is under attack"(Millman, 2002, p. 17).

Once upon a time there was a famous accounting firm by the name of Anderson, whose biggest client was Enron. Both had codes of ethics, and their executives presented them at every occasion. They even gave public talks on their companies' mission and values and talked as if they did indeed believe in them. But as it turned out, they never cared to bother about values or codes. When Enron's voluminous code of ethics got in the way of doing what management wanted done, its board was easily persuaded to lay aside certain provisions - most notoriously, the conflict-of-interest provision. And when everything collapsed, Anderson shredded all its accounting documents, and the large numbers of unused ethics codes were eventually auctioned off at Ebay. This final act was in fact the last in a long series of continuous betrayal of company values. Over a number of years, Anderson sold its soul and with it its reputation to its clients. The firm gradually compromised their values more and more, just to make money. As one observer noticed, what looks at first glance as a giant step in destroying documents was to them just another step in sacrificing values for greed (George, 2003, p. 75).

What we can learn from this is that no code can ever work unless its operation is embedded in a company's culture, and accepted by all concerned, particularly the leaders at the top. Yet the development of a corporate culture takes time as it involves habits of mind and action that are only produced through the continued, sincere upholding of company values and principles and the encouragement to abide by them. Eventually, this will set parameters of good practice the individual employee and manager can hardly ignore. Codes of ethics can only be useful when they are clearly linked to the daily operations, and this can be achieved most effectively by building adherence to standards into management systems, into performance evaluation, compensation, audit, and control.

### *Siemens: The Costs of Neglecting Moral Leadership*

What is at stake when business leaders ignore good ethical practice and companies lose their ethical reputation can be illustrated by one of the latest scandals. Siemens was recently embroiled in a huge corruption scandal that has severely shaken the confidence of a once proud and self-conscious Siemens "community," tarnished its reputation, and caused substantial financial losses. Like most large corporations, Siemens had a code of ethics and a code of business conduct, was an early subscriber (2003) to the ten principles of the UN Global Compact, and proudly proclaimed to place high priority on principles of corporate responsibility. Its Code of Ethics for Financial Matters required of every employee, among others, to:

(1) act with honesty and integrity and avoid actual and apparent conflicts of interest in personal and professional relationships;

(6) promote proactively ethical behavior as a responsible partner among colleagues and subordinates;

(7) comply with all applicable laws, guidelines and regulations;

Its Business Conduct Guidelines stated unambiguously:

A3. We are open and honest and stand by our responsibility. We are reliable partners who make no promises we cannot keep.

A4. Every manager must earn their respect by exemplary personal behavior, performance, openness, and social competence. He/she shall set clear, ambitious, and realistic goals, lead by trust and confidence and leave the employees as much individual responsibility and leeway as possible.

In section B2 Offering and Granting Advantages, the guidelines read: Client gifts to business partner employees must be selected so as to avoid any appearance of bad faith or impropriety in the mind of the recipient. No employee may directly or indirectly offer or grant unjustified advantages to others in connection with business dealings, neither in monetary form nor as some other advantage. Gifts must not be made to public officials or other civil servants. Its value statement listed responsibility above all else and defined it as being committed to ethical actions.

In spite of all this, in his Foreword to the company's 2007 Corporate Responsibility Report the new Siemens President and CEO, Peter Löscher, had to admit: "Siemens – as a global enterprise – also has an impact on social developments, the single most important expectation is that our conduct be flawless from an ethical standpoint. The fact that our company made mistakes here in the past is a painful realization" (Siemens, 2008). What went wrong in the company that was once considered a role model for corporate Germany?

In May 2007, two former mid-level managers – Andreas Kley, a former finance chief at Siemens's power-generation unit, and Horst Vigener, a consultant – were convicted of paying about 6 million Euros in bribes from 1999 to 2002 to help Siemens win gas-turbine supply contracts with Enel, a state-owned Italian energy company. The contracts were valued at approximately 450 million Euros ($609 million). The managers explained their actions, which they knew were illegal, with last-minute demands from their Italian contractor. They believed they acted "in the interest of the company," since only by paying the money could Siemens secure the contract and enter the Italian market. They did not benefit personally from the deal. The court convicted them of bribery and ordered the company to pay a fine of 38 million Euros ($51.4 million).

The Darmstadt trial was the first verdict in a widening corruption scandal that engulfed the engineering and electronics giant with more than 400 000 employees worldwide and revenue of 72.4 billion Euros in the fiscal year 2007. In the meantime, prosecutors around the world formally launched bribery investigations against Siemens. They include the US Justice Department and the US Securities and Exchange Commission as well as prosecutors in Hungary, Indonesia, Norway, Israel, Italy, and Russia. In China, Siemens is (or was) under investigation in a number of jurisdictions including Guangdong, Jilin, Xian, Wuxi, Shanghai, Ting Hu, Shandong, Hunan, and Guiyang.

The case against a former Siemens manager who was recently convicted by a court in Munich of several counts of breach of trust revealed not only the massive scale of corruption in the company but also a lack of moral leadership at the top. On 27 July 2008 and after a two-month trial, Reinhard Siekaczek, a former manager at the ICN fixed-line telephone network division, received a two-year suspended sentence and a 108,000 Euros fine. He got off relatively lightly, since his comprehensive cooperation with the prosecution helped reveal the complex and highly sophisticated corruption and bribery mechanisms that had gradually developed in Siemens for at least a period of six years, from 2000 to 2006. The prosecution could prove that a system of bribery was installed, and that Siekaczek had set up slush funds and "used an impenetrable system of sham contracts, which didn't allow any control once Siemens money was paid out" (Matussek, 2008). Siemens has acknowledged that a total of 1.3 billion Euros of "unclear payments" were made during the period.

Yet the most damaging allegations were leveled against the Siemens leadership. The defendant claimed that the complex network of shell corporations he used to siphon off company money was installed with full knowledge of the whole sectoral management. Everyone knew that “commissions” were to secure orders, although this matter was handled “very discreetly” with only a very small circle of people in the know. Siekaczek testified that his superiors had even told him to create a new payment system after paying bribes abroad became a criminal offense in Germany in 1998. He said at a meeting with four managers in 2002 he was given the job of organizing the payments. “It was naturally clear to all that this does not correspond to the law,” he said, adding that their attitude was: “We’re not doing it for ourselves, but for the firm” (Marquart, 2008).

Once the scandal broke, all that Siemens could do to minimize the disastrous fall-out was to admit its wrongdoings, replace its tarnished top leadership, and aggressively attack the cancer of corruption top-down through a variety of measures. One of the first steps taken by the new CEO, who came from outside the company, was the declaration that anti-corruption measures are now a priority for the senior management. This was backed up by the appointment of a Chief Compliance Officer (19 September 2007) and by the institution of a new directorate “Law and Compliance” on the Siemens Managing Board. In fiscal 2007, Siemens imposed personnel sanctions on a total of around 500 employees for violation of external regulations or internal policies. The contracts of thirty percent of those employees were terminated and eight percent were punished with salary deductions. The rest received either a reprimand or a warning.

Furthermore, Siemens consolidated all its internal anti-corruption regulations within a single, easy-to-use source, the Siemens Compliance Guide Anti-Corruption, and distributed it to every employee throughout the company. It set up a Compliance Help Desk with an “Ask us” function as central contact point for employees with questions related to matters of compliance and corruption. The second function of the Compliance Help Desk is a “Tell us” function that gives employees and all external stakeholders the opportunity to report any indications of possible violations of the Business Conduct Guidelines, on the assurance that reports are neither traced nor registered. Siemens also stepped up its anti-corruption and ethics training program and claims that between February and October 2007, 1,400 managerial employees enrolled and a total of 36,000 employees completed a web-based training program on the specific rules and regulations to be observed in money transfers, accounting, and the handling of gifts; it expects that up to 100,000 employees will complete this training program. Siemens appointed an independent compliance consultant who will advise the Board of Directors and regularly report to the Chief Compliance Officer. In the first two quarters of 2008, Siemens paid 302 million Euros for external compliance consultants and cleaning-up measures. In the meantime, Siemens has confirmed to press charges against and seek damages from eleven former top managers, including former chairman of the supervisory board, Heinrich von Pierer, and former CEO Klaus Kleinfeld.

## CONCLUSION

Andreas Pohlman, the new Siemens Chief Compliance Officer, summarized the task ahead as follows: “Integrity management requires the acceptance of responsibility at all levels of the company. This is not just a matter of being aware of and complying with rules and guidelines. Effective integrity management goes much further: it involves a credible dialogue based on trust, with corresponding communication across all hierarchical levels. Only then can the necessary change process be initiated and acceptance established among the workforce" (Pohlmann, 2008).

In the end, it is ethics that counts and it is ethics that sets the benchmark for true excellence and success in business as in personal life. Only when it has been understood and accepted that moral leadership is a business asset and a fundamental company value, the market economy can be sustainable and financial systems of benefit to all.

## REFERENCES

Ames, R. T., & Rosemont, H., Jr. (1998). *The analects of Confucius. A philosophical translation.* New York: The Ballantine Publishing Group.

BASF (2004). Vision, values, principles. Retrieved from http://www.basf.com/group/corporate/en/function/conversions:/publish/content/about-basf/vision-values-principles/images/Vision_Values_Principles_BASF.pdf

Bolton, G. E., & Ockenfels, A. (2006). The limits of trust in economic transactions. Investigations of perfect reputation systems. Retrieved February 5, 2009, from http://ockenfels.uni-koeln.de/uploads/tx_ockmedia/Bolton_Ockenfels_Limits_of_Trust.pdf

Ciulla, J. B. (2005). The state of leadership ethics and the work that lies before us. *Business Ethics: A European Review, 14*(4), 323-335.

Cohen, S. (1999). Good ethics is good business – revisited. *Ethics and Society, 7(*1), 10-16.

DeGeorge, R. (1993). *Competing with integrity in international business.* New York: Oxford University Press.

Eisenhower, D. D. (1960). Military-industrial complex speech. In Public Papers of the Presidents, Dwight D. Eisenhower: 1035-1040. http://coursesa.matrix.msu.edu/~hst306/documents/indust.html

Friedman, M. (1962). *Capitalism and freedom.* Chicago: Chicago University Press.

George, B. (2003). *Authentic leadership: rediscovering the secrets to creating lasting value*. San Francisco: Jossey-Bass.

Hobbes, T. (1981). Leviathan & C. B. Macpherson (Ed.), *Harmondsworth:* Penguin Books.

Homann, K. (2001). Ökonomik: Fortsetzung der Ethik mit anderen Mitteln. In G. Siebeck (Ed.), *Artibus ingenuis* (pp. 85-110). Tübingen: Mohr-Siebeck.

Jörges, H.-U. (2008). Die Knute der Rendite. Stern 36, 56.

Koestenbaum, P. (2002). *Leadership: the inner side of greatness: A philosophy for leaders*. San Francisco: Jossey-Bass.

Kouzes, J. M. & Posner, B. Z. (1993). *Credibility: how leaders gain and lose it, why people demand it*. San Francisco: Jossey-Bass.

Machiavelli, N. (1999). *The prince.* London: Penguin Books.

Marquart, M. (2008, May 26). Reinhard Siekaczek, former Siemens AG manager, testifies at corruption trial: bribery and slush funds. *The Huffington Post.* Retrieved from http://www.huffingtonpost.com/

Matussek, K. (2008, July 28). Ex-Siemens manager is convicted at corruption trial. Bloomberg.com. Retrieved from http://www.bloomberg.com/

Millman, G. J. (2002). New scandals, old lessons: financial ethics after Enron. *Financial Executive*. 18 (5), 16-19.

Newton, L. (1987). Moral leadership in business: the role of structure. *Business and Professional Ethics Journal*, *5*(3-4), 74-90.

Pohlmann, A. A new direction for Siemens. Improving preventive systems. Compact Quarterly. Retrieved July 14, 2008, from http://www.enewsbuilder.net/globalcompact/e_article001149152.cfm?x=bd2Hd2m,b2QLrDD5

Rich, A. (2006). *Business and economic ethics. The ethics of economic systems*. Leuven: Peeters Publishers.

Schneider, L. (2007). Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement. *Report prepared for WWF*. Berlin: Institute for Applied Ecology. Retrieved from http://assets.panda.org/downloads/oeko_institut__2007____is_the_cdm_fulfilling_its_environmental_and_sustainable_developme.pdf

Sharp Paine L. (2003). *Value shift: why companies must merge social and financial imperatives to achieve superior performance.* New York: McGraw-Hill.

Siemens. (2008). Corporate Responsibility. Report 2007. Retrieved from http://w1.siemens.com/responsibility/report/07/en/statement.htm

Steinmann H. & Löhr, A. (1994). *Grundlagen der Unternehmensethik.* Stuttgart: Schäffer-Poeschel.

# ETHICAL CONCERNS AT THE BOTTOM OF THE PYRAMID: WHERE CSR MEETS BOP

**Kirk Davidson**
Mount St. Mary's University, Emmitsburg, Maryland, USA

**Abstract:** There is growing interest in C.K. Prahalad's concept of attacking world poverty by encouraging multinational firms to do business with the "bottom of the pyramid," the billions of people in the world who must survive on $2 a day or less. This paper enumerates and describes the ethical problems associated with this concept and reviews two classic case studies which shed light on our analysis. Prahalad specifically disassociates his concept from corporate social responsibility. However, this paper argues that properly understood, the core elements of corporate social responsibility must be incorporated into bottom-of-the-pyramid strategies if they are to have any chance of success.

**Keywords:** marketing to the poor, ethics, corporate social responsibility, bottom of the pyramid

## DEFINING THE ISSUE

Throughout this decade excitement has continued to build about finding a "fortune at the bottom of the pyramid," a concept and phrase first introduced by Prahalad and Hart in 2002 and then expanded by Prahalad in 2005. The authors hold out the hope that by doing business with the most impoverished people around the world who make up the so-called bottom of the (economic) pyramid, or BOP, firms can not only make substantial profits but can "bring prosperity to the poor" and help to eradicate poverty across the globe (Vachani and Smith (2008) set the number of this population at 2.7 billion). This would be the quintessential win-win situation; it is an intriguing, promising, and seductive prospect. Quite understandably, these individuals and families who earn less than $2 per day have been largely ignored because, as a "market," they have so little to spend and also because many of them are so difficult to reach.

But Prahalad argues that in spite of their deplorably small per capita income the sheer number of these individuals makes up a potential market of trillions of dollars of disposable income. He cites examples of a few firms which have found creative ways to design, package, price, advertise, and deliver products for this market. Hindustan Lever markets its Annapurna brand salt to the BOP in a small package size. Amul, a large Indian dairy cooperative, has had similar success in marketing its ice cream. An eye care center has reduced drastically the cost of eye surgery through operational innovations and provides its services free to those who still cannot afford the price. Casas Bahia, a Brazilian retailer, has made appliances available to thousands by offering credit to those who previously could not qualify. Hindustan Lever has also pioneered a new distribution system, described below, using poor but entrepreneurial Indian women as intermediaries to cover hard-to-reach small villages. Furthermore, Prahalad reasons that engaging these poorest of the poor in such commerce will eventually turn the income distribution pyramid into a diamond pattern as hundreds of millions and ultimately billions of the poor move up the income distribution ladder and swell the ranks of the lower-middle and middle income tiers.

When in 2006 the Nobel Peace Prize was awarded to Muhammad Yunus and the Grameen Bank for their pioneering work in offering "microcredit" loans to individual poor Bangladeshi women so that they could pursue small but productive and profitable entrepreneurial projects, the concept of eradicating poverty by engaging in commercial activity with the BOP gained world-wide attention (see Yunus, 1999). The Wall Street Journal (Byron, 2007) recently reported that Procter & Gamble has established a unique distribution system in Mexico to sell small portions (sachets) of detergent and even single disposable diapers through thousands of tiny tienditas, the closet-sized mom-and-pop stores frequented by Mexico's poor. The stakes are high for consumer goods companies, according to the article; revenues gained from emerging markets accounted for 40% of sales for Unilever and Colgate-Palmolive and 26% for P&G, and the rates of growth for these market segments far exceed what these companies now experience in their mature, established markets.

Prahalad's BOP strategy has some inherent problems, however, and he admits that "profit creation and poverty alleviation do not mix easily or well" (2005:9). Whether his vision is feasible or whether it is a "mirage," as Aneel Karnani (2007) argues in a rebuttal article, is a debate that should engage scholars for some time to come. In the meantime business schools in the United States from Harvard in the east to San Francisco State University in the west, and any number of schools in between, have adopted courses that encourage their students to grapple with the complexities of doing business with the BOP and dream the perhaps impossible dream.

Meanwhile, as momentum builds behind this concept, and as multinational firms join the search for this "fortune," it will be important to explore two related subjects: what do we know about corporate social responsibility (CSR), stakeholder management, and the proper role of business in the global society that should guide our progress, and second, what ethical questions are raised in doing business with this vast group of impoverished stakeholders?

## THE TRUE NATURE OF CSR

At its most fundamental core, corporate social responsibility encompasses two related principles. First, profit maximization is not the sole purpose of the firm. The bottom line cannot be measured only in economic terms but must reflect, and in some cases be tempered by, social and environmental metrics as well. This is what is meant by the so-called "triple" bottom line. Second, a firm's shareholders are not the only stakeholder group for whom managers bear some responsibility and with whom they have sometimes important relationships. The constellation of stakeholders for any firm includes its employees, customers, suppliers, and the communities in which it operates, along with its shareholders. More often than not, and always with firms of any significant size, the list of stakeholders will include various governmental agencies, the media, non-government organizations, and advocacy groups.

This interpretation of corporate social responsibility and this evolved view of the purpose of the firm stand in stark contrast with the position taken by Milton Friedman in his classic New York Times article of 1970. Much has been written since then attempting to paper over the differences: that "doing well by doing good" satisfies both camps. More recently Porter and Kramer (2006) have argued that a firm's social responsibility initiatives must be aligned with its overall strategic direction to be truly effective, that is, profitable. These attempts at reconciliation, however, miss the point. Profit maximization, which results in the elevation of shareholders' interests and the subjugation of all other stakeholders to some secondary status, can no longer be the only guiding principle of the firm because that is no longer acceptable to the global society in which firms operate.

Certainly, there are plenty of examples where "doing good" does indeed lead to "doing well." Companies have often discovered that by reducing their emission of pollutants or by recycling waste products they increase their profits while improving the environment at the same time. Or they may find that paying a living wage and offering adequate benefits will improve morale, reduce turnover, and increase productivity, thereby helping shareholders, employees, and their communities simultaneously.
These are happy and most welcome alignments, but corporate social responsibility, as properly understood, requires more. There are circumstances that call for a firm to look beyond profit maximization, go beyond mere compliance with existing laws and regulations, and pursue a course of action because it is "the right thing to do." James Burke, as CEO of Johnson & Johnson, set the standard when, faced with the deaths caused by a few bottles of cyanide-laced Tylenol, he directed his company to withdraw all Tylenol from retail shelves across the country – going well beyond the recommendation of the FDA. There certainly was no assurance that the decision would in the long-run result in increased profits, and the costs of the decision were enormous, but Burke and the company management believed it was the right thing to do. Similarly, when Merck could find no government or foundation to finance the development of Mectizan, the miraculous cure for river-blindness, Roy Vagelos and other executives decided that the company should itself bear the heavy development costs, and ultimately the distribution costs as well. There was no chance that through enhanced reputation and in some foreseeable time frame Merck could recoup those costs. It was simply the right thing to do; to have done nothing with a drug product that has brought such extraordinary benefit to the world's poorest peoples was inconceivable (Davidson, 2007).

In planning strategies for doing business with the "bottom of the pyramid" it is of the utmost importance that managers – especially managers of global enterprises where the reputation of corporate and brand names is so important – understand the true meaning of corporate social responsibility. Healthy, satisfactory profits are absolutely essential as is compliance with home and host country laws and regulations. But corporations today must also fulfill society's expectations that they behave ethically – which among other things means that they must not abuse the power which they hold in the marketplace vis-à-vis their customers – and when and where resources permit that they support the communities which are supporting them (see Carroll, 1991, p. 39).

## ETHICAL CONCERNS

There are two over-riding questions to keep in mind in this exploration of specific ethical concerns. Is the fundamental relationship between buyers and sellers cooperative or is it adversarial? And to what extent must global corporations adjust their tactics and strategies, perfected in developed economies, to the special circumstances and conditions of developing countries? Nowhere are these questions more apparent or more important than in the search for a "fortune at the bottom of the pyramid."

### *Appropriate Products*

All products are not created equal in ethical terms, especially when they are marketed to the BOP. Consider again Procter & Gamble's pursuit of growth and revenue by selling detergent in single-serve packages to low-income Mexican women. The utility of this product raises no ethical concerns. But what if P& G were to choose another of its diverse product categories, say Cover Girl cosmetics? Would we approve if the firm were to devote its efforts to marketing eye-liner, or lipstick, or blush to these same women, remembering that the BOP, by definition, have less than $2 a day to spend on all their needs?

What about tobacco products, or alcoholic beverages? There are reasons galore to criticize the marketing of these problematic products in developed countries to middle- and upper-income consumers. But the ethical questions are multiplied and magnified when the target market is the BOP, and whatever amounts are spent by the poor on these products must necessarily reduce the funds available for essential goods: adequate food, clothing, and shelter.

On this matter the economist and the ethicist will be at odds. The former will argue that each consumer must determine for himself or herself how much utility is derived from each purchase and allot the limited funds accordingly. However, Karnani (2006), citing Efroymson and Ahmed (2001) tells the story of a rickshaw puller who spent twenty cents a day on tobacco, but when asked if his children ever eat eggs, responded with the question, “Where will the money come from?” In that economy the twenty cents could have been spent on an egg a day for each of his three undernourished children. Under these circumstances the ethicist will argue that while we must grant Hasan, the rickshaw puller, his free choice, it would be wrong for tobacco producers and marketers to encourage and promote such sales.

Karnani goes on to offer another example of a questionable product, Fair & Lovely, a skin cream marketed by Unilever for lightening the color of dark-skinned Indian women. The television commercials promoting the product were deemed “racist, discriminatory, and an affront to women’s dignity,” and were subsequently withdrawn by Unilever. The company clearly has a right to sell the product, according to Karnani, but to claim that this is helping to eradicate world poverty is “morally problematic.”

Casas Bahia, the Brazilian appliance retailer, is often cited as a good example of a success story in marketing to the BOP. The firm expanded its business dramatically by selling its products on credit to millions of Brazil’s poor who had no access to credit elsewhere. An argument can be made that it is a good thing for these BOP consumers to have the opportunity to purchase such utilitarian items as washing machines. To be liberated from the time-consuming and energy-draining drudgery of the traditional washboard is a readily acknowledged benefit. Do we feel the same, however, about saddling the poor with high interest debt so they can purchase consumer electronics from Sony and Toshiba – video game players, DVDs, boomboxes, and the like – which Casas Bahia also sells? All products are not created equal in ethical terms.

### *Fair Pricing*

In theory, every transaction involves a negotiation between buyer and seller over the price of the product or service offered. The buyer enters the negotiation with a maximum price he or she is willing to pay, and the seller enters the negotiation with a minimum price he or she is willing to accept. Consider the way we buy real estate or automobiles or almost anything through online or off-line auctions as examples of this model. True enough, most of our purchases through traditional retail outlets do not involve outright negotiating over price, but the theory is still valid. The buyer can and often does refuse to buy a product if he or she feels the price is too high. This theory holds in developing economies with consumer/buyers at the BOP as well. The poor presumably have a maximum price they are willing or able to pay for an item, but it is the seller’s – and more specifically the producer’s – pricing decision that is in question here. Clearly, Procter & Gamble’s sachet of detergent must be priced at or below what the BOP is willing to pay or there will be no transaction and, in fact, no market for that product.

An ethical question arises, however, when P & G makes its pricing decision: giving proper account for the necessary retailer and other intermediary markups, should the company price its detergent at the maximum price to create and maintain a market or should it price the product a few pennies less? Here the economist and the ethicist cross swords once again, and we also have another skirmish in the unending battle between the followers of Milton Friedman and the proponents of CSR. The economist, as well as the Friedman followers, would argue for setting the price at the maximum to capture every last penny of the buyer's "surplus." But the ethicist and the CSR proponents would remind us that this is supposed to be a win-win situation and that eradicating poverty is as much a goal as making a profit. Is there an acceptable compromise under which the producer makes a satisfactory, if not maximal, profit and the BOP consumer has a few desperately needed pennies left from the transaction? On the other hand, if Procter & Gamble, Unilever, or any other multinational consumer goods company, in doing business with the BOP, wrung every possible cent out of each transaction, how would this be perceived by the host country and, indeed, by the entire global society?

Consider also the microfinance business. In emphasizing the viability of this "industry" Chu (2007) tells us enthusiastically that the return on equity (ROE) for banks making these loans to the poor often exceeds the ROE of banks with more traditional loan portfolios. Indeed, Financiera Compartamos in Mexico and BancoSol in Bolivia, two of the largest Latin American banks in the microfinance business, achieved average ROEs of 52.2% and 26.3% over the three-year period 2002-04. One might well ask if the price of these loans to the poor, the interest rate that the borrower paid, could not have been reduced since they were so extraordinarily profitable to the lenders.

### ***Advertising and Promotion***

Under this category there are at least three ethical concerns to be noted. 1) *Honesty in advertising:* To misrepresent products and services is wrong regardless of the setting or target market: developed or developing markets, rich or poor consumers. The critical question is not whether the advertising in question contains falsehoods but how much of the truth it tells. How explicit does the producer and/or seller need to be about the characteristics or potential dangers associated with the product?

This concern takes on special importance when advertising to the BOP. Those who make up this population are not only poor in income; most are poor in terms of education as well, and they lack experience in evaluating advertising claims that are so much a part of the developed commercial world. Under these circumstances, the puffery that is acceptable in developed markets may well be unethical if used in advertising to the BOP.

2) *Sales promotion tactics:* The use of contests, coupons, rebates, sweepstakes, prizes, and the like are common in the marketing of consumer goods in developed markets, and marketing textbooks assure us that such tactics add value to the product and offer an extra incentive to the buyer. Of course, they add a cost to the product as well that must be recouped by the seller at some point. One of the enduring criticisms of marketing in general – advertising, selling, and all other forms of promotion – is that all of these marketing costs are wasteful and that in spite of the textbook authors, they add little or no value to the products offered. Generally, the rightness or wrongness of these additional costs is overlooked in marketing to the upper levels of the income pyramid, but the question cannot be ignored with the BOP.

3) *Marketing creates demand:* Another enduring criticism of marketing is that it stimulates demand by creating unnecessary wants and needs. There is a well-developed debate on this point by psychologists and other social scientists: can marketers really "create" demand or are they just bringing to the surface a latent demand that already exists? This criticism and debate is important but perhaps not critical in developed markets. In developing countries, however, if marketers use advertising and other promotional tactics to influence BOP consumers to shift their expenditures from essential to non-essential products, the consequences would be dire indeed and without question be damaging to the poor. Such tactics might fatten the firms' economic bottom lines and undoubtedly would pass legal scrutiny. They would not, however, pass ethical scrutiny and would ultimately lead to charges of exploitation.

***Distribution Concerns***

As multinational firms ratchet up their efforts to reach the BOP, they sometimes create new channels of distribution in the process. Sometimes this will lead to unquestioned benefits for the poor. Project Shakti, the name given to Hindustan Lever's innovative channel of distribution, in which poor, rural Indian women are trained to distribute and sell consumer goods products to hard to reach villages, an adaptation of the age-old traveling salesman, allows villagers to have access to needed products that would otherwise be totally unavailable. Sometimes, however, the changes can have mixed results, helping one segment of the poor while hurting others. Procter & Gamble's tienditas may indeed bring products to the poor at lower prices, but they displace the previously existing small retail outlets, the street vendors, and the multiple intermediary levels so common in developing countries (Byron, 2007). This does indeed raise questions of fairness.

***Branding***

Prahalad and others tell us that the BOP often express a preference for branded goods. At first blush, this seems counter-intuitive; branded items are usually more expensive than their generic competitors, and we might expect those consumers forced to live on less than $2 a day to always choose the least expensive alternative. The explanation given is that the BOP are the least able to afford a mistake in their purchasing decisions and, therefore, will often choose a branded item whose reputation and quality are known.

This poses an ethical issue for consumer goods producers. Brands become widely recognized and preferred only through the expensive process of advertising and other forms of promotion, and this expense, of course, is passed along to the consumer in the higher price of the item. We also know that branded items are often identical, in functional terms, to their unbranded, generic counterparts. Then the critical question is: does the brand impart real value to its buyer? In developed countries and economies we assure ourselves that the psychological value imparted by the brand name justifies the higher price, even if there is no additional functional value. This explanation is less persuasive when applied to the BOP.

***Packaging***

It is now commonly understood that the BOP, with such limited resources, cannot afford to have an "inventory" of anything; they buy only what they need to use or consume immediately and then buy more when they need more. Thus, many of the success stories we have from Procter & Gamble or Unilever are based on packaging the goods in single-serve quantities, often referred to as sachets. Karnani (2006) tells us that the paanwallas, the small kiosks of India often sell cigarettes individually, rather than in packs, to increase consumption, and that in Malaysia cheap liquor is sold in bottles not much bigger than a quarter of a pint. No large, economy-size packages for this market. However, according to Byron (2007), the single-serve packages of Procter & Gamble's detergent may cost twice as much on a per-ounce basis as larger packages of the same item. To what extent, then, are we eradicating poverty around the globe if the truly poor must pay this premium? Are the poor misled into thinking that the smaller packages, while more affordable, are really cheaper, when in fact they are paying more on a per unit basis? In developing countries there are not the same requirements to display per-unit pricing on the kiosk shelves as is required in U.S. supermarkets. Prahalad also recognizes that single-serve packaging creates significantly greater environmental problems in the accumulation of non-biodegradable waste.

***Repatriation of the "Fortune"***

When Procter & Gamble sells a sachet of detergent or an individual disposable diaper to a BOP consumer in Mexico or India, what happens to the profit P & G derives from the sale? If it is immediately repatriated to Cincinnati, little has been done to raise the income level of the BOP and "eradicate world poverty." The poor consumer has simply substituted buying the detergent or the diaper for rice or beans or some other essential product. To what extent is the seller willing to reinvest those profits in the BOP community?

Leonard (2007, pp. 370-72) provides a checklist of the kinds of products that are most beneficial to the BOP and where the net effect of the transaction will be the greatest. He points out that a multinational firm's product (e.g., the detergent or the diaper) quite likely will have been made outside of the community and perhaps even outside of the country. In this instance, the net effect of the transaction may well be negative on the BOP since it substitutes a "foreign" made product for a locally made one. Products offering the most hope for raising the income level of the community are those which include some local element in the production or distribution, those which in some way expand business opportunities and improve the wage-earning opportunities of local workers.

Leonard cites Hindustan Lever's Project Shakti as an example. Although the products sold are consumer goods made elsewhere (a slight negative effect on the income level of the community), Lever created and trained women entrepreneurs to serve as small-scale distributors who could reach the heretofore unserved markets throughout much of India. The income derived from the distribution services provided by the women, the skills that they learned, and the accompanying psychological benefits all served to create a net benefit for the communities.

***The BOP as a "Vulnerable" Market***

The vulnerability of the BOP consumers is the most difficult issue of all the ethical concerns and has already been suggested in many of the preceding paragraphs. Traditionally, children have been recognized as a vulnerable market because of their limited capacity to make rational buying decisions, but in certain situations senior citizens, women, and minorities have been viewed as vulnerable. Do consumers at the bottom of the pyramid constitute a vulnerable market because of their (usually) limited education and lack of experience in evaluating marketing claims? If so, do producers and marketers have some special obligations in choosing their marketing tactics? How should firms strike a balance between respecting the dignity and rights of the dreadfully poor to make their own decisions as consumers while at the same time acknowledging their limitations?

Who should make these consumer purchasing decisions? For example: Tobacco products vs. eggs or other nourishing food for children, a boom-box vs. a month's education for a child, washing machines vs. video game players, and skin-whitening cream vs. shoes. Surely, it would be patronizing, demeaning, and just plain wrong to suppose that the BOP consumers cannot or should not make these decisions for themselves. Yet it is equally wrong for producers and marketers to exploit the BOP, to take advantage of their lack of education and sophistication. Karnani (2006) tells us, "…the poor lack self-control, yield to temptation, and spend to keep up with their neighbors. In this they are no different than people with more money, but the consequences of bad choices are more severe for the poor." The blandishments, the hype, the marketing tactics that are acceptable in wealthier, developed markets are not appropriate in marketing to the BOP. The exercise of some restraint on the part of marketers in their transactions with the BOP is essential, but restraint is not a common characteristic of the marketing profession.

## CASE STUDIES AND THE LESSONS TO BE LEARNED

Fortunately, there are some case studies from the business ethics and CSR course material that can help us analyze the ethical concerns identified above. These cases date from fifteen to twenty years ago, and so there has been adequate time to learn some lessons from them.

### *Nestle Infant Formula*

For many years, the case involving Nestle's marketing of its infant formula to third world mothers stood as a common element in virtually all business ethics courses, and it still finds its way into textbooks on the subject. This is the case study that most closely fits our interest in and concerns for the BOP. In the late 1970s Nestle came under severe world-wide criticism for marketing its infant formula to poor mothers in developing countries who had neither the income nor the understanding to use the product properly. Nestle implied in its advertising that its infant formula was the modern, Western way to feed babies, liberally handing out free samples without first insuring that there that there would be an adequate supply of potable water to mix with the powder. Mothers were not warned that after a few days' use of the formula their own milk, containing essential antigens, would dry up, nor were those mothers sophisticated enough to consider whether they could afford to buy the product for an extended period after the free samples were exhausted. Saleswomen were dressed in nurses' uniforms to add an aura of medical professionalism to the marketing effort.

Critics railed against the company publishing slogans such as "Nestle Kills Babies." Legislative bodies in developing and developed countries, including the U.S. Congress and the United Nations, considered what action to take. Eventually, after some years, Nestle and the other infant formula makers agreed to a code of conduct ruling out the most egregious of the marketing tactics. The lesson to be learned: When doing business in developing countries, and especially when targeting the poor, multinational firms have an obligation to use marketing tactics appropriate to those countries and those markets. Tactics that pass the tests of ethical scrutiny in developed countries cannot simply be translated for use in the BOP markets.

### *Reynolds Tobacco's Uptown Cigarette*

In 1989 Reynolds Tobacco, maker of Camel, Winston, and Salem brands, learned from its marketing research that the preference for menthol-flavored cigarettes was greater among African-Americans than among white smokers in the United States. To acknowledge this preference Reynolds designed and produced a brand which it named Uptown. It had a heavy menthol flavor, the color and graphics of the package were chosen based on information gained from African-American focus groups, and the style of the package was changed to conform to the way blacks opened the packages. Philadelphia, with its heavy African-American population, was selected as the site for the test market. Black models were chosen for the advertising of Uptown, and the placement of billboards was concentrated in black neighborhoods. In short, it was a textbook-perfect marketing plan for the launch of a new product.

Black smokers liked the new cigarette, and Uptown met with considerable success in the marketplace, but the test market generated a firestorm of criticism from other elements of society. Church, civic, and political leaders, both blacks and whites, complained that it was immoral to target African-Americans, known for having more serious health problems than other ethnic groups, with a product which causes any number of lung, heart, and other health problems and which contributes to more than 400,000 deaths a year in the United States. The critics demanded that Reynolds cancel the Uptown test.

Reynolds initially responded that blacks had the same rights as any other group to decide which products to buy, including even those that might be damaging to their health. The company also pointed out that it would be patronizing for the company, the government, or any other group in society to make that decision for them. But the criticism continued with letters to the editors of the Philadelphia newspapers and sermons from the pulpits of black churches. Finally, Reynolds gave in and ended the test market when it concluded that the Uptown brand, however successful with its target market, was not worth the negative public relations from the surrounding society.

The lessons to be learned: While the Reynolds Tobacco experience is not directly related to poor consumers, and certainly not to the BOP, nevertheless this case has important implications. First, marketers must please more than just their customers. There are other stakeholders who can have an effect on the company's operations and who must be considered. Even though both buyer and seller may be satisfied with the results of a transaction – whether it be the purchase of Uptown cigarettes in Philadelphia or the purchase of Fair and Lovely skin-whitening cream in Mumbai – elements of the encompassing civil society such as the media and various advocacy groups may raise the charge of unethical behavior. Second, emotion may trump reason. The rational argument defending the rights of blacks and their free choice in the marketplace got nowhere against the picture of a major corporation targeting a vulnerable segment of the market with a product as harmful as cigarettes. Third, it is the perception of justice and fairness that is all important, the situation as understood by the surrounding society. When multinational firms target the bottom of the pyramid as a profit-making strategy, it may be perceived as exploitation by some NGOs or even by the host government. All three of these lessons are applicable and important in doing business with the BOP.

