Dominic DePERSIS
Suny-Broome Community College, Binghamton, New York

Alfred LEWIS
National University, School of Business and Management, San Diego

THE FUNDAMENTAL REASONS FOR CORPORATE IRRESPONSIBILITY IN AND BEYOND A CORPORATE CONTEXT

Summary. The field of corporate social responsibility has attracted a number of academics and researchers in order to better understand corporations and the relation to society at large.

Applying Badaracco's (1992) four spheres of commitments morality framework demonstrate that "company responsibilities does not stop at the point of deal closure" due to multiple roles as an economic entity and the leader in charge of the enterprise yet, the tenets of due-diligence and judgment must maintain.

A fundamental argument is that leaders' moral basis cannot in itself be moral due to the financial reality of generating profits and the conflict between intrinsic and extrinstic satisfaction needs. The constant pressure to deliver adequate financial returns, coupled with optimizing budget limitations and the time factor are typical challenges that managers have to indeed manage.

Holt's (2006) contribution likewise provides another perspective on the dialogue based on the notion of "smart compromise" (Holt, 1672) as opposed to Oakeshott rendition of extending managers reality to that of the "enterprise. Managers cannot live in isolation and hence we have to understand leaders' position beyond the" implicit perspective" because corporations are an extension of families and society in general.

We will also review corporate social responsibility from the perspective of Stakeholder Theory going beyond the simple separation of internal vs. external stakeholders. The "rules of the game" will also provide a better understanding in terms of adhering to minimum regulations as opposed to doing the "right" things from a macro societal perspective.

Keywords: corporate irresponsibility, CSR, stakeholder theory

PODSTAWOWE PRZYCZYNY NIEODPOWIEDZIALNOŚCI BIZNESU W KONTEKŚCIE KORPORACYJNYM I POZAKORPORACYJNYM

Streszczenie. Zagadnienia społecznej odpowiedzialności biznesu zainteresowały wielu naukowców i badaczy w celu lepszego zrozumienia korporacji i ich relacji do ogółu społeczeństwa. Zastosowanie zasady czterech sfer ram moralnego zaangażowania autorstwa Badaracco (1992) pokazuje, że „odpowiedzialność przedsiębiorstwa nie kończy się w momencie zakończenia transakcji" z powodu wielu ról, które organizacja pełni jako podmiot gospodarczy oraz lidera kierującego przedsiębiorstwem.

Podstawowy spór stanowi fakt, że podwaliny moralne przywódców z natury rzeczy nie mogą być moralne ze względu na rzeczywistość finansową, w której przedsiębiorstwa są powołane do generowania zysku, oraz konflikt pomiędzy wewnętrzną i zewnętrzną potrzebą satysfakcji. Ciągła presja, by osiągać odpowiednie wyniki finansowe przy jednoczesnej optymalizacji ograniczeń budżetowych i czynnika czasu, stanowią typowe wyzwania, którym menedżerowie muszą sprostać.

Badania Holta (2006) również stanową kolejną perspektywę dialogu opartego na pojęciu „inteligentnego kompromisu" (Holt, 1672), w przeciwieństwie do interpretacji Oakeshotta, dotyczącej rozszerzenia rzeczywistości menedżerów do obszaru przedsiębiorstwa. Menedżerowie nie mogą żyć w izolacji, stąd należy zrozumieć pozycję przywódców poza „ukrytą perspektywą", ponieważ korporacje są przedłużeniem rodziny i społeczeństwa w ogóle.

W artykule dokonamy przeglądu społecznej odpowiedzialności biznesu z perspektywy teorii interesariuszy wykraczającej poza zwykły podział na interesariuszy wewnętrznych i zewnętrznych. „Zasady gry" pomogą także lepiej zrozumieć przestrzeganie minimum przepisów w opozycji do robienia „właściwych" rzeczy z perspektywy makrospołecznej.

Słowa kluczowe: nieodpowiedzialność biznesu, CSR, teoria interesariuszy

1. Introduction

Corporate Social Responsibility (CSR) can be viewed from a variety of perspectives such as internal vs. external, micro vs. macro, short vs. long-term in addition to numerous other possibilities. The underlying principle is the necessary evil of having to balance competing interests given the premise of the free-market principle.

Is it possible to segregate morality from professionalism… and whose notion of morality? Is it possible to infer that the notion of CSR is of no interest to leaders due to its limited scope? The other notion is that CSR has become an extension of the marketing & public relations engine for many corporations. A full understanding of CSR is difficult due to the multiple facets it gains from many disciplines: from economics, finance, law, marketing, and philosophy, among several others.

