

Academic paper

The four pillars of corporate responsibility: ethics, leadership, personal responsibility and trust

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Abstract

Purpose – This paper aims to examine how to further embed CSR thinking and practice into corporations, particularly in emerging markets, by reviewing and drawing similarities between key issues faced by all senior managers, namely ethics, leadership, personal responsibility and trust.

Design/methodology/approach – This paper presents a conceptual exploration of global CSR practices using social psychology and overlays this concept with strategic and institutional theory in order to encourage new ways of thinking about CSR adoption, especially in emerging markets.

Findings – The paper reveals the importance of shareholder needs on global corporate decision making and applies alternative conceptual models to help businesses to devise better CSR practices and individuals to align their actions to their own values.

Originality/value – This paper strongly argues for blending different theoretical foundations from the management and organization literature in order to draw comparisons between current global CSR practice and the potential for its further adoption in emerging markets.

Keywords Corporate responsibility, Ethics, Leadership, Bedding down CSR, Practice, Mindset, Emerging markets

Paper type Conceptual paper

Introduction

On 20 April 2010 an explosion on the Gulf of Mexico Deepwater Horizon oil rig exposed the US to an historic ecological disaster. Taking more than three months to contain (*Guardian*, 2011), the US government initially estimated spillage at 5,000 barrels per day; however, a Democrat Representative in Congress, Edward Markey, estimated these levels at around 100,000 barrels per day.

US administrators and lawmakers did not stay silent. Following a hearing by the US Congress, President Obama expressed his anger and frustration, calling the behavior of the three companies involved – BP, Transocean and Halliburton – a “ridiculous spectacle” and then calling for a “top-to-bottom” review of the Minerals Management Service, the federal agency that oversees offshore drilling and was accused of having a “cosy relationship” with oil companies (Reuters, 2010).

According to President Obama, the “cosy relationship” manifested itself because regulators were relying on companies’ promises about the safety and security of their drilling activities and he vowed to make these mechanisms more accountable.

This episode illustrates the limits of CSR programs currently undertaken by global businesses. The logical rules and regulations which business and government leaders created did not work to exemplify the broadly shared social values that US society deemed

to be important. Representing our deeply held values and the metaphorical expressions of our beliefs, these accountability structures must change over time to continue to align with prevailing beliefs and core values. This global CSR failure also reflects the dynamic process that CSR programs must undergo over time.

Emerging markets can also learn a valuable lesson from this case study as they continue on their path of economic development. Their CSR programs should also reflect their own cultures' unique social norms and be dynamic enough to respond to unprecedented threats due to increased stakeholder scrutiny and constraints on environmental and other resources.

The Deepwater Horizon oil spill disaster calls into question whether any voluntary arrangement made by corporations in the developed or developing worlds are, in fact, viable in the long term. The specific CSR issues addressed in this case study, such as corruption, transparency, health and safety, environmental impact, resource depletion or ecological degradation, apply to other CSR contexts and, at first glance, might be considered an example par excellence of poor CSR.

But it also serves to illustrate the constant improvement every company should make in building awareness of its capabilities (and limitations) as well as embedding these understandings into its CSR practice. While it is a natural tendency to want to place blame on those responsible for such a disaster, such an activity can only indirectly benefit those who pursue it since the disaster itself cannot actually be reversed. The lack of responsibility which actors assumed after the explosion also illustrates the potential losses involved in doing so, from losing one's job to losing a company's license to operate or paying the full clean-up costs or other penalties.

Exploring this case study provides important theoretical lessons for companies in emerging markets and elsewhere to consider. For instance, can increased regulation prevent corrupt or unaccountable corporate practices? Are voluntary systems of accountability fundamentally flawed and fuelled only by corporate disdain for regulation? And to what extent should markets be allowed to dictate the course of play *vis-à-vis* the more arm's length yet expensive bureaucracy created by government regulation?

This paper claims that it is impossible to clearly understand the Deepwater Horizon oil spill or the solutions proposed without paying attention to the psychological aspects which underlie CSR activity globally or in either the developed or developing world. Corporate responsibility cannot be practiced if various personal attributes do not exist in the individuals within the company. These consist of the four pillars of leadership, ethics, personal responsibility and trust, all of which are dynamic in nature. Incorporating these personal qualities can help improve the planning and practice of CSR programs as well.