## CONCLUSION: CSR MEETS BOP

In *The Fortune at the Bottom of the Pyramid* Prahalad goes to great lengths to de-link doing business with the bottom of the pyramid consumers from any notion of corporate social responsibility. Understandably, he wants to make "the business case" for his vision of eradicating world poverty: that there are indeed profits to be made – the "fortune" – by the multinational corporations that engage the BOP in honest-to-goodness, straight-out, buyer-seller commercial transactions. He reasons that the only way to capture the real and ongoing interest of hard-headed corporate executives is to talk their language of profits and returns to shareholders, not the soft, mushy stuff of social responsibility. At best, Prahalad is only half-right. There may be the opportunity here – if we ignore the problems raised by Karnani about the true size of the market and other criticisms – to enter new, profitable markets. But he is wrong in confusing corporate social responsibility with charity. It is charity that Prahalad wants to erase from the picture: to establish engaging with the BOP as a mainstream business activity, not as some peripheral function to be taken up when profits allow and dropped when they do not.

Corporate social responsibility, on the other hand, is quite a different matter as explained above. In fact, engagement with the BOP can be successful only if the core elements of CSR are understood and incorporated into the BOP strategy from the outset. Satisfactory profits are essential, and the financial interest of shareholders can never be forgotten or neglected, but there are other stakeholders who must be considered as well. Indeed, engaging with the BOP creates an especially sensitive and complex stakeholder map. The BOP, by definition, are not "ordinary" consumers, and therefore, a firm's responsibilities to them are in no way ordinary. We have explored a lengthy list of ethical concerns unique to the BOP, and there will be new groups and potential corporate critics who will monitor the firm's success or lack of success in finding a proper course through the turbulence of potential criticism. Home and host country governments, NGOs both local and global, new public media, new supplier networks, new distribution networks all must be shaped and formed into new stakeholder relationships and responsibilities that are quite different from the firm's previous operations.

Ethical concerns, challenges, and problems are an integral part of every business endeavor, because at the core of all business activity there is the fundamental and natural tension between buyer and seller. Regardless of country, culture, income level, market served, product or service category, high-tech or low-tech: this tension is there, raising ethical questions which must be addressed. As has been emphasized above, engaging in business with the world's poorest consumers toward the goal of eradicating global poverty creates its own unique set of ethical problems. Especially for large, multinational firms there is always the threat that such engagement – not as charity but as a profit-making enterprise – will be perceived as exploitation and manipulation of unsophisticated and poorly educated consumers.

To avoid this perception requires an understanding of the role of the firm, not simply as a profit-generating organization, but as an essential part of a larger society. It requires an awareness of the firm's responsibilities to its shareholders, but also to a multitude of other stakeholders. It requires that the firm be a good global citizen, and good citizenship demands that the firm fulfill not only its economic responsibilities but its ethical and social responsibilities as well. In short, the firm must integrate all the principles of CSR along with its business planning for the BOP if it is to be truly successful.

***The Goldilocks Principle***

It is no easy task, however, to find the proper blend of economic and social responsibility that will be acceptable to the broad society in which multinational firms operate. They must somehow balance their responsibilities to multiple stakeholders; they must temper their natural drive to maximize profits and yet achieve satisfactory profits to maintain the economic health viability of the firm in a highly competitive environment. But where are they to find this proper balance, this middle road? Here is where we might borrow from the famous children's fairy tale, Goldilocks and the Three Bears. Just as Goldilocks was searching for a bed that was not too hard and not too soft, for porridge that was not too hot and not too cold, so also are we searching for just the right amount of social responsibility to mix with the firm's economic goals. Too little attention to CSR, and the firm, like Nestle and Reynolds, will be perceived as exploitative and manipulative. Too much attention to CSR, and the firm's efforts will be confused with charity, to be increased when resources permit or perhaps eliminated entirely when resources are constricted.

For most global corporations doing business with the world's most impoverished citizens is new and uncharted territory. As Prahalad advises, multinational firms should be encouraged to test these new markets. But it is only by embracing the concepts of corporate social responsibility, not rejecting or marginalizing them that these business firms have any chance of finding the fortune at the bottom of the pyramid and that significant steps can be taken toward a meaningful reduction in world poverty.

## REFERENCES

Byron, E. (2007, July 16). P & G's Global Target: Shelves of Tiny Stores. *The Wall Street Journal*, p. A1.

Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. *Business Horizons*, July-August, *34*(4), 39.

Chu, M. (2007). Microfinance: Business, Profitability, and Creation of Social Value. In Rangan, V. K., Quelch J. A., Herraro G., & Barton B. (Eds.), *Business Solutions for the Global Poor: Creating Social and Economic Value*. San Francisco: Jossey-Bass, John Wiley & Sons.

Davidson, D. K. (2007). Letters to the Editor. *Harvard Business Review*, May, pp. 138-9.

Efroymson, D. & S. Ahmed. (2001). *Hungry for Tobacco*. PATH Canada.

Friedman, M. (1970, September 13). A Friedman Doctrine, The Social Responsibility of Business Is to Increase its Profits. *The New York Times Magazine*, pp. 32-33, 122, 124, 126.

Karnani, A. (2007). Fortune at the Bottom of the Pyramid: A Mirage. How the private sector can alleviate poverty. *California Management Review*, Summer, *49*(4), 90-111.

Leonard, H. B. (2007). When Is Doing Business with the Poor Good – for the Poor? In V. K. Rangan, J. A. Quelch, G. Herraro, & B. Barton (Eds.), *Business Solutions for the Global Poor: Creating Social and Economic Value*. San Francisco: Jossey-Bass, John Wiley & Sons.

Porter, M. E. & Kramer, M. R. (2006). Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. *Harvard Business Review*, December, pp. 78-92.

Prahalad, C.K. (2005). *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Wharton School Publishing: Pennsylvania.

Prahalad, C.K. and S. L. H. (2002, January 26). The Fortune at the Bottom of the Pyramid. *Strategy + Business*, 1-14.

Vachani, S. & Smith, N. C. (2008). Socially Responsible Distribution: Distribution Strategies for Reaching the Bottom of the Pyramid. *California Management Review*, February, *50*(2), 52-84.

Yunus, M. & Jolis, A. (1999). *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: Public Affairs/Perseus Books.

**NOTES**

[1] An earlier version of this paper appeared as a chapter in Sustainability Challenges and Solutions at the Base of the Pyramid, P. Kandachar and M. Halme, eds., (Sheffield, U.K., Greenleaf Publishing, 2008).

# ETHICAL CONCERNS AT THE BOTTOM OF THE PYRAMID – CORPORATE RESPONSIBILITY OR CORPORATE INTEGRITY? A BRIEF COMMENTARY

**F.K. Marsh**
Mount St. Mary's University, Emmitsburg, Maryland, U.S.A.

While exploring ethical concerns and marketing concepts in "Ethical Concerns at the Bottom of the Pyramid," Dr. Davidson links product, pricing, placing (distribution), and promotion with the social responsibility that corporations face when marketing to the poorest of the poor. Certainly the world's most poverty-stricken people constitute a potentially large customer base, he notes. They may or may not be eager for products of the developed world, but they represent a major potential audience, literally billions of people, for multinational firms. As corporations move to develop this potential market, he asks, "What do we know about corporate social responsibility (CSR), stakeholder management, and the proper role of business in the global society that should guide our progress…?" Will this truly be a "win-win" situation where corporations maximize profits and millions of people "move up the income distribution ladder" as prosperity comes to the poor? [1]

I suggest that as these questions are pondered it would be useful to reflect once again upon some fundamental constructs of "responsibility" that underscore Corporate Social Responsibility, particularly at this point in history. Furthermore, I propose, if we believe that history itself is a dimension of reasoning, and for the business world, collective corporate reasoning, then it is not possible for any corporation to go back in time to a point at which a simpler concept of corporate social responsibility sufficed.

Responsibility, as we know, implies accountability, with the authority to make decisions. As business ethicists have noted [2] responsibility in the corporate sense implies an obligation to something, for example, the environment, or to someone, as in our example, the most poverty-stricken groups of people, as well as to society in enhancing the quality of life. The concept of corporate social responsibility demands of the corporation a collective sense of the organization operating in time and through history. A corporation may not only be considered "responsible," it is capable of collectively building a reputation, demonstrating integrity as a collective entity. Indeed, organizations can outlive their founders, key executives, influential boards, multitudes of employees, and so forth. The stakeholder approach is relevant, as Dr. Davidson notes, as we understand that the corporation's "constellation of stakeholders" includes much more than shareholders and top executives. A corporation is responsible to many.

Robert Greenleaf, in his essay, The Requirements of Responsibility, posits that responsibility requires acts of thinking, speaking, and behaving as if we are "accountable to all who may be affected by… thoughts, words, and deeds." [3] Responsibility can require obligations that we may not want or prefer to do. Servant leadership, encompassing service to others, is linked to responsibility, requiring that others' priority needs are being served. Thus, we ask, when marketing to the poorest of the poor, are we serving their priority needs and in the best ways for them? Are corporations acting responsibly, truly trying to serve others as they market to the bottom of the pyramid, where their cumulative actions will demonstrate high levels of corporate integrity?

At this particular point in history, we must consider the corporate integrity that results when corporations act responsibly, ethically, with a sense of service and servant leadership, and the magnitude of ill that can result when they do not. The past twelve months have shown us stark realities in the tumultuous financial and housing markets and the unprecedented global impact of corporate policies and decisions. The business media has begun to question the impact on vulnerable population groups. Hispanics, for example, have reportedly been particularly hard hit with foreclosures in some regions, allegedly due to successful marketing efforts (Schmidt & Tamman, 2009; Simon, 2008). It is debatable whether some corporations' abilities to reach, influence, and impact multitudes of audiences have been conducted with the highest ideals of responsibility. I propose that our current concept of corporate social responsibility is not enough, particularly when dealing with vulnerable populations.

This is a new threshold in history – the capacity of corporations has unequivocally changed in scale and speed. With advances in technology, a corporation has global reach, spanning nations and boundaries. Corporate decisions and actions can be rapid, often simultaneous, and multi-directional, going beyond that of most governments and societies. If the highest level of corporate standards in ethical decision-making, responsibility and service to others, and a sense of overall corporate integrity are not continually attained and sustained in business transactions, the potential for doing harm has proven to be great. We have profound examples – from individual corporations, Enron, for example, as well as on a larger scale, such as with the recent financial and housing markets.

We now recognize this new historical threshold. Global business decisions can create world-wide corporate fall-out. What does this mean to the corporate world? The corporation – boards of directors, executives, and employees, alike – should better understand, acknowledge, and address the interwoven connections of global business and the inherent impact of collective corporate acts, particularly on vulnerable populations such as those at the "bottom of the pyramid." It is not enough to further discuss and develop the concept of Corporate Social Responsibility, we must move to higher levels of Corporate Social Integrity. As Dr. Davidson points out, "Profit maximization, which results in the elevation of shareholders' interests and the subjugation of all other stakeholders… can no longer be the only guiding principle of the firm because that is no longer acceptable to the global society in which firms operate." To make this a "win-win" situation, adherence to the highest standards of business ethics, through careful attention to corporate social responsibility and corporate social integrity in regard to those at the bottom of the pyramid, will be one measure of success.

## REFERENCES

Buchholz, R. A., & Rosenthal, S. B. (2002). Social responsibility and business ethics. In R. Frederick, (Ed.), *A Companion to Business Ethics.* Malden, MA: Blackwell Publishing Ltd.

Davidson, D.K. (2009). Ethical concerns at the bottom of the pyramid: Where CSR meets BOP. *Journal of International Business Ethics, 2.*

Greenleaf, R.K. (1996). The requirements of responsibility. In D. Frick, & L. Spears (Eds.), *On Becoming a Servant Leader*. San Francisco, CA: Jossey-Bass Inc., Publishers.

Schmidt, S., & Tamman, M. (2009, January 5). Housing push for hispanics spawns wave of foreclosures. *Wall Street Journal,* Eastern edition, pp. A1.

Simon, R. (2008, March 7). Illinois probes mortgage firms: State asks whether minority borrowers were bias victims. *Wall Street Journal,* Eastern edition, pp. A3.

**NOTES**

[1] Quotations are from D. Kirk Davidson's article, "Ethical Concerns at the Bottom of the Pyramid: Where CSR meets BOP," in this issue.

[2] See Rogene A. Buchholz and Sandra B. Rosenthal's "Social Responsibility and Business Ethics," for example, for a good discussion.

[3] See particularly pp. 41-42, Robert K. Greenleaf, "The Requirements of Responsibility," in On Becoming a Servant Leader, Don. M. Frick & Larry C. Spears, eds., and also Greenleaf's "The Institution as Servant."

# BAD FOR PRACTICE – GOOD FOR PRACTICE FROM ECONOMIC IMPERIALISM TO MULTIDISCIPLINARY MAPPING

**Margit Osterloh**
Institute of Organization and Administrative Science, University of Zurich, Switzerland

**Jetta Frost**
Department of Business Administration, University of Hamburg, Germany

**Abstract:** There is a growing argument that economics can no longer provide any guiding schema for solving current management problems. Economic assumptions even destroy good and socially responsible management practice. In this paper, we analyze two reasons why standard economics can indeed be bad for managerial and political practice. One is the negative influence of wrong assumptions in economic theory building which become self-fulfilling prophecies. Another important factor is economic imperialism. We argue that psychological economics is better for practice than standard economics, but that it is still not good for practice as long as it uses an imperialistic approach. We propose a different research strategy to apply for problem solving in management practice, which we call multidisciplinary mapping. It overcomes the problem of imperialism, not only because it builds bridges between different disciplinary approaches, but also between the knowledge of theorists and the expertise of practitioners. Mapping is useful for realizing. It is good for practice as well as for theory building.

**Keywords:** economics, psychological economics, multidisciplinary mapping, maps, management practice, theory

## INTRODUCTION

Current discussion about corporate scandals, the explosion in management pay and disastrous consequences of the transition process in Eastern Europe has given rise to the question of whether economics might be the wrong theory to solving current management problems. It is argued: economics is bad for practice (e.g. Ghoshal & Moran, 1996). Although the aim of organizational research is to discover, describe order, explain, and predict carefully defined social phenomena that characterize behaviors in organizations, the following examples briefly sketch negative influences of economic research on the practice of management and politics.

Ghoshal (2005), in a posthumously published article, lamented the fact that standard economic theories currently dominating the debate over corporate governance had wrecked good management practices and led to wrong decisions on incentive schemes or counter-productive pay for performance systems. These scandals are interpreted as the consequence of the dominant principal-agent and transaction cost view in corporate governance (see also Adler, 2002; Osterloh & Frey, 2005). The standard economic view is based on the assumption that opportunism is a worst-case scenario. Opportunism is considered to be a prudent consideration for institutional structures (Milgrom & Roberts, 1992; Williamson, 1996). However, prevalence of standard economic assumptions in the training of new managers at reputable MBA centers leads to a situation in such a conception of human beings as opportunists tends increasingly to become reality. It would appear that the criticism voiced by Ghoshal and Moran (1996) in their frequently quoted article “Bad for Practice: A Critique of the Transaction Cost Theory,” is true: Williamson’s (1985) transaction cost approach is not only wrong but dangerous for guiding management and policy decisions.

Ferraro, Pfeffer and Sutton (2005) state that in the social sciences - unlike physical sciences - theory becomes normative guidance on how to act; the result is a self-fulfilling prophecy. The greater the influence the theories have, the more this is the case. In their view, this is also true of economics. The authors draw on Merton’s definition of a self-fulfilling prophecy as a prediction that “is, in the beginning, a false definition of a situation which denotes a behavior that makes the originally false conception come true” (Merton, 1948: 195).

Kogut and Spicer (2005) analyze the negative impact of economics on the transition process in Russia. They argue that the disastrous development in Russia is the result of the strong institutional ties of economists of Harvard and MIT to the World Bank and the international policy arena. The development in Russia in the nineties is characterized by a picture far worse than in other transition countries, with respect, for example, to the development of life expectancy, infant mortality and living standards prior to the reforms. The authors explain these negative consequences of the reform process in Russia by the dominance of economists and the near total “no-show” of non-economic disciplines like sociology and psychology.

The aim of our paper is firstly to point out why theories, particularly in economics, are often bad for management practice. We argue that being bad for practice is not only a problem of false assumptions but also a methodological problem. The latter problem lies in an imperialistic use of single theories, as is the case with economic imperialism. This problem will not disappear if economic theory is built upon more empirically valid assumptions about human nature. We demonstrate this with the example of the new and strongly growing branch of psychological economics which has questioned some crucial assumptions about standard economics as being endogenous to theory building and thus is clearly better for practice. However, if psychological economics uses the same methodology as standard economics in an imperialistic way; it is still bad for practice. Secondly, we will answer the question: Which research mode is good for practice as well as good for theory building? We propose a different research mode for management research: multidisciplinary mapping. It provides different disciplinary maps to gain insights from the difference between disciplinary views as well as between the views of scholars and practitioners.

## ARE ECONOMICS BAD FOR PRACTICE?

In this section we will outline the standard economic model, its critics, and the model of psychological economics to show the methodological procedure of economics and its shortcomings.

### *The Standard Economic Model and its Critics*

The standard economic model of homo oeconomicus is characterized by the following assumptions (e.g. Frey, 1999):

- Action is centered in the individual (methodological individualism). Everything that happens in institutions and society can be traced back to the actions of individuals.
- A strict distinction is to be drawn between preferences (i.e. values which form the basis of motivation) and restrictions (i.e. external stimuli of action and constraints on the scope for action).

- An individual’s preferences are given and inalterable (Becker & Stigler, 1977). The individual’s actions are determined entirely by restrictions.
- Only self-interested, not pro-social, preferences are assumed to exist. The preferences of other people do not concur with one’s own preferences.
- The cognitive perception of restrictions is identical in all individuals.
- Individuals behave entirely rationally. They are able to determine their own maximum utility according to their own preferences within given restrictions.

It is on the basis of these assumptions that the standard economic model is applied to all spheres of life, for instance, to the family, drug abuse, abortion, criminality, art, sport, religion, and suicide. This is tied to the withdrawal (or, better, the ejection) of psychology from economics, which for Schmölders (1962) for instance, was still part of economics. Neoclassical standard economics has thus developed an imperialistic understanding of itself as the “queen of the social sciences” (Hirshleifer, 1985; Becker, 1976), a view which has provoked significant aggression and criticism among neighboring social sciences. Criticism of standard economics refers chiefly to these assumptions. In particular, this is about the assumptions regarding the cognitive and motivational characteristics of homo oeconomicus.

The criticism of the assumptions about the cognitive characteristics of homo oeconomicus is the least controversial. They go back to Simon (1955, 1956) and have led to the idea of bounded rationality as a consequence of people’s limited capacity to process information. In contrast to the discussion of his cognitive characteristics, the criticism of the assumptions regarding the motivational characteristics of homo oeconomicus is controversial. One bone of contention is the assumption of self-interest, which has been significantly intensified in the transaction cost approach by the assumption of opportunism as the “seeking of self-interest with guile” Williamson (1985: 56). This argument is the backbone of the criticism of self-fulfilling prophecy: If institutional designs (e.g. measurement and incentive systems or selection processes) as well as expectations and frames are directed towards selfishness, people will react as if everybody is an opportunist. A framing and crowding-out effect of intrinsic motivation will take place.

### *Psychological Economics and its Critics*

Psychological economics is a combination of economics and psychology.[1] It is concerned with the systematic divergence of human actions from the standard economic model of homo oeconomicus while retaining economic methods (e.g. Camerer & Loewenstein, 2004; Camerer & Malmendier, 2004; Frey & Benz, 2007; Kahneman, 2003; Mullainathan & Thaler, 2000; Rabin, 1998). It questions the ‘homunculus oeconomicus’ in three ways: through the issues of (1) bounded rationality, (2) bounded self-interest, and (3) the bounded utility concept.

(1) Bounded rationality: The findings of psychological economics go far beyond the vague concept of bounded rationality as applied in institutional economics. These show that divergences from the expected maximization of utility follow systematic conditions, which are dealt with under the term “decision anomalies.” It is largely with this term that Kahneman and Tversky (1979; 1986) have founded the psychological economics branch of research.[2] Important decision anomalies include:

- Framing: the perception of a decision situation depends on the presentation of the situation.
- Anchoring: the appraisal of outcomes is influenced such that the first anchor is held against the final judgment, and new information is given less consideration as a result.

- Availability bias: individuals rely chiefly on easily gained information.

These decision anomalies contribute to a self-fulfilling prophecy effect: If the prevailing information you get leads you to an opportunist frame you will design institutions as if all or most people were opportunists. Empirical evidence shows that even experts are subject to these decision anomalies. In situations of great uncertainty, experts are more strongly affected by these decision anomalies than lay people, because they trust too much in their models and past data (Griffin & Tversky, 1992). In an experiment, the Economist (1984; 1995) found that dustmen were able to make better long-term predictions about economic development than ministers of finance.

(2) Bounded self-interest: In contrast to the assumptions of standard economics, numerous empirical results indicate that in many situations, people behave against their own interest in an intrinsically motivated prosocial manner. Intrinsic motivation is directed towards activities which are performed for their own sake rather than for any reward (Deci & Ryan, 1985; Frey, 1997; Osterloh & Frey, 2000). Extrinsic motivation, in contrast, is aimed instrumentally at activities which are not valued for their own sakes. They are, rather, undertaken for a desired reward or to avoid a penalty. Standard economic approaches deal exclusively with extrinsic motivation.

A dynamic relationship exists between intrinsic and extrinsic motivation. Under certain conditions, extrinsic motivation can crowd out intrinsic motivation. This leads to what have been termed the hidden costs of rewards; the existence of these hidden costs is well supported empirically by both laboratory experiments and field studies (Frey & Jegen, 2001). These show that, under certain conditions, external interferences (like pay for performance or monitoring) can crowd out pro-social intrinsic motivation (Frey & Oberholzer, 1997; Stukas, Snyder & Clary, 1999).[3] The crowding-out effect provides a theoretical and empirical well-founded explanation for the self-fulfilling prophecy of the assumption of opportunism. If this assumption is introduced exogenously into theory building as an a priori, as is the case in orthodox economics, then organizations will be designed to monitor and induce their members with carrots and sticks. Their preferences will change from intrinsic to extrinsic or even opportunistic.

(3) Bounded utility concept: In standard economics, it was, until recently, the case that only observable acts (“revealed preferences”) could be the object of economic study - but not what was subjectively perceived. In this view, individuals’ expressions of their subjectively felt utility, their happiness or their life satisfaction cannot be trusted (Samuelson, 1938). However, a dramatic change has occurred in recent years. A variety of methods have captured how happy individuals feel, which determinants are decisive for this, and what the measurable consequences arise from this are (for an overview, see Frey & Stutzer, 2002a; 2002b). Happiness research has brought about a near-revolutionary change in economics. It captures those determinants of subjective life satisfaction or individual welfare that are the most important. Some of these clearly contradict the assumptions of standard economics, such as:

- Wealth makes people happy, but to a lesser extent than such factors as health or an occupation. It is not the absolute but the relative level of wealth that matters.
- The most important factor of unhappiness is unemployment, even when income remains the same.
- Individuals evaluate their utility over the long term falsely.

- People in democratic countries are, other circumstances remaining the same, happier than in authoritarian societies. They are happiest when they are able to be directly active in democracy through the use of initiatives and referendums.

Psychological economics can contribute more and richer insights for the awareness and shaping of companies and societies than standard economics and its empirically false “homunculus oeconomicus”. It considerably reduces negative self fulfilling prophecies. The question arises: Does it avoid being bad for practice?

## WHY PSYCHOLOGICAL ECONOMICS CAN BE STILL BAD FOR PRACTICE

Psychological economics is less bad for practice than orthodox economics because it has made some critical assumptions about human nature endogenous to theory building. In particular, it shows that pro-social behavior is empirically relevant and can be the basis of institutions which strengthen social responsibility. However, psychological economics uses a similar methodology as orthodox economics and thus runs the danger also of being not good for practice for five methodological reasons.

Firstly, as orthodox economics, it takes as starting point formal models, in which just a few variables are systematically analyzed. The standard economic model continues to serve as a frame of reference for the analytical and the empirical research. Like standard economics, it proceeds from a restricted number of assumptions, which are formulated within mathematical models. Some of these variables are introduced endogenously into theory building, but most variables are still introduced exogenously, such as rational behavior in most experiments which investigate pro-social preferences, for instance. The economist Mayer (1993: 53) criticizes this procedure as the “principle of the strongest link”. It is the background to the frequent accusation that these models are rigorous but not relevant. Significant variables which do not fit the model are ignored. At best, contextual conditions are included ex-post as “weak links” in the form of unsystematic, arbitrarily occurring ad-hoc reflections. These ad-hoc reflections stand for the most part in stark incongruity to the strict output of the model’s results and the claim to give valid prescriptions to practitioners.

Secondly, for many scholars, psychological economics is identical to experimental economics. Most empirical work in psychological economics is done as laboratory experiments, in which very few variables are artificially isolated and changed under controlled conditions. Though external validity is very questionable, a lot of scholars claim to derive prescriptions for practitioners (Mullainathan & Thaler, 2000).

Thirdly, the key to explaining observed actions is only sought where the disciplinary lamp is shone. The insights of other disciplines are not systematically incorporated. Also, the perspectives and viewpoints of practitioners are seen as insignificant. Their potential for reflection is underestimated. This is astonishing, given the results of research on the value of laypeople's insights. As in standard economics, the results of research into practice in psychological economics are made available without there being any feedback into the research process. This problem has been extensively discussed in the field of knowledge production using the term Mode 1 as opposed to Mode 2 (Gibbons et al., 1994). Mode 1 research neglects that much of practice in most fields remain only partially understood scientifically and that technological and social practice and scientific understanding often coevolves (Nelson, 2006; Starbuck, 2006; Stokes, 1997).

Fourthly, it is characteristic of this type of research that it neglects aspects of synthesis in favor of analysis. The requirements of discipline-based knowledge with the requirements of business and policy practice are left to the practitioner. It follows the IKEA model: Take it home yourself and put it together yourself (Mintzberg, 2004, p. 47). This is particularly disadvantageous to management science, which, like other problem-oriented fields of research such as engineering sciences, jurisprudence, environmental sciences, proceeds explicitly from the concrete questions of practice rather than from problems defined within the discipline. Management practice pays no attention to disciplines (Steinmann & Schreyögg, 2005). Its nature is “a-disciplinary”.

Fifthly, psychological economics and orthodox economics both claim to be the “queen of social science”. This goes so far that the results of other social disciplines, like social psychology, are mostly ignored, though these disciplines deal with similar questions and apply similar empirical methods. But any form of disciplinary imperialism restricts scientific progress.

As a consequence, psychological economics, like standard economics, is very often rigorous, but not relevant for problem solving outside the laboratory. Although psychological economics is clearly better for practice than standard economics, it still is not good for practice.

## FROM ECONOMIC IMPERIALISM TO MULTIDISCIPLINARY MAPPING

What must a research strategy look like if it is to be good for practice while at the same time overcoming the frequently discussed trade-off between rigor and relevance (e.g. Donaldson, 1995; Huff, 2000; Pettigrew, 2001, Stokes, 1997)? We suggest the research strategy of “multidisciplinary mapping” and give reasons why it is most appropriate to support at the same time problem solving in management practice and scholarly understanding of research questions.

Maps are theoretically based reference anchors, offering precise terminology with regard to specific contents. They provide frames for action to start from (Fiol & Huff, 1992; Weick, 1990), without determining action. Maps describe navigation devices that may solve a given problem, but offer no guarantees for doing so. Maps are a vehicle for transferring theoretical insights to scholars from other disciplines without using a theory-specific language. Thus, they enable better communication between different disciplinary approaches. Dogan and Pahre (1991) show empirically that the most important innovations in social science took place at the borders between single disciplines. Maps help practitioners to analyze their problems more systematically. Although maps use a precise terminology, they neither establish causal laws or regularities, nor do they offer “blueprints”. Instead, maps can be used as different “walking sticks” to reveal possible unintentional consequences of intended actions (Roethlisberger, 1977). They can also be used as different “talking sticks” in argumentation processes to consider propositions and to come to an agreement (Scherer & Dowling, 1995). What is crucial, maps do not claim to translate theoretical insights gained by one discipline (e.g. orthodox or psychological economics or psychology) into instructions for practitioners in the form of a “tautological transformation” (Popper, 1959). Rather, they provide frames of reference in order to throw spotlights on the territory.

Multidisciplinary mapping is the provision of different disciplinary maps which provide orientation in a complex territory. The aim of multidisciplinary mapping is to gain insights from the differences between these different maps and to exploit these differences. What matters is to provide practitioners and scholars from other disciplines with findings from different theoretical approaches in a language they understand so that they can triangulate methods and models with respect to their problems (Van de Ven & Johnson, 2006; Starbuck, 2006). Thus, we propose multidisciplinary mapping as an effective method for leveraging the different knowledge contributions that practitioners and scholars make with regard to the question of what is good for practice and theory building.

## CONCLUSION

A theory that is socially responsible and good for practice must have no truck with imperialism of any kind. Instead, it must sensitize scholars as well as practitioners to the broad range of views and issues involved. We examine that “multidisciplinary mapping” reduces the overconfidence of scholars in their models, and supports practitioners to express their problems and experiences in a more precise terminology. Multidisciplinary mapping addresses the dual purpose of management studies: to achieve a deep understanding of the research question for creating scientifically meaningful research, while at the same time advancing problem solving in management practice. Thus not only is multidisciplinary mapping good for socially responsible practice, it is also good for theory building.

## REFERENCES

Adler, P.S. (2002). Corporate scandals: It’s time for reflections in business schools. *Academy of Management Executive*, *16*(3), 148-149.

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

Becker, G. S. & Stigler, G. J. (1977). De gustibus non est disputandum. *American Economic Review, 67*(2), 76-90.

Camerer, C. & Loewenstein, G. (2004). Behavioral economics: Past, present, future. In C. Camerer,, G. Loewenstein, & M. Rabin (Eds.), *Advances in behavioral economics* (pp. 3-51). Princeton: Princeton University Press.

Camerer, C. & Malmendier, U..(2004). *Behavioral organizational economics*. Working paper, Stanford: Stanford Graduate School of Business.

Cameron, K. S., Dutton, J. E. & Quinn, R. E. (Eds.) (2003). *Positive organizational scholarship*. f*oundation of a new discipline*. San Francisco: Berrett-Koehler Publishers.

Deci, E. L. & Ryan, R. M. (1985). *Intrinsic motivation and self-determination in human behavior*. New York: Plenum Press.

Dogan, M. & Pahre, R. (1991). *L'innovation dans les sciences sociales*. Paris: Presses Universitaires de France.

Donaldson, L. (1995). *American anti-management theories of organization: A critique of paradigm profileration*. Cambridge, UK: Cambridge University Press.

*The Economist.* (1984, December 22). Through a Glass Lightly. *293* (7373), 65-67.

*The Economist.* (1995, June 3). Garbage in, Garbage out. *735* (7917), 98.

Ferraro, F,., Pfeffer, J. & Sutton, R. I. (2005). Economics language and assumptions: How theories can become self-fulfilling. *Academy of Management Review*, 30, 8-24.

Fiol, M. C. & Huff, A. S. (1992). Maps for managers: Where are we? Where do we go from here? *Journal of Management Studies*, 29, 267-285.

Frey, B. S. (1997). *Markt und Motivation. Wie ökonomische Anreize die (Arbeits-)Moral verdrängen*.

Munich, Germany: Vahlen.

Frey. B. S. (1999). *Economics as a science of human behavior* (2nd ed.). Boston/Dordrecht/London: Kluwer Academic Publishers.

Frey, B. S. & Benz, M. (2007). *Economics and psychology: Imperialism or inspiration.* Working paper, University of Zurich, Switzerland: Institute for Empirical Research in Economics.

Frey, B. S. & Jegen, R. (2001). Motivation crowding theory. *Journal of Economic Surveys*, 15(5), 589-611.

Frey, B. S. & Oberholzer, F. (1997). The cost of price incentives: An empirical analysis of motivation crowding-out. *American Economic Review*, 87(4), 746-755.

Frey, B.S. & Osterloh, M. (2002). *Successful management by motivation. Balancing intrinsic and extrinsic incentives*. Heidelberg: Springer.

Frey, B. S. & Stutzer, A. (2002a). *Happiness and economics: How the economy and institutions affect human well-being*. Princeton, NJ: Princeton University Press.

Frey, B. S. & Stutzer, A. (2002b). What can economists learn from happiness research? *Journal of Economic Literature*, *40*(2), 402-435.

Ghoshal, S. & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, *21*(1), 13-47.

Ghoshal, S. (2005). Bad management theories are destroying good management practices. *Academy of Management Learning/Education*, *4*, 75-92.

Gibbons, M., Limoges, C., Nowotny, H., Schwartzman, S., Scott, P., & Trow, M. (1994). *The new production of knowledge. The dynamics of science and research in contemporary societies.* Thousand Oaks, CA: Sage Publications.

Griffin, D., & Tversky, A. (1992). The weighing of evidence and the determinants of confidence. *Cognitive Psychology*, 24, 411-435.

Hirshleifer, J. (1985). The expanding domain of economics. *American Economic Review*, 75(6), 53-68.

Huff, A. S. (2000). Changes in the organizational knowledge production. *Academy of Management Review*, *25*, 288-293.

Kahneman, D. & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*, 263-291.

Kahneman, D. & Tversky, A. (1986). Rational choice and the framing of decisions. *Journal of Business*, *59*, 251-278.

Kahneman, D. (2003). A psychological perspective on economics. *American Economic Review*, *93*(2), 162-168.

Kogut, B. & Spicer, A. (2005). *Taking account of accountability: Academics, transition economics, and Russia.* Working paper, INSEAD, Fontainebleau, France, 62/ST.

Mayer, T. (1993). *Truth versus precision in economics*. Aldershot, UK: Edward Elgar.

Merton, R. K. (1948). The self-fulfilling prophecy. *Antioch Review*, *8*, 193-210.

Milgrom, P. & J. Roberts (1992). *Economics, organization, and management*. London: Prentice-Hall.

Mintzberg, H. (2004). *Manager statt MBAs. Eine kritische Analyse*. Frankfurt and New York: Campus.

Mullainathan, S. & Thaler, R. H. (2000). *Behavioral economics. NBER*, Working Paper No. 7948.

Nelson, R. R. (2006). Reflections on the simple economics of basic scientific research: Looking back and looking forward. *Industrial and Corporate Change*, *15*, 903-918.

Osterloh, M. & Frey, B. S. (2000). Motivation, knowledge transfer and organizational form. *Organization Science*, *11*, 538-550.

Osterloh, M. & Frey, B. S. (2005). Corporate governance for crooks? The case for corporate virtue. In A. Grandori (Ed.), *Corporate governance and firm organization* (pp. 191-211). Oxford: Oxford University Press.

Pettigrew, A. M. (2001). Management research after modernism. *British Journal of Management*, *12* (Special Issue), 61-70.

Popper, K. (1959). *The logic of scientific discovery*. New York: Taylor & Francis.

Rabin, M. (1998). Psychology and economics. *Journal of Economic Literature*, *36*(1), 11-46.

Roethlisberger, F.J. (1977). *The elusive phenomena*. Boston: Harvard University Press.

Samuelson, P. (1938). The numerical representation of ordered classifications and the concept of utility. *Review of Economic Studies*, *6*(1), 65–70.

Scherer, A. G. & Dowling, M. (1995). Towards a reconciliation of the theory-pluralism in strategic management - incommensurability and the constructive approach of the Erlangen School. *Advances in Strategic Management*, *12A*, 195-247.

Schmölders, G. (1962). *Volkswirtschaftslehre und Psychologie*. Berlin: Duncker and Humblot.

Simon, H. A. (1955). A behavioral model of rational choice. *Quarterly Journal of Economics*, *69*(1), 99-118.

Simon, H. A. (1956). Rational choice and the structure of the environment. *Psychological Review*, *63*(2), 129-138.

Starbuck, W. H (2006). *The production of knowledge. The challenge of social science research*. Oxford: Oxford University Press.