MacIntyre (1990) opposes the premise which discounts the notion of morality in the working environment of managers/leaders. He further critiqued emotive morality, a disconnect between managers moral responsibilities based on the premise that "managers are incapable of identifying and sympathising with interests and goals outside of the unprincipled quantifications of utilitarian calculus" (Holt, 2006, 1661). The argument is further enhanced with his statement that such justification can "disguise the often immoral effects of resource manipulation" Holt (2006, 1661).

The classic definition of Friedman (1970) which suggests acting solely based upon the "desires of principals with whom managers are contracted to act as agents" calls for deeper scrutiny and reflection as it deprecates the moral responsibilities as secondary to the principals' interest of which managers can also decide contrariwise if and only if they are "acting as their own principals" (Holt, 2006, 1661).

Considered in the corporate context, the discussion on ethical behaviour revolve around ethical conflicts in the workplace and how to balance the stress between private convictions and organizational needs (Badaracco, 1998), how "adequate" codes of conduct can be enacted (Svensson and Wood, 2008) and the impact of ethical conduct on a firm's (financial) performance (Chun *et. al*, 2013).

When viewed from the perspective of individual managers, incorporating the concepts of wisdom, prudence and moral virtues in addition to the concept of "moderate wealth" (Small 2011, 839) may serve as reflection points to help arrive at a decision "one can live with" absent of any formal rules for moral decisions.

We cannot separate organizational continued existence from the organizational practice and culture of how such an organization approaches transparency, integrity and "social policy" play significant roles as underpinning factors to such continuity.

The issue however is that most leaders know this but very few see the "big picture" within the purview of ethical conduct, which calls for wisdom, and the impact/cost of "nontransparent practices" to organisational well-being cannot be overemphasised (University of Liverpool, 2012).

Transparency as evidenced in Dench (2006) Valerie's versus Waters and the organization as a whole shows the important role that organizational leadership plays in determining accepted values, codes of conduct, unwritten but expected modes of engagement and values demonstrated not only through business codes of conduct but as intrinsic common language which supports high standards (Verhezen, 2010).

Verhezen's (2010, 187) admonition for "integrity-based management" and position that "informal approaches based on relationship-building are more likely to achieve moral excellence." Thus it is imperative for management/executives to position their organizations to foster a moral work environment and overall organizational productivity in transparent ways, not as a rule but normal code of behavior. It was further stated that “the process of alignment through appropriate governance structures and organisational processes and procedures starts with top management,” (Verhezen, 2010, 187) and the leadership must promote such an environment not only in deed but also to foster a “culture of integrity” and define creative ways of managing right-versus-wrong situations (Verhezen, 2010; Badaracco, 1998).

Allio’s (2011) position regarding moving from a self-focused organization to one in which shared values are nurtured by the leadership through transparency and the promotion of a culture based on customer focus and continuous innovation is critical in order to have a thriving organization based on ethical values. This will engender a sense of identity and social belonging at large.

Corporate ethical practices can be identified at the domestic & international levels. Employees often suggest that the leadership encourage and even coerce the sub-ordinates to achieve or deliver results without regard for them to adhere to or follow moral principles (Tran, 2010).

2. Stakeholders

Numerous studies have been conducted relating to for-profit organizations and stakeholder management. Subject literature is also developing to better understand stakeholder management in the context of the not-for-profit sector and government agencies. The not-for-profit studies have been directed to stakeholder interests, aspirations and expectations. For-Profit entities are primarily interested in maximizing profits and Return on Assets (ROA) for the stockholders along with achieving a societal balance for other stakeholders (Nasi et. al., 1997).

Advances in socio-economic policies and the need for corporations to be responsible to society-at-large have modified the goal of the traditional maximization of profit-making to the concept of optimization, hence, the introduction of stakeholder theory. This modification recognizes that there are several groups who can affect the viability of a corporation and others who are likewise affected by the operations of the firm. A corporate stakeholder is an individual, group or agent entity that affects or can be affected by the conduct of the corporation as a whole and the competent management of these disparate claims will contribute to the viability of the corporation.

Parmar et. al. (2013) posited that there are stated three business problems which are intertwined, “the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management" (p. 404). Stakeholder Theory equally applies to these three stated problems and ironically solving the third problem actually resolves the first two problems. A solution is to "adopt as a unit of analysis, the relationship between a business and the group and individuals who can affect or are affected by it" (p. 405).

