Who responds to whom?
Corporate Culture and the question of communicating Responsibility

Ludger Heidbrink, Peter Seele

Working Papers des CRR

Jahrgang 01/2007
Nr. 2
ISSN 2190-5398

http://www.responsibility-research.de/CRRForschung.html
Who responds to whom?

Corporate Culture and the question of communicating Responsibility

Ludger Heidbrink, Peter Seele

Jahrgang 01/2007
Heft 2
ISSN 2190-5398
Who responds to whom?

Corporate Culture and the question of communicating Responsibility

Prof. Dr. Ludger Heidbrink
Prof. Dr. Dr. Peter F. Seele
CRR (Center for Responsibility Research)
Kulturwissenschaftliches Institut, Essen

Outline

There are as many opinions on business and ethics as there are statements. In this paper we present the major positions in this ongoing and increasing debate and categorize them according to their ratio as business or ethics, business and ethics and finally ethics in business.

In this paper we also present the view, that ethical issues are not separated but connected from business in terms of making profit. We also argue against a strong normative idea of business ethics claiming social responsibility as objective for corporations.

After introducing the most common concepts to manage ethics (Corporate Social Responsibility (CSR) and Corporate Citizenship (CC)), we identify Corporate Culture as crucial parameter to combine business and ethics by the notion of responsibility.

Spheres of corporate responsibility: formal and informal institutions

The wording in corporate ethics is of major significance and consequence. By the terms used it might become apparent which positions and which ideologies are applied. Whereas NGOs and government institutions speak of CSR or Social Responsibility, corporations prefer to speak of Corporate Responsibility. CSR can be seen as a two sided concept trying to refer to both worlds. The common basis for both worlds – if this acumination in a dual understanding is accepted – can be seen in the concept of responsibility. Responsibility is used in the corporate world as well as in the social world. So what is responsibility? In the following we would like to give a miminum understanding without any normative or operational connotations. Derived from the etymology we understand responsibility as communication (to respond) of entities within a mutual relationship of obligation and governance. Responsibility is about not being indifferent or resigned. Responsibility is about caring and being accountable. But it is not about pure accountability in terms of contracts and deals. There also is a qualitative dimension to it (Heidbrink 2007). Because of this necessary vagueness we reformulate responsibility from an institutional economics point1: Whereas contracts, records and accounts can be seen as formal institutions, trust, customs or moral sentiments can be seen as informal institutions. Institutions (being the rules of the game) channel

---

1 Speaking of institutional economics demands further clarification: Institutional economics here is understood as what is called the 'New Institutional Economics' based on the works of Douglass C. North (1992).
behaviour based on past experiences following the principle of path dependency. Responsibility in this case cannot be isolated. Any responsible action is embedded in a historical and spatial context. This general assumptions are of immense importance if it comes to corporations that also are embedded in a region representing formal (laws, taxation) and informal (customs, culture) institutions. Therefore speaking of Corporate Responsibility needs to focus on the institutional setting as well as on the case being embedded in the institutional setting.

In the following we intend to present different institutional settings classifying the relationship of Ethics and Business. This is important to understand who takes up which position and why certain conflicts and antinomies cannot be prevented in the Babylonian usage of the terms involved.

**Ethics or Business**

Karl Kraus - just to name the most famous anecdote on Business Ethics - was asked by a business ethics student, what his opinion on Business Ethics was. Karl Kraus answered: ‘You have to make a choice! Business or Ethics’.

What is not said in this anecdote is the fact that Business and Ethics taken together are something else than the sum or difference of Business Ethics. Brenkert e.g. distinguishes between business ethics, on the one hand, as how people and businesses actually operate and, on the other hand, business ethics as the values and norms they proclaim or seek to realize (Brenkert 2006: 13). What we find here is the difficulty of ethics in general.

- Ethics as describing what *is*, and (descriptive ethics)
- Ethics as describing what *should be*. (normative ethics)
- Concerning Business we do not have this differentiation.