Steinmann, H. & Schreyögg, G. (2005). *Management. Grundlagen der Beyer Unternehmensführung. Konzepte – Funktionen- Fallstudien* (6th ed.). Wiesbaden, Germany: Gabler.

Stokes, D. E. (1997). *Pasteur's quadrant. Basic science and technological innovation*. Washington, DC: Brookings Institution Press.

Stukas, A., Snyder, M. & Clary, E. G. (1999). The effects of “mandatory voluntarism” in intentions to volunteer. *Educational Horizons*, *77*(4), 194-201.

Van de Ven, A.H. & Johnson, P.E. (2006). Knowledge for theory and practice. *Academy of Management Review*, *31*, 802-821.

Watson, J. B. (1913). Psychology as the behaviorist views it. *Psychological Review*, *20*(2), 158-177.

Weibel, A., Osterloh, M., & Rost, K. (2007). Gewollte und ungewollte Anreizwirkung von variablen Löhnen: Disziplinierung der Agenten oder Crowding-out? *Zeitschrift für betriebswirtschaftliche Forschung*, *59*, 1029-1054.

Weick, K. E. (1990). Introduction: Cartographic myths in organizations. In A Huff, *Mapping strategic thought (pp. 1-10)*. Chichester, UK: Wiley.

Williamson, O. E. (1985). *The economic institution of capitalism, firms, markets, relational contracting.* New York: Free Press.

Williamson, O. E. (1996). Economic organization: The case for candor. *Academy of Management Review*, *21*, 48–57.

**NOTES**

[1] Psychological economics is often referred to in the Anglo-Saxon world as behavioral economics. However, this description is misleading. In psychology, the term 'behaviorist' denotes a scientific approach which exclusively investigates observable stimulus-response relationships (e.g. Watson, 1913), and disregards internal psychological cognitive and motivational processes.

[2] C.f. Rabin (1998) gives an exceptional overview of this branch of research.

[3] Variable and performance-related rewards are not negative in principle, c.f. Frey (1997) and Frey & Osterloh (2002). Where extrinsic motivation predominates in an activity, variable pay produces a positive total effect on performance. However, variable pay always costs more than it appears to at first glance, because the hidden costs of reward must be added to the monetary costs of variable pay. This effect was demonstrated in detail by a vignette experiment involving professionals by Weibel, Rost and Osterloh (2007), which looked into the "black box" of cognitive and motivational processes.

# THE ADDED VALUE OF THE ENVIRONMENT –ETHICAL ASPECTS OF CLIMATE CHANGE

**Felix Ekardt**
University of Rostock, Rostock, Germany

**Abstract:** The paper offers a basic structure for a future transnational climate policy beyond the Kyoto Protocol ("Copenhagen Protocol"), but also assesses the possibilities for a strongly extended pioneering role of the European Union – secured by complementary border adjustments – in the context of the ongoing national and global climate policy debate, but in contrast to the usually discussed approaches. In addition, the two most-discussed obstacles to an effective climate policy are examined in detail: (national or global) social distributive justice and competitiveness. Moreover, the paper gives a normative justification for the global formula "one human – one emission right", and outlines possible enforcing instruments for its global and national implementation.

**Keywords:** social climate policy, eco-tax, emission right, emission trading, Kyoto, global justice, climate justice.

## COMPETITIVENESS & SOCIAL COMPATIBILITY – SLOWING DOWN CLIMATE POLICY?

National and Continental climate policies (while discussing the EU commission proposal for a new climate strategy) are increasingly facing a major obstacle: How can climate policy be advanced without detriment to (national or global) social distributive justice and how can this "social climate policy" be reconciled with competitiveness on a global free-trade market, particularly in the case of European climate policy if it starts to serve as a model for the world? And how can this lead to a stringent, effective, and fair global climate protection regime ("Kyoto II") beyond 2012?

The fundamental challenge at the nexus of climate policy and competitiveness is well-known (on the following see Ekardt 2007; Ekardt/ Schmeichel 2009): in a liberalized world market, the EU competes for companies looking to establish their business on its territory. Thus, nation states in general are becoming increasingly involved in a global "race to the bottom", with regard to both company taxation as well as the social and climate policies which affect a company's choice of location (incidentally, this market-induced loss of national sovereignty can also be perceived as a challenge to democracy). Decreasing taxes leading to an empty treasury for social policy is one possible consequence, even though free trade also generates wealth (albeit a form of wealth which can leave the underprivileged behind). In this difficult situation, where poverty is to be reduced in the South and preserving the welfare state is becoming increasingly difficult in the North, climate policy happens to be particularly burdensome for the underprivileged – even in the OECD states –j who, unlike large corporations, cannot threaten the national state with relocating abroad option ("exit option").

It can probably be taken for granted that, in the medium term, climate protection will cease to be a pure cost factor and might even become profitable in certain areas, such as heat insulation (on the following see IPCC 2007; SRU 2007). In the long term, climate policy is – when viewed against the costs of climate change – the sole option anyway, even from an economic point of view (as we know from the Stern Report). However, current national and European policies still reflect the fear of competitive disadvantage and growing social gaps. Despite all efforts and verbal declarations, climate policies have remained rather moderate when measured against the goal of effective climate protection: since 1990 worldwide greenhouse gas emissions have increased by over 40 %. While developing countries were not committed to reducing their emissions at all, western nations will fall short of their Kyoto targets to reduce emissions by 5 % by 2012 (which is in itself insufficient). Instead, emissions increased in the OECD countries, despite the collapse of Eastern European industries in 1990. Germany will if anything fall short of its Kyoto target to reduce emissions by 21 %, despite a 14 % reduction achieved through the collapse of the former German Democratic Republic.

In order to avoid a global catastrophe induced by concentrations of greenhouse gases in the atmosphere, the OECD countries' emissions will have to be reduced by some 90-95 % by 2050, not only 60-80 %, the range most often discussed.[1] And per capita emissions in Europe still exceed emissions in Africa or China by a multiple. These regions should, however, be granted a certain increase of emissions in order to help overcome the pressing problem of poverty.

## INSUFFICIENT DISTRIBUTIVE JUSTICE IN CLIMATE PROTECTION? AMBIVALENT RESULTS AND THE DEBATE ON "HIGH ENERGY PRICES"

But will a more stringent German and European climate policy lead to social problems, such as national or regional effects on social distribution? As long as major developed and advanced developing countries remain laggards on climate change, it has been suggested that, irrespective of corporate taxation and social policies, ambitious national and European climate policies will in themselves weaken European competitiveness on the world market and thus deter companies from investing in Europe; and this, in turn, is seen as endangering jobs, to the particular detriment of the socially underprivileged. Still, an effective climate policy can create employment in return, for instance in renewable energies or energy efficiency. This could help offset concerns about employment effects and other social impacts, even in the absence of specific political instruments.

Nevertheless, other social implications of climate protection are more persistent. Renewable energies such as wind and biomass, have ecological ambivalences (for details see SRU 2007), something that might point to energy efficiency and sufficiency (decreased consumption) as more important strategies for effective climate policy. To this end, most climate policy instruments directly or indirectly increase the price of the fossil energy sources whose usage is at the core of the climate problem. And yet, energy is relevant for a range of economic activities and products. Entrenched positions and political slogans suggesting that "everyone has the right to fly and drive cheaply" are therefore becoming problematic. Can a family with children really afford the higher building costs for a politically-desirable passive house, even if the costs may often be recouped after a period of time? Is the rising cost of energy not even a threat to some people's very existence (and not only a question of social distribution in general)? Put simply: the costs engendered by climate policy might hit a number of socially underprivileged people hard, whereas rising energy costs will not change the behavior of the wealthy. For instance (for many of the following data see already Wicke 1993; Bülow/ Schwabe 2008):

- Taxes on electricity and petroleum (such as, for instance, the German "eco" tax) as well as the

European emission trading scheme for some large emitters, which also results in costs being passed on to consumers, obviously have a “regressive” effect, in that they tend place a particular burden on citizens with low incomes. Due to the higher ratio of energy costs to their income, their financial situation is impacted more severely than that of a high earner (even though high earners tend to consume more energy per capita).

- In addition, a cut in social security contributions facilitated by “eco tax” revenues (for instance in case in Germany) is of no use for certain socially underprivileged groups, such as the unemployed, even if it might improve prospects for jobseekers.
- Various subsidies programs (e.g. for new heat insulation) and tax reduction incentives primarily serve those who already dispose of a high income. Even acts like the Erneuerbare-Energien-Gesetz (German Act on Renewable Energies, EEG) results in a situation where those who are able to invest can generate a risk-free return for their investments, because the EEG guarantees fixed prices for every kWh of renewable energy. At the same time, funding has to be raised by the broader population like a tax, since the entirety of electricity consumers pays for the fixed prices.
- Every year for instance 840,000 households even in a country like Germany are cut off from electricity or gas due to outstanding payments. This does, though, leave open the question of responsibility. Looking at the remaining marginal share of “climate political” costs per kWh, one can hardly place the blame on climate policy alone. The proposition that environmental policy is “unsocial” therefore loses traction.
- One might continue: low-income households are not burdened by climate policy in particular. VAT, for instance, has the same effect for them as climate policy (and in this case people with lower incomes do not even have a legal opportunity to avoid higher tax payment, unlike an “eco” tax, which can be avoided by saving energy, for instance buying energy efficient products). Thus it seems at the least somewhat shortsighted to accuse climate policy of impacting on social equity in such a pronounced way.
- A possible response could now be to propose a different social distribution of revenues of forthcoming auctions for emission certificates in national or European emission trading – or from an “eco” tax. Most people, however, seem to have an irreconcilable desire for higher redistribution but at the same time lower tax in general, a combination that is not feasible.
- It has still to be considered that climate change itself is very likely to entail greater social disadvantages for certain groups than all the moderate climate policy steps taken so far to prevent it: a) The socially underprivileged even in affluent countries will be exceptionally impacted by the impending climate change. (For economic reasons, they will often not be able to take advantage of the possible steps to prevent or avoid the effects of climate change on them). b) Moreover, on a global scale, people living in the southern hemisphere will be the main victims of a changing climate – although they contributed little to its cause. c) This is all the more disastrous as worldwide social inequality is already pronounced.

Striving for social distributive justice therefore implies a duty to prevent climate change – without neglecting the issue of distribution of the costs. Ultimately, therefore lower energy prices and the ensuing incentive to use energy do not really align with social and climate policy, although this is currently a popular idea in western countries. Political measures are always compromises and, generally, social redistribution will always have to be paid for by someone in the end. The widespread habit of making contradictory demands – on the one day a commuter compensation (which can be considered a subsidy detrimental to the climate supporting primarily people with high incomes), on the other day demanding more climate protection – will not take us anywhere.

## THE FUNDAMENTAL PRINCIPLE OF SOCIAL CLIMATE POLICY: "ONE HUMAN - EMISSION RIGHT"

But what does "social distributive justice" (on a national or global level) mean for climate policy – from a philosophical and legal point of view?[2] Once again, a distinctive approach seems to be most appropriate (for more details see Ekardt 2009, Wicke 2005, and Ott 2007; too general and without the most important aspects and arguments Bodansky 2004 and Blok/ Höhne/ Torvanger/ Janzic 2005; a more or less similar approach to a general theory of justice without regard to climate protection, can be found in Habermas 1992):

- It may sound unpopular, but individual wealthy people are not a main driving factor, neither in generating assets to be distributed by the welfare state nor with regard to the volume of greenhouse gas reductions.
- Furthermore, the task and the enforceable duty of a liberal society is only to ensure freedom and the fundamental preconditions of freedom (see Ekardt 2009), which means the absolute necessities of life, equality before the law and the chance to develop one's personality (a balancing between these goods is always necessary, and also has to take "additional" preconditions of freedom as the other legitimate task of a liberal state into account – but these are no subjective rights as such, merely expressions of the objective law). Beyond these rights, there is no right to a substantial equal distribution such that everyone is equally entitled to certain goods. Details of distribution – which should be seen as aspects of "additional" preconditions of freedom – are therefore within the discretion of political majorities. In other word: Even without ambitious climate policies, not everyone would be able to afford a luxury sports vehicle, or a flight to a vacation resort.
- At the same time, the fundamental preconditions of freedom require an equal treatment of all individuals – requiring everyone to be assigned a certain absolute minimum. This entails constraints (e.g. by way of taxes or emission trading) on the wealthy in order to reach a minimum level for all. I propose two arguments for that:
- Without an equal right to a minimum of fundamental preconditions of freedom, freedom would be worthless for the poor – despite liberal constitutions promising equal freedom rights. This "equal margin of subsistence" (or analogically "basic needs") requires, on the one hand, that every human being be provided with a certain minimum of energy, and on the other hand, that everybody be equally protected against the devastating effects of climate change through preventive steps. And even though greenhouse gas emissions must be reduced on an absolute scale, each person needs to emit at least a minimum amount of greenhouse gas to live. Still, many people worldwide do not reach their "equal" per capita share, requiring careful attention about unequal distribution concerning greenhouse gas emission rights.
- More importantly: When a public good such as the climate becomes tradable, it seems plausible to

distribute the "using" rights or the revenues of unequal "use" (of the atmosphere) in equal shares, especially as nobody can claim to have contributed greatly to generate this good. Unlike calls for "equal wealth" (national or globally), equal emission rights can thus be justified. This argument can also be seen as a reverse conclusion of the polluter-pays principle – which ultimately stems from freedom (see Ekardt 2009).

- But equal freedom (precondition) rights and the polluter-pays principle should not only be valid in individual nations or regions, such as Europe; they also have to extend to the global level. When the ultimate amount of greenhouse gases that may be emitted to avoid devastating climate change is distributed, a European could therefore not claim a higher per capita allowance than his counterparts in Africa or our children and grandchildren (who, by the way, cannot really be held responsible for climate change). Not only our freedom, but also theirs is concerned. Overall, inhabitants of affluent nations have been consuming a larger share of goods and energy, some widely exceeding their per capita share on the absolute global emission scale, and consequently have to be held responsible to a greater extent, leading back to the principle: "one human – one emission right".

Expressed more generally: The traditional, primarily economic and negative concept of freedom right has to be transformed as follows: a) Freedom presupposes certain equal preconditions which have to be preserved. b) Freedom of future generations and those on other continents has to be taken into account. c) Rules are necessary in order to secure freedom in the long term.

## EUROPEAN POLICY INSTRUMENTS FOR EFFECTIVE AND SOCIAL CLIMATE PROTECTION

### *Basic Structure of our Own Approach*

But how can the necessary social regional (for instance European) climate policy succeed? First of all: The best way to affordable energy for every person in the long term and to reduce greenhouse gas emissions is to enforce energy efficiency and the use of renewable energy. In this process, a certain increase in energy prices is probably unavoidable; but problems of competitiveness can in any case be minimized by aiming for European, rather than purely national, approaches in climate policy.

The most elegant implementation of a (e.g. European) concept of the "one human – one emission right" would notionally be a fixed emission reduction goal combined with a European carbon price (also replacing existing energy taxation and a number of tax benefits) and whose revenues would be distributed as a per capita "resources premium" or "eco bonus" to every citizen. Electricity, petroleum, motor vehicle taxes, tax and pension contributions from "eco taxes" could all be assimilated into such a system. As everyone benefits from the "resources premium" while the wealthy individuals with a more energy intensive lifestyle contribute a greater share, the social gap could thereby be closed.

Most notably, the aggregate effect of this as well as the following systems is that an energy-efficient lifestyle or the use of renewable energy will result in profits under the "resources premium", whereas adhering to a "business as usual" lifestyle will incur a financial loss. This incentive to economize energy benefits the climate as well as the social underprivileged, who generally consume less energy. In combination with adequate "carbon pricing" mechanisms, the "resources premium" could be a kind of beginning of a European basic income approach.

Four points need to be considered here: a) The entire concept will take us nowhere if other social benefits under existing social security and insurance schemes are cut in return – therefore a holistic view is necessary. b) Higher incomes by a "resources premium" (in this case for the underprivileged) will not lead to increased energy consumption, but will only help react to rising carbon prices. c) A "resources premium" (or "eco bonus") does not, unlike the current German electricity and petroleum tax, reduce the non-wage labor costs so that its impact on labor market is not entirely clear. Moreover, a decisive advantage of a resources premium has not yet been mentioned: It is likely to massively increase empirical acceptance of an effective climate policy.

An emission reduction goal combined with a carbon price could be a EU eco tax – or an expanded European emissions trading scheme based on primary energy production (and therefore including at least most of the carbon dioxide emissions), in which 100 % of certificates would be auctioned annually. The successful bidder would pass on the costs to the consumers and in return, the auction revenues would finance a European resources premium. This would more or less entail that everyone initially has an equal right to use the atmosphere – and everyone has the basic financial means to cover basic energy needs.

If neither of these approaches is taken, an evaluation would become necessary to which existing mechanisms contribute to a resources premium, e.g. if auction revenues of the existing emissions trading should be included. Nevertheless, a single solution (i.e. less instruments – a European energy tax or, politically easier to enforce, an expanded emissions trading scheme) would also be more democratic, as the policy choice for climate protection would become transparent for every citizen – even in the absence of detailed knowledge of environmental law. Moreover a strict progressive "eco" tax or emissions trading, rising in predetermined steps, increases investment and planning security for citizens and companies while minimizing bureaucracy – a consequence of current policy mixes based on a multitude of instruments with limited scope and effect. Besides, taxes and emission trading are liberal and efficient: Each individual is free to decide how to economize on energy consumption and where doing so is most profitable.

Regardless of whether the decision falls in favor of primarily "one" instrument or of the traditional instrument mix, the effects of subsidies encouraging greenhouse gas emissions (e.g. the commuter tax relief or other support programs) on climate and social policy should also be taken into account. These subsidies are relevant for climate change on the one hand and are not just paid "by the state" but by society at large in favor of certain parts of society; therefore, they have social distributive effects. As more of the existing instruments are replaced by a comprehensive energy tax or an extended emissions trading scheme, the effect on prices and a resources premium will grow. Claims that "emissions trading alone cannot finance the resources premium" are thus not justified.

Furthermore, the concept of a social climate policy (implemented through one central instrument or a bundle of instruments) has to extend beyond energy policy. At least conventional agriculture with its methane (CH4) and nitrous oxide (N2O) emissions and its energy intensity needs better regulation. Moreover, the costs arising from "delayed" climate protection measures, damage and/or increased adaptation efforts always have to be kept in mind.

When aiming for additional distributive arrangements between citizens and electricity companies, or landlords and tenants, it should always be considered that such rearranging can miss its social objectives when the costs in the end can simply be passed on to the consumer of end-user. Accordingly, rules solving the client/investor (landlord/tenant) dilemma in terms of building insulation may be very important for climate policy, while their impact on social policy might be unclear.

Whether economic instruments are to be complemented by prohibitions on certain luxury goods or activities requires further discussion, even though it would probably improve empirical acceptance and therefore the enforceability of climate policy. At least some socially compatible command-and-control regulatory instruments such as absolute energy efficiency or mileage standards could have a positive broader effect. But how can competitive disadvantages for private industries resulting from a socially motivated climate policy be avoided? Companies might react with corresponding wage agreements (that take away the effect of the resources premium) and threats to relocate from Europe, thus constraining the climate policy's "social elements". A visionary answer for a global social climate policy shall be proposed in chapter V.

***Details and the EU Proposal for a Modified Emission Trading***

Evidently the concept raises several questions. The proposed policy would also lead to higher budgets of the socially underprivileged, which includes the risk that the whole instrument might not achieve the desired climate effect, but increase activities that are harmful to the climate. However, it is unclear whether other additional social measures in climate protection (such as energy prices rebates for low-income households to offset energy price increases) do not raise even more severe problems. Instead of a resource premium, financial support could be granted for energy efficiency measures in households. Such a financial support mechanism would, though, increase bureaucracy far more than a resource premium. Moreover, producers e.g. of domestic appliances might simply raise the prices and thus undermine the social effect of a bonus. As a further socially compatible element of climate policy, the use of revenues from a reformed emission trade for financing e.g. heat insulation programs could be discussed. But besides the administrative effort, it is unclear whether especially the socially underprivileged would benefit. Generally, all these measures may also constitute an inappropriate limitation on freedom.

Furthermore, several problems ensue for the transition from a bundle of instruments to a (more or less) "single" instrument such as an extended emission trading scheme. As a consequence of the (included) derogation of national "eco" taxes, the revenue from emission trade auctions might then have to finance the national insurance contributions that eco taxes currently generate; otherwise, private social insurance contributions would rise. Nevertheless, the "subsidies" of state pensions should be gradually reduced and the released revenues integrated into the resources premium, as the necessary revenues from extended emission trading for the resource premium could otherwise not be generated.

The already existing continental emission trading in the EU (soon maybe also in the US) would seem an appropriate vehicle for a comprehensive policy approach – rather than a new taxation concept – simply because it already exists. The revised directive on emission trading does, though, fall short of the standards developed in this article, even though it is a clear improvement compared to the existing European emission trading scheme. In particular, the directive does not shift from a sectoral approach to a really general emission trading scheme based on primary energy sources – and CO2 reduction goals are not strict enough yet, as well as well as full auctioning is missing. It merely includes some new sectors (such as aviation). In the same way, greenhouse gases other than CO2 are not included on a broad scale. This inconsistent approach has been chosen with a view to the vast investments in the current emission trading scheme. Still, this argument is flawed, as a timely reform would (a) require less effort now than a fundamental reform at a later stage and (b) promises greater success as a measure of climate protection, given the system change would lead to cost economization in the long run (as far as consequential climate damage is concerned). Moreover, (c) the sector-based emission trading scheme and its necessary combination with other policy instruments continuously creates high transaction costs. The complex relationship to other policy instruments is thus still subject of the new directive on emission trading (e.g. regarding the use of auction revenues). Furthermore, (d) the sector-based emission trading scheme only considers distributive justice between states (requiring complex effort sharing). However, this does not benefit the socially underprivileged in Member States. Finally, an emission trading scheme largely addressing CO2 has to be complemented with a policy instrument for the agricultural by-products methane and nitrous oxide, and also with a policy instrument tackling deforestation, both of which are missing in the reform. It is to be welcomed, however, that the Commission proposal has opted for medium-term linear reduction goals.

## GLOBAL, EFFECTIVE AND SOCIAL CLIMATE POLICY (COPENHAGEN PROTOCOL)

### *Basic Structure of our Own Approach*

Still, "one human – one emission right" is not solely meant to be a European project, but also a further development of the currently not very ambitious or enforceable Kyoto Protocol on a global scale after 2012 (Copenhagen Protocol). Based on the general justification that I provide above, the main elements of a global approach should be:

1. In order to prevent disastrous climate changes, the global per capita emissions allowance would have to be fixed and limited – and then would have to be distributed on an equally per capita basis.
2. The per capita amount could be (according to IPCC) around 0.5t CO2 per person annually. This would be above current emission levels in most developing countries, but far below the OECD countries' emissions.
3. If western countries wanted to emit more greenhouse gases, western states would have to buy emission rights from southern countries. In contrast to Kyoto, this would lead to an emission trading scheme between all states across the globe.
4. By these means, a reduction of greenhouse gas emissions would get started and funds would be mobilized for poverty reduction in the southern hemisphere.
5. The scheme would not have to impose the 0.5t per capita from the outset, but could reach this goal in several stages; in line with the projections of the IPCC, however, it should achieve this level before 2050.
6. Full integration of developing countries into the overall reduction obligation system should potentially be delayed by some years. Prior to that point in time, such countries could obtain extra additional emission rights or some kind of additional payment in order to manage their reductions and adaptation.
7. Also the sectors aviation, shipping, land use, agriculture, and deforestation would have to be fully integrated in the global cap-and-trade scheme.
8. A global institution should have the right to control emission reductions and enforce them with severe sanctions.

9. The annually decreasing aggregate number of emission certificates held by each state or group of states after international emission trading could than form the basis for a national or continental emission trading scheme among primary energy users (as described earlier), including an annually regressive number of certificates, annually auctioning, etc. The basic principles of such national (or continental) distribution systems might have to be prescribed on a global level to ensure the funds really reach the socially disadvantaged (after all, many states worldwide are not democracies).

10. As mentioned earlier, primary energy producers of importers would have to auction certificates and pass the costs on through products, electricity and heating prices etc. to consumers. States or regional integration organizations (such as the EU) would then distribute the auctioning revenues to all citizens on a per capita basis.

By these means, energy efficiency, renewable energy, and long-term energy security would be forced (without a very complex instrument mix ordinary citizens are unable to understand[3]). Western countries would partly buy certificates, but partly rely on more energy efficiency, sufficiency, and renewable energy sources and therefore reduce their overall greenhouse emissions. Step by step, the developing countries would do the same. This would stop the global "race to the bottom" with regard to climate policy. Even from a broader economic point of view, the entire concept would lead to very important advantages: One would avoid the disastrous costs of climate change; new technologies would be forced; and independence from energy imports (and rising fossil fuel prices) would increase. Emission trading would help identify the cheapest available climate protection measures, and a broad range of greenhouse gas emissions could be covered and integrated (including, for instance, emissions from bio-energy[4]).

In southern countries, eco bonus would be high initially and emission trading costs low; the opposite would apply in OECD countries (because emission trading costs between states would be added to the southern eco bonus and would be subtracted from the eco bonus in the OECD countries). This would only be fair, as the higher per capita contribution to climate change originating from the OECD countries would be compensated, while at the same time the social justice of climate policy could be largely sustained in the same countries. Moreover, even the socially underprivileged in western countries would benefit from the financial transfers to the south, as these would stimulate the development of welfare states in the south, thereby reducing social dumping and stabilizing the western welfare state in the medium term. Furthermore, a determined attempt to combat climate change along these lines might avert the social consequences of global warming impacts in both North and South, whose severest manifestations are already emerging: migration and war for resources, such as water.[5]

Another general condition is that, apart from a price ceiling and floor, speculative trading will have to be limited by intervention powers for an international institution (such as a world certificate bank). Generally, this approach would also have to address indirect effects like deforestation or the change of land use, while at the same time not inflating bureaucracy with overly detailed regulation that disrupts the entire system.

In the end, the developing countries would be assigned a clear long-term limit – which is incidentally already been exceeded by countries like China – while the OECD countries would, for the first time, face an ambitious goal. As regards the reduction goal, it would be necessary to determine details of benchmarks, reduction periods, and scope. It remains an open question how to take into consideration the increase of population (respectively its decrease in northern countries) in the distribution of per capita emission rights.

The allowances could be allocated on the basis of a year of reference – or be adjusted from time to time. But a fixed basis of calculation seems more sensible with southern population growth in mind, as otherwise population increases (which contribute to poverty and climate problems) would be rewarded. At the same time, a fixed basis would favor the (climate friendly) declining population in OECD countries (although this effect will be partially counterbalanced by migration).

Either way, the proposed procedure avoids problems of fundamental technical infeasibility. Such problems would probably arise if, instead of the proposed procedure, a global personal per capita emissions trading (personal carbon trading) was established. In that case, every human being would become a certificate trader, whose everyday climate-relevant actions would be debited on a "credit card". Europeans would likely become constant buyers; Africans could make profits from selling their certificates. In theory, this model's effect on economy and climate policy is likely to be identical with the aims of more conventional forms of carbon trading. In southern countries, however, where most of the people do not have a bank account or otherwise have access to necessary infrastructures, personal carbon trading would entail unmanageable problems of implementation and control. Obviously, this would not rule out the possibility of introducing a global personal carbon trading scheme at a much later date. Its major advantage would be that an allocation of means benefiting the poor could be addressed more directly.

The proposed system does not exclude additional rules and regulations, e.g. the implementation of global social standards within the WTO, which would be an instrument – combined with the proposed new climate policy – against the global "race to the bottom". Global social standards and the proposed new climate policy could also give back some degree of sovereignty over economy to (national or regional) politics. Apart from that, also the democratization of global politics (and maybe the integration of climate policy into a democratized WTO) remains an important topic.

A fundamental advantage of the proposed model – but also of personal carbon trading – is the high plausibility of its intentions, even without reference to legal or moral theory. Furthermore, it allows for the definition of a fixed level of global greenhouse gas emission, aimed at reducing global warming as much as possible. This approach is also more effective for social policy than fixed but differentiated reduction goals for different countries, as implemented under the Kyoto Protocol (which is also the direction the current negotiations for a Kyoto follow-up agreement since the Bali Conference in December 2007 are taking), given that our concept would lead to a concrete cash flow to the poor (which is probably much more effective than some general and non-binding notion of "technology transfer to the South"). Furthermore, the system of mere (and not very ambitious) targets without attribution per capita and without a sanction mechanism enforceable at an international level has already failed under the Kyoto Protocol.

### *Historical Emissions and Alternative Concepts of Climate Justice*

The concept of "one human, one emission right", as mentioned earlier, could be amended to some degree in order to take into account historical emissions of (especially) OECD states. By these means, emission right prices could also incorporate the cost of an (inevitable) adaptation to climate change, insofar as a certain degree of climate change can no longer be prevented. "Historical emissions" consider that especially OECD Member States, in particular, have been emitting vast amounts of greenhouse gases in the past 200 years which now contribute to climate change in the atmosphere. However, it would (1) not further sustainable protection of freedom by climate protection to simply allow China, India and other emerging economies another 150 years of unlimited greenhouse gas emissions, as this would compromise the living conditions of future individuals across the entire globe. Furthermore, (2) the OECD Member States have not necessarily acquired an "advantage" equivalent to the emitted quantity. Countries like China or India profit on their part from these "advantages", because they can comparatively rapidly reach an acceptable level of prosperity through imports of economic models and technologies that have been developed in the western world. In addition, (3) taking into account "historical emissions" leads to a complex discussion as to how the complex global history in the past centuries may have advantaged and disadvantaged different countries. It is therefore impossible to assign a more or less exact number of emission rights under the prospective "historical debt". Most importantly, (4) invoking historical emissions takes into account the advantages and disadvantages of deceased individuals, and considers nations as collective entities. Assuming that the foregoing approach – "only freedom and preconditions of freedom" (for a detailed justification see Ekardt 2009) – is correct, such a collectivist perspective cannot be justified. Moreover, it raises the question whether we are really responsible for the acts of our forebears. Incidentally, the experiences with national allocation plans for European emission trading have already shown that a precise calculation of historically grown emissions is problematic for individual facilities (Bausch/ Lucha 2007). All this obviously does not rule out moderate consideration of factors such as "historical emissions" and "adaptation costs" (which are, to date, only taken into account via global financial funds) when calculating the amount of emission rights for a country.

Of course, in the international "Kyoto II debate" (in science and politics) several alternatives to "one human, one emission right" are discussed which are distinguishable particularly by how they deal with historical emissions. A comparison of the different concepts of emission trade (see also Lyster 2007 and Kartha/ Baer/ Athanasiou 2007) shows that similar issues are at least addressed. It is often suggested to combine the climate protection requirements with the sanction mechanism of world trade law, namely the WTO (Radermacher 2004). Others doubt that world trade sanctions are appropriate for protecting the climate (Rodi 2007). But beyond sanctions, the relationship of world trade law and climate protection have to be assessed anyway (Ekardt/ Susnjar/ Steffenhagen 2008). Therefore, I support the integration of an ecological and social global climate policy into the WTO system anyway.

Some approaches are based on equal emission rights, but want to modify them according to historical emissions of certain countries and/or geographical factors, taking into account existing energy supplies and the economic structure in different countries. Should the allowances be distributed by countries, by size of territory, GDP, economic structure (like a right to continuance), average geographic-meteorological conditions or natural resource occurrence in a state? This would be far too complicated. The necessary criteria (a) would be difficult to develop and would entail an enormous bureaucratic effort. How could, for instance, the advantages and disadvantages of different geographical areas be weighed against each other? These and other problems are (b) already known from the "historical emissions" approach. Moreover, (c) an approach centered on freedom is incompatible with a collective orientation on states and territories. Generally I also disagree with the "existing" approaches due to their (d) lack of tenable philosophical-legal justification and (e) an insufficient concept of how to deal with distributive justice, not only on a global but also on a national level.

The most important step remains a fast[6] global agreement on a cap for greenhouse gas emissions. Otherwise the coal, oil and gas saved in climate-friendly countries will just be burned in other countries

(Sinn 2008).[7] Anyway, a global problem needs a global willingness to act – and to question the idea of unlimited economic growth in a physically limited world – at the end of the day. As we have seen in this article, social justice, inter-generation fairness, global justice, economic benefits, peace-keeping – and maybe even greater happiness in societies after the end of unlimited economic growth – give good reasons for a new approach in climate policy.

## REFERENCES


Bausch, C. & Lucha, C. (2007). Challenges in CO2-Data-Gathering – the German Example. In Rodi, M. (Ed.), *Implementing the Kyoto Protocol* (p. 33). Berlin: Lexxion,

Bausch, C. & Mehling, M. (2007). Tracking down the Future Climate Regime – An Assessment of Current Negotiations under the U.N. *Carbon & Climate Law Review*, p. 4.

Bausch, C. & Mehling, M. (2008). Das zukünftige Klimaschutz-Regime der Vereinten Nationen. Ein Wegweiser durch die Verhandlungsarchitektur. *Zeitschrift für Europäisches Umwelt- und Planungsrecht*, p. 259.

Bodansky, D. (2004). *International Climate Efforts beyond 2012. A Survey of Approaches, Georgia*. Retrieved from http://www.pewclimate.org/docUploads/2012%20new.pdf

Blok, K., Höhne, N., Torvanger, A., & Janzic, R. (2005). Towards a Post-2012 Climate Change Regime, Brussels. Retrieved from http://ec.europa.eu/environment/climat/pdf/id_bps098.pdf

Buchner, B. & Lehmann, J. (2005). Equity Principles to Enhance the Effectiveness of Climate Policy. In Bothe, M. & Rehbinder, E. (Ed.), *Climate Change Policy*, Frankfurt A.M.

Bülow, M. & Schwabe, F. (2008). *Die soziale Frage mitdenken. Papier der SPD-Bundestagsfraktion zu Klimawandel und sozialer Gerechtigkeit*, Berlin.

Czarnecki, R. (2008). *Verteilungsgerechtigkeit im Umweltvölkerrecht: Dogmatik und Umsetzung*. Berlin: Duncker & Humblot.

Ekardt, F. (2007). *Wird die Demokratie ungerecht? Politik in Zeiten der Globalisierung*. München: C.H. Beck.

Ekardt, F. (2009). *Theorie der Nachhaltigkeit. Rechtliche, ethische und politische Zugänge*. Baden-Baden: Nomos.

Ekardt, F. & Schmeichel, A. (2009). Border Adjustments, WTO Law, and Climate Protection. *Critical Issues in Environmental Taxation*, p. 737.

Ekardt, F., Schmeichel, A., & Heering, M. (2009). Europäische und nationale Regulierung der Bioenergie und ihrer ökologisch-sozialen Ambivalenzen. *Natur und Recht*, No. 4.

Ekardt, F., Susnjar, D., & Steffenhagen, L. (2008). WTO und Umweltvölkerrechtsverträge. Komplementäre oder sich blockierende Wirkung? Am Beispiel von Verstößen gegen das Kyoto-Protokoll. *Jahrbuch des Umwelt- und Technikrechts 2008*, p. 200.

Habermas, J. (1992). *Faktizität und Geltung*. Frankfurt a.M.: Suhrkamp.

Hansen, J. (2007). Scientific Reticence and Sea Level Rise. *Environmental Research Letters*, No. 2.

IPCC. (2007). *Climate Change 2007*. Mitigation of Climate Change.

Kartha, S. Baer, P., & Athanasiou, T. (2007). The Right to Development in a Climate Constrained World. The Greenhouse Development Rights Framework, Paper of the Heinrich-Böll-Stiftung, EcoEquity, and the Stockholm Environmental Institute.

Lyster, R. (2007). Seperating the Wheat from the Chaff: Regulating Greenhouse Gas Emissions in a Climate of Uncertainity. *Carbon & Climate Law Review*, p. 89.

Mehling, M. & Massai, L. (2007). The EU and Climate Change – Leading the Way towards a Post-2012 Regime? *Carbon & Climate Law Review*, p. 45.

Ott, K. (2007). Ethical Orientation for Climate Change Policies. In Rodi, M. (Ed.), Implementing the Kyoto Protocol (p. 13). Berlin: Lexxion,

Radermacher, F.-J. (2004). Global Marshall Plan. Ein Planetary Contract. Für eine weltweite ökosoziale Marktwirtschaft, Wien.