Freeman (1984) stated that business is the relationship between people that have a stake in an activity and how they interact to create and trade value jointly. Yet, the leadership has the duty to manage the relationship in order to assure value creation and satisfaction of the disparate stakeholders. The leadership also has the duty of rethinking problems where conflict of interest occurs amongst the stakeholders, to ensure that a majority of the competing interests are satisfied.

The underlying assumption that values must be a part of and incorporated in an organization is the starting point for Stakeholder Theory (Freeman et. al., 2004). Such a climate provides clarity of purpose which should guide conduct in and out of the organization and the relationship with stakeholders.

Corporations that consciously incorporate stakeholders in the decision making process can be considered as ethically responsible. Goodpaster (1991) offered a six step treaty to assist in the decision making process to aid management in making ethical decisions. The six steps he proposed are in sequence with each letter named after Blaise Pascal (1923, 62), the mathematician. The letters are PASCAL:

P means perception
A means analysis
S Synthesis
C Choice
A Action
L Learning

3. Resource Dependency Theory

The resource dependency theory (RDT) introduced by Pfeffer and Salancik (1978) is typically classified as belonging to the Descriptive Stakeholder School. RDT provides a framework for assessing the relative importance of the various stakeholders of a firm given that management will tend to attend to the needs of the key actors and will pay little attention to those stakeholder groups who do not have control over the critical resources. The corporate social responsibility posits that we have to look at the entirety of a company's activities, hence all stakeholder's needs must be considered. Other measures from the field of accounting are also refining models to accurately understand the Total Cost of a corporation's activities so as to avoid the issue of a "free good."

Berman, Wicks *et al*. (1999, 491), suggested that *"attention to stakeholders' interests is necessary because it is the stakeholders that control resources that can facilitate or enhance the implementation of corporate decisions."* Subsequently, stakeholder groups tend to utilize their resource relationship with a corporation to leverage their interests, and organizations likewise typically pay attention to the demands of stakeholders who have control over critical resources or those that can affect the Rules of the Game.

The RDT is premised on managerial decisions in terms of being based on resource acquisition for the organization (Pfeffer and Salancik, 1978). Pfeffer (1982) explicated this view as such: *'resource dependence theory suggests that organizational behavior theory becomes externally influenced because the focal organization must attend to the demands of those in the environment that provide resources necessary and important for its continued survival'* (p. 103).

Frooman (1999) posited that all stakeholders have an innate relationship with a corporation. This relationship exists in four forms and is based on the level of dependency of either the stakeholder on the firm, or the firm on the stakeholder, for the realization of its goals. For specificity, Frooman (1999) defines dependency as *'a state in which a company relies on the actions of a stakeholder to achieve a particular outcome.'*

Type 1 dependency occurs when an organization is more dependent on the stakeholder thus creating a stakeholder power condition. *Type 2* is the converse of Type 1 representing power vested in the organization or *firm power*. *Type 3* dependency, represents a balanced co-dependency, classified by Frooman's typology as *high interdependence*; Frooman's final example of resource dependency is typified by a situation in which neither the organization nor stakeholder having dependence on each other as *low interdependence*.

Frooman's theory postulates that stakeholder groups will select the appropriate influence strategy based on the organization-stakeholder resource relationship in the context of changing an organization's behavior. Thus, when an organization is dependent on the stakeholder, the stakeholder can select a strategy that is more direct or frontal. In order to assert a power position, a stakeholder group may influence the flow of resources with posturing representing 'change or else' (Frooman, 1999, 198).

The degree or extent of firm dependency is inversely proportional to the 'withholding strategy' of resources. Stakeholder groups who are dependent on the corporation are simultaneously closely tied to the well-being of the firm; hence, it is in the interest of stakeholder to ensure the success of the organization, thus the degree of 'withholding' resources, is limited. Frooman defines 'withholding strategy' as typified by the withholding of needed resources in order to influence change.

4. Contract Theory

The Contract theory posits that the actual behavior of a corporation does not necessarily consider stakeholder's primacy and that the variability of falsifiable claims must be noted (Bacharach, 1989; Whetten, 1989). Jones (1995) proposes that organizations should establish connections with the diverse stakeholder groups on the basis of joint interests and purpose in order to maximize shareholder value. Relationships must not be based under conditions in which managers only behave as if stakeholders simply matter because of the intrinsic nature of their claims on the firm. Jones argues that agreements based on ethical grounds for example, mutual trust and cooperation, result in more positive outcomes such as entering into longer-term relationships with limited suppliers (Jones, 1995, 100). Ultimately organizations which adopt this practice of partnering with stakeholders will enjoy a competitive advantage.

The Contract Theory perspective of the stakeholder differs from the Resource Dependency theory, which basically suggests that organizations only need to establish a relationship with stakeholders who control critical resources.