“The purpose of the agents of the corporation is to pursue profits for the stockholders” (Bowie/Freeman 1992: 11). And Carroll, coming from business ethics, underlines out, that it is important for “a successful firm to be defined as one that is consistently profitable” (Carroll 1991). He lists the following criteria:

- to perform in a manner consistent with maximizing earnings per share,
- to be committed to being as profitable as possible,
- to maintain a strong competitive position,
- to maintain a high level of operating efficiency
If we take for granted that ‘the business of business is business’ there is little room for ethics understood in the second interpretation of what should be from a collective and/or moral point of view.

The methodological polarisation between business and ethics is crucial to understand the motives of the different players involved in the game of business ethics. In the following we will present the two positions taken by the ‘business or ethics’ division.

**Profit as social responsibility (Friedman)**

Milton Friedman in his all-time-favourite quote on the social responsibility of business from 1970 declares: “the social responsibility of business is to increase its profits” (Friedman 2004: 51). In this short paper he develops a clear cut definition of what a corporation and what business is: “A corporation is an artificial person and in this sense may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense”.

The differentiation between business and a corporation mitigates the conflict slightly. Friedman continues: “In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom (Friedman 2004: 51). Friedman here offers a framework allowing values and norms of a specific society that channel ethical behaviour.

The train of thoughts can be reduced to the following:

- **Business**
- **Corporation**
- **Executive**
- **Individual Decisions within law and ethical custom**

What is said in the provocative claim now appears as a consequent shareholder value view, implying that the formal and informal institutions are external factors the corporation has to bear in mind and in-corporate.

Therefore the social responsibility of business: “to use its resources and engage in activities designed to increase its profits as 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 2004: 55).
Beauchamp and Bowie adapt the idea of Friedman and make clear: “Managers have no right to donate corporate funds to charity. If society decides that private charity is insufficient to meet the needs of the poor, to maintain art museums, and to finance research for curing disease it is the responsibility of government to raise the necessary money through taxation” (Beauchamp/Bowie 2004: 45).

But what if the government looses power and cannot perpetuate its governance and the scope of responsibility?

Friedman relies on a convenient notion of government and society implying that the institutional setting is well-designed and efficient.

**Stakeholders and their needs**

In this first chapter of polarisation we have noticed a consequent shareholder driven approach to social responsibility and ethics as proposed by Friedman. The complementary position is a consequent proliferation of the stakeholder’s perspective. Scherer/Kustermann legitimize the entitlement to authority of non-members of the corporation by the transformation of corporations becoming „social giants“ having societal specifications (Scherer/Kustermann 2004: 49). The vagueness of ‘societal specifications’ can be reduced by defining stakeholders: Freeman e.g. understands as stakeholders of a corporation “groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions. The concept of stakeholders, who themselves have some special claim on the firm. Just as stockholders have a right to demand certain actions by management, so do other stakeholders have a right to make claims” (Freeman 2004: 58). Stakeholder therefore is any person or group or institution being affected by corporate action. Logically this is anyone and anyone is a stakeholder. Therefore the question is the articulation of the stakeholder’s concerns and again we have to deal with the normative side of claims and expectations. Stock- or shareholders insist on the other hand, that they are the only legitimate stakeholders. Our broad definition brings us back to Friedman and his shareholder-point-of-view. Therefore a more precise definition is needed: “Although any person or group affected by corporate decisions is a stakeholder, most stakeholder analysis has focused on a special group of stakeholders: namely, members of groups whose existence was necessary for the firm’s survival. Traditionally, six stakeholder groups have been identified: stockholders, employees, customers, managers, suppliers, and the local community (Beauchamp/Bowie 2004: 48). Specifying stakeholder groups gives orientation in the fuzzy field of stakes, shares and responsibility. Shareholders in this definition are the most important group of shareholders whereas claims of shareholders like NGOs consider shareholders as opponents to stakeholders. (This again has to do with the two notions of ethics of what is and what should be.) Understandably the “most pressing problems for stakeholder theory are to specify in more detail the rights and responsibilities that each stakeholder group has and to suggest how the conflicting

---

2 See the volume on „state without responsibility?“ (Hirsch, Heidbrink 2007).
3 This term has first been put forward by Donaldson (1982).
rights and responsibilities among the stakeholder groups can be resolved. (Beauchamp/Bowie 2004: 48). Here the fundamental critique of the stakeholder approach is obvious: There is not any consistent strategy or claim to be approved by all stakeholders. Going along with this inconsistency the question of freedom and regulation has to be raised. The either/or polarisation of ethics and business becomes a game of power and involved fraction opposes to each other.