Rodi, M. (2007). Bridging the Divide in Global Climate Policy – Strategies for Enhanced Participation and Integration. *Carbon & Climate Law Review*, p. 164.

Sachverständigenrat für Umweltfragen. (2007). Sondergutachten Biomasse, Berlin.

Sachverständigenrat für Umweltfragen. (2008). Umweltgutachten 2008, Berlin.

Sinn, H-W. (2008). *Das grüne Paradoxon. Plädoyer für eine illusionsfreie Klimapolitik*. Berlin: Econ.

Wicke, L. (2005). *Beyond Kyoto. A New Global Climate Certificate System*. Berlin: Springer.

Wicke, L. (1993). *Umweltökonomie, 4. Aufl*. München: Vahlen.

**NOTES**

[1] The IPCC demands 46-79 % GHG reduction worldwide (!) by 2050 in order to limit global warming at 2-2.4 degrees Celsius, and points out that this is without taking feedback effects of climate change into account; cp. IPCC 2007, p. 15, SPM.5). Given that the world's population is growing, this implies a CO2 reduction worldwide from 4.6t CO2 (without deforestation) to 1.3-0.4 t per capita in 2050. In OECD states, this implies a 87-96 % emission reduction. And (a) 2-2.4 degrees can already lead to disastrous consequences; (b) feedback effects of cause have to be taken into account; (c) climate change is coming faster than IPCC expected (cp. Hansen 2007 with the latest NASA research on climate change) - therefore even 87-96 % might not be enough.

[2] The whole argument is a philosophical theory – for its justification and all details see Ekardt 2009 – and a legal interpretation of freedom as the crucial term of human rights. – The "rights to the preconditions of freedom" which I will mention are also known as economic and social human rights.

[3] This is also a democratic problem.

[4] And integration e.g. of bio-energy-caused rainforest degradation would work much more precise than by vague and incomplete "bio-energy sustainability criteria". European and national bio-energy policy is criticized in more detail by Ekardt/ Schmeichel/ Heering 2009.

[5] Climate economists sometimes tend to ignore this in their models as there is no market price for it. This is only one of many reasons why economic climate research is not as precise as it pretends to be.

[6] Otherwise it gets attractive to sell as many fossil fuels as possible before the serious climate protection measures get into force.

[7] Nevertheless, a country or a region like the EU could urge forward without disadvantages for competitiveness and without other states taking EU activities as an invitation not to act themselves; the key word is "border adjustments"; for more details see Ekardt/ Schmeichel 2008; Ekardt/ Susnjar/ Steffenhagen 2008.

# REFORMING THE INTEGRATION-RESPONSIVENESS FRAMEWORK: A BUSINESS ETHICS PERSPECTIVE

**Johanna Kujala**
Department of Management Studies, University of Tampere, Finland

**Pasi Sajasalo**
School of Business and Economics, University of Jyväskylä, Finland

**Abstract:** This article examines adverse effects of multinational enterprises' global strategy on a local community utilizing recent developments of a Finnish electronics manufacturing service firm as an illustrative case. The shortcomings of one of the most recognized global strategy frameworks, the integration-responsiveness framework are discussed from an ethical viewpoint, and an extended view of responsiveness in the global strategy context offered.

**Keywords:** integration-responsiveness framework, entrepreneurship, multi-national enterprise, corporate social responsibility, business ethics

## OWNERSHIP CHANGE AND EFFECT ON COMPANY CSR

At the beginning of the twenty-first century, globalization and internationalization are praised in the boardrooms of large enterprises as the motors of present and future success, and the ideology of shareholder value provides both the underlying motivation for international expansion as well as the prime means of measuring success. However, the shareholder value thinking provides only one perspective on business in today's world. In this paper, we will take a very different viewpoint springing from lines of thought found within business ethics literature (e.g. Barnett & Ronald, 1974; De George, 1993; Donaldson, 1989), stakeholder thinking (Carroll, 1981; Freeman, 1984; Freeman & Gilbert, 1987; Näsi, 1995) and corporate social responsibility discourse (Carroll & Buchholtz, 2003; Zyglidopoulos, 2002). Consequently, we will examine ownership change and its effect for the acquired firm as well as outcomes for the local community, the operating base of the acquired firm.

Our story may well turn out to be a typical one in the future: an entrepreneurial firm (Mintzberg, 1989) expands rapidly while remaining deeply rooted in its home base. Getting acquired by a multinational enterprise (MNE), however, changes the setting of the acquired firm drastically. For the new foreign owner, the history of the acquired firm, its hero stories, the culture or the connections to the surrounding local community bear less significance. Thus, it is easy to send dismissal announcements to employees, which indirectly affect the whole local community.

This paper describes the transformation process of a locally-oriented yet regionally expanded firm, into a part of a global firm (Ghoshal & Nohria, 1993) as a result of strategic acquisitive move of a MNE, and the consequent mounting of pressures related to corporate globalization formerly unknown to the acquired firm. The adverse effects of the globalization of business and especially the effects of the central actors' actions driving the globalization development, the MNEs and their global strategies on local peripheral communities are discussed.

There exists a body of literature dealing with the downsides of MNEs' global strategies, concentrating for instance on human rights, environmental issues, greater product and workplace safety, minority hiring issues, and product performance issues or similar in the developing country context as indicated by Lee (1997), Guvenli and Sanyal (2002), and shown by Epstein's (1987) review of business ethics and corporate social responsibility literature. While the issue taken up is far from novel and the adverse effects of globalization are widely discussed, for instance in the downsizing literature from the job cuts perspective (e.g. Freeman & Cameron, 1993; DeWitt, 1993; Cascio et al., 1997; Budros, 1999), the setting of this study places it apart from typical contributions dealing with the adverse effects of MNEs' global strategies. The focus is on the adverse effects of MNEs' global strategies in a developed country context.

We reflect on the recent developments concerning a Finnish electronics manufacturing services (EMS) firm as an illustration of the issue and as a vehicle of discussion on the shortcomings of one of the most recognized global strategy frameworks (DeVinney et al., 2000; Kogut, 1989; Taggart, 1998), the integration-responsiveness (IR) framework of Prahalad and Doz (1987). Based on the observations we will discuss some possible benefits of expanding the IR framework by incorporating additional ethical considerations into global strategy decision-making, thus widening the scope of the issue of responsiveness beyond its currently dominant economic purport.

Although mostly theoretical, the paper utilizes a qualitative approach in illustrating the development of the EMS firm. Of the plethora of alternative ways offered by the field of qualitative methodology, the one chosen in this paper is the case study approach (e.g. Yin, 1984). The data for the case is drawn from publicly available written sources, mainly from newspaper and business journal articles.

The paper starts by introducing the research idea followed by our case study describing the events through which an entrepreneurial local firm becomes a part of a large MNE. The third part sketches two worldviews on global strategy and their consequences: the IR framework, and a review of business ethics, corporate social responsibility, and stakeholder literatures in the context of MNEs and global strategy. The third part further outlines suggestions for a revised content for the responsiveness part of the IR framework. The paper concludes with a discussion of the possible benefits of expanding the concept of responsiveness beyond its current content.

## DEVELOPMENT OF THE CASE COMPANY

The story of our case company begins in a small rural village of Kyröskoski, a community of 3,800 inhabitants, part of Hämeenkyrö municipality in Western Finland. In 1978, a local technical college teacher Mr. Seppo Parhankangas founded an electronics company from his garage. The one-man company found a growth track in 1984 when Mobira, the mobile phone unit of Nokia – a small part of Nokia's business at that time – became its customer.

In 1985, the company, Kyrel EMS, already employed 30 people, and in 1987 it got proper production facilities – built by the municipality. Between 1989 and 1994, the company expanded its premises several times as the scale of operations grew steadily. In 1996, the company already employing 760 people set up a subsidiary in France. At that time Kyrel EMS had established itself as a major electronics manufacturing services provider. In fact, it was the market leader in Europe. While Kyrel's customers represented a number of industries, its key customers, however, were Nokia and Alcatel.

In October 1997, Seppo Parhankangas stepped down from his position as the CEO and was followed by Mr. Simo Parhankangas, his son. When Simo Parhankangas took over, the company continued on a positive track: the scale of operations grew, as did the workforce. The headlines of the leading regional newspaper conveyed the bright prospects of the company: for example: *“Kyrel invests and takes on workers”* (Aamulehti, Jan 25, 1998). *“Huge growth in turnover for the Kyrel concern last year”* (Aamulehti, May 6, 1999).

Simo Parhankangas continued to emphasize the entrepreneurial spirit, the need for positive growth, the importance of good relationships with the local community, as well as good employee relations: all values clearly carried over from the founding entrepreneur. Kyrel was even awarded for employing immigrants. The HR Manager of the company commented on the event in the press: *“It’s not your nationality; it’s what you can do that is important with us”* (Aamulehti, Sep 1, 1998).

By 1999, the firm had grown to almost 1,000 people, two-thirds of them working in the village of Kyröskoski. It was by far the largest employer in the area, it was tightly bound up with the municipality, and its growth, profitability and finances were all in good shape. The company anchored in the heart of the Finnish countryside was considered as something special: a heroic company that was producing great prosperity for its stakeholders in the local community and for those further away.

***Change of Ownership – Towards a Global Setting***

In June 1999, Flextronics International, a global electronic manufacturing services provider made public an agreement to acquire Kyrel EMS. The move of Flextronics International was reported in the media: “Kyrel to merge with an American giant. Owner promises that the merger won’t lead to job cuts” (Aamulehti, Jun 16, 1999).

Flextronics’ global customers operated in fast-growth telecommunications, computers, medical and consumer markets known to be very tough markets subject to violent fluctuations. Innovations, time-to-market, product miniaturization and cost reductions are continuous requirements. At the time of the Kyrel acquisition, Flextronics’ total workforce was 18,000, but already in 2002 the number of employees exceeded 80,000. It is an American company by origin, established in 1969 in California, currently headquartered in Singapore. The two parties to the agreement were lavish with their praise for it. Simo Parhankangas, CEO of Kyrel EMS stated:

> *“We are very enthusiastic about our partnership with Flextronics. It allows us to continue focus on delivering superior service to our local customers, while adding the global capabilities and advantages of a world-class EMS provider. Partnering with Flextronics is a positive step for us to enhance our best practices in customer service and to strengthen our global competitivenes.” (Electronic News, Jun 21, 1999).*

Ronny Nilsson, president of Flextronics, Western Europe was as positive in his assessment:

> *“We are pleased to announce the addition of Kyrel to Flextronics’ Western European operations. The addition of Kyrel, with its experience and key customers in the telecom industry, further strengthens Flextronics’ position as a leading EMS provider to telecom customers. This merger, in conjunction with recent acquisitions of certain ABB and Ericsson operations in Sweden, allows Flextronics to offer present and future customers better service and pricing due to improved experience and increased economies of scale” (Electronic News, Jun 21, 1999).*

***A Good Start under the New Ownership … and a Quick Turn to the Worse***

The now retired founder of Kyrel, Seppo Parhankangas, who acted as chairman of the board at the time of the takeover predicted that the company would do well as part of the American giant: *"Parhankangas expects even fatter years for Kyrel. Family company which started in garage comes under American ownershi"* (Helsingin Sanomat, Jun 16, 1999). Everything pointed to that direction at first. The acquisition caused no personnel reductions; instead, operations were expanded. New personnel were hired in the hundreds as noted by the press: *"Over 500 apply for a job with Kyrel. The Hämeenkyrö electronics firm to hire 200 temporary workers from Tampere"* (Helsingin Sanomat, Sep 24, 1999). *"Kyrel takes on 300 in Kyröskoski. A total of 550 new workers coming to the company this year"* (Aamulehti, Oct 22, 1999).

The positive development and steady growth characteristic of the company in the past – turnover growth by factor of 46 from 1990 to 1998 – came abruptly to an end in March 2000. It marked the start of a steepening downhill slide for the former Kyrel EMS' operations in Finland. *"Flextronics to negotiate about hundreds of lay-offs"* (Aamulehti, Mar 31, 2000).

***The Downhill Slide Continues***

In May 2000, 230 workers were laid off due to 'market turbulence' according to Flextronics. The devastating effects of the event were reported by the leading regional daily: *"Flextronics lays off 230 workers in Hämeenkyrö. Result a shock for factory's workers, many of those laid off is fixed term employees"* (Aamulehti, May 19, 2000).

The technology director from the headquarters visited Finland to say how sorry the company was and to promise better times. However, as it turned out, the laying off of 230 employees was just the tip of the iceberg. In 2001, the market for electronics manufacturing services virtually collapsed due to the worldwide economic downturn. The events at Flextronics' Swedish units resulted in great unease in Finland: Flextronics fired 1,600 employees in Sweden in the fall of 2001, closing down one unit and reducing the workforce in another three. The situation was exacerbated by Flextronics' announcement that it would reduce its workforce globally by 10,000 people – fifteen percent of the total (Digitoday 2001).

According to Flextronics, struggling with a loss of $330 million in the second quarter, this was necessary in preparation for the weakening market situation. It was made known that the job cuts were targeted in high production cost regions, and that production would be relocated in areas of lower cost (Digitoday 2001). In 2001, the management of Flextronics was able to cope by claiming that the parent company's international cutbacks would leave Finnish operations unaffected. The message was eagerly repeated by the leading regional daily: *"Flextronics won't reduce its workforce in Finland"* (Aamulehti, Aug 8, 2001). *"Flextronics redundancies won't affect Finland"* (Aamulehti, Oct 27, 2001).

Only a quarter later Flextronics had returned to profit-making track and reported an $82 million profit. It had benefited from the outsourcing trend of electronics manufacturers and managed to attract some important customers, such as mobile phone manufacturing for Ericsson and Xbox games console manufacturing for Microsoft (digitoday, 2002a). Still the apprehensiveness related to job cuts was beginning to build at the Kyröskoski unit. Despite the announcements that the Finnish units would remain unaffected – there were four units besides the Kyröskoski unit, one of them under the threat of discontinuation already – distrust against the management was evident as reported in the press:

*"Demonstration by Flextronics workers. They want to remind management of its obligations and promote a healthier way to take care of personnel policy"* (Aamulehti, Apr 31, 2002).

The announced downsizing strategy became reality in the fall of 2002. Flextronics fired over 5,000 people globally in August. *"Flextronics to fire thousands"* (Aamulehti, Aug 16, 2002). According to its notification the company had paid $77 million worth of costs associated with reducing its workforce (digitoday, 2002b). In September, Flextronics announced that it would cut between 200 and 300 jobs at the Kyröskoski production unit employing some 680 people: *"Flextronics to reduce its workforce by 300 in Hämeenkyrö. Electronic manufacturing services firm threatens to fire nearly half of its workforce"* (Aamulehti, Sep 11, 2002).

The grounds for the dismissals according to Flextronics were its need to adapt globally to achieve better profitability (digitoday, 2002c). Then, in late November, Flextronics fired 226 people, and CEO Parhankangas resigned. Both dramatic events were reported in the press: *"226 people to go at Flextronics"* (Aamulehti, Oct 31, 2002).*"Parhankangas quits Flextronics suddenly"* (Aamulehti, Nov 1, 2002).

From then on, it was even steeper downhill for the former Kyrel EMS. In June 2003, Flextronics announced that it would lay off an additional 130 people in Kyröskoski (Digitoday, 2003a) despite the ray of hope offered earlier in the spring when it was estimated that more people were needed to meet rising demand. *"Flextronics to fire 130"* (Taloussanomat, Jun 6, 2003). The end result of the latest round of dismissals was that a company once employing close to 1,000 people had shrunken to a dwarf of 150 employees. However, this was still not the end of the downhill slide: in August 2003, Flextronics announced that that it would be closing down the unit altogether by the end of the year. *"Flextronics to close down its Hämeenkyrö plant"* (Helsingin Sanomat, Aug 20, 2003). *"Electronics manufacturing services provider Flextronics International Inc. sets forth as a result of industrial cooperation procedures the closure of the whole Hämeenkyrö plant by Christmas"* (Digitoday, 2003b).

## TWO WORLDVIEWS ON THE CONSEQUENCES OF GLOBAL STRATEGIES

In the following, we will present two perspectives on the consequences of global strategy from which the above development may be assessed. The different interpretations of the consequences of MNEs' global strategy pursuit and some possibilities for their integration will be discussed after presenting the views through a brief discussion of their central ideas.

### *Integration-Responsiveness Framework*

The integration-responsiveness (IR) framework has been widely utilized in the international business literature to identify and discuss the diverse and often conflicting pressures that firms confront when expanding their activities worldwide: most notably the need to balance between global integration of activities and to be responsive to the local environment s simultaneously.

The global strategy discussion in general, and the IR framework in particular has grown out of earlier contributions with evolutionary orientation to the development of MNEs, such as those offered by Perlmutter (1969), Stopford and Wells (1972) and Vernon (1966) all building on economics-based reasoning. While popular models to describe and explain the advent and subsequent development of MNEs, the early models provided simplistic solutions to complex problems in multinational organizations (Bartlett & Ghoshal, 1987). This was partly due to the models' neglect of the global business environment: many issues in terms of technological, market, competitive and governmental impact the operations of MNEs. In response to this omission, Prahalad (1975), Doz (1976), and later Doz (1980), and Prahalad and Doz (1987) put together their ideas into the form we know today as the IR framework.

The two most central concepts of the IR framework are integration and responsiveness. By integration Prahalad and Doz (1987) refer to the coordination of activities across countries aimed at building efficient operations networks and taking maximum advantage of similarities across locations. By responsiveness they refer to the attempt of responding to respond to specific needs of host countries, and note that businesses can choose to emphasize one dimension over another, or to stress both dimensions. Thus, firms have basically three strategic options at their disposal: the global integration strategy, the locally responsive strategy, and as sort of an in-between option, the multi-focal strategy. The choice between the three strategic options is governed by the perceived intensity of two forces in the firms' operating environment: the pressure for global integration and the pressure for local responsiveness (Prahalad & Doz, 1987, pp. 18–21) displayed in Table 1.

TABLE 1

*THE IR FRAMEWORK*

| Pressures for global integration | Pressures for local responsiveness |
|---|---|
| Importance of multinational customers | Differences in customer needs |
| Presence of multinational competitors | Differences in distribution channels |
| Investment intensity | Availability of substitutes and the need to adapt |
| Technology intensity | Market structure |
| Cost reduction pressures | Host government demands |
| Universal needs | |
| Access to raw materials and energy | |

The IR framework has been used to discuss the impacts of the two sets of pressures on key strategic decisions. For instance, whether firms should standardize marketing activities globally or adapt them to local conditions, or whether firms should centralize or decentralize control of subsidiary operations, and the effects of the pressures on firm performance (Johansson & Yip, 1994; Martinez & Jarillo, 1991). The research has mostly focused either on the application of the framework, or on its elaboration for managerial purposes (e.g. Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1993). Its use has thus been 'technical' in nature: essentially about how to manage the balancing act between global integration and local responsiveness more successfully. In addressing this balancing act and its successful implementation, the focus has almost solely been on the economic dimension of success – the ability of the focal company to maximize profit (e.g. Devinney, Midgley & Venaik, 2000) – while virtually ignoring other impacts of firms' actions on the wider operating environment and the society at large.

Being an economics model by its roots, questions such as 'at what cost to some remote community do the profit maximization-driven activities take place?' have rarely entered the discussion. In fact, the fields of global strategy, international ethics, and corporate social responsibility have remained to a very large extent disconnected (Reynolds, 2003), despite considerable potential posed by the cross-fertilization between the overlapping fields.

While the IR framework has numerous strengths as an organizing framework for the two possibly most critical pressures a MNE needs to handle in its operations, and although its merits are widely acknowledged (e.g. Roth & Morrison, 1990; Johnson, 1995; Harzing, 2000) we are not alone in proposing extensions and refinements to the IR framework (see e.g. Devinney et al., 2000; Wood, 1991). From our point of view, the most serious omissions of the IR framework stem from the history of the global strategy field: the IR framework 'suffers' from its roots. Being derived from economics-based reasoning it carries some intrinsic assumptions, such as rationality and profit maximization as the basic modes of organizational behavior, which, in turn, encourage global strategic behavior of MNEs motivated solely by efficiency and cost reduction considerations that carry some extremely adverse effects when judged from the perspective of local communities.

As discussed above, to Prahalad and Doz the local responsiveness pressures present themselves in the form of differences in customer needs, differences in distribution channels, availability of substitutes and the need to adapt, market structure, and host government demands, all admittedly very important strategic questions for a MNE to take into account. However, as is evident from the list of factors advocating the adoption of locally responsive strategy, with the exception of the host government demands, all may be characterized as purely market-related factors, and as such, typically targets of economic considerations alone. From our point of view, such listing of defining factors reflects a narrow vision of the issue of responsiveness in the global strategy field.

The single non-market factor in the IR framework, the host government demands is rather vague and open to interpretation. This being the case, we take up the challenge of offering a reinterpretation and extension of the substance of the concept. We thus offer an expanded view on the whole issue of responsiveness by presenting an alternative, a more covering way to perceive the concept in the global strategy context by drawing from business ethics, corporate social responsibility, and stakeholder discussions.

By drawing from these broad fields of literature, we aim to broaden the concept of responsiveness in international business context from its current orientation with an exploitative undertone towards a more balanced one taking into account the unwelcome repercussions of MNEs' dominantly efficiency-driven actions brought on various stakeholders and localities by the implementation of global strategy. The recognition of the need for expansion of the concept, it is hoped, was achieved through the illustrative case standing as an extreme example of the dominance of efficiency-motivated integration considerations alone, and the lack of responsiveness considerations in implementing global strategy.

***Imperatives of Business Ethics, Corporate Social Responsibility and Stakeholder Approach for MNEs***

Multinational enterprises have traditionally been the subject of ethical concern and discussion in three respects: 1) by which rules are MNEs bound: the home country or the host country, 2) the issue of power: the disparity of power between large multinationals and developing countries – exploitation of labor and other resources, undermining local cultures, ignorance of health and safety regulations etc., and 3) price fixing, tax avoidance and circumvention of national legislation (Barnett & Ronald, 1974; De George, 1993; Donaldson, 1989).

Closely related to the above ethical concerns is the basic theme found within the corporate social responsibility (CSR) discussion: the relationship between business and society at large. CSR has been defined in numerous ways: Carroll divides the concept into economic, legal, ethical, and discretionary (or philanthropic) expectations that society has of organizations, whereas Frederick clarifies the concept by splitting it up to corporate social responsibility (CSR1), corporate social responsiveness (CSR2), and corporate social rectitude (CSR3) (Carroll & Buchholtz, 2003). The Confederation of Finnish Industry and Employers considers CSR to consist of the economic, environmental and social responsibilities of companies, and places the relations with stakeholders as central consideration when specifying the contents of these responsibilities (Teollisuuden ja työnantajain keskusliitto, 2001). In short, a corporation operating in a given country must comply with the legal and social norms of that country (Zyglidopoulos, 2002).

It has been suggested that the concept of social responsibility should be replaced by the concept of social responsiveness representing a more dynamic and action-oriented view of CSR (Carroll & Buchholtz, 2003). As the IR framework makes use of the concept of responsiveness, it is reasonable to concentrate on analyzing the possibilities offered by CSR and stakeholder approach in broadening the content of the 'responsiveness' concept of the IR framework. According to Epstein, the concept of corporate social responsiveness means determining, implementing, and evaluating the firm's capacity to anticipate, respond to, and manage the issues and problems arising from the diverse claims and expectations of stakeholders (Carroll & Buchholtz, 2003). As stakeholders have an important role in driving the social responsiveness process (Näsi et al., 1997), the stakeholder approach is used to further develop the IR framework.

According to the stakeholder approach, companies do not exist to satisfy the needs of their owners or stockholders alone: they have a wider range of important stakeholders who ought to be taken into account when making decisions (cf. e.g. Argandoña, 1998; Wheeler & Sillanpää, 1997). The stakeholder approach is also about combining business and ethics, and the normative ground of the stakeholder approach means integrating ethical dimensions into business practices (Carroll & Näsi, 1997). As the 'management serving shareowners' theory is neither morally sustainable (Donaldson & Preston, 1995) nor economically reasonable (Kujala & Kuvaja, 2002), it is sensible to accept that the purpose of a company and its managers is to co-ordinate stakeholder interests (see e.g. Evan & Freeman, 1988) in a responsible way.

Kujala (2001) has identified eight generic stakeholders of a company: customers, employees, competitors, owners, suppliers and dealers, community and government, financiers, and the environment. Our case shows that for MNEs entering a new locality by acquiring a local firm, at least the employees, the local community and government are stakeholders that should be brought into the core of the responsiveness considerations. In addition, as our case shows, media represent an important stakeholder that should be included in a MNE's list of local constituencies.

To concretize the important issues in local stakeholder relations that help expand the responsiveness concept of the IR framework, we follow Kujala's (2001) discussion on moral issues concerning different constituencies and utilize her framework for analyzing moral issues in stakeholder relations consisting of fifty different issues in eight stakeholder relations. Here we concentrate on issues in just two categories of stakeholder relations that appear to be the most important on grounds of our illustrative case. We believe that especially relations with community and government along with relations with employees should be included in the expanded concept of responsiveness of the IR framework in order to give it more concrete substance as outlined in Table 2.

TABLE 2

*THE MODIFIED IR FRAMEWORK*

| Integration Pressures | Responsiveness Pressures |
|---|---|
| Importance of multinational customers<br>Presence of multinational competitors<br>Investment intensity<br>Technology intensity<br>Cost reduction pressures<br>Universal needs<br>Access to raw materials and energy | Differences in customer needs<br>Differences in distribution channels<br>Availability of substitutes and the need to adapt<br>Market structure<br>Host government demands, *more specifically:*<br>- *Obeying laws and regulations of the host country*<br>- *Co-operating with public sector officials and local residents*<br>- *Paying taxes*<br>- *Being a good corporate citizen*<br>Being sensitive to employees needs, more specifically:<br>- *Acknowledging employees right to just wage, to privacy, to participate, and to organize*<br>- *Paying attention to hiring and firing policies*<br>- *Denying discrimination*<br>- *Improving working conditions*<br>- *Guaranteeing stability and security of the work place*<br>- *Being honest to employees*<br>- *Offering education and development opportunities* |

While the extensions to the responsiveness concept of the IR framework may be perceived by some to be minor or even light in the sense that some of the points raised here may be seen to be implicitly included in the IR framework as it currently stands, however, we would strongly disagree and argue that this is not the case. Giving more substance and concreteness to the vague host government demands factor of responsiveness pressures derived from stakeholder thinking, and thus making the issues explicit, directs attention of both academics and practitioners alike. Furthermore, it highlights the importance of relations with community and government as well as relations with employees, which, as our case shows, are easily neglected when implementing clearly efficiency-motivated global strategy in an industry which may be characterized as highly competition-oriented and thus less employee-centered in its culture (cf. Gordon, 1991; Budros, 1999).

## DISCUSSION

The kind of negative development depicted above with its redundancy announcements and ultimately closure is, of course, shocking for those affected wherever in the world it might happen. So, it is no wonder that the residents of a small Finnish village and the whole municipality were shocked by the events. The negative impacts of the MNEs actions were deepened by the fact that in Finland, as the result of the most severe depression experienced by a Western European country since the 1930s, jobs are still hard to come by and hard to hold onto even today. This has resulted in a culture of silence, where even the stakeholders who suffer the most, in this case the local community and employees, remain very quiet. A headline in the leading regional daily “Dismissals shut employees’ mouths” (Aamulehti. Sep 12, 2003) embodies the situation. A single demonstration and a critical statement finally issued by several trade unions (Aamulehti, Apr 26, 2002; Sep 12, 2003) were rare manifestations of what those affected were actually feeling. In any event, the end result was clear: globalization and shareholder value management had left a heavy mark on a small rural community.

The development of the acquired EMS firms serves as an example of the ethical concerns raised against the policies of MNEs, in particular the power disparity issue. However, in the developed country setting the issue is not typically between the MNE and the host country as the two may be considered more of equals in power – although the agility of MNEs in search of the lowest cost locations may be seen to somewhat tilt the scale to their advantage. There is a power disparity issue, though, but it is more evident between the regional entities and the MNE. The local communities have no means at their disposal for restraining MNEs if they choose to downsize and eventually discontinue operations in search of lower cost and higher (short term) profit. Nor do the labor unions as the case clearly demonstrates. This inequality in power between the MNEs and local actors puts pressure on the host country government to take care of the interests of all its residents.

Another ethical issue our case serves to illustrate is the question, by which rules are the MNEs supposed to play? In this case, the conduct of the MNE clearly differed from the rules the Finnish stakeholders had been accustomed to, in terms of employment stability and other terms of employment. The case also serves as an example of the end-results of one-sided global integration drive, and the overwhelming emphasis put on cost reduction pressures at the expense of responsiveness considerations – especially in the sense of the expanded view of the issue promoted in this paper.

It seems, however, that the adverse effects of MNEs’ global strategies and the closely related issue of shareholder-value thinking so deeply rooted in our contemporary large corporations are starting to create counter-reactions to the perceived excessive dominance of both MNEs in the global and local business arena, as well as to the supremacy of shareholder value thinking dominant in large multinational companies. A good indication of this change of climate is the growing and ever vociferous criticism against the recently intensified corporate downsizing trend in the U.S. from where this managerial innovation originated in the 1980s (Cascio et al., 1997; Freeman & Cameron, 1993). Some have estimated that since 1979 downsizing has resulted in the loss of over 40 million jobs in the U.S. alone (Uchitelle & Kleinfield, 1996). A telling sign of the building criticism is the rise of documentary-maker Michael Moore’s (1996) book, condemning such practices in several U.S. corporations that were making record profits and yet at the same time downsizing. Although there have been signs for a similar development in Finland, the scale of the issue, as well as the intensity of public debate on it has remained meager.

Although, as noted above, globalization of business and the shareholder value maximization ideology have been presented at times as the two unquestionable truths that are bringing a brighter future for mankind, the experiences of Finnish company, EMS, serve as a striking illustration of the adverse effects on one local peripheral community when one-sided economic considerations dominate global strategy practices. The developments that faced our case company lend support to Unseem’s (1993) and others’ findings (e.g. American Management Association, 1987; Bureau of National Affairs, 1991) of the influence of increased shareholder control from the 1980s onwards (shareholder value maximization) being closely related to the rising numbers of job cuts.

Even though the paper takes an in-depth look on just one locality in the chosen developed country context, we would be ready to claim that the setting of this paper can serve a wider illustrative purpose than the Finnish electronics industry case alone. Just briefly scanning the business press, similar downsizing and ultimately pullout practices carried out by MNEs can be observed taking place all over the developed world (cf. Cascio et al., 1997; Budros 1999). The trend is discernible in many industries that may be characterized as global industries, financial services and electronics manufacturing showing the way (Doz & Prahalad, 1991). As a recent example of similar developments in another geographical context than the one discussed here, consider the announcement of Levi Strauss in early January, 2004 regarding the closure of its last two U.S. sewing plants, a move motivated purely by the search for lower cost labor that resulted in 800 unemployed (CNN, 2004). The Finnish case may be seen as a symptomatic of global corporate strategies of MNEs driven solely by shareholder value maximization ideology and the closely related drive for lower cost of production.

There are (at least) two sides to every story. The one side not touched thus far is that of a MNE operating in electronics manufacturing services (EMS) industry. For a company pursuing a conventional global strategy, the approach of Flextronics may be considered ‘logical’, establishing itself in locations that minimize the overall cost of doing business as the internalization theory of Buckley and Casson (1976) and the OLI framework of Dunning (1977) suggests. Judging the development from this perspective and from the vantage point of Flextronics, what took place in Kyröskoski plant was merely ‘business as usual’: a pure resource allocation decision in search for best return on investment. The other side to the story is that of the stakeholders’ presented here, especially the employees of the Kyröskoski unit, and the local community of Kyröskoski, who were the final bearers of the full negative impacts of the decisions taken by the MNE.

## CONCLUSION

In conclusion, although we are suggesting extension of the IR framework to take more into account the ethical considerations in implementing global strategy, we are not denying the centrality of profit imperative over time so instrumental to the existence of a business organization. The profitability and ethical conduct of (international) business are not mutually exclusive issues (Reynolds, 2003), on the contrary. Taking a long-term perspective on the issue, a responsive conduct of global strategy – in the extended sense of the concept – it may be argued, would be mutually beneficial for the key parties involved: the MNE, the host locality, as well as other stakeholders. Considering the acquisitions made by MNEs as a mode of entry, again in the long run, it is hardly in anyone’s best interest to first acquire a local firm and then dismiss the employees and run down the acquired unit.

Taking an economic perspective on the issue, it does not make economic sense either, because typically the acquirer pays a premium for the owners of the acquired firm in anticipation of future profits. In the event the acquired firm gets terminated, the money invested and the terminated entity’s assets are lost. The lost assets are not limited only to the financial capital and physical assets lost, but more importantly, the human assets lost; more specifically the know-how held by the people that is not easily transferable because of its tacit nature. Even if the sole motivation for the acquisition is to run down a competitors operations, again, considering the issue in the long run, this strategy might well backfire: it is in the interest of policy-makers to maintain competition in the marketplace. If one actor should attain a monopoly position, the legislators typically take action to prevent such a situation. A good indication of this is the legal actions taken against Microsoft in the U.S. and elsewhere on the account of breaching antitrust laws (U.S. Department of Justice, 2004).

Thus, what we are suggesting is that by incorporating more responsiveness considerations into global strategy decision-making and conduct of business, or put differently, aiming for the multifocal strategy instead of the dominant low cost driven global integration strategy, MNEs would be making better business, and in the process, increase the welfare of all stakeholders, not just one group of them.

## REFERENCES


*Aamulehti Newspaper*. Dates specified in the text.

American Management Association. (1987). *Responsible reductions in force: Downsizing and outplacement.* New York, NY: American Management Association.

Argandoña, A. (1998). The stakeholder theory and the common good. *Journal of Business Ethics, 17,* 1093–1102.

Barnet, R. J., & Ronald, E. M. (1974). *Global reach: The power of the multinational corporations.* New York, NY: Simon & Schuster.

Bartlett, C. & Ghoshal, S. (1987). Managing across borders: New strategic requirements. *Sloan Management Review,* 28 (Summer), 7–17.

Budros, A. (1999). A conceptual framework for analyzing why organizations downsize. *Organization Science, 10*, 69–82.

Buckley, P. J. ,& Casson, M. C. (1976). *The future of multinational enterprise.* London: Macmillan.

Bureau of National Affairs. (1991). *Downsizing: creative approaches to corporate change.* Washington, D.C.: Bureau of National Affairs.

Carroll, A. B. (1981). *Business and Society: Managing corporate social performance.* Boston, MA: Little, Brown and Company.

Carroll, A. B., & Buchholtz, A. K. ( 2003). *Business & society. Ethics and Stakeholder Management* (5th ed.). Mason, Ohio: Thomson, South-Western.

Carroll, A. B., & Näsi, J. (1997). Understanding stakeholder thinking: Themes from a Finnish conference. In M. B. E. Clarkson (Eds,), *The Corporation and Its Stakeholders. Classic and Contemporary Readings* (pp. 71–80). Toronto: University of Toronto Press.

Cascio, W. F., Young, C. E., & Morris, J. R. (1997). Financial consequences of employment-change decisions in major U.S. Corporations:*Academy of Management Journal,* 40, 1175–1189.

*CNN.* (2004, February 13). Levi Strauss closes last two U.S. plants. Retrieved from www.cnn.com/2004/US/Southwest/01/08/levi.s.closing.ap/.

De George, R. T. (1993). *Competing with Integrity in International Business.* New York, NY: Oxford University Press.

Devinney, T. M., Midgley, D. F., & Venaik, S. (2000). The optimal performance of the global firm: formalizing and extending the integration-responsiveness framework. *Organization Science, 11*, 674–695.

DeWitt, R-L. (1993). The structural consequences of downsizing. *Organization Science, 4*, 30–40.