Understanding the inherent similarities between CSR activities of any kind may help bridge the gap in emerging markets' relative lack of concern for adopting CSR programs (Jain, 2006).

The goals of this article are two-fold. The first is to highlight the rich and relevant body of literature related to social psychology that sheds light on how psychological forces can lead to inadequate, ineffectual or misguided CSR solutions. The second is to use this review to create a framework that helps to overcome these psychological problems inherited from the corporate world.

Corporate responsibility

Corporate responsibility is an oxymoron since corporate structures inherently pose risks to individuals' ability to remain consistent with own personal value set and purpose. Instead, it may actually present a model which is the antithesis of responsibility and which is manifested in a number of ways.

Diffusion of responsibility

Diffusion of responsibility (Darley and Latané, 1968) occurs in groups that do not clearly assign accountability to their members for individual actions. For instance, members may shed responsibility completely under the premise that “we were only following orders”. Made famous by the excuses often presented by Nazi war criminals, people argue that they were obeying an authoritative figure even if they had to act against their conscience and values (Milgram, 1963, 1974). Failure to assign responsibility for broad outcomes leads to a moral myopia and a chain of banal, benign decisions and, in turn, potentially to dreadful evil (Arendt, 1994; Staub, 1992).

Another example of the diffusion of responsibility is social loafing (Ringelmann, 1913), whereby people work less hard in groups because the social pressure is diffused and individual input is less easily identifiable. Latané *et al.* (1979) propose three possible reasons for social loafing: attribution and equity (where people start to invest less due to perceptions that others are not investing as much as they are), submaximal goal setting (when people believe that only a sub-optimal standard is expected by the group) and lessened contingency between input and outcome (whereby people feel that they can hide in the crowd unnoticed).

A final example of diffusion of responsibility is the bystander effect (Darley and Latané, 1968), which suggests that as the number of bystanders increases, it becomes less likely that any individual would offer help in times of need. The phenomenon emanates from an individual fear that their intervention might be considered intrusive, unhelpful, unnecessary or contrary to the social expectation of the group (Bickman, 1972; Darley and Latané, 1968). This social Other demonstrations of fear can result from fear of loss of relationships or of privacy, in other words of unspecified “bad consequences” or retaliation (Rowe *et al.*, 2009). Moreover, some studies (Shaw *et al.*, 1994) show that people actively are motivated to avoid empathy so as to avoid having to help (Staub, 1985).

The Deepwater Horizon catastrophe illustrates this diffusion of responsibility. Nobody wanted the leak to continue emptying oil into the Gulf of Mexico, yet nobody knew how to fix it. It took several months before BP managed to shut down the well at tremendous cost, perhaps because neither BP managers nor President Obama assumed responsibility in the first instance despite being looked upon to lead the containment efforts.

Moral hypocrisy

Another related issue, moral hypocrisy (Batson *et al.*, 1997; Batson and Thompson, 2001; Batson *et al.*, 2002; Batson, 2008) occurs when someone cites moral arguments without being willing to invest in the consequences of those arguments.

The literature into social psychology recommends ways for improving our moral integrity. These include raising awareness amongst individuals of how they can help, thereby turning bystanders into active participants by creating greater feelings of social responsibility (Staub, 1992). However, the right skills must be taught and the proper knowledge must be provided so that the bystander can better relate to his own set of values instead of relying on others for moral assessment.

During the Deepwater Horizon oil spill, President Obama risked moral hypocrisy when criticizing the cosy relationship existing between BP and the government agency. Since BP worked closely over the years with the government agency, both groups developed empathy toward each other, a normal human behavior according to Batson *et al.* (1995). Obama's effort to break the development of such close relations is simply a call for dehumanizing these institutional structures of trust.

The four pillars: leadership, ethics, trust and personal responsibility

While leadership, ethics, trust and personal responsibility are widely discussed in the literature, they are usually viewed as well-defined, static qualities rather than ideals to be

pursued over time. The approach of this paper is rather to argue that these qualities are dynamic (Mostovicz and Kakabadse, 2009) and aspirational.