ETHICS AND BUSINESS

As we have noticed above, the relationship of ethics and business is a barren - at least paradoxical - one when it comes a concerted vision. In the following we will present the nexus of ethics and business. Following the business position we present scandals affecting the reputation of the business and thus business itself. On the other hand we refer to the normative backlog of ethical theories being inapplicable to business. Nevertheless, both positions show that there is ground for ethics and business. Common ground is not equal with what business ethicists dare to claim, that ethical companies are more profitable than unethical. Reidenbach argues that there exists “no concrete evidence that conclusively indicates that ethical companies are more profitable companies. (… Furthermore) in the short run, unethical behavior can produce greater profits than ethical behavior” (Reidenbach 1989: 7).

But who determines, what time horizon is applied? Shareholders might legitimately refer to quarterly reports concerning their investment or even shorter horizons like day trading. Stakeholders as mentioned above might legitimately be interested in a sustainable economy providing for a robust society. Once again we have to look at the organisational and individual level of decision making to explore the relationship of the two worlds.

The need for ethical considerations: Enron et al

To increase profits has at least two dimensions in business.

Profits for the corporation, that belongs to the shareholders

Profits for the individual person in the corporation

Hybrid forms of the two are likely, for example the compensation of employees by shares. This again contributes to a conflict of interests which is not unethical by definition, but which opens the way for unethical decisions increasing profits by violating the institutional framework of laws and ethical customs. Next to hybrid forms illegitimate forms are possible as well such as insider trading or corruption, fraud. Ethical behaviour depends on the individual that makes choices and secondly on the organisation that consists of the choices made.
The most famous example where unethical behaviour in business has lead to striking economic loss and tattered reputation has had enormous consequences and lead to a specific law to prevent any reappearance: The energy broker Enron and the forgery of the financial statements. The case is widely discussed and is employed by business ethicists to demonstrate the necessity of ethical behaviour, codes of conduct and regulation. Still it is not apparent if the Enron Case is the failing of an individual person of the organization (although a person has been accused and prosecuted recently). Sims asks: “Is everyone who makes an unethical decision an unethical person, or are there organizational climates and counter norms that contribute to their actions?” He concludes: “It is such questions that organizational leaders must continually answer for themselves if they are to better understand why unethical behavior occurs in organizations. By understanding the dynamics of why unethical behavior occurs in organization we are in a better position to create a more ethical environment” (Sims 2003: 120). We will come back to this question later when talking about corporate culture and business ethics.

Goodpaster summarizes the Enron case as interplay of different factors, that “revealed to us that we were living in an illusion, only this time an illusion related to shadowy financial reporting, misrepresentation to employees and shareholders of the realities on which their security was based” (Goodpaster 2007: 1).

2002 was the year when not only Enron appeared on the map, but also many other corporate scandals including Arthur Andersen and World Com. As counterreaction the public has become more aware of corporate scandals and “media are reporting ethical problems more frequently and fervently” (Carrol, Buchholtz 2003: 172). Corollary federal legislation and revised industry standards have led to reform in the area of corporate governance” (Beauchamp, Bowie 2004: 48). In the U.S. the Sarbanes-Oxley Act (2002) has to be seen as a direct outcome of the financial scandals of Enron, Worldcom and Arthur Anderson. Today an industry of lawyers, consultants, accountants and last but not least public relations spin doctors has emerged to manage ethical behaviour and the perception thereof. On the other hand, and this brings us to the next chapter, voices accusing business, managers and capital itself have been raised leading to the emergence of a new movement of NGOs and activists postulating regulation and control.

Normative backlog in theory: “There ought to be a law!”