*digitoday.* (2001, October 26). Flextronics vähentää 10 000 työntekijää. Retrieved February 2, 2004, from http://www.digitoday.fi/page.php?page_id=66&news_id=20016224

*digitoday.* (2002, January 24). Flextronics kasvatti tulostaan ja vaihtoaan. Retrieved February 2, 2004,

from http:// www.digitoday.fi/showPage.php?page_id=10&news_id=21642
*digitoday.* (2002, August 18). Flextronics irtisanoo yli 5 000 työntekijää. Retrieved February 2, 2004, from http://www.digitoday.fi/showPage.php?page_id=10&news_id=7632
*digitoday.* (2002, September 11). Flextronics lopettamassa Suomesta jopa 300 työpaikkaa. Retrieved February 2, 2004, from http://www.digitoday.fi/showPage.php?page_id=10&news_id=12328
*digitoday.* (2003, June 5). Flextronics irtisanoo 130 Hämeenkyröstä. Retrieved February 2, 2004, from http://www.digitoday.fi/showPage.php?page_id=10&news_id=2042
*digitoday.* (2003, August 21). Flextronics esittää Hämeenkyrön sulkemista..Retrieved February 2, 2004, from http:// www.digitoday.fi/showPage.php?page_id=10&news_id=547
Donaldson, T. (1989). *The Ethics of international business.* New York, NY: Oxford University Press.
Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence and implications. In M. B. E. Clarkson (Eds.), *The Corporation and Its Stakeholders. Classic and Contemporary Readings* (pp. 173–203). Toronto: University of Toronto Press.
Doz, Y. (1976). *National policies and multinational management*. Unpublished Doctoral Dissertation. Boston, MA: Harvard Business School.
Doz, Y. (1980). Strategic management in multinational companies. *Sloan Management Review, 21*, 27–46.
Doz, Y. L., & Prahalad, C. K. (1991). Managing DMNCs: A search for a new paradigm. *Strategic Management Journal, 12*, 145–164.
Dunning, J. H. (1977). Trade, location of economic activity and the multinational enterprise: A search for an eclectic approach. In B. Ohlin, P. Hesselborn & P. Wijkman (Eds.). *The International Allocation of Economic Activity.* London: Macmillan.
Evan, W., & Freeman, R. E. (1988). A stakeholder theory of the modern corporation: Kantian capitalism. In T. Beauchamp & N. Bowie (Eds.), *Ethical Theory and Business* (3rd ed.). Englewood Cliffs, NJ: Prentice-Hall.
Freeman, R. E. (1984). *Strategic management: A stakeholder approach.* Boston, MA: Pitman.
Freeman, S. J., & Cameron, K. S. (1993). Organizational downsizing: A convergence and reorientation framework. *Organization Science, 4*, 10–29.
Freeman, R. E., & Gilbert, D. R. (1987). Managing stakeholder relationships. In S. P. Sethi & C. M. Falbe (Eds.) *Business and Society: Dimensions of Conflict and Cooperation*. Lexington, MA: Lexington Books.
Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic Management Journal, 8*, 425–440.
Ghoshal, S., & Nohria, N. (1993). Horses for courses: Organizational forms for multinational corporations. *Sloan Management Review, 34*, 23–35.
Gordon, G. (1991). Industry determinants of organizational culture. *Academy of Management Review, 16*, 396–415.
Guvenli, T., & Sanyal, R. (2002). Ethical concerns in international business: Are some issues more important than others? *Business and Society Review, 107*, 195–206.
Harzing, A. W. (2000). An empirical analysis and extension of the Bartlett and Ghoshal typology of multinational companies. *Journal of International Business Studies, 31*, 101–120.
*Helsingin Sanomat Newspaper.* Dates specified in the text.
Johansson, J., & Yip, G. (1994). Exploiting globalisation potential: U.S. and Japanese strategies. *Strategic Management Journal, 15*, 579–601.
Johnson, J. (1995). An empirical analysis of the integration-responsiveness framework: U.S. construction equipment industry firms in global competition. *Journal of International Business Studies, 26,* 621–635.
Kujala, J. (2001). Analysing moral issues in stakeholder relations. *Business Ethics: A European Review, 10*(3), 233–247.
Kujala, J. ,& Kuvaja, S. (2002). *Välittävä johtaminen. Sidosryhmät eettisen liiketoiminnan kirittäjinä.* Helsinki: Talentum.
Kogut, B. (1989). Research notes and communications. A note on global strategies. *Strategic Management Journal, 10*, 383–389.

Lawrence, P., & Lorsch, J. (1967). *Organization and environment.* Boston, MA: Harvard Business School Press.
Lee, E. (1997). Globalization and labour standards: A review of issues. *International Labour Review, 136*, 173–189.
Martinez, J., & Jarillo, J. (1991). Coordination demands of international strategies. *Journal of International Business Studies*, *22*, 429–444.
Mintzberg, H. (1989). *Mintzberg on management.* New York, NY: The Free Press.
Moore, M. (1996). *Downsize this!* New York, NY: Crown Publishing Group.
Näsi, J. (1995). What is stakeholder thinking? A snapshot of a social theory of the firm. In . J. Näsi (Ed.), *Understanding Stakeholder Thinking* (pp. 19–32). Helsinki: LSR-Publications.
Näsi, J., Näsi, S., Phillips, N., & Zyglidopoulos, S. (1997). The evolution of corporate responsiveness. *Business & Society*, *36*, 296–321.
Perlmutter, H. (1969). The tortuous evolution of the multinational corporation. *Columbia Journal of World Business*, January-February, 9–18.
Prahalad, C. (1975). *The strategic process in a multinational corporation.* Unpublished Doctoral Dissertation. Graduate School of Business Administration. Boston, MA: Harvard University.
Prahalad, C. K., & Doz, Y. (1987). *The multinational Mission: Balancing Local Demand and Global Vision.* Free Press: New York, NY.
Reynolds, S. J. (2003). A single framework for strategic and ethical behavior in the international context. *Business Ethics Quarterly, 13*, 361–379.
Roth, K. ,& Morrison, A. (1990). An empirical analysis of the integration-responsiveness framework in global industries. *Journal of International Business Studies*, *21*, 541–564.
Stopford, J., & Wells, C. Jr.(1972). *Managing the multinational enterprise: Organisation of the firm and ownership of the subsidiaries*. New York, NY: Basic Books.
Taggart, J. H. (1998). Configuration and coordination at subsidiary level: Foreign manufacturing affiliates in the UK. *British Journal of Management*, *9*, 327–339.
*Talouselämä Magazine.* Dates specified in the text.
*Taloussanomat Business Paper.* Dates specified in the text.
Teollisuuden ja työnantajain keskusliitto. (2001). *Yrityksen yhteiskuntavastuu. Työvälineitä itsearviointiin ja oman toiminnan kehittämiseen.* Helsinki: TT.
Uchitelle, L., & Kleinfield, N. R. (1996, March 3). On the battlefield of business, millions of casualties. *New York Times*, *1*, 14–16.
Unseem, M. (1993). *Executive defence: Shareholder power and corporate reorganization.* Cambridge, MA: Harvard University Press.
*U.S. Department of Justice.* (2004, February 19). United States District Court for the District of Columbia. Retrieved from http://www.usdoj.gov/atr/cases/f3800/msjudge.pdf
Vernon, R. (1966). International investment and international trade in the product cycle. *Quarterly Journal of Economics*, *80*, 190–207.
Wheeler, D., & Sillanpää, M. (1997). *The stakeholder corporation.* London: Pitman.
Yin, R. K., (1984). *Case study research. Design and methods.* Beverly Hills, CA: SAGE.
Zyglidopoulos, S. C., (2002). The social responsibility and environmental responsibilities of multinationals: Evidence from the Brent Spar case. *Journal of Business Ethics*, *36*, 141–151.

# ANCIENT POETS AND PROPHETS SPEAK FOR THE CONSUMERS INTERCULTURAL DIALOGUE ON TRADITIONAL WISDOM AND VALUES

**Anand Amaladass**
Satya Nilayam Institute of Philosophy and Culture, Chennai, India

**Abstract:** While concepts like human rights, democracy, ecology, consumer forum, etc. are well developed in the West, the response from Asian countries has been rather ambiguous, tending towards uncritical and unsuitable imitation of Western norms or outright rejection of anything coming from outside. Clearly, even if the impulse comes from outside, the real change in attitudes and value perceptions can only take place only from within the society itself. Referring to the native wisdom tradition is a way of building bridges that assures self-confidence that the new concepts are not unknown to the ancients. So a meaningful interaction on an equal footing is thereby possible. This paper refers to values from Tamil traditional wisdom that may shed light on social marketing, in today's human interaction. This is also linked to the notion of spirituality, with its foundations in the historical consciousness of human beings.

**Keywords:** inter-cultural dialogue, spirituality, values, tradition, advertising

## WHAT IS SOCIAL MARKETING?

It is said that social marketing came into existence as a discipline in the 1970s, when Philip Kotler and Gerald Zaltman realized that the same marketing principles used to sell products to consumers could be used to "sell" ideas, attitudes and modes of behavior within society (Philip & Eduardo L. Roberto, 1989). This technique is currently employed for health programs, such as drug abuse, heart disease and organ donation.

In commercial marketing the primary focus is on the consumer. The intention is to persuade consumers to buy what we happen to be producing. Social marketing on the other hand is not trying to persuade consumers to buy products. It seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and society in general (Weinreich, 1999). As in all forms of marketing, the techniques of advertising are employed to communicate the message to the audience and to achieve the desired result – in terms of sales or other outcomes. However, with social marketing, advertising is used to promote, not products, but basic values which should guide human interaction. As such, Kotler and Andreasen define social marketing as "differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization." Looking at the ancient literature of Tamil society in South India we can see the beginnings of social marketing in the way basic values were upheld by the poets, the conscience-keepers of ancient consumer society.

### *"Advertising" Values through Poetry from Tamil Wisdom Literature*

Terms like marketing, consumer, and advertising are clearly not of the ancient world, but the reality denoted by these terms was not unknown to early human society. That is to say, people were interacting with one another, selling and buying goods, negotiating and protesting in their own way to achieve a desired goal. While in a typical monarchical society consumers could not protest, nevertheless there were some social leaders, like the prophets of Biblical times, who could tell the rulers when things were going wrong.

Puranaanuuru – is an anthology of 400 poems of varying length in the Tamil literary tradition. They are ascribed to 157 poets with 14 poems left anonymous. The puram genre deals with issues of public life, mostly praising heroism; 138 stanzas commend 43 kings belonging to the three Tamil dynasties (Chera, Cola, & Pandya); 141 stanzas praise 48 chieftains; there are also poems on widowhood, elegies, gnomic verses, and some of a philosophical nature. They are all dated prior to 200AD; with some stanzas perhaps dating from the pre-Christian era. The first printed edition by U.V. Swaminatha Iyer was published in 1894 in Madras (Zvelebil, 1995, p. 581).

In the ancient Tamil world the poets were the articulate bearers of honor and blame. It was they who had the power to counsel, to sneer, to curse, to make peace and to point to the vanity of human endeavors. In the puram poems dealing with public life, we see a society geared to the values of war, to fashioning a warrior “like a chariot wheel”. Honor, fame and a good name in life or in death were what men sought. For their part, the poets kept up the morale of warriors by singing their past ancestors in genealogies, the gore and smoke of present battle and of the wealth soldiers would share if they survived or the great posthumous honor if they did not (Ramanujan, 1985, p. 291).

It was the business of the bards to keep honor alive, they were the censors and mirrors, the memories and superegos of the heroic milieu. They were the custodians and transmitters of past history, and carried the good name of creative men and women into the future. The following poem from Purananuru (184) by Picirantaiyar speaks in a parable how the king should not tax his subjects excessively. Indiscriminate taxation and expenditure is to the detriment of the people and the kingdom just like the entry of an elephant into the paddy field before it is ripe, satisfying neither the farmer nor the elephant’s appetite. On the contrary, the King should use discretion in collecting revenues in proportionate measure (Mudaliyar, 1959, 43-45).

***The Trampling Elephant***

Cut the paddy corn, when it is ripe,
And make it into balls of rice,
And the yield of a small field, barely a fraction of a cent,
Will feed an elephant for many a day
But if the brute should step into a field,
And trampling eat,
Even a hundred acres will not serve,
For the feet will spoil more than the mouth could eat.
So, if a wise king levies his taxes justly,
His kingdom will yield him millions,
And will greatly prosper as well.
But, if weak and thoughtless, he gathers around him,
Day after day a crowd of noisy courtiers,

Foolish and flattering, and unjust to a degree,
And avidly wrings his uttermost,
Losing his people's love –
Then,
He is sure to be starved of his riches,
And like the elephant-trampled field,
His kingdom too will be ruined.

***Kings at War***

The poet Nettimaiyar addresses King Peruvaluti in a poem of the Purananuru (12) collection. He questions the wisdom a king who is so generous to his supporters but so unjust in dealing with others (Ramanujan, 1985, p. 113).

Your bards are wearing lotuses of gold
And the poets are getting ready to ride
Fancy chariots drawn by elephants
With florid brown-shields:
Is this right,
O Lord rich in victories,
This ruthless taking
Of other men's lands
While being very sweet to protégés?

***A Poet's Counsel to Warring Clansmen***

In the Purananuru collection of poems no. 45 (Ramanujan, 1985, p. 121) the poet Kovur Kilar speaks to the warring kings Netunkilli and Nalankilli. He points out the futility of their actions and asks them to reflect before they launch a battle on the neighboring territory.

Your enemy is not the kind who wears
the white leaf of the tall palmyra
nor the kind who wears garlands
from the black-branched neem trees.
Your chaplets are made of laburnum,
your enemies are made of laburnum too.

When one of you loses
the family loses,
And it is not possible
for both to win.
Your ways show no sense of family:
They will serve only to thrill alien kings
Whose chariots are bannered,
Like your own.

***This World Lives Because***

In the following poem (Purananuru 182) the poet Katalul Maynta Ilam Peruvaluti sings in praise of selfless humanitarian benefactors. This poem speaks of values such as concern for the needy, reconciliation and self-respect that sustain any society (Ramanujan, 1985, p. 157).

*This world lives*
*Because*
Some men
Do not eat alone,
Not even when they get
The sweet ambrosia of the gods;
They've no anger in them,
They fear evils other men fear
But never sleep over them;
Give their lives for honor,
Will not touch a gift of whole worlds
If tainted;
There's no faintness in their hearts
And they do not strive
For themselves.
*Because such men are,*
*this world is.*

***Why Do We Look Back to Ancient Wisdom Traditions?***

Our concern today is consumer rights within the context of business ethics. While we often take such terms unquestionably, it is important to realize that the values implied in such terms, come from distinct philosophical and cultural backgrounds with their own pre-suppositions. Similarly, terms like human rights, democracy, ecology and equality are also product of a specifically Western tradition. For example when human rights were formulated by the United Nations it did not take into account the implications of concepts of human nature from other cultures — such as the Chinese Ren or Indian Purusha.

Increasingly Asian countries are trying to grapple with these concepts within their own cultural parameters. It does not mean that they were previously unaware of these values or opposed to them, yet they try to discover the shared dimensions implicit in their own traditions. These become explicit or thematic in the course of time. In India for example, we are trying to use the Western concepts to interpret Indian traditions. One can see any number of publications like Vedic hermeneutics, Vedic ecology human rights watch towers, interfaith dialogue etc.

To provoke a meaningful response from Asian audiences it is important to first refer to local cultural heritage. One cannot talk casually of democracy, business ethics, consumer rights, human rights etc. because such concepts presuppose a society which has a sense of these values and is capable of responding in a meaningful way. For a society which has been subject to centuries of colonial rule and other authoritarian regimes — either politically or through caste hierarchy as in the case of India —it may not respond as expected. The concepts assume a society which enjoys a sense of economic and social security and freedom for people to act. However often the psyche is so conditioned that people are inclined to take uncritically what is being offered even if they perceive injustice. One of my friends in charge of food quality control for example, said that it is easier to do his job in India simply because people are so reluctant to protest. It seems that in this context, many people are willing to accept such difficulties as fate or as karma.

Similarly, just as democracy presupposes a certain level of awareness of the available choices from which citizens can articulate their needs, so also in a world of business contracts, one expects people to perceive the fundamental workings of the contractual obligations and their implications. They must be aware of their rights and simultaneous duties, and also be aware of the responsible and available means of protest when their rights are violated.

Appealing to ones cultural past and human dignity awakens a sense of self-respect and a sense of pride. Our sense of identity is strongly influenced by our understanding of our past, with the shared history of the members of a particular group to which we belong and with which we identify. Referring to the native wisdom of each locality is thus a way of building bridges that assures confidence but the new concepts are not unknown to the ancients.

***Historical Consciousness and Spirituality***

The notion of historical consciousness is very much related to the notion of spirituality. An awareness of one’s social nature and responsibility towards others is one of the most important implications of historically conscious spirituality. Human beings are not isolated individuals, but their thinking is colored by the accepted language, images and concepts of the society that shapes them. This awareness has caused a shift from a private relationship with God to a stress on human relationships and community in spiritual growth. It also led some to reinterpret asceticism not simply as rejection of earthly possessions and comforts, but rather as a process of discerning legitimate human needs and enjoyment with an eye to a more just distribution of goods.(Nuth, 1993, p. 478).

The notion of spirituality is in turn very much related to ethics and morality. In the Christian spiritual traditions there were differences between the East and the West - the Eastern stress on liturgy and resurrection and the Western stress on moral doctrines, original sin and the passion of Christ. But recent trends have enriched the theological context of studies in spirituality. Joann Wolski Conn has noted five distinct trends: “sustained attention to feminist issues, concern for the link between prayer and social justice, reliance on classical sources for answers to current questions, recognition of the value of developmental psychology and its understanding of the ‘self’ and agreement that experience is the most appropriate starting point”(Conn, 1989, p. 31). These currents in the studies on spirituality opened the way to the greater use of new philosophies, hermeneutics, linguistics, anthropology, aesthetics, psychology, sociology, political science and economics.

Such an interdisciplinary approach is needed to deal with concerns such as poverty and world peace. It is not merely economic factors that keep people poor. People will remain poor if they do not have any sense of the future, are not able to plan their life and live accordingly, with self-confidence and self-respect. Poverty is not a problem of economics alone but also with the philosophical outlook of the people concerned. The fisher-folk communities in India for example spend lavishly on celebrations affecting their families and future savings. They justify this by saying, “what one earns from the water must be spent like water." But if that is their philosophy, it may be difficult for others to help them.

## CONCLUSION

People have always differed about what rights are. If one asks an ordinary person on the street "what is 'right'?" she or he will be stumped to give an answer. They may know what it is to trample on someone's rights, or to have his or her own rights denied or ignored by others. But what exactly is it that is being violated or wrongly denied? Is it something one acquires or inherits at birth? Is it some essential characteristic of a human being or is it something which someone has given us? Can rights be conferred? Can they be taken away? How do we know what such rights are? Such questions are raised only by philosophy, not by political scientists or sociologists (Magee, 1978, pp. 3-4).

The basic question addressed here is about inter-cultural dialogue and the East-West encounter. How one builds effective relationships which value one's own cultural heritage while remaining open to new ideas. The impulses coming from outside provoke and invite people to look deeper into their own traditions and cultural heritage. This process enables one to discover dimensions of one's own culture that perhaps were not explicit previously. This sort of dialogue should become a way of life for all, not an optional extra. One cannot afford to be isolated, absolutizing one's own tradition, nor is it beneficial to float about without being rooted in some tradition.

## REFERENCES

Conn, J. (1989). *Spirituality and personal maturity*. New York, USA: Paulist Press.

Hsiang-Lin, L. (1968). On the voyage of Soli Samudra Chola's envoy to China in AD 1015. *Proceedings of the First International Conference Seminar of Tamil Studies* Vol. 1. Kaula Lumpur, Malaysia: International Association of Tamil Research.

Kotler, P. & Roberto E. L. (1989). *Social marketing, strategies for changing public behavior.* New York, USA: The Free Press.

Magee, B. (1978). *Men of ideas: Some creators of contemporary philosophy. Dialogue with fifteen leading philosophers.* London, UK: Oxford University Press.

Mudaliyar, B. R. (1959). *The golden anthologies of ancient Tamil literature.* Vol.I. Madras, India: The South India Saiva Siddhanta, Works Publishing Society Tirunelveli.

Nuth, J. (1993). History, historical consciousness. In M. Downey (Ed.), *The New Dictionary of Catholic Spirituality* (pp. 476-479). Collegeville, Minnesota, USA: The Liturgical Press.

Qizhi, Zhang (Ed.) (2004). *Traditional Chinese culture*. Beijing, China: Foreign Languages Press.

Ramanujan, A.K. (1985). *Poems of love and war* from the eight anthologies and the ten long poems of classical Tamil. Selected and translated. New York, USA: Columbia University Press.

Subramanian, T. N. (1978). A Tamil colony in Medieval China. In R. Nagaswamy (Ed.), *South Indian Studies* (pp. 1-52). Madras, India: Society for Archaeological Historical and Epigraphical Research.

Weinreich, N. K. (1999, February 1). *What is social marketing?* Retrieved March, 2007, from http://www.social-marketing.com/Whatis.html

Zvelebil, K. V. (1993). *The poets of the powers*. California, USA: Integral Publishing.

Zvelebil, K. V. (1995). *Lexicon of Tamil literature.* Leiden, Netherlands: E. J. Brill.

# IMPLEMENTING CORPORATE EXTERNAL SOCIAL RESPONSIBILITY STRATEGIES THROUGH ORGANIZATIONAL DESIGN AND OPERATION

**Songbai Liu and Lu Liu**
MBA Education Center, Beijing Normal University, Beijing, China

**Abstract:** This article focuses on how to implement a company's social responsibility, especially responsibility to external stakeholders, through the design of its internal organizational structure. We use the example of Starbucks which has actively taken on such initiatives through its CSR department, and conclude that a dedicated internal organizational agent should be established to implement the CSR strategy. We also discuss the current situation of CSR practice among Chinese and foreign companies, and explore the definition, scope and formation of CSR in theory. Finally, we give our recommendations to Chinese companies in different phases on how to implement CSR.

**Keywords:** corporate social responsibility, CSR department, external stakeholder engagement

## CSR PRIORITIES OF CHINESE FIRMS

Interpretations of Corporate Social Responsibility (CSR) take various forms. With the increasing engagement with the concept, both from the public and the corporation itself, CSR has spread its influence across all manner of organizations. CSR can be regarded as based on certain moral standards derived from the corporation's obligations to all stakeholders in society, external (to employees and shareholders) and internal (to customers and environment). Thus, what these moral standards should be, who are the stakeholders, and what kind of responsibilities corporations should accept are all questions which need to be discussed.

A recent survey from the Development Research Center of the State Council (DRC) covering 4580 companies showed that Chinese companies are beginning to agree on the importance of CSR. However, Chinese companies in general pay more attention to shareholders and employees than to engaging external stakeholders. Moreover, even though recognition of internal CSR is growing in China, implementation is still poor in Chinese and foreign owned enterprises operating in China.

As external CSR attracts more and more publicity, it will have to be given increasing priority by corporate leaders. For a corporation's external stakeholders, such as customers, wider society, and the government, the primary focus is their observable external performance, covering not only financial performance, the quality of goods and services that they provide, but also their responsibilities for the public good including the community and environment.

As Michael Porter indicated (2006) "CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage." Whatever phase of development a company is in, whether growing rapidly or just starting out, they should have the sense to see that using CSR is a smart strategic tool to win. Due to the importance of CSR, especially external CSR, we argue that, no matter what strategies companies are adopt, an agent of implementation within the organization should be established to act as the main coordinator for dealing with CSR issues, internal and external.

***Multi-Nationals' CSR Experience***

In the past decade, multinational giants, such as Starbucks, Nike and Shell, have all encountered public condemnation and targeted smear campaigns ranging from environmental protection to labor rights groups. While many of those criticized were in fact far ahead of their competitors in upholding their moral obligations, the negative press further 'compelled' these companies to act in a socially responsible manner or face repercussions in the market. When challenged by lobby groups, these companies did not panic but instead, took decisive steps to improve their global image. For instance, in Starbucks' case, partnering with the non-profit Conservation International to promote water and soil conservation, crop diversification, and chemical fertilizer reduction, or Nike's concessions to human rights activists over labor standards, having originally denied having any problem at all.

Other MNCs have learned from the experience of the above firms and have taken steps to conform to the CSR expectations of their stakeholders. However, some critics complain that these companies lack sincerity and only pay lip-service to the concept. Others say that social donations and sponsorship activities which have been undertaken are only to enhance profitability of the companies. In our opinion, where companies behave in this way, it is because of the lack of awareness of business and social morality among the managers inside the companies.

***Increasing Corporate and Public Awareness of CSR in China***

As stated, in terms of CSR issues Chinese companies are mainly at the initial stage. Most of them prioritize internal CSR initiatives focused on employee safety and health, obeying labor laws and training employees. According to the survey, many of them see CSR as a way to solve employees' grievances and make profits for shareholders. Some companies did not even take employees' safety seriously, an attitude particularly common in the mining industry.

Regarding external social responsibility, companies (no matter Chinese or foreign) have tended to fulfill their obligations through sponsoring, participating in, advocating and initiating activities and investments in education, charity, public health, environment and conservation and cultural areas, etc. In the 2005 competition for the most responsible companies in China, Baosteel won the prize for its work on employee' safety and health and sponsoring elementary education, China Ocean Shipping (Group) Company (COSCO) won for its contributions to charity, HP China won by recycling the printing material and supporting distant internet education, Shell won by protecting historic culture and exploiting new clean energy, PING AN Insurance won by donations to the Red Cross, and Nokia by sponsoring culture events and advocating conservation.

In addition, public awareness and media activities are now increasing rapidly, and in certain circumstances, this helps companies implement and take on their social responsibilities. Recently, there have been discussions and competitions from media and institutions about CSR to set benchmarks for companies and to reveal illegal and immoral cases. According to one social survey conducted by China Business Press, 81.13% of respondents paid attention to the idea of CSR, especially the elderly and those with above-average incomes. In another survey, nearly 60% of participants said that companies should take responsibility for food safety, public safety and environmental protection. A further 60% thought companies should publish an annual social responsibility report, especially those in the pharmaceutical and food industries. Thus, we can see the enhancing effect of monitoring and recommendations from the public.

To conclude, we would argue that it is very helpful for us to learn from the experience of benchmark companies particularly regarding their internal structures and how they fulfill their commitment to society, including how they promote awareness of CSR among stakeholders so as to prevent an unfavorable reputation.

***Theoretical Debates***

In his article "The Social Responsibility of Business is to Increase its Profits, The New York Times Magazine, September 13, 1970" Milton Friedman's argument about the definition of corporate social responsibility was taken up by many companies, as it catered to the interests of the companies' internal stakeholders, especially shareholders. He stated that, "there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game…" In our view, what Friedman argued was not "social" responsibility but corporations' responsibility to their owners i.e. shareholder value. He expressed this view at a time when media coverage of corporations' activities was less extensive than at present.

Today, some argue it is possible to pursue profit-creation while fulfilling their social responsibilities. Prahalad and Hammond in "Serving the World's Poor Profitably, Harvard Business Review, HBRORG, September 2002" argued that corporations can serve the poor while making money. They produced statistical evidence in their book "The Fortune at the Bottom of the Pyramid" to support the view that under-developed countries like China, India, Brazil and South Africa have a huge pool of potential demand that can provide big profits for companies. Their arguments combined external stakeholder interests and the drive of companies to satisfy their customers and achieve profits and social responsibility.

Furthermore, strategy 'Godfather' Michael Porter (Porter & Kramer, 2006) summarized four prevailing justifications for CSR – moral obligation, sustainability, license to operate and reputation. He also mapped the social impacts along the value chain of one business, from internal human resource management to external outsourced logistics, clearly showing the interdependence of a company and society on every chain. Though he did not distinguish between external and internal responsibilities, the framework provides companies a means to carry out social responsible practices and show that the leaders possess business morality.

In sum, arguments from Friedman emphasized only the objective of companies, being to make profits. And some companies adopted this viewpoint enthusiastically, ignoring moral principles which would harm stakeholder interests. In China for example, there are a lot of stories about fake goods and low-quality products hurting customers, polluting the environment without correctly processing the waste and hiring illegal labor for long hours of work, etc. To overcome the problem, the first step is to raise awareness of the manager's sense of morality. Education should be conducted through the media and other institutions such as business schools, as well as business and community organizations. A system should also be established to ensure effective compliance.

***Corporate Social Responsibility Departments and their Role in the Organization***

Social responsibility was always an important tenet for Starbucks. It has a long history of contributing and giving back to the community. Since 1991, Starbucks has contributed $1.8m to the international relief and development nonprofit, CARE, to support its community development projects such as promoting literacy and clean water supplies in coffee origin countries. And in 1999, Starbucks founded its Corporate Social Responsibility (CSR) department "to oversee Starbucks' involvement in literacy programs, community volunteering, environmental affairs, shade-grown coffee, and international relief efforts" (Austin, 2004).

In Starbucks, CSR served two roles "across the whole company" according to CSR's senior vice-president. First, before any public decisions were made, it communicated with all the relevant departments such as coffee purchasing, supplying and marketing, about steps to bring social responsibility awareness center stage in the decision-making process. The second role was "to make sure we do what we say we are going to do". As such, the CSR department was to follow up the results with each department and publish what they had committed to do. As their 2006 annual CSR report indicated they had several ongoing projects such as purchasing Fair Trade coffee crops, which had been started in 2005 (www.starbucks.com/csr). By the end of 2006, two of them had been fulfilled and the rest were in progress.

In addition, Porter and Kramer (2006) suggest "value chain and competitive-context investments in CSR need to be incorporated into the performance measures of managers…" That is to say, within the organization, there should be an assessment system to take on measuring the CSR practices. Starbucks gives us a very good example of how to run this system as one of the important supporting activities traditionally like human resource management, finance acting in relatively almost every other department. And it should be directly overseen by one of the vice presidents. The decision making processes go along with the other operation flows with the focus of influencing each other.

Nowadays, there are more and more companies, especially multinationals, establishing dedicated CSR department inside their organizations. Some of them assign CSR issues to their Public Relations (PR) departments instead of having a single CSR department. In this case, the PR department takes the responsibility of implementing CSR to ensure compliance intentionally and morally from inside. A separate CSR department is not always suitable for every organization, for instance a company still growing with few employees.

***CSR Department's Involvement in Different Stages of Chinese Companies***

Chinese companies are now at a low level of awareness and practice. Few of them publish social responsibility reports. Some of them passively take on activities non-systemically. More of them lack business morality and are against the principle. Hence, it is difficult to give solutions or recommendations to every kind of company. In our analysis, we generally divided our solutions according to the three different developing phases for companies implementing CSR.

The first one is the entrepreneur's CSR awareness at the initial stage of a company. CSR might not be the main focus in this stage, but we do stress its importance especially for companies that want to develop rapidly and grow sustainably. Various resources are applied and explored at that period in terms of the social moral standard, at least to avoid harming society and the environment. The second phase is the allocation of CSR at the growing stage. With a growing corporate structure and increase of business activities, it is not easy to have a specific employee or department to deal with CSR issues. However, it is important for all leaders in each department to guide their teams to implement CSR. Departments with external responsibilities, such as purchasing and marketing, should be empowered to take independent action when necessary to address CSR issues as they arise. In the third phase, when a company has reached a mature stage, it can establish an independent department to deal with CSR issues pro-actively. Like other supporting departments, under the direct supervision of a vice president of the company, CSR department can liaise with other departments in their communication with the outside. A recent case in China is Han Bo, a garment manufacturer in Zhejiang Province which has set up a dedicated CSR Department. It is hoped that more and more companies will be encouraged by the Han Bo example to adopt the correct business values and enhance their reputation with the general public.

## CONCLUSION

In conclusion, we would like to highlight the importance of establishing a CSR department as a strategy to ensure that the company's business managers act in compliance with a common value system based on a high sense of business morality. Only through by considering all stakeholders, will a company be able to sustain profitability over the long term. Chinese companies at the growing stage should take steps to avoid generating a bad image in the public eye. Instead they should consciously comply with social moral standards, establishing CSR department or teams to behave as good corporate citizens. When all the managers and staff act according in accordance with common social interests then there will be no need for special departments to carry out CSR issues. Such a company can then follow the advice of Michael Porter and look to its performance of Corporate Social Responsibility as a competitive advantage with which to leverage ongoing success.

## REFERENCES

Austin, J. E. & Reavis, C. (2004, *May 1*). Starbucks and conservation international. *Harvard Business School,* 9, 303-055.

Development Research Centre of the State Council. (2007). *Chinese entrepreneur survey system: Entrepreneurs' perceptions of CSR - 2007 Growth and Development of Chinese Entrepreneurs Report.* Beijing: China Machine Press.

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine.*

Jin, B. & Li, G. (2006). The preliminary public investigation report of corporate social responsibility. *Xin Hua Wen Zhai*, vol. 9. Retrieved from http://xhwz.qikan.com/

KM100. (2006, April). *The public survey & evaluation report of corporate social responsibility*. Retrieved from http://www.km100.com.cn/surveycool/

Porter, M. E. & Kramer, M. R. (2006). Strategy and society, the link between competitive advantage and corporate social responsibility. *Harvard Business Review,* December. Retrieved from http://hbr.harvardbusiness.org/2006/12/strategy-and-society/ar/1

Prahalad, C.K. & Hammond, A. (2002). Serving the world's poor profitably. *Harvard Business Review,* Retrieved from http://hbr.harvardbusiness.org/2002/09/

Starbucks. (2006). *Corporate social responsibility 2006 complete report*, Retrieved from http://www.starbucks.com/aboutus/FY06_CSR_FULL.pdf

# CONSENSUS ON GLOBAL GOVERNANCE PRINCIPLES?

**Peter Verhezen**
Department of Management & Marketing, University of Melbourne, Victoria, Australia

**Paul Morse**
Great Union Group Limited, Great Union Oil Investments Limited

**Abstract:** Is there a consensus on governance principles beyond national borders? There seems to be a converging trend towards widely accepted Global Governance Principles as expressed in the OECD Principles for example. This paper argues that formal and informal governance mechanisms should be integrated. The latter focuses on relationship-based enabling access to scarce resources – so typical in Asia - whereas the former emphasizes the control and monitoring function of boards as interpreted in the West. The Western legal interpretation of corporate governance merely implies fiduciary duties towards the shareholders. However, when this perception is expanded to acting with care in order to steer the corporation towards organizational value that embraces sustainability, governance will likely positively affect both shareholders and relevant stakeholders. Those global unifying governance principles may ultimately evolve into Global Corporate Citizenship, underpinned by spirited leadership and social entrepreneurship that induce trust in its leaders and confidence in functioning institutions. The notions of global governance and corporate citizenship are pointing in the direction of engaging, innovative and integrated business solutions that can start taking on and hopefully transforming our daunting global challenges.

**Keywords:** global governance principles, best governance practices, sustainable common good, corporate citizenship, engaged spirited leadership

*"I have learnt that if you want to have a global impact you can't ignore business. I don't mean corporate responsibility programs, but business models that provoke social change."*

Pierre Omidyar, Co-Founder of eBay (in Elkington et al, 2008: Preface)

*"In the middle of every difficulty lies an opportunity"* Albert Einstein

This paper aims to explore the possibility of finding a consensus across borders and cultures pertaining to certain "universal" corporate governance principles of what is considered as "good" for corporations to pursue. These Global Corporate Governance Principles – as expressed in the OECD good corporate governance principles[1] and promoted by the ICGN[2] - may possibly evolve into Global Corporate Citizenship, underpinned by spirited leadership and social entrepreneurship. These notions of governance and citizenship are pointing in the direction of engaging, innovative and integrated business solutions that can start taking on and hopefully transforming our daunting global challenges.

**GOVERNANCE PRINCIPLES, BEST PRACTICES AND FIDUCIARY DUTIES**

Governance is about power: who gets to exercise it and how it is exercised, and for what precise purpose. Global competition and recent corporate disasters have brought pressure for improved corporate governance to the forefront in the West as well as in the East. Global Governance refers to the creation and operation of rules at interstate relations, between multinational organizations and to the involvement of sub national and transnational participants (Stokke, 1997; Kahler & Lake, 2003) and it involves decision-making procedures and programmatic activities that serve to define social practices and to guide the interactions of those participating in these practices (Young, 1997). Institutions that govern economic relations cannot be confined to legal and formal institutions only (Stiglitz, 2001; Fuchs, 2007).

More specifically, the traditional agency theory of corporate governance sees the firm as a nexus of contracts between free and rational individuals optimizing their own interests (Friedman, 1970; Fama & Jensen, 1983; Jensen & Meckling 1976, Jensen, 1986; Lorsch, 2004). Corporate governance principles are justifiably considered as a needed check and balance system of top management of the firm who run the firm on behalf of the owners.