5. Institutional Theory

The Institutional Theory classifies the stakeholder's environment along two dimensions; strong or weak, heterogeneous or homogeneous. The dimensions determine management's response to the stakeholders (Meyer and Rowan, 1977; DiMaggio and Powell, 1991). Given an environment dominated by powerful stakeholders, management will focus their attention on the most powerful subsets and subsequently prioritize the management of stakeholders based on power positions in order achieve positive results.

The dimension of heterogeneity/homogeneity of the Institutional Theory perspective is important in order to make a distinction with the Resource Dependency Theory.

6. Network Theory

Network theory is drawn from Oliver's (1991) contribution regarding organizational responses to external factors. The theory postulates on how an organization reacts (i.e. level of resistance) to numerous (network) stakeholder influences.

Freeman and Evan (1990) in their study suggest that the stakeholder environment consists of *'a series of multilateral contracts among stakeholders'* thus suggesting multiple indirect connectivity. Network theory can be summarized as addressing the dynamic influences of numerous stakeholders and the resultant organizational response to these influences.

7. Innovation Studies

The body of work comprising Innovation Studies seeks to address the claims of so-called "fringe" stakeholders.

Hart and Sharma (2004) suggest that organizations need to interact with those stakeholders that can be considered as outliers 'poor, weak, isolated, non-legitimate, and even non-human' (Hart and Sharma, 2004, 7). This proposition is founded on two points: first, it is difficult to ascertain when and if these 'fringe' stakeholders could become more powerful. A Mitchell *et al*. (1997) study stated that stakeholder position evolves over time. Secondly, it is crucial for organizations to dialogue with fringe stakeholders as a source of input of creative, radical, disruptive innovation. Hart and Sharma's theory is supported by contributions from von Hippel (1988) and Chesbrough (2003) with empirical validation by Palmas (2004).

8. Mixed Theory

When organizations experience potentially unacceptable stakeholder claims, organizations will reprioritize their management of stakeholder claims based on urgency. Mitchell, Agle *et al.* (1997) study aggregate numerous organizational theories, such as institutional, resource dependency, network, and surmise that when there is an increased level of perceived urgency organizations will act to preserve their best interest. It should be noted that Mitchell and Agle adopted the term 'urgency' to represent 'propensity to act'.

The theories discussed above pertaining to stakeholder theories and possible organizational response are summarized in Table 1.

Table 1

Proposed firm actions towards stakeholders by the reviewed stakeholder theories

Stakeholder Theory	Proposed firm actions towards stakeholders
Resource dependency theory	Prioritize stakeholders with resources upon which the firm is dependent
Contract theory	Do not prioritize stakeholders. Act as if all stakeholders' interests have intrinsic value and form trustful and cooperative relationships with all stakeholders
Institutional theory	Prioritize powerful stakeholder groups with homogeneous interests. Prioritize legitimate stakeholders
Network theory	Prioritize stakeholders in dense networks in which the firm holds a peripheral position
Innovation theory	Prioritize 'fringe' stakeholders
Mixed	Prioritize urgent stakeholders, at least when likely to behave negatively towards the firm

Source: Reframing Instrumental Stakeholder Theory. Egels, 2004.

Bibliography

1. Allio R.J.: Reinventing management purpose: The radical and virtuous alternatives, "Strategy and Leadership", No. 39(4), 2011, p. 4-11, http://ezproxy.liv.ac.uk/login?url=http://openurl.ac.uk/?title=Strategy and Leadership&volume=39&issue=4&spage=4&date=2011, 23 August 2013.
2. Bacharach S.B.: Organizational theories: Some criteria for evaluation. "Academy of Management Review", No. 14(4), 1989, p. 496-515.
3. Badaracco J.L.: The discipline of building character. "Harvard Business Review", Vol. 76(2), 1998, p. 114-124.
4. Berman S., Wicks A.: Does Stakeholder Orientation Matter. The Relationship between Stakeholder Management Models and Firm Financial Performance. "Academy of Management Journal", Vol. 42(5), 1999, p. 488-506.
5. Chesbrough H.W.: Open Innovation: The New Imperative for Creating and Profiting from Technology. HBS Press, 2003.
6. Chun J., Shin Y., Choi J., Kim M.: How Does Corporate Ethics Contribute to Firm Financial Performance? The Mediating Role of Collective Organizational Commitment and Organizational Citizenship Behavior. "Journal of Management", Vol. 39, No. 4, 2013, p. 853-877.
7. Dench S.: How personal can ethics get? "Journal of Management Development", Vol. 25(1), 2006, p. 1013-1017, http://ezproxy.liv.ac.uk/login?url=http://openurl.ac.uk/?title=JournalofManagementDevelopment&volume=25&issue=1&spage=1013&date=2006, 23 August 2013.
8. DiMaggio P.J., Powell W.W.: Introduction. The new institutionalism in organizational analysis. University of Chicago Press, Chicago 1991, p. 1-38.