One of the problems about the Sarbanes-Oxley Act is its scope when it comes to ethical needs and expectations: The proper name for the SOX-Act indicates the dilemma: „Public Company Accounting Reform and Investor Protection Act of 2002”. The legal name shows undoubtedly that the act is not about ethical considerations in general. It is about ‘investor protection’, which brings us back to a shareholder value approach of trust and ethics. Understandably the public is not pleased with an act regulating only financial issues from the investor’s point of view. On the other hand: How should an ethical need be articulated satisfying everybody’s expectations? Financial

4 E. g.: “A culture of integrity prevents Enronesque disasters from occurring and builds loyalty among customers and employees” (Johnson, Phillips 2003: 240).
facts are facts at least. Business ethics on the contrary is based on moral sentiments, emotions and ideologies.

Business ethics, as Brenkert points out for the U.S., has a normative core (Brenkert 2006: 18). This normative core does not have a clear cut centre because of the many different stakeholders and their divergent and at times conflicting objectives. Research on corporate responsibility or corporate ethics therefore is on a watch of being normative and prescriptive (Hansen 2004: 66).

This can not be applied to ethics in general. In the main we differentiate between descriptive and normative ethics and business ethics has to negotiate and find a position within this range. “It is important to distinguish between the two because they each take a different perspective. Descriptive ethics is concerned with describing, characterizing, and studying the morality of a people, a culture, or a society. It also compares and contrasts different moral codes, systems, practices, beliefs, and values. In descriptive business ethics, therefore, our focus is on learning what is occurring in the realm of behavior, actions, decisions, and practices of business firms, managers, or, perhaps, specific industries. (…) A real danger in limiting our attention to descriptive ethics is that some people may adopt the view that ‘if everyone is doing it’, it must be acceptable. This is why normative ethics is important. Normative ethics, by contrast, is concerned with supplying and justifying a coherent moral system of thinking and judging. Normative ethics seeks to uncover, develop, and justify basic moral principles that are intended to guide behavior, actions, and decisions” (Carrol, Buchholtz 2003: 174).

The main contribution of normative ethics is distinguishing what is ethical from what is unethical in the business context. In English we have the saying: ‘there ought to be a law’ that corresponds with the German “Das gehört verboten”.

Language being the medium for exchanging information, emotions, values and power indicates clearly, that ethics – as far as it is not descriptive – has a sense and denotation in time changing things in the future based on experiences in the past – or if it is designed more philosophically – based on theoretical considerations of what is good.

From a business ethics point of view we find a confirmation about the future oriented side of normative business ethics. “Normative business ethics is concerned with establishing norms or standards by which business practices might be guided or judged” (Carrol, Buchholtz 2003: 175).

The overall question about normative business ethics remains a question about the scope of the standards established. Are they voluntary or compulsory? By now the most important guidelines such as the global compact or the ISO 26000 remain to be voluntary.

Ethics being a compulsory law are not ethics anymore, but jurisdiction dealing with legitimate action and the sanction of illegitimate action. Ethics therefore belongs to the sphere of culture – or in institutional economics terms: ethics can best be understood as informal institutions, as the etymology of ‘ethos’ already implies.
A very helpful interpretation comes from Frederick: “This culture of ethics - this normative seedbed - evolves and functions alongside the societally vital economizing, technologizing, and ecologizing values, and because it is supportive of those values, it carries humankind along against the tides of entropy” (Frederick 1995: 280f). Ethics understood in this informal, supportive sense encompasses formal and explicit values, laws and to be more precise: actions. The connection and threshold between the two is the question of importance. If there is no connection at all, ethics remains vague and feathery not having an impact. We speak of the normative core of ethics that has to be related to fundamental and explicit grounds such as the theory of property rights (Freeman 2004). A more philosophical understanding of the normative core is the orientation to lead a good life, whatever that may be: “The good life is viewed as an active life in which material success and individual accomplishment are essential parts. Part of the good life is various character traits or values by which individuals are esteemed. These include courage, loyalty, trust, toughness, and honesty” (Brenkert 2006: 18).

ETHICS IN BUSINESS: MANAGING ETHICS

Finally, after discussing Ethics or Business and Ethics and Business we turn to Ethics in Business. Ethics having a normative side and business having a focus on increasing profits within the laws of society are abstract theoretical constructs. What really matters are individual decisions. “Corporations are comprised of individuals and it is the individual who acts, not the corporation” (Reidenbach 1989: 8). Therefore: “The real problem facing corporations today with respect to ethical behavior is a management problem. How is it possible to effectively manage the reciprocal relationship between individual and institution so that the probability of ethical action is increased?” (Reidenbach 1989: 15).