An alternative interpretation, however, indicates that a firm is a legal entity with rights and responsibilities just like a natural, civilized and compassionate, person emphasizing the overall reputation of a firm and responsibility to a number of stakeholders. Instead of a naïve belief in the single principal-agent theory and its exuberant laissez-faire model based on individual self-interest only, a multiple-principal-agent theory - quite often referred to as the stakeholder theorem (Jensen, 2002; Freeman, 1984; Donaldson, 1995 & 1996; Mintzberg, 2002; Clarke, 2007; Charan, 2005) - will have more chance to embrace necessary changes to address the global challenges. Hence, we will opt for a broader definition of good corporate governance, which takes into account the relationships between shareholders, their board members and top management on the one hand and the different stakeholders who could significantly affect the value of the corporation on the other hand. The fiduciary duty of acting with due care by the boards of directors to the shareholders and by corporate managers to the corporation is here broadened and embraces prudential considerations of how the relationship with other stakeholders could be affected by corporate decision-making. Hence, corporate governance can be defined as the interactions between coalitions of internal and external actors and the board members in directing and steering a corporation for value creation (Huse, 2007; Solomon & Solomon, 2004). A corporation can be seen as a bundle of resources and relationships that produce an output in the form of wanted or needed goods and services (Hillman & Dalziel, 2004; Hillman & Camella, 2000). The authors are compelled to underwrite the argument that the interests of stakeholders other than just shareholders could and should be taken into account provided that, as the Delaware high court phrased it rather delicately in a well-known case, there is "some reasonable relationship to general shareholder interests" (Dimma, 2002, p. 166) which nowadays is seen as mainstream corporate governance practices. The enhancement of stakeholder interests from a board perspective is defensible and necessary, especially if such an argument protects the best interests of the firm, even though such interests may appear incongruent with non-financial goals.[3] The subsequent debate is now raging as to what extent corporations should be indeed aspired to be fully fledged corporate citizens in a global village (Mirvin & Googins, 2006; Wallace & Zinkin, 2005).

Organizations, especially with an Asian background, have become more network responsive and have adapted and responded to complex and uncertain competitive environments with amazing ingenuity. Many

Asian, often family-owned, firms are concerned with long term growth and increasing market share, thus guaranteeing continuity and family prestige rather than the highest quarterly profit possible. In Asia therefore, governance mechanisms emphasize relationships giving access to a variety of different of resources. Such relationship-based or resource-based governance focuses on (a) the importance of agreements that are largely implicit, personal and enforced outside of courtrooms, and (b) characterized by close relationships between government, banks and businesses (Li, 2003; Low, 2004; Backman, 1999, 2003, 2004, 2008, Whu, 2005; Zhao, 2003). Whereas rules-based governance largely relies on publicly verifiable information and most transactions are based on impersonal and explicit agreement, enforced by impartial (state) institutions, relations-based governance largely relies on local information, i.e. mutually observable information by the two transaction parties monitored by informal power structures or community members, and is usually non-transparent, non verifiable and relation-specific (Li, 2003). The cultural and organizational characteristics to elevate the importance of certain socially acceptable behavior such as loyalty and close personal relationships in Asia may turn into cronyism which selects and favors some “in-group members” or even lead to outright corruption (Khatri, Johnson, Ahmed 2003; Tay & Seda, 2003). It seems that quite a number of Asian companies are implicitly concerned with community development though hardly in any formal or procedural manner since they underwrite and acknowledge the good relationships with external stakeholders and community members as a necessity to survive (Kidd & Fichter, 2003; Mahbubani, 2008; Roche, 2005; Verhezen, 2008b).

Most CEOs and directors in the West, however, are rightfully concerned with the changing expectations and increasingly critical demands of stakeholders and the associated risk that are affecting their corporate reputation. They are also aware that they, and not just the regulators, need to lead the way forward to address the increasingly complex global challenges. We can safely assume that good corporate governance principles as we understand them refer to and are concretely translated into an obligation of care – emphasizing ethical values and ecological soundness - and formal fiduciary duty of officers and directors – focusing on the economic value and profitability of the firm - that accommodate the shareholder value. Engaged businesses usually go beyond mere quarterly shareholder profitability expectations and aim at a longer-term sustainable value of an organization (Emerson, 2003; Mintzberg, 2002; Mobius, 2003).

Governance will not completely prevent misconduct or misdeeds, but it can actually improve the way a corporation is run. Ultimately, a company with good governance structures in place will attract talent, skilled management and investors who are willing to pay a premium for stockholding in a well-managed and transparent corporation. Meritocracy will likely lead to higher performances independent of its cultural origin, whether we are referring to companies such as Lenovo, Haier, Wipro, ICBC[4], Tata or Reliance[5] in emerging countries or to Cummins, Nokia, Ikea or Singapore Airlines in developed countries. Despite the growing importance of corporate governance practices, information in the areas of corporate ownership, structures, compositions, board practices, and compensation is still scarce (Mobius, 2003; Green, 2005). Furthermore, attempting to take a longer-term perspective is more often than not hindered by the financial community’s adamant and sometimes irrational overemphasis on the next quarterly financial results. Moreover, the lack of transparency and accountability not just in emerging markets but even up to Wall Street Institutions has become a major issue of public debate.

Since the corporate fiascos of Enron, WorldCom and Parmalat among others, some efforts have been made to implement stricter codes by individual organizations, backed up by stricter oversight control on transparent disclosure and accountability by the Sarbanes-Oxley Act (2002). Moreover, a number of corporate governance scholars and institutional fund managers seem to be convinced about a [Board of] "director primacy" (Bainbridge, 2008; Clarke, 2007; Lorsch & Clark, 2008; Neoh, 2003; Mobius, 2003; Rezaee, 2007). This post-Enron trend within governance practices tend to confirm that corporate power is slowly ebbing away from management towards the sometimes competing claims of shareholders and directors (Bainbridge, 2008). In addition, the current Sub-Prime Mortgage Crisis in the U.S.A. shows that the price to be paid for lacking transparency and accountability on the securitization process of mortgage loans has proven to be very costly in terms of loss of credibility, reputation, market share and value. It is unnecessary to mention that it is not the overzealous risk-taker but the tax-payer who will pick up this expensive bill. Similarly, the Asian Crisis of 1997[6] highlighted the inadequacy of systems of governance at the state level as well as at the corporate level.

A McKinsey survey (2001) has proven that foreign investors are willing to pay considerable premiums (between 20% up to 30% above the market stock value depending on the country of origin of investment) for companies in emerging countries which implement international recognized 'minimum' governance standards (Crist, 2003). However, there are no "best" or optimal systems of governance, but there are better practices. Indeed, it is acknowledged that a 'one size fits all' approach is unrealistic and often perceived as alien because experience has demonstrated that the Anglo-American capitalistic structures cannot be automatically transplanted or imposed globally. Nonetheless, investors can only be attracted to buy foreign shares if *basic standards of corporate governance principles*[7] at an international level are being adhered to.

Is it realistic to expect some global 'standardized' practices of an internationally accepted system of finance, investment and management? Many countries in South East Asia and China with insider-dominated systems have focused on improving the legal protection of minority shareholders, concentrating on improving corporate accountability by forcing companies to produce consolidated accounts and appropriate international accounting standards[8] and to encourage greater dispersion of equity ownership[9]. There is definitely a pressure towards global corporate governance compromises, implying that reforms in systems of corporate governance both in the West and in the East may focus on long-termism and accountability[10].

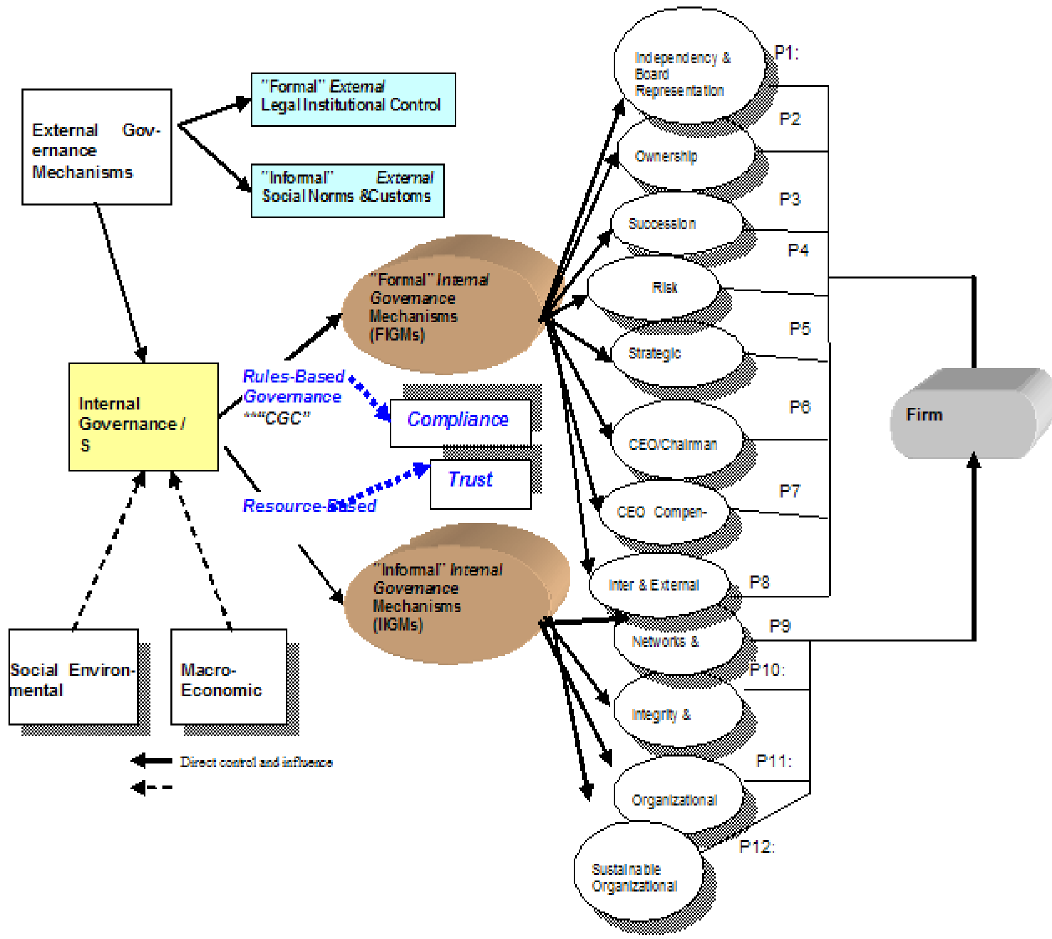


*FIGURE 1*

GUIDELINES FOR GLOBAL CORPORATE GOVERNANCE PRINCIPLES

The increasing "transnational" – across and beyond national borders – demand for more accountability and transparency unquestionably highlights the need for a virtual merger or compromises between the competitive market forces of the traditional Anglo-American systems of finance and control with the more long-term styles of relationship management and investment prevalent in the traditional insider systems of corporate governance in Asia and to a lesser extent in Europe (Bradley et al, 2000). The authors therefore suggest to integrate the outsider- and insider-dominated corporate governance approaches – or formal and informal governance mechanisms (Hu, Verhezen & Tan, 2009) - into a more unified framework of global corporate governance principles.

The continuing global ecological degradation, increasing income inequality and poverty gap and the insensible and often greedy and materialistic trend of irrational consumerism promoted and advertised by global corporations indicate that finding possible global solutions will remain a fallible process in continuous and piecemeal progress. The emerging giants of China and India are demonstrating that rapid growth may create massive costs in the process, such as large-scale environmental degradation and huge disparities between those who benefit from economic growth and those who are left behind. Not addressing these societal hazards and "externalities" will escalate the global discrepancies and cause dangerous friction and conflicts. It seems obvious that a surging triad of China, Russia and India – though their respective longer-term outlook may be just as highly uncertain as is the case of the developed world - will start playing a much more important role in determining the issues of global governance than before. It should be recognized that sovereign wealth funds – especially from China, the Middle East and Singapore along with considerable private investments from the emerging countries such as Russia, India and Mexico - have become important players in the international financial system.

Good governance principles are not characterized only by a set of Western-inspired rules and procedures. One reason that corporate challengers from emerging countries are particularly adept at creating and operating in such fluid organizations is their emphasis on trust, instead of mere procedures only, that functions as the glue for any business transaction. Although we may face a period of political and financial instability as a result of the changed world conditions in the near future, we can only hope for the emergence of a new and more responsible world order that is willing and able to address the global challenges in a caring and dutiful manner. The need for greater world governance, especially to manage "public goods" such as financial stability to contain dangerous systemic financial risks or environmental protection, has become obvious after the recent crises.

At the same time, one should avoid the current tendency to rely too much on government regulation that would certainly stifle any innovative and creative economic progress. There is a strong argumentation for self-enforcement of global agreements, although without strong institutional mechanisms to enforce rules, global policies or effective implementation of international agreements will falter (Stiglitz, 2001[11] & 2008). Responsible corporate behavior across national boundaries may be more easily instigated by voluntary - based on some consensus building and thus common sense among experts - and prerogative actions rather than coercion and mandatory or necessary laws. This consensus-building also implies a dialectical process between firms (which increasingly are taking the lead) and governments or regulators offering a prospect of convergence for a better well-being and well-fare of their respective citizens, based on common norms of governance. Standardized governance rules – to be distinguished from the more generic governance principles - are unlikely to be effective in countries where complementary laws exist only in part or not at all (Schneider, 2008; Young, 1997). Since there is a growing consensus on voluntary commitment to and adoption of Global Governance Principles into "best" practices, some pressure can be exerted by the market on countries to translate those into legally binding contextualized national rules and regulations.

At this point, implementing and translating governance principles into best practices supported and guided by an inspiring leadership (both at the private and public level) constitute the best bet to assist in creating a civil corporation that may evolve to a more spirited organization.

## INSPIRING LEADERSHIP, COMMON GOOD AND CORPORATE CITIZENSHIP BEYOND COMPLIANT BEHAVIOR

Corporations have amassed enormous power by their mere global reach and size. Global corporations play an increasingly important role in the economic and also socio-psychological life of citizens. Their financial, human, organizational and technological resources in combination with their ability to promote innovation and efficiency and to support decentralized governance with a global reach make these corporations important partners of global civility in the pursuit of public objectives (Fuchs, 2007) while it should be acknowledged that, at the same time, private economic interests and public interests frequently diverge.

The entrance of multinational or transnational corporations into international diplomacy will require top management to assess their relative bargaining power with governments, multilateral parties and NGOs, as well as to negotiate with foresight to retain their global and national credibility among their stakeholders (Henisz & Story, 2003; Wapner, 1997; Young, 1997). Corporations both in the West and in the East will have to take more and more responsibility in cooperation with governmental institutions in acknowledging the importance of a public and embracing some global common good beyond national borders as in a civic global corporation while pursing their private interests.

When accountability practices fail, individual rights quickly erode in the face of those in power pursuing personal agendas and enrichment over the common good which corrodes the trust of citizens, employees and consumers (Zadek, 2001). The absence of effective accountability mechanisms sometimes triggers societies and corporations to fail. The challenge is how to entrench accountability in principle *and* in practice as part of the common sense in a civilized society that embraces a well-functioning economic market system constrained and aligned by ethical, social and ecological objectives that create "shared value [that] will lead to self-sustaining solutions that do not depend on private or government subsidies. When a well-run business applies its vast resources, expertise and management talent to problems that it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization" (Porter et al, 2006: 14). Such a social good seen in a global context where diverse activities of a complex multifarious world are coordinated and institutionalized through governance mechanisms that limit (moral) hazards[12] and unwanted (ecological) externalities on a global interlinked scale can become a common good[13]. Although the current crisis and financial meltdown may have temporary undermined some of these lofty goals, one, nevertheless, will have to work out how to bridge the gap between public, private and civil society sectors and align these diverse objectives one way or another. Given the relatively short-term cycles of politicians in democracies but equally quarterly-result driven businesses, it will remain difficult and often conflicting to further the consensus building discussion on the social and ecological effect of particular (detrimental) behavior that would only be felt in the distant future.

A Global Civil Society can exert considerable pressure on governments to enforce particular governance principles and related conventions and equally put enormous pressure on firms to adhere to global governance principles as they are stipulated and ratified for instance in the ILO Labor Right convention, international investment protection and anti-corruption measures, complying with some basic environment, health and safety rules as they are expressed in the WTO regulations subscribed by its member states, and the establishment of patent protection and intellectual property rights. A Civil and hopefully more Open Society – beyond the interaction from and between states – usually results in a sense of allegiance and societal norms that define and generate our social life.

Sustainable purpose-driven organizations have acknowledged that a strategy of enlightened self-interest such as investing in "greening" products for instance would serve stakeholders and ultimately the shareholders (Esty & Winston, 2008; Porris, 2005; Porter & Van Der Linde, 1998; Hart 2003 & 2007). The potential success of those 'spirited' and sustainable strategies would enhance the legitimacy and even legacy of global corporations in our global village. The question of legitimacy will continue to pop up and keep corporations and also governments on their toes. Moreover, the political power of corporations has become contested in the context of the pros and cons of the globalization discourse (Fuchs 2007, Stiglitz, 2007, 2008). Global surveys currently reveal high levels of suspicion of and aversion to corporations. In other words, the possible failure to implement appropriate governance systems and procedures may not only undermine the pragmatic legitimacy of corporations in the eyes of the public and thus negatively affecting its self-imposed regulatory governance efforts, but it may also have a destructive effect on the moral legitimacy of corporations as civic players. The stakes are enormous and the chances to succeed may not easily come back in case of failure.

Ideally corporations should be engaged in a discourse that could result in some form of “spirited sustainability” (Frances, 2008; Emerson, 2003) beyond national borders. Indeed, the next logical step to excel and gain sustainable competitive advantage in this fierce global environment may, paradoxically, be by integrating aspects of corporate citizenship (Mirvin, 2006; Zadek, 2001 & 2004; Porter & Kramer, 2006) and spiritually enlightening values into a strategy that goes beyond what is commonly labeled gaining a license to operate in the community. In other words, a ‘spirited’ business goal encompasses a strategy that would stand the scrutiny of a “spiritual” or enlightened common good that has become aligned and engrained into the core values of the organization, integrating sustainable profitability and ethically and ecologically sound management decisions.

The principle of responsibility and accountability will need to be contextualized, institutionalized and translated into ‘local’ duties and rules. However, it is an attitude, based on and inspired by the notion of integrity, that brings a sense of responsibility into the realm of the corporate and political world. Integrity is a virtue of balance that allows management of self-conflicts in a normative manner while taking into account that the self is dynamic and interdependent. Integrity justifiably integrates an intelligible and defensible moral vision of one’s character within a certain context, enabling a wise person to know how and when to adapt his moral principles and commitments when understanding a different reality asks him to do so (Verhezen, 2008 & Carter, 1996[14]). Aligning a firm’s commitment to moral values with a competitive strategy is “a calling and an art, not [just] an engineering problem” (Eisenstat, 2008). Having a passionate purpose that aligns financial and non-financial objectives and unleashes energies will allow businesses to take sensible risks (Elkington & Hartigan, 2008; Porris, 2005; Esty & Winston, 2009). To build in best practices may have unexpected positive effects on our environments and even on our psyche. Visionary, purposeful and compassionate leaders function like alchemists who bring to the physical realm dreams and hopes that become attainable in a sensible business proposition.

Unfortunately, in the recent corporate debacles directors stood aside while management misled shareholders by fabricating the accounts, conducting shady deals and disregarding corporate governance standards. The law is rarely the best guide for appropriate ethically and ecologically sound corporate behavior: it is often too little and invariably too late for many of the victims of corporate scandals or disasters. For example, new regulations such as the Sarbanes-Oxley Act in the USA (2002) or the implementation of a Code of Corporate Governance for Listed Companies in China (2003) can help to restore some much-needed trust through imposing transparency (Schneider, 2008), but legislation alone cannot make corporations responsible, open and healthy. These governance principles and mechanisms and regulating bodies function like traffic lights, guiding the flow in a reasonable manner, but will not be able to guarantee complete safety for its users.

In the networked global world, trust is everything. However fragile, trust along deeply shared cultural assumptions is one of the strongest glues binding people together in groups and organizations (O'Toole & Bennis, 2008). In a competitive global environment where it takes substantial time to gain a good reputation, it can be shattered by the click of a mouse. Hence, there is an enormous need for transparency, responsibility and accountability, underpinned by a sense of fairness by the leaders designing and implementing strategies. Ultimately, the trust in leadership and confidence in corporations depend on the implementation and enforcement of global good (corporate) governance principles and on the (moral) character and attitude of those who run the corporations and influence the newly emerging world order. However, it should not surprise us that voices emerge telling us that heads of governments or director generals of international institutions and captains of industry – those who are in the position to improve the society – seldom bring about significant changes. Merely securing (minority shareholder) rights, verifying duties and performing authority check and balances are necessary actions to steer corporations away from disasters or may get them some corporate credibility or public relations kudos but are not sufficient steps to take on the daunting global challenges we are facing.

Captains of governance need to embrace scalable entrepreneurial solutions that align and integrate profitability motives with societal and ecological goals, that encourage the transition to sustainable renewable resources and to stimulate investments in evolving and disseminating the necessary innovative technologies. It is not an exaggeration to say that the quality of management and leadership correlates with the quality of governance. Any business that attempts to pursue its corporate objectives at the expense of the society in which it operates will find its possible financial success to be "spiritually" illusory and most often very temporary. Hence, the overall importance of global governance principles that are translated in best global governance practices may transform the corporation into a genuine global corporate citizen which, nevertheless, remains a fallible work in process.

## CONCLUSION

Global attention of the crisis has increasingly turned towards the question of good corporate governance in both developed and emerging markets. The focus will increasingly be on transparent reporting, triple bottom line disclosure, appropriate and integrated risk management, responsible executive remuneration, minority shareholders' rights secured and enabled by a visionary board and by an increased policing of these rights by courts and regulators. It should not be ignored that good corporate governance lays the foundations for economic development as it allows greater access to capital, improved economic growth and a culture of ethics and good business practices. The real challenge will be to align the relationships of powerful participants on the global stage with global societal objectives and ecological needs within the private and public realms.

A value-centered market economy implies that a market will only implement societal values if it is less risky (and less costly), profitable or if governments give it a 'purpose' and a framework. If the shareholder prospers through accountable and visionary leadership and implementation of good governance practices, the odds are greater that so too will other stakeholders.

Despite the continuing and crucial role and importance of government and civil society, commerce has become the dominant wide reaching institution with enormous powers in the world. Responsive organizations identify, embrace and implement best practices, based on transparency, accountability, fairness, ethically responsible behavior and governance mechanisms in a strict legal sense. Strategic savvy organizations, however, go beyond best practices and pursue some form of “spirited” sustainability or common good incorporated into their strategy and risk management. Those firms both in the Western as well as in the Eastern hemispheres, often led by inspired entrepreneurs, engaged leaders and same-minded managers are galvanized by the prospects of global climate change or other human-induced insults to humankind and its neglect of a common good. What motivates many successful inspirational entrepreneurs and engaging leaders is not just making “deals” but achieving a creative “ideal”. If somehow those ideals can leverage some form of spirited sustainability, the world may become a better place, beyond mere compliance-oriented behavior. Moreover those executives, board members and advisors, politicians or other decision-makers who have experienced multinational and plural cultures in their lives may be blessed to show the leadership style of empathic sensitivity embracing global governance principles and acknowledging the global human interaction in relationships while respecting cultural diversity and identities that generate trust.

Future research may need to focus on verifying, falsifying and fine-tuning the definition of workable emerging global standards for governance principles aiming at sustainable successful strategies and how they are translated into rules and regulations in local regulatory contexts. It would be interesting to find out to what extent some specific rules – e.g. the appointment of independent directors to the board – tend to diverge or converge across cultural and national borders. The most difficult task of all is to design a legal framework and governance structure that prepares corporations to become corporate citizens which potentially could make them excel in such a risky and challenging future ahead.

The future will likely not be a straight-line extension of current reality. We can only hope that a sustainable and innovative creativity, embracing a more spirited business reality, and supported by enlightened leadership can avert a catastrophic inequality and environmental degradation and foster human development instead. Corporations need to recognize that they are embedded within a larger global perspective that has some spiritual and sustainability goals beyond pure commerce. Good Governance somehow incurs the proposition that the overall good of the organization, institution or even state, takes moral precedence over the personal needs of its leaders in contrast to the recent corporate or political debacles where sheer hubris and greed were prevailing - not exactly what Aristotle and Confucius had in mind when they referred to virtuous leaders.

## REFERENCES

Arjoon, S. (2005). Corporate governance: An ethical perspective. *Journal of Business Ethics, 61*, 343-352.

Backman, M. (1999). *Asian Eclipse: Exposing the Dark Side of Business in Asia*. Singapore: John Wiley & Sons.

Backman M., & Butler, C. (2003). *Big in Asia. 25 Strategies for Business Success*. UK: Palgrave Macmillan.

Backman, M. (2004). *The Asian Insider. Unconventional Wisdom for Asian Busines.* London: Palgrave MacMillan.

Backman, M., & Butler, C. (2007). *Big in Asia. 30 Strategies for Business Succes.* UK: Palgrave Macmillan

Bainbridge, S. M. (2008). *The New Corporate Governance in Theory and Practice*. Oxford: Oxford University Press.

Banks, E. (2004). *Corporate Governance: Financial Responsibility, Controls and Ethics*. Hampshire: Palgrave MacMillan.

Bennis, W., Goleman, D., & Toole, J. O. (2008). *Transparency. How Leaders Create a Culture of Candor*. San Fransisco:Jossey-Bass

Bradley, M., Schipani, C., Sundaram, A., & Walsh, J. (2000). The purposes and accountability of the corporation in contemporary society: Corporate governance at the crossroads. *Law & Contemporary Problems, 62*(3).

Buchholz R.A., & Rosenthal, S.B. (2005). The spirit of entrepreneurship and the qualities of moral decision making: A unifying framework. *Journal of Business Ethics, 60*, 307-315.

Buck T., & Shahrim A. (2005). The translation of corporate governance changes across national cultures: the case of Germany. *Journal of International Business Studies, 36*(1), 42-61.

Carter, S. (1996). *Integrity*. New York: HarperCollins Publishers.

Charan,R. (2005). *Boards That Deliver. Advantages Corporate Governance from Compliance to Competitive Advantage*. San Francisco: Jossey-Bass.

Clarke, T. (2007). *International Corporate Governance*. London: Routledge.

Claessens, Stijn, Djankov, S., & Lang, L. H. P. (2000). The Separation of Ownership and Control in East Asian corporations. *Journal of Financial Economics, 58*, 81-112.

Cornelius, P. K., & Kogut, B. (2003). *Corporate Governance and Capital Flows in a Global Economy*. New York, Oxford University Press.

Crist, W. D. (2003). *Corporate Governance, Public Policy, and Private Investment Decisions in Cornelius, P.K. & B. Kogut, Corporate Governance and Capital Flows in a Global Economy*. New York: Oxford University Press.

Devajaran, S., Dollar, D., & Holmgren, T. (Eds). (2001). *Aid and Reform in Africa: Lessons from Ten Case Studies*. Washington DC: World Bank c2001.

Dimma, W. (2002). *Excellence in the Boardroom. Best Practices in Corporate Directorship*. Ontario: Wiley & Sons Canada.

Dodd, R. (2008). Consequences of Liberalizing Derivatives Markets, in Ocampo, J.A. & J.E. Stiglitz (Eds.), *Capital Markets Liberalization and Development*. Oxford UK: Oxford University Press.

Easterly, W. (2007).*The White Man's Burden. Waarom heeft ontwikkelingshulp meer kwaad dan goed gedaan*. Nieuw Amsterdams Uitgeverij.

Eisenstat, R. A., Beer, M., Foote. N., Fredberg, T., & Norrgren, F. (2008). The Uncompromising Leader. Leaders of high-commitment, high-performance organizations refuse to choose between people and profits. *Harvard Business Review*, July-August, 51-57.

Eisenhardt K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review, 14*(1), 57-74.

Elkington, J., & Hartigan, P. (2008). *The Power of Unreasonable People. How Social Entrepreneurs Create Markets That Change the World*. Cambridge MA, Harvard Business Press.

Emerson, J. (2003). The Blended Value Proposition: Integrating Social and Financial Returns. *California Management Review, 45*(4), 35-51.

Esty, D.C., & Winston, A. S. (2009). *Green to Gold. How smart companies use environmental strategy to innovate, creative value, and build competitive advantage*. New Jersey: John Wiley & Sons.

Fama, E., & M. Jensen (1983). Separation of ownership and control.*Journal of Law and Economics, 26,* 310-325

Frances, Nic. (2008). *The End of Charity. Time for Social Enterprise*. Crows Nest (NSW): Allen & Unwin.

Frank, R. (2004). *What price the moral ground. Ethical Dilemmas in Competitive Environments*. Princeton; Oxford, Princeton University Press.

Freeman, R. E. (1984). The Politics of Stakeholder Theory: Some Future Directions. *Business Ethics Quarterly, 4,* 409-422.

Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, (9)13, 32-33, 122, 126.

Fuchs, D. (2007). *Business Power in Global Governance*. London: Rienner Publications

Green, S. (2005). *Sarbanes-Oxley and the Board of Directors. Techniques and Best Practices for Corporate Governance*. New Jersey: Willey & Sons.

Hart, S.L., & Milstein, M. B. (2003). Creating Sustainable Value. *Academy of Management Executive, 17*(2), 56-67.

Hart, S. L. (2007). *Capitalism at the Crossroads. Aligning Business, Earth, and Humanity*. New Jersey: Wharton School Publishing.

Henisz, W. J., & Story, J. (2003). *Corporate Risk Assessment and Business Strategy. A Prime Task for Senior Management, in Cornelius, P.K. & B. Kogut, Corporate Governance and Capital Flows in a Global Economy*. New York: Oxford University Press.

Hess, D. & Dunfee, T.W. (2007). Social Reporting and New Governance Regulation: the Prospects of Achieving Corporate Accountability through Transparency. *Business Ethics Quarterly*, *17*(3), 453-476.

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000). The Resource-Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. *Journal for Management Studies*, *37*(2), 235-255.

Hillman, A. J., & Dalziel, T. (2003). Board of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives. *Academy of Management Review*, *28*(3), 383-396.

Hu, H., Tan, M., & Verhezen, P. (2009). Mergers and Acquisitions: Foreign Strategic Investors and Corporate Governance in China. *Unpublished manuscript University of Melbourne Workpaper.*

Huse, M. (2005). Corporate Governance: Understanding Important Contingencies. *Corporate Ownership & Control*, *2(*4), 41-50.

Huse, M.(2007). *Boards, Governance and Value Creation*. Cambridge. New York: Cambridge University Press.

Jensen, M., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.Journal of Financial Economics. In T. Clarke (Ed.), *Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance*. London: Routledge.

Jensen, M. (1986). Agency cost of free cash flow, corporate finance, and takeovers. *American Economic Review*, *76*, 323-329.

Jensen, M. (2002).Value Maximization, Stakeholder Theory, and the Corporate Objective Function.

*Business Ethics Quarterly, 12*(2), 235-256.
Kahler, M., & Lake, D. A (Eds.). (2003). *Governance in a Global Economy. Political Authority in Transition*. New Jersey, Oxford: Princeton University Press.
Khatri, N., Johnson, J.P., & Ahmed, Z.U. (2003). A Two-Stage Model of Cronyism in Organizations: A Cultural View of Governance, In J. B. Kidd, & F-J. Richter (Eds.), *Corruption and Governance in Asia* (pp. 61-85). London: Palgrave MacMillan.
Kidd, J.B. ,& Richter,F-J (Eds.). (2003). *Corruption and Governance in Asia*. London: Palgrave MacMillan.
Kostikov, I. (2003). Governance in an Emerging Financial Market. The case of Russia. In P. K. Cornelius & B. Kogut (Eds.), *Corporate Governance and Capital Flows in a Global Economy* (pp. 443-450). New York, Oxford University Press.
Kurtzman, J., Yago, G., & Phumiwasana, T. (2004). The Global Cost of Opacity. *MIT Sloan Management Review*, Fall, 38-44.
Kurtzman, J.,& Yago, G. (2007). *Global Edge. Using the Opacity Index to manage the risks of Cross-border Business*. Boston MA: Harvard Business School Press.
Li, J.S. (2003). Relation-based v. rules based governance: An explanation of the East Asian miracle & Asian crisis, *Revenue of International Economics, 11*(4), 651-662.
Lorsch, J. W., & Clark, R.C. (2008). Leading from the Boardroom. *Harvard Business Review*, April, 104-111.
Low, C.K. (2004). A road map for corporate governance in East Asia. *Northwestern Journal of Int. Law & Business, 25*(1), 165-203.
Mahbubani, K. (2008). The Case against the West. America & Europe in the Asian Century. *Foreign Affairs*, May-June, 111-124.
McBarnet, D. (2005). After Enron: Corporate governance, creative compliance and the uses of Corporate Social Responsibility. In J. O'Brien (Ed.), *Governing the Corporation: Regulation and Corporate Governance in an Age of Scandal and Global Markets.* Chichester, England, John Wiley.
Mintzberg, H., Simons, R., & Basu, K. (2002). Beyond Selfishness. *MIT Sloan Management Review*, Fall, 67-73.
Mirvis, P., & Googins, B. (2006). Stages of Corporate Citizenship. *California Management Review*, *48*(2), 104-124.
Mobius, M. (2003). Corporate Governance. In P. K. Cornelius & B. Kogut, *Corporate Governance and Capital Flows in a Global Economy* (pp. 401-412). New York: Oxford University Press.
Neoh, A. (2003). Corporate Governance in Mainland China. In P.K. Cornelius & B. Kogut, *Corporate Governance and Capital Flows in a Global Econom*y (pp. 431-442). New York: Oxford University Press.
Ocampo, J. A., & Stiglitz, J.E. (Eds.). (2008). *Capital Markets Liberalization and Development*. Oxford UK: Oxford University Press.
Peng, M. W., & Zhou, J. Q. (2005). How Network Strategies and Institutional Transitions evolve in Asia. *Asia Pacific Journal of Management, 22,* 321-336.
Porritt, J. (2005). *Capitalism as if the World Matters*. London: Earthscan.
Porter, M. E., &. van der Linde, Cl .(1998). Green and Competitive. Ending the stalemate, in Porter, M.E.,

*On Competition* (pp.351-375). MA Boston: Harvard Business Press.
Porter, M. E., & Kramer, M. (2006). Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility. *Harvard Business Review*, Boston, 78-93.
Rezaee, Z. (2007). *Corporate Governance Post-Sarbanes-Oxley. Regulations, Requirements, and Integrated Processes*. New Jersey: John Wiley & Sons.
Roche, J. (2005). *Corporate governance in Asia.* London: Routledge.
Rossouw, G.J. (2005). Business ethics and corporate governance: A global survey. *Business and Society,* March, *44*(1), 32-38.
Sachs, J. (2005). *The End of Poverty. How we can make it happen in our lifetime*. London: Penguin.
Sama, L. M., & Shoaf, V. (2005). Reconciling Rules and Principle: An Ethics-Based Approach to Corporate Governance. *Journal of Business Ethics*, *58*, 177-185.
Schleifer, A., & Vishny, R.W. (1997). A survey of corporate governance. *Journal of Finance,* LII June, 2, 737-783.
Schwartz, M. (2001). The nature of the relationship between corporate codes of ethics and behavior. *Journal of Business Ethics, 32*, 247-262.
Shiller, R. (2008). *The Subprime Solution. How Today's Global Financial Crisis Happened, and What to Do about it*. Princeton, Oxford, Princeton University Press.
Sirkin, H.L., Hemerling, J.W., & Bhattacharya, A.K. (2008). *Globality. Competing with everyone from everywhere for everything*. London: Headline Publishing Group.
Schneider, B. (2008). Do Global Standards and Codes Prevent Financial Crises? In J.A.Ocampo, & J.E. Stiglitz (Eds.), *Capital Markets Liberalization and Development* (pp. 319-354). Oxford UK: Oxford University Press.
Smith, D. (2008). *The Dragon and the Elephant. China, India and the New World Order*. London: Profile Books.
Solomon, J., & A. Solomon. (2004). *Corporate Governance and Accountability.* West Sussex: John Wiley& Sons
Soros, G. (2002). *On Globalization*. New York: Public Affairs.
Soros, G. (2008). *The New Paradigm for Financial Markets. The Credit Crisis of 2008 and What it Means*. New York: Public Affairs Publishing.
Stiglitz, J.E., & Muet, P.-E (Eds.). (2001). *Governance, Equity, and Global Markets. The Annual Bank Conference on Development Economics – Europe*. Oxford UK: Oxford University Press.
Stiglitz, J.E. (2002). *Globalization and Its Discontents*. London: The Allen Lane Penguin Books.
Stokke, O.S. (1997). Regimes as Governance Systems. In O.R.Young (Ed.), *Global Governance. Drawing Insights from the Environmental Experience*( pp. 27-63). Cambridge MA, The MIT Press.
Tan, D., & Snell, R.S. (2002). The third eye: Exploring *Guanxi* and relational morality in the workplace. *Journal of Business Ethics, 41*, 361-384.
Tay, S.S.C., & Seda, M (Eds.). (2003). *The Enemy Within. Combating Corruption in Asia*. Singapore: Times Media Private Limited.
Toms S., & Wright, M. (2005). Divergence and convergence within Anglo-American corporate governance systems: Evidence from the US and UK, 1950-2000. *Business History,* April, *47*(2), 267-295.
Vagalos, R., & Galambos, L. (2006). *The Moral Corporation. Merck Experiences*. Cambridge UK:

Cambridge University Press.