9. Freeman R.E.: Strategic management: A stakeholder approach. Pitman, Boston 1984.
10. Freeman R.E., Evans W.M.: Corporate Governance: A Stakeholder Interpretation. "The Journal of Behavioral Economic", Vol. 19, 1990, p. 337-359.
11. Freeman R.E., Wicks A.C., Parmar B.: Stakeholder theory and "the corporate objective revisited", "Organization Science", Vol. 15(3), 2004, p. 364-369.
12. http://ehis.ebscohost.com.ezproxy.liv.ac.uk/eds/pdfviewer/pdfviewer?vid=2&sid=e6a6a655-3cc2-49d4-b8e4-26e67f92441f%40sessionmgr12&hid=8.
13. Frooman J.: Stakeholder influence strategy. "Academy of Management Review", Vol. 24(2), 1999, p. 191-205.
14. Goodpaster K.E.: Business ethics and stakeholder analysis. "Business Ethics Quarterly", Vol. 1(1), 1991, p. 53-73, http://ehis.ebscohost.com.ezproxy.liv.ac.uk/ehost/pdfviewer/pdfviewer?sid=4efa5b84-e635-465d-87d7-4b38af0aa5a0%40sessionmgr115&vid=2&hid=104.
15. Hart S.L., Sharma S.: Engaging fringe stakeholders for competitive imagination. "Academy of Management Executive", Vol. 18(1), 2004, p. 7-18.
16. Holt R.: Principals and practice: Rhetoric and the moral character of managers. "Human Relations", Vol. 59(12), 2006, p. 1659-1680, http://ezproxy.liv.ac.uk/login?url=http://openurl.ac.uk/?title=Human Relations&volume=59&issue=12&spage=1659&date=2006.
17. Jones T.M.: Instrumental stakeholder theory: A synthesis of ethics and economics. "Academy of Management Review", Vol. 20(2), 1995, p. 404-437.
18. MacIntyre A.: Three Rival Versions of Moral Enquiry. University of Notre Dame Press, Notre Dame 1990.
19. Mitchell R.K., Agle B.R., Wood D.J.: Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. "Academy of Management Review", Vol. 22(4), 1997, p, 853-886.
20. Nasi J., Nasi S., Phillips N., Zyglidopeulos S.: The evolution of corporate social responsiveness. "Business and Society", Vol. 36, 1997, p. 296-322.
21. Parmar B.L., Freeman R.E., Harrison J.S., Wicks A.C., Purnell L., de Colle S.: Stakeholder theory: The state of the art. "The Academy of Management Annals", Vol. 4(1), 2010, p. 403-445, www.tandfonline.com.ezproxy.liv.ac.uk/doi/pdf/10.1080/19416520.2010.495581.
22. Pfeffer J., Salancik G.: The External control of Organizations: A resource Dependence Perspective. Harper and Row, New York 1978.
23. Pfeffer J.: Organization and Organization Theory. Pitman Publishing Inc., Marshfield, MA 1982.
24. Svensson G., Wood G.: International standards of business conduct: Framework and illustration. "European Business Review", Vol. 20(3), 2008, p. 260-274.

25. Tran B.: International business ethics. “Journal of International Trade Law and Policy”, Vol. 9(3), 2010, p. 236-255.
26. University of Liverpool/Laureate Online Education (2012) Lecture notes from Ethics, Sustainability and Social Impact Module Seminar 4. University of Liverpool/Laureate Online Education Blackboard, 23 August 2013.
27. Verhezen P.: Giving voice in a culture of silence: From a culture of compliance to a culture of integrity. “Journal of Business Ethics”, Vol. 96(2), 2010, p. 187-206, http://ezproxy.liv.ac.uk/login?url=http://openurl.ac.uk/?title=JournalofBusinessEthics&volume=96&issue=2&spage=187&date=2010, 23 August 2013.
28. Von Hippel: Economics of Product Development by Users: The Impact of “Sticky” Local Information. “Management Science”, Vol. 44, No. 5 (May), 1998, p. 629-644.
29. Whetten D.A.: What constitutes a theoretical contribution? “Academy of Management Review”, Vol. 14(4), 1989, p. 490-495.