Formal and informal institutions and regional embeddedness

We have to differ between two settings of formal institutions in business ethics (Aßländer 2006: 30). Formal institutions imposed to the individual by legislation and formal institutions imposed to the individual of the corporation. The two sets are not independent: the formal institutions of the corporation are secondary and inferior to the legal apparatus (this topic has to be discussed again when it comes to transnational corporations being embedded in several, heterogeneous jurisdictions). The formal aspects of a corporate culture are established in a number of guidelines, codes of conduct or strategies. The difference to informal rules sometimes is blurred, nevertheless the written form of values makes them binding for all members of the organisation.

When it comes to internalized values the corporation only has limited influence in changing the internal values of the employees. This leads to the conclusion that it is of major importance to choose the right persons in the recruitment process. What is called ‘cultural fit’ is the precondition for constituting a homogenous corporate culture, where the internalized values are shared ones.
The formal institutions imposed on all members demand a common code of conduct to prevent free rider problems.

**Concepts for Managing Ethics**

Institutional theory is a tool to describe the problem. It is not a tool to manage a process and to define a strategy. Therefore we now turn to existing concepts of managing ethics in an organisation. There is – due to the normative core of business ethics mentioned above – no unambiguous concept. The two most important ones today certainly can be seen in Corporate Citizenship and Corporate Social Responsibility, two concepts from the 90ies that have spread globally since than.

Whereas Corporate Citizenship was established at the World Economic Forum and is used in the Global Compact, Corporate Social Responsibility evolved in Europe and has found its way in the EU terminology (Hansen 2004: 63).

**CORPORATE CITIZENSHIP**

The central motivation of a corporate citizen is the social responsibility of being a ‘good citizen’ supporting the city or region of the organization (Modena 2005: 92).

Corporate citizenship is often used interchangeably with corporate social responsibility, although, it is potentially wider in scope, in playing an active role for private sector entities as "citizens", having both rights and responsibilities. In addition to adopting the business policies and practices of corporate social responsibility, corporate citizenship is geared, in particular, to maximizing private sector contributions to social development without undermining business practices. “The concept of corporate citizenship goes beyond focusing on compliance, responding to external scrutiny or simply minimizing negative impacts, thereby engaging the private sector in a more proactive way to actively search out and pursue ways to promote social development" (Wieland 2006: 3).

In recent years, the use of the term corporate citizenship in reference to businesses‘ corporate social performance has been advocated by a number or business practitioners and academic alike. “Corporate citizenship has been described by some as a broad, encompassing term that basically embraces all that is implied in the concepts of social responsibility, responsiveness and performance“ (Sims 2003: 57).

But where is motivation for the corporation, since its objective is to increase profits to be socially responsible? Sims lists the following (Sims 2003: 58):

---

11
Improved employee relations (e.g., improves employee treatment, retention, morale, loyalty, motivation, and productivity)

Improved customer relationships (e.g., increased customer loyalty, acts as a tiebreaker for consumer purchasing, enhances brand image)

Improved business performance (e.g., positively impacts bottom line returns, increases competitive advantage, encourages functional integration)

Enhanced company’s marketing efforts (e.g., helps create a positive company image, helps a company manage its reputation supports higher prestige pricing)

As latest publications show in the market of business ethics, the two competing concepts corporate citizenship and corporate social responsibility seem to be the most powerful ones. As the Economist stated in 2005, the term Corporate Social Responsibility is the most important one. This might have to do with the problem of citizen rights. If companies are corporate citizens they must be allowed to vote

**CONCEPTS OF RESPONSIBILITY: CSR AND ITS DERIVATES CR AND SR**

Responsibility and the question, ‘who responds to whom’ becomes transparent with the current debate on Corporate Social Responsibility. The concept of Corporate Social Responsibility, widely accepted in the academic sphere and in the media, shows the communicational dilemmas arising from the question of responsibility. Still discussing the both poles ‘business’ and ‘ethics’ we identify a very interesting negotiation and rivalry debate between the two. On the one hand companies tend to switch to CR instead of CSR in their corporate communication. On the other hand a specific ISO norm is discussed to standardize responsible behaviour not only for corporations (but still for corporations), but also for non-profit organisations like government or non-government institutions like hospitals, universities, municipal administrations or unions.