Verhezen, P., & Leis, C. (2007). Moral Silence: how integrity-based strategies may strengthen compliance in organizations, non published paper. *Presented at EBEN conference at the University of Leuven*, April 2007.

Verhezen, P. (2008). (Ir)relevance of integrity in Organizations. *Public Integrity*, *10*(2), 135-152.

Verhezen, P. (2008). Guanxi: Networks or Nepotism? In L. Zsolnai (Ed.), *Europe-Asia Dialogue on Business Spirituality* (pp. 89-106). Antwer, Apeldoorn, Garant.

Verhezen, P. (2009). *Gifts, Corruption and Philanthropy. The Ambiguity of Gift Practices in Business*. Oxford: Peter Lang, *forthcoming.*

Vogel, David.(2007). Is there a Market for Virtue? The Business Case for Corporate Social Responsibility. *California Management Review*, *47*(4), 19-45.

Wallace, P., & Zinkin, J. (2005). *Mastering Business in Asia. Corporate Governance*. Singapore: John Wiley & Sons.

Wapner, P. (1997). Governance in Global Civil Society. In O. R. Young (Ed.), *Global Governance. Drawing Insights from the Environmental Experience* ( pp. 67-84 ). Cambridge MA, The MIT Press.

Weaver, G.R. (1999). Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *Academy of Management Journal,* Oct., *42*(5), 539-552.

Wotruba T.R., Chonko, L.B., & Loe, T.W. (2001). The impact of ethics code familiarity on manager behavior. *Journal of Business Ethics*, *33*, 59-69.

Wu, X .(2005). Political institutions and corporate governance reforms in Southeast Asia. In H.K. Leong. (Ed.), *Reforming Corporate Governance in Southeast Asia* (pp. 17-37). Singapore, Inst. SE Asian Studies.

Yadong, L. (2005). Corporate Governance and Accountability in Multinational Enterprises: Concepts and Agenda. *Journal of International Management*, *11*, 1-18.

Young, O.R. (Ed.). (1997). *Global Governance. Drawing Insights from the Environmental Experience*. Cambridge MA: The MIT Press.

Young, S., & Thyil, V. (2008). A Holistic Model of Corporate Governance: A new research framework. *Corporate Governance*, *8*(10), 94-108.

Zadek, S. (2001). *The Civil Corporation. The New Economy of Corporate Citizenship*. London: Earthscan Publications.

Zadek, S. (2004). The Path of Corporate Responsibility. *Harvard Business Review*, December, 125-132.

Zhao, Z., & Zhong, W. (2003). The current situation and future tendency of corporate governance reform in China, *China Business Review, 2*(1), 40-45.

## NOTES

[1] The OECD Principles:

(1) Rights of shareholders refer to the basic rights of ownership and information.

(2) Equitable treatment of shareholders implies equality per shareholding of minority and foreign shareholders.

(3) The role of stakeholders which recognizes their rights and encourage cooperation and information-sharing.

(4) Disclosure and Transparency rules provide timely, accurate and cost-efficient information on all matters regarding the corporation, including financial and operating results, change of ownership, voting rights, key executives / board members and their remuneration, governance structures, and policies and issues regarding employees.

Responsibilities of the Board detail their accountability to the company and shareholders and their role in ensuring compliance with laws and regulations and the integrity of the financial reporting process.

[2] See Wallace et al (2005). The ICGN's Corporate Governance criteria include the following: (1) corporate objectives that optimize shareholder return over time; (2) communication and reporting imply disclosure of accurate, timely and adequate information, and meeting regulating guidelines where they exist; (3) voting rights in the form of 'one share one vote'; (4) corporate boards should guarantee the fiduciary duty to the shareholders and as result being accountable to the shareholders; (5) corporate remuneration should align the interests of shareholders with those of the Board members; (6) Strategic focus implies that major changes to the core business should not be made without prior approval by the shareholders; (7) Corporate Governance Practices concerning operating performance should ensure that the Board spends its time focused on optimizing the company's long term operating performance; (8) Shareholder return over a longer period with an emphasis on outperforming companies in relevant equity peer group; (9) Corporate Citizenship refers to the fact that companies should abide by the laws of the jurisdictions in which they operate, looking at the wider stakeholder issues that are more likely to create wealth and employment on a sustainable basis; (10) Corporate Governance implementation will require the development of practical codes of conduct and stress the importance of dialogue between shareholders and the company to address and solve issues.

[3] Even though the Delaware jurisdiction – which rules over a great number of Fortune 500 Multinational Corporations - has historically speaking always strongly favored shareholder rights in its strict legal interpretation, the state Supreme Court has also recognized two important principles in the classic Time-Warner case: "(a) the fiduciary duty to manage a corporate enterprise includes the selection of a time-frame for meeting corporate goals; (b) Directors must chart a course for a corporation which is in its best interests without regard to a fixed investment horizon" (Dimma, 2002: 166). In other words, these two principles now considered as the contemporary mainstream view in the Anglo-American governance framework, it may be appropriate to deviate from short-term shareholder interests in favor of longer-term corporate interests if the interest is fully compatible with longer-term shareholder interests.

[4] ICBC (Industrial and Commercial Bank Corporation) the largest single bank in China, is the most outstanding company in China for its governance. They are listed on the Stock Exchange in Shanghai and Hong Kong. Since the bank is listed on more than one stock exchange, it seems that they have found a common denominator to comply with the specific contextual rules and regulations while at the same time adhering to generic common principles.

[5] See Sirkin et al, 2008. It is telling that a number of exemplars are coming from the emerging challenging countries (and not just from the developed incumbent countries). The Tata Group's expounded values for instance – trust, integrity and social commitment – underpin the company's globalization efforts whereby top management performers are engaged to keep

the top talent is considered to be a positive side-effect. Another inspiring example – not mentioned by Sirkin though - is the Reliance Industries Ltd group and its respected CEO from emerging India which has been voted as one of the most respected business conglomerates in the world in terms of governance and leadership, despite the ongoing dispute between the two brothers which has been food for the press.

[6] See Cornelius, 2003. Indonesia, South Korea, Thailand, Malaysia and the Philippines lost more than USD 600 billion in market capitalization or around 60% of their combined pre-crisis gross domestic product. Total private capital flows to emerging markets are estimated to have fallen in 2002 to levels last seen in early 1990s

[7] We here refer to the very useful and well-organized criteria used by CalPERS who manage more than USD 160 billion to invest in a variety of international firms. The first main factor investing in a firm is related to the country risk in which that firm is operational: 1. Political Stability (a. Civil liberties; b. Independent judiciary and legal protection; c. Political risk); 2. Transparency (a. Freedom of press; b. Accounting standards; c. Monetary and fiscal transparency; d. Stock exchange listing requirements); 3. Productive Labor Practices (a. ILO ratification; b. The quality of enabling legislation to explicitly protect or prohibit the rights described in the ILO Convention; c. The institutional capacity of governmental administrative bodies to enforce labor law at the national, regional and local level; d. Effectiveness of monitoring and enforcement of laws in the ILO Convention areas. A second criteria to establish an investment will require an in-debt analysis of the market risk: 1. Market Liquidity and Volatility (a. Market capitalization, the overall size of the country's stock market; b. Change in market capitalization, the growth of the country's stock market over the last five years; c. Average monthly trading volume relative to the size of the market; d. Growth in listed companies over the last five years; e. Market volatility as measured by standard deviation over the last five years attributable to both currency volatility and local market volatility; d. Return/risk ratio in each market); 2. Market Regulation / Legal system / Investor Protection (a. Adequacy of financial regulation; b. Bankruptcy and creditors' rights; c. Shareholders' rights); 3. Capital Market Openness (a. Trade policy, measuring the degree to which there is oppressive government interference to free trade; b. Foreign investment, measuring governmental barriers to the free flow of capital from foreign sources including unequal treatment of foreigners and locals under the law; c. Banking and finance, measuring government control of banks and financial institutions and allocation of credit and the degree of freedom that financial institutions have to offer all types of financial services, securities, and insurance policies; d. Stock market foreign ownership restrictions; e. Settlement Proficiency refers to the country's trading and settlement practices to determine the degree of automation and the success of the market settling transactions in a timely, efficient manner; f. Transaction Costs are the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividend and income taxed, and capital gains taxes). Finally, one will need to analyze the specific risk factors of a firm which are often related to their specific organizational corporate governance principles or lack of them and the quality of the top management who is supposedly developing strategies and economic fundamentals which are sensible for the creation of long-term value of the firm.

[8] Globalization is creating a socio-economic environment for global corporate governance that determines opportunities and constraints. The need for a global convergence in corporate governance derives from the existence of forces leading to international harmonization in financial markets (Solomon and Solomon 2004). We observe a certain trend towards international harmonization in the areas of accounting and financial reporting with the 'principles-based' International Accounting Standards Board (IASB) driving towards a comprehensive set of internationally acceptable standards for accounting aimed at a "globalized standardization" with the 'rules-based' GAAP. An obvious example is the fact that stock options within reasonable constraints granted to top management as a performance dependent remuneration are off balance and thus not considered as a real expense until materialized at the maturity date according to the GAAP, whereas the IAS 39 clearly stipulates such a security as a real cost that needs to be immediately cushioned against its fair

value through capital for possible future risk. Although compensation through stock options is rarely practiced in East Asia or China - unless with explicit professional partnerships - we believe that, with the growing internationalization of companies and the increasing pressure to find or to retain talented management expertise, these Western ingrained practices may gain some prominence in Asia as long as appropriate capital reserves are recommended and foreseen as a cushion for the risks taken.

[9] See Green (2005) and Neoh (2003). The present state of the Chinese capital markets is the result of "short-termism" in managerial attitudes that has lead to short-term speculative investment horizons which in fact is contradictory to the Confucian values of harmonious continuity in family-owned businesses. Nevertheless, most listed companies in China are still state-owned which implies that political rather than economic objectives play an important role. The Code of Corporate Governance for Listed Companies in China, which was implemented by the China Securities Regulatory Commission, is a good step in the right direction that seeks to make listed companies in China more attractive to investors. Appropriate good governance mechanisms would be highly recommendable to improve the financial performances of those listed Chinese companies.

[10] See Cornelius (2003) and CalPERS criteria among others. From the different sources, we can summarize that most global investors believe that good corporate governance standards imply:

A significant percentage of outside or independent directors on the board

These independent directors are truly independent of the management

The board members and directors have significant shareholdings when representing fund managers and institutional investors

A material proportion of the directors' compensation is related to these stockholders

Mechanisms for formal evaluation of directors and board members

The board is very responsive to investors' questions on governance issues

[11] See Stiglitz (2001) who refers to the paradox of global governance in environmental policy making. In arriving at agreements with respect to the environment, cooperative strategies between countries tend to prevail against free-rider strategies which somehow are contrary to the result anticipated in economic theory. However, when there is absence of (legal) sticks and carrots for countries, it can be very difficult to implement the agreement.

[12] See Shiller, 2008. Controlling and monitoring moral hazards may reduce certain degrees of high leveraged profitability in particular industries - especially in derivatives and hedging markets - but such regulations may be in the interest of the public and common good.

[13] Non-priced negative externalities in the form of pollution, for example, should be properly taxed or internalized through the market price mechanism such as is expected in Carbon Trading for instance. Expectation management will need to be governed in a global interdependent world stifling off over-speculation where necessary.

[14] The Yale law professor Carter (1996) distinguishes three steps for the exercise of integrity: a) discerning what is right and what is wrong; b) acting on what you have discerned, even at personal cost; and c) saying openly that you are acting on your understanding of right and wrong.

* The distinction between formal and informal internal governance mechanisms is based on an unpublished paper by Verhezen, P.; Hu, H. & M.G. Tan, (2008), "Foreign Strategic Investments and Governance in China"

** CGC: Corporate Governance Control.

*** We believe that there are 5 main fields of steering the organization that provide check and balances within CGC: (1) Development of Sustainable and Spirited Strategies; (2) Engaged Risk Management; (3) Management Performance & Compensation of Top Management; (4) Succession Planning & Leadership Pool; (5) Monitor and React to Stakeholders.

# GLOBAL ETHICS: BEYOND LOCAL LEADERSHIP

**Roderick O'Brien**
Australian Lawyer

**Abstract:** We have experienced the reality of globalization, both in its positive and negative attributes. A global future is unavoidable. From examples drawn from the trade in services, I suggest that we need a global ethic to deal with the ethical problems faced by modern business. Further, I suggest that we work towards developing such a global ethic by drawing on the experiences of East and West to find the best practice. Underpinning such a global ethic must be spiritualities which have one common factor: a global vision which is wide enough to include all people and their issues and their hopes. This requires leadership in business beyond simply local issues.

**Keywords:** global ethics, professional ethics, lawyer's ethics, best practice

The purpose of this paper is to argue that leadership is needed in creating global ethics for global business. From this perspective, *Business* is defined widely to include the global trade in services, including legal services. In order to achieve the leadership which is needed, we need to cooperate globally. This cooperation, using respectful dialogue to search for common spirituality, will enable us to go beyond national leadership and achieve global ethics for business.

Globalization has many meanings. We have enjoyed global sports in the wonderful Olympic Games. There are advantages in globalization. For example, globalization enables the rapid convening of personnel, technology, and capital from all over the world. But there are disadvantages in globalization (Fang, 2006). For example, the globalization of industry through outsourcing means that business decisions for a local area may be made far away, by people who have no understanding of the social impact of their decisions. It is not realistic to see globalization as only positive or only negative. But we recognize globalization as an irreversible fact for China, for Australia, and for the world. Global business requires global leadership, a global spirituality, and a global vision of the common good. Because globalization is an irreversible fact, we cannot rely only on the development of ethics at a national level.

## A CASE STUDY: INTERNATIONAL LEGAL BUSINESS AND CONFLICTS OF INTEREST

Let us take an example of the international trade in legal services (Pyne, 1999): law firms from China opening offices in other countries and law firms from other countries opening offices in China. What are their ethical responsibilities, both at home and in their host countries? And within this case study, we will look at a particular problem faced by suppliers of legal services, the problem of conflicts of interest. The two countries that I use as examples are China and Australia. Relevant studies in this area have divided lawyers' conflicts of interest into two areas: (a) Where the interest of the client conflicts with the interest of the lawyer; (b) Where the interest of the client conflicts with the interest of another client (sometimes called 'conflict of loyalty') (Parker, & Evans, 2007).

International law firms especially can find themselves in cases of conflicts of loyalties (Etherington, & Lee, 2007). For example, firms have to know their clients in every country, to ensure that they do not find themselves acting for opposing clients. Individual lawyers may transfer from one firm to another, and find themselves acting against their old clients. These conflicts are both ethical and legal, and governments and professional associations use both legal and ethical tools to try to deal with them (Mark, 2001).

***Solving Problems with Local Legal and Ethical Systems***

Most countries rely on their local legal and ethical systems to try to solve global problems. For ethics of the international trade in legal services, this is regulated by local laws. We look at these examples: China's lawyers abroad are covered by China's local regulations:

> "Branch offices abroad of law firms and the lawyers assigned shall abide by the laws of the countries where they are located, abode by the relevant provisions of the countries where they are located on the administration of foreign lawyers, and abode by lawyers' professional ethics and practicing disciplines. Branch offices abroad of law firms and lawyers assigned may not engage in any activity that violates China's laws or harms China's state security or social public interests" (Ministry of Justice, 1995).

Foreign lawyers who establish branches in China are bound by a parallel provision:

> "Representative offices and their representatives shall, when undertaking legal service activities, abode by the laws, regulations, and rules of China, scrupulously observe professional ethics and practice discipline of Chinese lawyers, and shall not endanger the State security, social and public interests in China"(State Council, 2001).

In Australia, the Law Council of Australia has developed a Model Law relating to legal practice, and Model Code of Conduct for Lawyers. (Law Council of Australia, 2001) These Models are gradually being adopted in the Australian states. These Models do not include any special requirements for Australian lawyers practicing abroad. But the Model Law does include a special requirement for foreign lawyers practicing law in Australia:

> "An Australian-registered foreign lawyer must not engage in any conduct in practicing foreign law that would, if the conduct were engaged in by an Australian legal practitioner in practicing Australian law in this jurisdiction, be capable of constituting professional misconduct or unsatisfactory professional conduct."

These regulations are desirable as part of any national legal system. They protect the national "common good". But we can see that they do not attempt to protect a global "common good." The local ethical provisions are contained in the Codes of Conduct for lawyers. The Lawyers Professional Conduct Standards (Provisional) for China (All China Lawyers Association, 2004), and the Model Rules of Professional Conduct and Practice, for Australia (Law Council of Australia, 2002) will serve as examples of local ethical provisions.

In a parallel way, leaders place emphasis on the development of local ethical systems. There has been good national work developing ethical codes for lawyers. But there is almost no effort to work towards global standards. The groundbreaking work of the Global Ethic Foundation, inspired by Hans Kung (Kung, 1997; Kung, & Kuschel, 1993; Kim, 1999) has yet to flourish. Most of the initiative has come from private individuals and organizations (International Bar Association, 1988). There are now a number of institutes for global ethics, but as far as I know none is working on professional legal ethics.

***Solving Problems with Global Legal and Ethical Systems***

Is it possible to protect a global "common good" with global legal and ethical systems? The development of global law has been slow and uneven, and has not kept pace with business developments. We also need global ethics for business, including legal services. Developing those ethics requires us to work co-operatively to draw on the great ethical traditions of East and West. We cannot impose these ethics, but must work patiently towards their development and acceptance.

There are some challenging examples. When preparing its Code of Ethics for counsel, the International Criminal Court consulted lawyers from East and West, North and South. After consultation, the Court prepared a Code which included the problem of conflicts of interest. The Court asks its lawyers to put their client's interests above all else (International Criminal Court, undated).

> "Counsel shall exercise all care to ensure that no conflict of interest arises. Counsel shall put the client's interests before counsel's own interests or those of any other person, organization or State, having regard to the provisions of the Statute [of the Court], the Rules of Procedure and Evidence, and this Code."

This is particularly challenging for lawyers who are accustomed to putting the interests of the State ahead of those of the client. The leadership needed for developing global ethics will not come only from national political leaders. The development of global ethics is more likely to succeed when committed business leaders, along with professionals such as lawyers, and scholars work with government leaders across national and cultural boundaries. Any co-operation must of course be respectful and based on dialogue about our common good.

## THE METHOD FOR ATTAINING GLOBAL ETHICS

There are three basic methods for attaining global ethics.

*1) Searching for Parallels.* The ethicist searches for parallels in the ethical traditions of East and West, and develops these into a global unity. Finding the appropriate global lawyers' ethic will not be easy, because of different legal and ethical traditions. Even with the best goodwill, it is hard to come to common views. This has been shown in the difficulty of formulating a code of conduct for lawyers at the International Criminal Court (International Bar Association, undated). Those responsible for formulating the Code were unable to find parallels in some areas of legal system, and thus of legal ethics.

*2) Seeking the Lowest Common Denominator.* The second method is almost a caricature of the first. Here the ethicist only takes into account where there is agreement in ethical traditions, already acceptable to East and West. The advantage of such a search is that it gives a rapid, though very limited, consensus. But it ignores disagreements.

*3) Seeking the Best Practice.* Many international businesses examine their operations around the world to find which division has the best practice. That best practice can then be applied internationally. We can also do this in the field of ethics. Searching for the best practice is both pragmatic and respectful of the many varieties of Eastern and Western ethics.

## TWO ETHICAL SYSTEMS AS EXAMPLES - GLOBAL AND BEST PRACTICE

Now, I would like to examine two ethical systems. Can they be global? And can they contribute *best practice*? There are many ethical systems, but I have chosen two examples from East and West.

### *Confucian Ethics*

Confucian ethics provide a rich tradition of learning. But there is a special issue, and this is the relationship between Confucianism and Chinese culture. Confucian teaching is at a cross-road. Will it take the path to being truly a global teaching, or will it stay local, as only a Chinese teaching? (Bresciani, 2001) Of course, its origins are firmly in Chinese history. Chinese people can be proud of the great teacher Confucius just as Greek people are proud of the great philosopher Aristotle. But it is not necessary to become a Greek or even to speak Greek to understand Aristotle. And you will find people who are developing Aristotelian philosophy all over the world, not only in the West, but also in the Islamic world. In the same way, can Confucian ethics become truly global, and find a place beyond their original cultural locality?

The best practice of Confucianism is in the long tradition of practical application of ethics in daily life. In the particular field of conflict of interests or conflicts of loyalties, Confucianism can teach us the importance of seeking harmony in resolving these conflicts. Conflicts are rarely simple, and the teaching of harmony can assist us to balance different competing interests.

### *Christian Ethics*

Christian Ethics, particularly as Catholic Social Doctrine, is a moral system based in a religious tradition (Wang, X. 2004). This Ethics is also at a crossroads. While the origins of the Christian (Catholic) religion are in West Asia (Semitic), the teaching has been most often expressed using Western philosophical methods. But to be fully global, this Ethics must be able to be expressed using any philosophical method. Can Catholic Social Doctrine become truly global (Wang, Z. 2004) and find a place beyond its usual expression in Western philosophy?

The best practice of this Ethics is in the balance between the individual and the community. Moreover, through the application of the principle of subsidiarity, this Ethics recognizes the complex variety of levels of community, from the smallest family to the global village (Hollenbach, 2002). In the particular field of conflicts of interest or conflicts of loyalty, this Ethics can teach us the importance of seeking to resolve conflicts at their most basic level. A respectful use of the best practice method will enable leaders to combine the best from Chinese Confucianism, from Christian Ethics, and from other ethical systems to create a truly global ethic.

## CONCLUSION: GLOBAL BUSINESS NEEDS GLOBAL ETHICS

We have experienced globalization, both positive and negative. A global future is unavoidable. International legal practice will increase. Conflicts of interest faced by lawyers will increase. I suggest that we need a global ethic to deal with the ethical problems faced by modern business including international legal practice. Further, I suggest that we can work towards developing such a global ethic by drawing on the experiences of East and West to find the best practice. Underpinning a global ethic must be spiritualities which have one common factor: that is a global vision which is wide enough to include all people, their issues and their hopes. This requires global leadership in business, not just local leadership. The future is exciting. The reality of globalization encourages me to look forward to working with friends from East and West to truly develop a global ethic.

## REFERENCES

All-China Lawyers Association. (2004). *Lawyers practice conduct standards (provisional).* Retrieved 24 June, 2005, from http://www.acla.org.cn/pages/2004-3-31/s20512.html

Bresciani, U. (2001). *Reinventing Confucianism: The new Confucian movement.* Taipei: Ricci Institute for Chinese Studies.

Etherington, L., & Lee, R. (2007). Ethical codes and cultural context: Ensuring legal ethics in the global law firm. *Indiana Journal of Global Legal Studies, 14*(1), 95-118.

Fang, N. (2006). Reflections on the challenge of globalization. *Contemporary Chinese Thought*, *37*(4), 72-86.

Hollenbach, D. (2002). *The common good and Christian ethics.* Cambridge: Cambridge University Press.

International Bar Association. (1988). *International code of ethics, 1988 Edition.* Retrieved 26 August, 2008, from http://www.ibanet.org/images/downloads/International_Ethics.pdf

International Bar Association. (n.d.). *Commentary on the code of professional conduct for counsel before the International criminal court submitted by the International Bar Association.* Retrieved 30 August, 2008, from www.ibanet.org/images/downloads/ICC/

International Criminal Court (n.d.). *Code of professional conduct for counsel.* Retrieved 20 August, 2008, from www.icc-cpi.int/library/about/official/journal/ICC-ASP-4-32-Res.1_English.pdf

Kim, Y. (1999). *A common framework for the ethics of the 21st century*. Paris: UNESCO Division of Philosophy and Ethics.

Kung, H., & Kuschel, K-J (Eds.). (1993). *A global ethic. The Declaration of the Parliament of the World's Religions.* London: SCM Press.

Kung, H. (1997). *A global ethic for global politics and economics.* London: SCM Press

Law Council of Australia. (2001). *Model law*. Retrieved 29 August, 2008, from www.lawcouncil.asn.au/natpractice/currentstatus.html.

Law Council of Australia. (2002). *Model rules of professional conduct and practice.* Retrieved 29 August, 2008, from www.lawcouncil.asn.au/policy/1957352449.html

Mark, S. (2001). Harmonization or homogenization? The globalization of law and legal ethics: An Australian viewpoint. *Vanderbilt Journal of Transnational Law, 34,* 1173-1214.

Ministry of Justice, China. (1995). Measures for the establishment of branch offices abroad by law firms. Decree no 35.

Parker, C., & Evans, A. (2007). *Inside lawyers ethics.* Melbourne, Cambridge: University Press

Pyne, C. (1999). *Legal Practice in a Global Jurisdiction.* Retrieved 20 April, 2008, from www.lawcouncil.asn.au/read/1999/1957265025.html

State Council, China (2001). Regulations on administration of foreign law firms in China. Decree no 338.

Wang, X. (2004). Raising civic morality among Chinese citizens in the new century: The role of Christian values. *Chinese Cross Currents, 1*(1), 36.

Wang, Z (2004). The turning point of Catholic morality. *Journal of Catholic Studies, 1,* 226.

# THE PROFIT OF VALUES CHRISTIAN INSPIRATION FOR BUSINESSMEN AROUND THE WORLD THE UNIAPAC EXPERIENCE AND VISION

**Laurent Mortreuil**
Uniapac International, Brussels, Belgium

**Abstract:** For 78 years, Uniapac has specialized in practicing leadership and spirituality within the Christian tradition. The Christian tradition is not in itself Western, although the recent development of the Christian Social Thought took place in a Western environment. The orientation towards the common good is the key to avoid a devolution from personalism to individualism. Our point of view is very practical and we illustrate how concretely leaders inspired by Christian spirituality orientate their decisions towards the Common Good.

**Keywords:** Christian tradition, common good, authority, spirituality, leadership

## THE CHRISTIAN SOCIAL SPIRITUALITY AS A GLOBAL EXPERIENCE

Doing business with Gospel-inspired spirit is far from a solely Western concept: indeed, like Christianity, the Christian Social Tradition was born in Asia, since its roots are Jewish and the first Christians were in fact Asian. In addition, not few of the first spiritual writers focusing on social justice came from Asia Minor (Basil the Great and Gregory of Nyssa, John Chrysostom, Gregory Nazianzus and so forth). Commerce between West and East has been flourishing for centuries, which could not happen without common values based on trust and confidence, all of this calling to a shared spiritual dimension between peoples.

Christian Social Thought developed in the Western World, along with the market-industrial Revolution, to adapt to this recent phase of global economy. This is the context where Uniapac found its mission: to bring entrepreneurs the material needed to live and work with integrity, in a world where solidarity and subsidiarity had to be completely re-invented. Uniapac has long been present in Asia, beginning in China in the 1940's.

The concept of person has appeared as such in the Christian area while theologians (Greek and Latin) tried to understand the concepts of Trinity and Incarnation. Since respect for human dignity is the central element of Christian Social Thought, the latter may be perceived as essentially Western. Christian spirituality, therefore the combination between leadership and spirituality in a Christian culture, may appear as very personalistic, giving little space to the common good.

In fact, one cannot consider fully a person without one's social dimension: there is no person who would not be orientated towards the common good. The consequence of a reduced vision on a person, often led to individualism and materialism, while the importance of the community and harmony in the Eastern cultures can provide a powerful antidote to this fateful devolution.

## THE COMMON GOOD IN THE CHRISTIAN SOCIAL TRADITION

### *The Common Good as a Set of Conditions*

The common good is defined as the result of the social conditions which allow people, either as individuals or as groups, to reach their fulfillment more fully and more easily. The common good includes the presence of the necessary goods for the development of man, and the real possibility for all men to have access to such goods. It requires the social well-being and development of the group and the human persons; it implies peace, stability and the security of a just order.

The common good involves all members of society; no one is exempt from participating, allowing for differences in individual's abilities, in their attainment and development. Everyone also has the right to enjoy the conditions of social life that are brought about by the quest for the common good.

The responsibility for attaining the common good, besides falling to human persons, extends also to the State, since the common good is the reason why political authority exists in the first place. To ensure the common good, the government of each country has the specific duty, with the requirements of justice, to harmonize the different interests of each sphere. The common good of society is not an end in itself; it only has value when trying to attain the ultimate ends of the person and the universal common good of the whole of creation.

### *The Common Good as the Respect for Each and for All*

Common good is different from "general interest" which does not discern each and every person in a group. By considering the group only as a global entity, the mandatory sacrifice of some (usually the weaker) may be accepted for the sake of others. There is no real common good without a firm commitment to the respect of every person.

Indeed, society and economy are related to human beings and that these human beings deserve respect as such. Our understanding of this point is based on the fact that each person is unique, and intelligent, possessing free will, subject to rights and obligations, with a transcendent destiny, and therefore, eminent dignity, equal for everyone. Human beings are the origin, focus and purpose of all social and economic life and should be considered in their integrity. A person remains an entire person at all times and cannot be considered successively as a productive or consuming body, a member of a family, a political actor, or a person with a spiritual dimension. Human beings attain self-realization through their relationships alongside their peers, and through the process of attaining universal human-divine communion.

The common good is based on the respect for the dignity of human beings and the promotion of their comprehensive development. Only when respect of the person is the reference for action and when this person is understood as oriented towards the common good can we hope to attain the harmonious society we all long for. One must acknowledge that the development of Western economies has tended to promote individual achievements cutting the person away from the community, leading to individualism and materialism.

## THE LEADERSHIP IN THE CHRISTIAN SOCIAL TRADITION

### *The Exercise of Authority*

As business executives, we find ourselves called upon to apply these principles and live these values in a manner characterized by responsibility. Specifically, our role is to exercise authority. We can understand authority to be the ability to lead in accordance with fair reasoning; it is not a force exempt from control. It can only be exercised legitimately if used as a means to achieve the common good, and only if morally-just means are used.

We must recognize that each member of an enterprise is a person, has his or her own sphere of autonomy and therefore responsibility. Nevertheless, we also need stress the personal responsibility of the leader. They are the ones who elect the people to work with, the ones who give them authority and allow them to develop their own responsibilities, the ones who manage communication and training. Although each employee has a role to play in building and sustaining the culture of an enterprise, the top executive is the one that provides the impetus. Only when executives realize that their role is unique, can they start the necessary process of orientating the enterprise to serve the common good. This must come on top of a very high degree of operational excellence to permanently demonstrate that virtue and economical results are not antagonistic but on the contrary allow sustainable superior results.

***Leadership with Ethics***

As executives, we need recognize the essential role of leadership in conducting business. Whatever the laws and rules, which indeed are crucial, as they set references, guide executives and protect the weakest in society from abuse, ethical behavior can only exist within an enterprise where there is insistent and effective leadership.

It is business leaders who orient companies toward specific ethical values and principles, manage the implementation, and help enterprises sustain ethical conduct over time. Strictly speaking, “Responsibility” can only be applied to persons, and not to any structure or community, since an institution, a structure or a society is not the executor of moral acts. Therefore Corporate Social Responsibility (CSR) can only be understood as the responsibility of all the persons involved in the enterprises (i.e..: all the stakeholders), beginning with those with authority, the executives.

No regulation, no code of conduct, can predict the future and prevent an accident or misconduct. It is the people themselves who make the decisions, it is only in their hearts that true CSR can and needs to lie, where the choice to serve the common good can be made. The internal culture, the overall quality of interpersonal relationships within an enterprise, and its ability to live up to written principles are directly linked to the attitudes and examples of its leaders. The personal responsibility of the business executive is paramount. Key virtues are required, like a solid ethical governing body, the ability to cultivate ethics and to live up to them even in adverse conditions, a high degree of consistency in applying these ethical principles over time, and the ability to be uncompromising when ethical rules are breached. The values must be defended not only internally but also vis-à-vis shareholders and the other external stakeholders. In most cases, the top executive is alone when facing difficult ethical choices.

***Ethics Requires a Founding Spirituality***

The solitude the leader lives with while making decisions, is only bearable when one finds an inner-sense. Leaders need to recognize in themselves this spirit, as well as recognizing it in each of their stakeholders. And this ethics of respect cannot but give space to all the dimensions of all counterparts. The choices made by the leader sends clear signals to the whole organization of his or her willingness to sustain stated ethical and spiritual choices over time, while the rest of company may not be aware of all the factors considered in the decision.

One of the responsibilities of the leader is to help re-appraise work. The world needs to do away with the reductionist view of the meaning of human labor that considers work as a form of merchandise or as an anonymous “force” necessary for production that is characterized by materialistic economic premises where the objective dimension of work is given too much importance to the detriment of the individual dimension. The re-appraisal of work entails that both executives and co-workers consider themselves not as an instrument of production but as efficient individuals. This appraisal should show that the value of human work is not based on the type of job that is carried out but on the fact that the work is being carried out by a human being.

Each and everyone involved in the economy have their own responsibility. It needs to be noted however that one role of the executive is to organize the enterprise in such a way that this responsibility can be truly assumed among all stakeholders towards the common good, especially among those persons directly under his or her authority.

This role will help create a culture where each business partner has the opportunity and motivation to assume their own responsibility (to sustain and foster this culture). The responsibility of the leaders is to promote a sense of reaching beyond work and to have this experience lived by their co-workers. From the perspective of Christian Social Teaching each person through one's work, takes part in the ‘Creator’s’ work and, according to their own skills, in some sense, continues this work, unlocking resources and values hidden in all of creation. Christian Social Teaching holds that even through the most ordinary chores and tasks, human work represents a contribution to God’s creation.

## CONCRETE ILLUSTRATIONS OF SPIRITUALITY IN LEADERSHIP

When the leader recognizes in each of the stakeholders a person with a spirit, a soul and a body, they will seek to implement a culture which respects these three dimensions. The following examples are real cases when leaders have chosen to push further the frontier of management.

### *The Principle of Fair Wage: the Care of the Material Needs of the Employees*

A common understanding of Fair Wage is the local market practice, provided it is above the current minimum wage regulation. A more demanding definition could be: a level which ensures employees a decent life. Accordingly, the entrepreneur should adjust the organization of the enterprises so that employees can earn a living which ensures the necessary comfort for themselves and their families (housing, food, clothing, education, health insurance, culture, leisure etc ...) while respecting the constraints of survival for the enterprise (i.e. competition). This usually will compel leaders to discover the full capacity of each employee and help them to develop.

### *The Principle of Fair Price: the Care for the Material Needs of the Community*

A common understanding of Fair Price is the production costs plus a fair margin for profit. Fair Price is often understood as being lower than the market price in a seller’s market (e.g. when the buyer is facing an emergency such as buying food in a period of scarcity) and higher than the market price in a buyer’s market (e.g. when the seller must sell to survive, for instance precious items in a period of war). Some add a minimum social commitment to the production costs so that the enterprise, generating profit, would be able to redistribute the produced wealth to the local communities. This makes sense especially when the local governments are weak, when the necessary collective costs are not covered by the collection of taxes.

This may lead to refuse competition or look for more efficient processes when all the stakeholders cannot be rewarded directly (project sponsorship from the enterprise) or indirectly (through taxes): the profit is sought not only for the shareholders but to support solidarity.

***The Care for the Spiritual Needs of the Employees***

A common understanding of respect is based on non-discrimination. The spiritual dimension of the employees must be respected so far as it does not interfere with the working environment. Very often, employees are requested to leave their spiritual dimension (and certainly their religious dimension) at the door of their enterprises. In contrast, some commentators suggest we welcome explicitly the spiritual dimension of employees at work, by recognizing the need for trust and confidence, the need for truth, beauty and good in the working environment. Others go beyond and offer for instance places and time for prayer as long as everyone feels free about it and that it does not weigh on the shoulders of co-workers.

The specificity of Christian behavior comes from the interior vitality of our common human virtues (justice, solidarity) instilled by the theological virtues of faith, charity and hope. This spirituality extends the movement of Incarnation in our world and has had a huge influence on our civilization and human development, for instance with regards to the dignity of human beings. From the Eucharistic perspective, the aim of human labor is to provide bread, a symbol of life, to all men. Through his work, not only does man transform the world of things, but he also shares parts of himself through the things he produces and exchanges and thereby enters into ‘communion’ with his fellow-men. From this perspective, like Christ, man becomes the bread of life for all men, so as to form one body with Him.

“Being a Christian and doing business should by no means be a burden or give rise to blame; on the contrary, it should represent a commitment and a driving inner force towards moral integrity, responsibility, submission and social openness” (Pope Paul VI).

## REFERENCES

Cavanaugh, W. T. (2008). *Being consumed, economics and Christian desire*. Grand Rapids, MI: Wm. B. Eerdmans Publishing.

Chomali, F. & Majluf, N. (2007). *Etica & responsabilidad Social de la Empresa*. Santiago de Chile: El Mercurio.

Collins, J. C., & Porras, J. I. (1994). *Built to last, successful habits of visionary companies*. HarperBusiness.

Cortina, A. (2000). *Ética de las empresas*. Madrid: Editorial Trotta.

Dembinski, P. H. (2008). *Finance servante ou finance trompeuse*. Paris : DDB.

Manzone, G. (2002). *La Responsabilita Dell'impresa: Business Ethics E Dottrina Sociale Della Chiesa in Dialogo*. Brescia. Queriniana.

Naughton, M., & Alford, H. (2001). *Managing as if faith mattered*. Indiana: University of Notre Dame Press.

Servitje, L. (2007). *La vida económica, la empresa y los empresarios*. México: Noriega.

de Woot, P. (2005). *Should Prometheus be bound? Corporate Global Responsibility*. Palgrave Macmillan: Basingstoke.

Zamagni, S. (2007). *L’economia del bene comune*. Roma: Città Nuova.

Pontifical Council for Justice and Peace. (2004). *Compendium of the social doctrine of the Church*. Rome: Libreria Editrice Vaticana.

# SPIRITUAL INTELLIGENCE AND LEADERSHIP IN THE CHINA LABORATORY

**Nandani Lynton**
China Europe International Business School, Shanghai, China

**Kirsten Høgh Thøgersen**
School of Psychology, Sun Yat-Sen University, China

**Abstract:** Research on highly effective expatriate and Chinese leaders in China suggests that the two groups use Spiritual Intelligence to attain extraordinary results at work. Spiritual Intelligence requires the creativity of the values and the inner core of the person. We show that there are culturally specific techniques for reaching that inner core. Western leaders develop Spiritual Intelligence through reflection and use counterintuitive ways to create mindfulness. Chinese leaders identify with group values and draw on images of nature and traditional philosophy to enhance Spiritual Intelligence. This paper gives examples and quotes from interviews with Western and Chinese corporate leaders, and draws initial conclusions on their views of the Common Good while pointing to new developments emerging as executives enhance the spirit through action.

**Keywords:** spiritual; intelligence, corporate leadership

## INTRODUCTION

A spiritually intelligent leader in the China laboratory is usually not spiritual in the traditional sense of the word. Carl Crow was no angel, he certainly exercised a well developed capitalist instinct, and yet he was also known as a person with strong values and integrity. Likewise, some of the best and most honest executive's we have worked with in our long professional careers in China are not typically spiritual. In fact they cover the range of personalities, from outgoing, even wild types to quiet introverts. What makes them all spiritually intelligent is that they use the same five practices:

- They are hardworking.
- They love what they do and they gain energy from that passion.
- They know and use their values.
- They have a keen awareness of and respect for their cultural roots.
- They do good.

The first two practices create an active and demanding life. The next two help to convert their energy into positive outcomes. The last one ensures that the progress they make cascades out to a larger audience. Our research shows that highly effective executives express Spiritual Intelligence through feeling part of something larger, a feeling that engenders the need to give back to the community (Lynton & Thogersen, 2006). In this paper we define Spiritual Intelligence most broadly as “the intelligence with which we access our deepest meanings, values, purposes, and highest motivations” (Zohar & Marshall, 2004, p. 3). This emphasizes a deep connection to a larger whole; and connection is crucial in the development of specific attributes such as humility. The individual seeks to be in alignment with the whole, but that first means living in congruence with ones’ own values and purposes – the definition of integrity. So Spiritual Intelligence also has to do with becoming a whole person – with one set of values that guide our behavior in public and private roles.

The research for this paper is based on interviews with 40 Chinese and Western senior executives, a survey and interviews with 49 Chinese and Western Generation Ys, plus the authors’ more than 35 years of combined coaching and consulting practice working with Chinese and Western executives and managers.

The role of individual leaders in aligned organizations is crucial, as role models, guides, and guardians of cultural and corporate values. Recent scandals such as the financial crisis caused in part by greed and skirting legality by bankers in New York and London, or the addition of melamine to milk powder in China, illustrate what can happen when leaders foster a culture enabling people to feel above the rules. Many researchers concerned with linking corporate social responsibility to better results build on the link between clear principles for action, alignment and positive organizational outcomes sometimes also called “Moral Intelligence” or “Spiritual Capital” (e.g. Bennis, Goleman, O’Toole, 2008; Bouchikhi & Kimberley, 2008; Conger, 1994).

Leaders in both Western and Eastern contexts would do well to heed Confucian philosophy, which states that 'moral example' is central to civilization. A morally educated father will develop an evolved family. A morally upright leader will build an evolved state. And, Wharton research would add, a CEO with integrity will lead a successful organization (Kiel & Lennick, 2004).

This paper examines the role of Spiritual Intelligence in leadership and compares the way Western and Chinese leaders build and use their Spiritual Intelligence to maintain their integrity and guide their organizations.

### *Purpose is Realized Through Dynamic Action*

Spirituality is usually defined as relating to our interior or subjective life, as distinct from our external, material lives. In many traditions, spirituality is seen as something cultivated by men and women who pull back from normal activities and isolate themselves to contemplate life. This division of spiritual and material labor was encouraged by many cultures and ages that have considered thinking more exclusive than action. Now this is changing, with the socially marginal being idle and the privileged working 24 hours a day.

We see a significant new pattern arising as executives generate Spiritual Intelligence through action grounded in their respective culture and history. These changes demand that we find a new understanding of how spirituality is generated. Of course it comes from the inside, but today it emerges equally through action. Or rather, the executives with whom we work seem to develop Spiritual Intelligence through balancing internal and external, contemplation and action. Spirituality as a consequence of action is part of what is now transcending the East-West split.

### *The Get-Ahead Instinct Rides us Hard*

The drive to get ahead is what pushes most business leaders; executives, just exhibit it to a higher degree. In their book Mean Genes, Harvard and UCLA professors Burnham & Phelan write: “Lurking inside our hopes are genes that want us to work hard all the time. They prosper most when we run full tilt. Once we approach the point of promised bliss, the emotional football is moved again. In this manner we are motivated to do our best at every minute" (2001, p. 115). They go on to say that our instincts have short-term goals and do not mind running us into burnout; they ride us like tough jockeys.

This explains why executives without inner balance become slaves to instinct. Many suffer from the low level depression accompanying adrenalin poisoning, and can and do turn into workaholics, alcoholics, or abuse other substances and activities. In order to gather the energy required for all the external action of leadership, the executive should pay attention to building inner strength, to balancing the "doing" with reflection and listening within. This is why the will to build Spiritual Intelligence is essential for responsible leadership.

## WESTERN APPROACHES

### *Work is Good, Passion is Quicker*

Many executives have the best of motivations for working so hard – for their families, to build a good future, to develop the company. They see themselves as serving others, and they do. But the executive life is tremendously difficult and many (especially men) throw themselves into work compulsively. Often this becomes too one-sided and leads to broken families and professional burnout.

The pace and complexity of global business makes passion a necessary leadership discipline today. The sociologist G. H. Mead talked about passion as accessing the core energy of the "I", the place where "change arises and … our deepest values are located" (1934, p. 204). While core energy in itself is undirected, with passion it becomes strongly focused. Being able to administrate passion is therefore crucial to business success. This view is reflected in the title of a recent edition of the cutting edge German economic journal, 'Brand Eins': "Business needs Passion" (2008). In a state of passion at work, the effective global executive goes beyond action plans and enters into a condition of flow.

Passion is the missing link in understanding what makes up the unusual effectiveness of successful global executives, and it is the main ingredient in the psychological mechanism behind the ability to stay hyper- focused on high priority tasks. "When the feeling is there, you know what you do and you reach your goals sort of painless and elegantly," said Peter Feldinger, ex-President of Novo China and currently head of Novozymes Korea. Effective executives set strong priorities and stick to them. In passion they forget about themselves, and the focus point rises in their mind to a "higher purpose". Thus, through passion the priority focus is enhanced into having extraordinary meaning and importance, while other problems become strangely minimized.

Effective leaders are also aware of the ups and downs in energy. One said: ''If you are on a high for some days, you will be on a low soon after.'' Describing a rewarding situation, Clinton Dines, head of BHP Billiton China said: There is high efficiency; people respond well, and they bring things that sound good. This is a serious psychic reward…. It is a little delicate because if I hit an obstacle I can lose it like air out of a balloon." Here we feel the energy of the passion, but the wise executive plans for losing it too.

### *Reflection Gets You Further*

Spiritually Intelligent executives learn to plan and administrate passion through disciplined reflection, using practices that help them become aware of themselves in a larger context. They use rituals that encourage attention to detail and time for reflecting on what is going on around them, how they are impacting their environment, and to think about how they think. ‘‘I take time every day,” they all say. "To be in contact with your values you have to designate time to think. Sometimes quick judgment is needed, and you must be in close touch with this personal sense of direction that you can only sustain by daily reflection," states Tom Behrens-Sorensen, Executive Vice Chairman & Chief Executive at Maersk China Limited. Even President Obama said: “... actually the most important thing you need to do is to have big chunks of time during the day when all you're doing is thinking. “And if you get too busy and don’t think, you start making mistakes, or you lose the big picture” (ABC News, July 26, 2008).

In disciplined reflection executives observe and modify their own thinking and behavior. The process includes self-examination, feeling and defining the gaps between their values and their actions, and deciding on steps to change less-desirable behavior. Executives each have a different strategy for keeping to their daily reflection, but none goes without if they want to keep their edge. Building Spiritual Intelligence demands that you work on it every day. It is like physical exercise or learning a language, as soon as you stop for a week you have lost the “muscle”. It is continuous discipline that builds integrity.

## CHINESE APPROACHES

### *Spirituality and Work are Social*

Lao Tzu said that those who speak do not know while those who know do not speak. This indicates that spirituality can only be thought about as something you cannot talk about. It is not accessible within the limits of language. In China, spirituality is not a common word. Business is hard and competitive and the Chinese are mostly secular people who do not usually discuss personal matters. On the other hand, they have particular practices that are in essence spiritual, although they are mostly not labeled as such.

The Chinese are fundamentally social beings. They feel themselves and their inner values though such close social interrelationships that they can only define themselves as appreciated by “the other”, a technique that every practicing psychologist would not hesitate to call an “ideal” human identification. When this happens in the West we call it love or devotion. Pragmatism is another spiritual strength of the Chinese that is not so easily recognized. Chinese rarely speak in the abstract, and while this causes its own misunderstandings in East-West relationships, in China it is often an advantage when it comes to changing things here and now. The Chinese are constantly building a better society exactly because they accept systems such as capitalism so easily and work with the usable pieces. They do not talk much about an idealistic society; they just want to make progress, one step at a time. In the Chinese holistic mind everything is connected to everything else in such intricate ways that it does not really matter where you start, because good and progress will spill over to what follows, and will grow depending on nature and destiny, the way waters flow and the winds blow.

Culture is the pair of glasses through which we view the world, the system of meaning within which we act and interpret life. In recent years, neurological research has shown that the very paths of our brains are culturally determined, giving a tangible basis for cultural differences (e.g. Hedden, 2008; House et al, 2004; Zhou et al, 2008). The primary vigor of Western business leaders appears to lay in cultivating self-awareness and developing integrity. They emphasize the individual, his feelings, his reflection, and his rights.

Chinese strength, on the other hand, comes primarily from immersing the self in the collective and using the energy of the group. Chinese begin with a view of life, work and community that is far more integrated than that of Westerners. Their Spiritual Intelligence comes from persevering through hardship, sacrificing for the group, and setting the frame. They develop a heightened ability to intuitively feel the larger situation. The collective culture provides a strong structure within which individual Chinese can be creative leaders feeling and using the existing directional flow. Chinese Spiritual Intelligence therefore seems to be located within the frames of destiny and energy flows, and be expressed through hard work and endurance.

Chinese leaders we have interviewed and worked with talk openly about using their energies. No less committed to long hours than Westerners, many also work all the time. Asked when he turns off from work, Jiang Wei Ming, President of DSM China, laughed and said: “Never, I work 24 hours a day, work all the time.” Many Chinese CEOs work endlessly because they carry the responsibility for decisions that get pushed up the hierarchy, and/or they are entrepreneurs guiding their businesses carefully, making all the decisions.

Asked in seminars to choose adjectives that describe themselves, more than 800 Chinese participants over the last 10 years have virtually always included “endurance” in their descriptions of themselves. No Western participant has chosen that word in the same timeframe. One Chinese observed: “Westerners do not understand about devotion and sacrifice. For them it is all about results and feelings and themselves.” Dr. Lu Jianhong agreed: “The Chinese have a great attitude towards hardship. I can feel that in my Chinese friends as opposed to my Western friends.”

***Setting the Frame Gets Results***

Chinese leaders also use passion but for them it is less an individual activity, instead it includes the group with whom they work and their relationship networks. The leaders and entrepreneurs interviewed focus on team-building – and even family spirit in their enterprise, and downplay reflection. They emphasize the ongoing joint struggle for success, the need for endurance and mutual support. Among Chinese leaders, the most frequent words used to describe leadership attributes are: the ability to create cohesion, generosity, and the skill to set the right direction. In other words, for them the overarching task is setting the right frame of reference for their followers, to establish norms of behavior and performance that will inspire the group around them to act in concert. They ensure the environment feels right for things to go ahead and happen. Reflection is less necessary in the Chinese context, where the frame drives individual behavior.

Chinese leaders often express their Spiritual Intelligence using images of nature or simple truths. Many report searching both Western literature and Chinese philosophical classics including poetry for ways of organizing their thoughts and emotions.

Our research shows that both Chinese leaders and young Chinese share a deep belief in the power of destiny. This does not mean that they are passive fatalists, but it allows for trying things without feeling personal responsibility for possible failure. “I have no religion but I strongly believe in destiny,” said Henry Zhang, marketing manager. “I do not create my own path; I just follow what is there already.” “Why do these things happen? Feels like – something like fate,” says a Chinese journalist. Belief in destiny, fate, or yuan fen is widespread across generations in China and provides a strong framework for action.

Many of the young leaders we have interviewed seek to anchor their beliefs in Chinese traditional philosophy as well. David Hu, a businessman in Shanghai, explained: “I am a Taoist. I like Lao Tzu; he was very wise. I like to keep a low profile. Doing nothing is like doing everything." This is the Taoist concept of wuwei. "It is like in nature. Things work out best on their own energy. When good things happen, don't disrupt the energy. Like in an organization, if you can create liveliness and spark, new ideas will come. People will know what to do if they have the human quality, like my staff. The traditional Chinese values are mine. Go the middle way, go the natural way." Many Chinese business leaders set up situations in which they and their staff are motivated to sacrifice themselves for the common goal. This is a Chinese strength and the leaders know how to harness it.

The magnetic pull of Chinese collective culture can both lure and alienate Westerns; from the Chinese perspective, however, it provides a firm context. "I want to lose the ego (Chinese say 'wang qing', literally to 'forget self'). When I lose the ego I feel the flow – I seek that," said a Chinese editor who has spent two years in Europe. Chinese Spiritual Intelligence is based on shared beliefs and values – in destiny, in natural energy flows, in family and in self-sacrifice. This gives the individual Chinese a frankly superhuman strength – because that strength comes from the group.

## OUTLOOK

Our research has shown that successful Chinese and Western executives can and do develop Spiritual Intelligence but in different ways. Leaders from both cultures seek to serve. Western leaders want to give back to the community; at work they use passion and so harness the core energy of their individual "I". To control it they use reflection. Chinese leaders also give back, "we like to serve, we always think of family," they say. They discipline themselves through hard work and self-sacrifice, developing their identity as part of the group.

In their daily encounters, we see Chinese and Western leaders seeking to expand their own understanding. The Westerners by intuiting their way into holistic thinking and feeling the group, the Chinese by thinking as individuals in practical matters and experimenting with the emotional ranges they see Westerners experience. "I was so impressed by the Western rituals, upholding their culture through unbroken traditions," said Dr. Lu. Each side feels the other has something – something they would like to try too, but is uncertain about how.

Somewhere in the overlap of Western and Chinese, of group and individual, on the creative messy borders we see a synergy in emergence, in which leaders are feeling their way towards a Spiritual Intelligence that is based neither on universal principles nor seen as purely relative to the situation. Its universality is a new social universality. Western executives are strongly attracted to Chinese holistic perspectives, and Chinese leaders are looking into the ways Westerners protect their individuality, their tradition and culture, and the values therein. The act of Spiritual Intelligence in the China laboratory seems to be relative to the situation, but is nevertheless objective in that it demands social-rational agreement. We believe this is a developing Pragmatic Ethic and we continue to watch its emergence.

## REFERENCES

Bennis, W., Goleman, D., & O'Toole, J. (2008). *How Leaders create a culture of candor.* San Francisco: Jossey-Bass.

Bouchikhi, H., & Kimberley, J. (2008) *The soul of the corporation: How to manage the identity of your company.* New Jersey: Wharton School

Burnham, T., & Phelan, J. (2001). *Mean genes: From sex to money to food: Taming our primal instincts.*

New York: Penguin.

*Brandeins, Wirtschaftsmagazin*. (2008). Wirtschaft braucht Leidenschaft, *10*(08).

Conger, J.A. & Associates. (1994). *Spirit at work: Discovering the spirituality in leadership*. San Francisco: Jossey-Bass.

Hedden, T., Ketay, S., Aron, A., Markus, H.R., & Gabrieli, J.D.E. (2008). Cultural influences on neural substrates of attentional control. Massachusetts Institute of Technology (2008, January 13). Culture Influences Brain Function, Study Shows. *ScienceDaily*. Retrieved August 15, 2008, from http://www.sciencedaily.com- /releases/2008/01/080111102934.htm

House, R.J., Hanges, P.J., Javidan, M., Dorfman, P., & Gupta, V. (Eds). (2004). *Culture, leadership, and organizations: The GLOBE study of 62 societies.* Thousand Oaks: Sage Publications.

Kiel, F., & Lennick, D. (2005). *Moral intelligence: Enhancing business performance and leadership success***.** New Jersey: Wharton.

Lynton, N., & Thogersen, K. (2006). China transforms an executive's mind. *Organizational Dynamics, 35* (2), 170-181.

Mead, G. H. (1934). Fragments on ethics supplementary essay IV. In C. W. Morris (Ed.), *Mind Self and Society from the Standpoint of a Social Behaviorist*. Chicago: University of Chicago Press.

Zohar, D., & Marshall, I. (2004). *Spiritual capital. Wealth we can live by*. San Francisco: Berrett-Koehler.

Zhou, X., Saucier, G., Gao, DG., & Liu, J. (2009) The factor structure *of* Chinese personality terms. *Journal* of *Personality, China*.

## Contributing Authors

**Gerhold K. Becker** is Regular Visiting Professor in the Graduate School of Religion and Philosophy, Assumption University of Thailand, Bangkok. He is the Founding Director of the Center for Applied Ethics and a retired Chair, as well as Professor of Philosophy and Religion at Hong Kong Baptist University. His publications include *Ethics in Business and Society*, *Chinese and Western Perspectives* (1996), *Changing Nature's Course: The Ethical Challenge of Biotechnology* (1996), and *The Moral Status of Persons: Perspectives on Bioethics* (2000).

**Kirk Davidson** received a B.A. degree from Princeton University, an MBA from Harvard University, and a PhD. in Business Administration from Golden Gate University. He spent the first thirty years of his career in the business world as a retailer with both large and small firms. Twenty years ago he became a full-time academic and now holds the rank of Professor in corporate social responsibility and marketing at Mount St. Mary's University in Emmitsburg, Maryland. He is the author of two books, *Selling Sin, The Marketing of Socially Unacceptable Products* and *The Moral Dimension of Marketing: Essays on Business Ethics*, as well as numerous chapters in edited books and journal publications.

**F.K. Marsh** is an Associate Professor of Management at Mount St. Mary's University. She received her MBA from Canisius College and PhD. from the University of Michigan. Her research interests include corporate integrity and business ethics, leading change in times of structural turmoil, and workplace spirituality and organizational performance.

**Anand Amaladass** is Professor-Emeritus at Satya Nilayam, Institute of Philosophy and Culture, Chennai, India. He was founder-editor of Satya Nilayam Chennai Journal of Intercultural Philosophy (2002-2007) and co-editor of the Journal of Hindu Christian Studies (1988-2007). At present he is working on a publication on the "Christian Themes in Indian Art" which will be ready by September 2009.

**Songbai Liu** is a Professor of Management, Director of Beijing Normal University Libraries, and Director of the MBA Education Center in Beijing Normal University. His research interests include management, international management, change management, theory of organization, and strategic management.

**Margit Osterloh** is full Professor of Business Administration at the University of Zurich. Her main areas of research include organization design, knowledge management, corporate governance, open source software production, and gender issues.

**Jetta Frost** is full Professor of Organization Management and Theory at the University of Hamburg. She received her PhD and habilitation in business administration from the University of Zurich. Her research interests include theories of the firm and organizational as well as knowledge governance in multidivisional firms and research-based organizations.

**Felix Ekardt** is a Lawyer, Philosopher, and Sociologist, and Professor for Environmental Law and

Legal Philosophy at the University of Rostock, Faculty of Law, Germany, and a visiting lecturer at the University of Leipzig, Faculty of Philosophy. His research interests include climate policy, theory of sustainability, theory of justice, and WTO law.

**Johanna Kujala** is a Professor of Management and organization and director of the RESPMAN (Responsible Management) research group at the University of Tampere, Finland. She received her PhD from the University of Jyväskylä. Her current research focuses on how stakeholder relations create value, multi-voicedness in stakeholder strategizing, and managers’ moral decision-making.

**Pasi Sajasalo** is Senior Assistant of Management and Leadership at the University of Jyväskylä, Finland and Adjunct Professor at the Lappeenranta University of Technology. He received his PhD from the University of Jyväskylä. His current research interests include international strategy, entry mode choices of SMEs, and managerial cognition.

**Peter Verhezen** is a Visiting Scholar and Senior Fellow at the University of Melbourne (Australia) and Advisor to corporations in Asia-Pacific. He received his MA International Relations from Antwerp University (Belgium) and his MBA from Leuven Business School and his PhD in Philosophy from the University of Leuven (Belgium). His current interests are Corporate Governance and Integrated Risk Strategies in corporations.

**Paul Morse** is the Executive Director of the Great Union Group Limited and its subsidiary Great Union Oil Investments Limited (Oil and Gas Companies) in Hong Kong. He received his BA Political Science and BS Civil Engineering from Stanford University (USA), and his MBA and PhD in International Relations from Middleham University (UK). His current academic interests are International Relations and Politics in Emerging Markets, and Governance Strategies.

**Roderick O'Brien** is an Australian Lawyer. He holds a Master of Arts (Comparative Asian Studies) from Hong Kong University, and graduate qualifications in ethics from Griffith University. He is currently researching lawyers' ethics at the University of South Australia. Besides legal ethics, he is also interested in international humanitarian law.

**Laurent Mortreuil** has been the General Secretary of Uniapac International since 2007. He received his PhD from the Sorbonne University, Paris and graduated from Ecole Polytechnique. His current research interests include management with spirituality, man-centered economy, and Christian inspired corporate social responsibility.

**Nandani Lynton** obtained her PhD in Cultural Anthropology from Cornell University and has built, run, and sold a consulting business in China. She focuses on how to best develop effective leadership in global business and governmental organizations. A professor at the China Europe Business School in Shanghai, she regularly leads senior programs for corporate clients and for Duke Corporate Education, the Thunderbird School of Global Management and Melbourne Business School.

**Kirsten Hogh Thogersen** is a professor at Sun Yat-Sen University, Guangzhou, China. Her work often appears in European newspapers and journals in China and in educational materials. A PhD in clinical psychology from Aarhus, she has worked at International Clinics in Beijing and Brussels for 20 years while running a private counseling practice.

# Peking University-CIBE Business Ethics Textbooks Translation Series

* The Peking University Press series began in 2004 and now consists of 8 published books about business ethics translated into Chinese.
* Authors come from America and Europe and are experts in their field. Peking University and CIBE plan to publish six books within the next two years.
* Future volumes connect ethics with topics such as business values, organizational politics, corporate governance, and marketing.
* Example titles include "Happiness and Sustainability" and "Setting Global Standards."
* The books can be purchased at much lower prices than their originals. The price ranges from RMB 16 to RMB 36.


<INTERNATIONAL BUSINESS ETHICS: CHALLENGES AND APPROACHES>
By: Georges Enderle
《国际经济伦理---挑战与应对方法》

This collection of articles explores the field of international business ethics. Together, the articles paint a multidisciplinary picture of international business ethics as it evolves, and delineate the contours of how international business ethics may develop at the turn of the millennium.

[www.amazon.com]

*Enderle, G. (1999). International Business Ethics: Challenges and Approaches. Indiana: University of Notre Dame Press.*


<ENVIRONMENTAL ETHICS>
By: Joseph Des Jardins
《环境伦理学》

The typical cases, wonderful thorough analysis and rigorous complete structure make this book the most important work for environmental ethics and related fields. The potential value of the book cannot be underestimated for students, government policy makers and the general public.

[www.Dangdang.com]

*Des Jardins, J. (2005). Environmental Ethics: An Introduction to Environmental Philosophy. Beijing: Peking University Press.*


<ACCOUNTING ETHICS>
By: Ronald F. Duska and Brenda Shay Duska
《会计伦理学》

Accounting Ethics uses concrete examples and case studies, including current situations such as the Enron/Arthur Andersen debacle, to examine the ethical responsibilities of individual accountants as well as accounting firms.

• Offers a comprehensive overview of ethics in accounting, as well as an examination of and recommendations for solving the current crisis in this field.
• Investigates the nature and purpose of accounting.
• Uses concrete examples and case studies, including current situations such as the Enron/Arthur Andersen debacle.
• Examines the ethical responsibilities of individual accountants as well as accounting firms .

[www.amazon.com]

"Accounting Ethics" was written for us in this confusing time. Duska has produced a foundational accounting ethics book.

• Thomas W. Dunfee ( Wharton School of the University of Pennsylvania)

*Duska, R. & Duska, B.S. (2003). Accounting Ethics. Oxford: Blackwell Publishing.*

Bestseller


JIBE Editor's Choice

<BUSINESS ETHICS>
By: Richard T . De George
《经济伦理学》

This book provides comprehensive, integrated coverage of the entire field of business ethics. It begins with an overview of today's business scene, then explores the basic tools and techniques of ethical analysis and moral reasoning and shows how they apply to a wide range of issues in all areas of business — including marketing, finance, management, strategic planning, computer systems, etc. Provides charts showing how to handle different ethical approaches and how to use the approaches in handling issues. Shows readers how to think through issues to conclusions -- presents both sides of an issue and shows how one can argue to a conclusion.

[www.amazon.com]

*De George, R. (2006). Business Ethics, New Jersey: Pearson Education.*


< EMPLOYMENT AND EMPLOYEE RIGHTS>

By: Patricia H. Werhane, Tara J. Radin and Norman E. Bowie

《就业和员工权利》

This is the latest and decisive work regarding employees 'rights.Do you want to know how to be an ethical employer? This book will tell you.This is a very practical,practice-oriented book.Every human resource manager must read it.

John McCall, Saint Joseph's University

*Werhane, P., Radin, T.J. & Bowie, N.E. (2003) Employment and Employee Rights. Oxford: Wiley-Blackwell.*

JIBE Editor's Choice


<ETHICS IN FINANCE>

By: John R . Boatright

《金融伦理学》

This second edition is a valuable addition to the emerging field of finance ethics. Citing examples of the scandals that have shaken public confidence in the ethics of Wall Street, this text explains the importance of ethics, the operation of financial institutions and the personal conduct of finance professionals.

- Focuses on practical issues that confront finance professionals and policy makers
- Now includes discussion of issues in mutual funds and financial engineering, the independence of analysts at investment banks, and the bank's responsibility for the conduct of its clients
- Features a new chapter on conflicts of interest in financial services, expanded treatment of ethical issues in IPOs, and a new discussion about the discarding of pension funds
- Cites examples of the scandals that have shaken public confidence in Wall Street

[www.amazon.com]

*Boatright, J.R. (1999). Ethics in Finance. Oxford: Blackwell Publishing.*


<LOCAL INSIGHTS, GLOBAL ETHICS FOR BUSINESS>

By: Daryl Koehn

《地方智慧与全球商业伦理》

This book evaluates strategies for managing ethical conflict. Macro-approaches that attribute select values to entire peoples and claim supremacy for these values are suspect. A micro-approach, focusing on the ethics of individual thinkers, is better. The study uses the ethics of Confucius and Tetsuro Watsuji to derive a process-based universal ethic that respects local differences yet is not relativistic. Foreword by Gerhold K. Becker, JIBE Volume 3 Contributor

[www.amazon.com]

This book is not only for Western readers ... but also has an important reference value for Chinese readers. It helps us to deepen arguments related to global business ethics, contribute reflection on "macro research methods" of business ethics in the West and re-examine the role of Chinese traditional ethics in the socialist market economy and global ethics construction.

[www.china-pub.com]

*Koehn, D. (2001). Local Wisdom and Global Business Ethics. New York: Rodopi.*


<HAPPINESS AND ECONOMICS- HOW THE ECONOMY AND INSTITUTIONS AFFECT WELL-BEING>

By: Bruno S. Frey & Alois Stutzer

《幸福与经济学-经济和制度对人类福祉的影响》

This is the first book to establish empirically the link between happiness and economics--and between happiness and democracy. Two respected economists, Bruno S. Frey and Alois Stutzer, integrate insights and findings from psychology, where attempts to measure quality of life are well-documented, as well as from sociology and political science. They demonstrate how micro- and macro-economic conditions in the form of income, unemployment, and inflation affect happiness.

[www.amazon.com]

*Frey, B.S. & Stutzer, A. (2006). Happiness and Economics: How the Economy and Institution Affect Well-Being. Beijing: Peking University Press.*

*For more detailed content introduction: http://www.cibe.org.cn.*

# CORPORATE SOCIAL RESPONSIBILITY ESSAY COMPETITION 2009

**"Corporate Social Responsibility Essay Competition" 2008**

- Spanning across twelve of Beijing's top universities, including Peking University and Tsinghua University
- Over sixty students submitted essays and over 500 registered their interest in the contest

**"Corporate Social Responsibility Essay Competition" 2009 and beyond**

- Catapult the competition to a national scale and further involve the international student community in Beijing
- Future competitions will launch the competition to an international level

## Goals:

- Facilitate discussion on current business scandals.
- Bridge the gap between the university curriculum and recent developments in CSR.
- Improve essential critical thinking skills needed in students' future careers.
- Expose students to career and research opportunities in CSR.

## Schedule:

| | |
|---|---|
| May | Opening Ceremony |
| June-July | Abstract Collection |
| August-September | Paper Writing |
| October | Award Ceremony |

## Prizes:

| Place | Prize | Amount |
|---|---|---|
| First Place | ¥3000 | 1 |
| Second Place | ¥1500 | 2 |
| Third Place | ¥500 | 3 |

## CIBE Seeks Cooperators

### Professors:

CIBE seeks competition judges to review papers, provide commentary and serve as mentors to students.
Benefits Received from CIBE:
- Communicate and learn with China's top students

### Companies:

CIBE seeks international and Chinese multinational and SME enterprises to provide company products as incentive prizes, open their factory or office for a tour for students, and sponsor competition prizes.
Benefits Received from CIBE:
- Recruiting channel to thousands of ethically conscious students throughout China
- Logo placement on all CIBE Case Study competition materials in Chinese universities nationwide and on CIBE website
- Name of sponsoring company attached to sponsored prize

### Educational/Research Institutions:

CIBE seeks educational institutions to provide case study and research training materials to students.
Benefits received from CIBE:
- Exposure to Chinese students and professors
- Build potential research cooperations
- Logo exposure on CIBE website and all CSR competition training materials

Liaison (English)
Teresa DeLaurentis
delaurentis@cibe.org.cn

Liaison (Chinese)
Harry Chen
abcdefgcsr@gmail.com

Liaison (Chinese)
Vera Zhou
Verazhoumingdao@163.com


# CIBE ANNUAL CONFERENCE 2009
# INTEGRITY IN CHINA

**ORGANIZERS**

As an international research institution, CIBE facilitates the dialogue between businesspeople and scholars with conferences and training seminars with a special focus on the Chinese context.

The China Credit Research Center (CCRC) at Peking University
The China Credit Research Center (CCRC) at Peking University is the first authoritative institution focusing on researching socio-economic credit, based at Peking University's School of Economics.

**TIME & PLACE**

Oct. 30 &31, 2009 in Beijing, at Peking University

**TOPIC**

An Exploration of the Meaning and Application of Integrity in the Chinese Context

*Individual integrity, as moral commitment, integration, and expression of values, intentions, and convictions of trust and expectation*

- On an individual level, personal integrity's development depends on character development. Education from youth to adulthood takes a prominent role.
- Individuals may process and deliberate over what is valuable and worth doing, and develop strong intellectual integrity through critical thinking and honed communication skills.

*Corporate and organizational integrity as sustainable business development and commitment to corporate social responsibility*

- Integrity on a corporate level depends on the strategic vision and mission of a company in its responsibility to an ever-widening set of stakeholders in relationship to environmental, social, and governance factors.

*Points of interest*

- Strategies of coping with conflicts between moral, personal, professional, corporate, and community integrity
- The role of economic arrangements in structuring individuals' lives to promote integrity
- Developing a society favorable to the development of integrity

Passage inspired by:
Integrity. *The Stanford Encyclopedia of Philosophy.* Retrieved April 24, 2009 from http://plato.stanford.edu/entries/integrity/

**CONTACT INFORMATION**

Dorothy Gao, Center for International Business Ethics, Beijing Roman Gardens B 306
100029, China, Tel: 8610-6497-3919, Fax: 8610-6494-6502
E-mail: info@cibe.org.cn, Website: www.cibe.org.cn





## CIBE Anti-Corruption Training Seminar DVD

The 60 minute video training seminar introduces anti-corruption legislation, the Fraud-Triangle causes of corruption and frameworks to analyze an ethical dilemma. The seminar features interviews with academic and business experts from Beijing University, Renmin University, and the Center for International Business Ethics. Using both case studies and theories, these experts introduce anti-corruption in a simple and clear way. The format takes four parts:

1. Why We Do Not Bribe
2. Fraud Triangle of Corruption
3. Why Some Do Cheat
4. Creating the Future

## Bayer "Green Generation" Feature

This seven minute feature tells the story of a partnership between an educational institution- the Western Academy of Beijing, a corporation- Bayer, and an NGO- Roots and Shoots (The Jane Goodall Institute). Starting in 2007, these organizations collaborated together to solve a pressing environmental and water problem in northeastern Beijing. Over the years, sewage filled the Western Academy of Beijing's Duck Lake, killing fish, harming plants and tainting the campus of the school and its surrounding community. However, upon learning of the blighted lake, Bayer donated 200 million RMB to build an artificial wetlands system and give new life to the environment. Roots and Shoots developed educational programs, encouraging community members and students to act as stewards of the lake as members of the green generation.

Produced by Ingo Gaechter

# International Business Ethics.

# Welcome on board.


CIBE

對外經濟貿易大學

国 际 经 济 伦 理 研 究 中 心

CENTER FOR INTERNATIONAL BUSINESS ETHICS

Address: Roman Garden B306,
18 Huixin Xijie, Chaoyang District
Beijing, 100029, China
Tel: (86 10) 6497 3919
Fax: (86 10) 6494 6502
Website: http://www.cibe.org.cn



ISSN 1940-1485

9 771940 148008