---

5 “Over the past ten years or so, corporate social responsibility (CSR) has blossomed as an idea, if not as a coherent practical programme. CSR commands the attention of executives everywhere—if their public statements are to be believed—and especially that of the managers of multinational companies headquartered in Europe or the United States.” (Economist 2005)
Since Corporate Social Responsibility is an umbrella concept combining business and ethics it appears as a rational consequence that some focus on corporate and others on social responsibility. The question in the communicative interplay of responsibility is the question who speaks first and who responds.

CSR and its derivates in the meantime became professionalized and bureaucratized. But what is CSR precisely. In the following we will present some of the most common definitions and interpretations:

“At the heart of CSR is the notion that companies can regulate their own behaviour. By hiring green specialists to advise them on better management practices, they hope to persuade governments and the public that there is no need for compulsory measures. The great thing about voluntary restraint is that you can opt into or out of it as you please” (Monibot 2002: 54f).

A similar point is made by Sims when he discusses the advantages of engaging in CSR: “Proacting is better than reacting. This position holds that “proacting (acting in a proactive manner anticipating and initiating) is more practical and less costly than simply reacting to problems once they have developed” (Sims 2003: 64). Here we have a manifest business point, that CSR is reasonable in terms of doing business. CSR is risk-management.

Another definition focussing on responsibility comes from Benthin/Vandenhende (2003). They present two kinds of responsibility of corporations:

commercial responsibility for successful business, and

social responsibility concerning the role in society.

Since we already focused on corporate responsibility in terms of increasing profits, we now concentrate on the motivation to take on responsibility in a non-business-context. The main reasons to do so are: environmentalism and local community-building (Benthin/Vandenhende 2003: 195). CSR stands for the conviction that corporations are responsible for their stakeholders as well. As a practical consequence companies are obliged to be fair, contribute to the economic prosperity and life-quality of their employees and society in general (Benthin/Vandenhende 2003: 195).

Hansen makes an important point concerning CSR and freedom. Taking on responsibility requires the freedom of choice. If corporations were regulated completely any debate about CSR would be useless (Hansen 2004: 62).

Finally we like to present an normative and so-to-say ideological interpretation of CSR: A comprehensive CSR concept includes sustainable development, aspects of multi-dimensionality
CSR IN A EUROPEAN PERSPECTIVE (LISBON STRATEGY AND GREENBOOK)

Even small and medium size companies depend on international supply chains to be competitive. What has been labelled as ‘homeless capitalism’ or ‘footloose firm’ brings us to the question to a European Perspective of CSR.

Factors influencing European challenges to corporations are (following Benthin/Vandenhende 2003: 196)

- demographic change
- new technologies
- market transformations.

These factors are not only to be dealt with by politics alone. Corporations recognizes the importance of competitiveness and sustainable development at the same time. Here Europe’s diversity plays an important role and has brought a specific dynamic to the European CSR discourse on globalization, European Integration, Mergers and Acquisitions and other international business activities. “European CSR demands a breadth of vision that should not limited by national boundaries” (Benthin/Vandenhende 2003: 196).

The Lisbon Strategy claims to "make Europe, by 2010, the most competitive and the most dynamic knowledge-based economy in the world". The aim is to achieve a sustainable economic growth, better working conditions and social cohesion. Especially the private sector is called to achieve this goal bearing in mind the corporate and social responsibilities for lifelong learning, social integration and sustainable development (Benthin/Vandenhende 2003: 197). As a countermove the corporate members of CSR Europe and “The Copenhagen Centre” agreed to support and manage a campaign between 2000 and 2005 to motivate half a million businesspeople for CSR. Furthermore a ‘greenbook’ has been written by the European Commission to promote CSR in a European context. The main points of the greenbook are:

- A Code of Conduct for improving the conditions for employment and human rights.
- Social Seals of approval
- Extension of social responsible investments

---

Social accountability and audits

Finally, the overall aim of the 'greenbook' is to debate on the potential of CSR and to get responses from corporations, managers and social partners and other actors of society (Benthin/Vandenhende 2003: 198).

We can see by the political interventions that CSR is much more than abstract theory and wishful thinking, it has entered corporate action. In Friedman’s terms the laws and ethics of society have been transformed, the informal institutions of normative expectations have become legal reality and CSR now is seen as a part of the business strategy.

Managing Ethics and Business: Corporate Culture

To implement ethics and responsibility we now take a look at corporate culture. In corporate culture formal and informal institutions are entrenched and managing corporate culture encompasses ethics as well as business. But what exactly is corporate culture? We refer to the definition from Reidenbach who refers to Jay Lorsch: “By culture I mean the shared beliefs top managers have in a company about how they should manage themselves and other employees, and how they should conduct their business(es). These beliefs are often invisible to the top managers but have a major impact on their thoughts and actions” (Reidenbach 1989: 91). Derived from this definition we find that corporate culture is an issue for the upper management as well as for the staff. But the management acts as an important role model here and the initiative has to be taken by the management proactively to establish formal and informal institutions in the corporate culture. Once again we find a mixture of formal and informal institutions constituting corporate culture. Reidenbach distinguishes between formal and informal culture: “The formal culture usually is comprised of idealized statements of those values, beliefs, norms, and behaviors that should exist in an organization. It is a normative as opposed to a positive condition. Informal culture, on the other hand, may reflect the positive or actual culture. This subculture is composed of those values, beliefs, and behaviors that actually do exist and guide behavior” (Reidenbach 1989: 93).

In managing corporate culture we find the most suitable way to manage the different facets of responsibility in a non-normative way. A sound ethical management system is one attribute of a company that knows what it is and where it's going. “In our experience, evidence of such self-awareness and self-confidence can be found throughout the organization: in conversations with its leaders, in team meetings, in its dealings with customers and suppliers, and in the ways individual employees work” (Johnson, Phillips 2003: 240). The benefits of an ethical culture cannot be underestimated. And we do not speak of normative categories but of business categories. As said above, CSR is to be seen as part of risk management. The risk we are dealing with here is a loss of reputation, trust and finally clients and market-share. The benefit on the other hand in case of successful management of corporative and social responsibility is the improvement of the reputation which leads to a better brand-identity: “A compelling brand evolves from consistent application of ethical guidelines” (Johnson, Phillips 2003: 240). Of course it is not only ethical
behaviour that leads to a convincing brand-identity but in times of media democratization by web-based social communication platforms a failure is traceable and visible for almost every stakeholder. It is important to mention, that the quality of the failure depends on the audience and not on the law.

To improve reputation by focusing on the integration of ethical considerations in the corporate culture we turn to the role of management to implement ethics into the implicit and explicit corporate culture.

The overall objective of management is to “look after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders” (Freeman 2004: 60). Some of the conflicts are:

- Owners want higher financial returns
- Customers want more money spent on research and development
- Employees want higher wages and better benefits
- The local community wants better parks and day-care facilities

The stakeholder theory does not give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of others. In general, however, management must keep the relationships among stakeholders in balance (Freeman 2004: 60).

And as a secondary category that determines the success of the responsibilities taken, we need to point at the communication of any ethical visible behaviour. It is part of the value creation to communicate one’s good intentions and the perceptible commitment to good governance.

Therefore the question, who responds to whom has be answered with a distinctive: Stay in touch and communicate on all channels available with your stakeholders (which in the definition presented here include the shareholders) at eye level.
References:


IMPRESSUM

Erscheinungsort: Essen

Herausgeber: Prof. Dr. Ludger Heidbrink
             Prof. Dr. Dr. Peter F. Seele

Postanschrift: CRR (Center for Responsibility Research)
               Kulturwissenschaftliches Institut, Essen
               Goethestrasse 31
               45128 Essen
               Telefon: + 49 (0)201/72 04-216
               Fax: + 49 (0)201/72 04-111

Homepage: www.responsibility-reseach.de

ISSN: 2190-5398