Generally, people follow one of two worldviews in moving closer to these ideals (Mostovicz *et al.*, 2009b; Mostovicz and Kakabadse, 2009, 2010). While the first group seeks control (certainty) and look to affiliate with their society of choice (Pyszczynski *et al.*, 1997; Pyszczynski *et al.*, 2004), the second group is individually motivated (Deci and Ryan, 2000) and find their life meaning through the search for challenge and differentiating themselves from others (contrast). These two worldviews are opposed and thus prevent people from embodying them simultaneously since this would require feeling others' proximity and distance at the same time.

In our personal pursuit of the four pillars of corporate responsibility, choice-making can thus seem paradoxical since it is not about distinguishing between good and bad options but rather about determining a preference between two equally valid options (Kouzes and Posner, 2003) based on a higher principle or value (Rawls, 1999). Since this choice is personal, Mostovicz *et al.* (2009a) argue that leadership is not a hierarchical position but rather an emotional ability to follow one's perceived life purpose. This is defined by Palmer (1966, p. 114) as "the fundamental cognitive orientation of an individual or society encompassing natural philosophy, fundamental existential and normative postulates or themes, values, emotions, and ethics."

Worldviews (*Weltanschauung*) are not psychological constructs but rather self-constructions based on life history and past experience as well as social context. They are premised on constructive sociology (Berger and Luckman, 1966) and, of course, have psychological determinants, but they are not to be compared with psychological types or traits.

Three of these qualities – leadership, trust and personal responsibility – can be understood differently depending on one's worldview (Mostovicz *et al.*, 2009b; Mostovicz and Kakabadse, 2009, 2010). For the fourth pillar, we follow Lévinas (2003, 2004) who defines ethics as taking responsibility for the other. Each of these pillars can be explored in detail to explore the relevance of this worldview concept to corporate governance.

Leadership

Leadership is the ability to choose freely without being influenced by external social forces, whilst simultaneously maintaining full awareness of one's inherent subconscious motivations (Mostovicz and Kakabadse, 2009).

Acting authentically requires us to be conscious of our deeply held values, and to make choices not based entirely on simple financial reward. Leadership is a process (Hunt, 2004, quoted in Antonakis, 2006, p. 6) or a set of qualities to be developed over time (Goleman, 1998). Recently, formally popular theories in social science have been criticized for being static (Ashforth *et al.*, 2008), or less relevant with time (Pascale, 1990; Kalogeras, 2005). Consequently, social science, in general, and the leadership literature (Baker, 2007), in particular, are lacking in dynamic theories.

Leadership is not a philosophy, and a leader's values should be clearly manifested in their behavior and practices as informed by his worldview. These extend from more tangible tactics or actions (Amir and Ariely, 2007) through to strategic and practical decisions (Kouzes and Posner, 2003) and finally to the embodiment of true purpose. Along this process, leaders tap into different motivations, from principles such as logic and measurability through to emotions and interpretation (Porter, 1996) and culminating in psychology and metaphysics (Mostovicz and Kakabadse, 2009).

Leaders looking to align their CSR choice-making with their own value sets must continually refine their process of purpose-seeking, which Lévinas (1994) defines as the path for which he would be ready to die if it could not be pursued. This total commitment implies an intrinsic commitment whereby leaders seek "either my way or nothing."

Hence, our challenge is to fit our behavior with our values and not the other way around. However, in no way does it imply extrinsically that what is not “my way” is wrong. This total commitment is not easy and requires a leader to remain motivated, which implies flux and to seek it or even provoke it in order to find it (Nonaka and Takeuchi, 1995).

Trust

In the socio-economic literature, trust is embedded in logic (Coleman, 1998; Deutch, 1962). Coleman (1998) defines trust as being based on four principles. First, trust allows for actions that otherwise would not be possible; second, if the trustee is trustworthy, the trustor will be better off (Exworthy and Robinson, 2001); third, trust involves a voluntary transfer of assets without an explicit reciprocal commitment of the trustee; and fourth, a time lag exists between the act of entrusting and the result of that behavior. Hence, for Coleman (1998), trust is a logical action that involves calculated risk.

For instance, Sako (2008) examines trust from an economic perspective and puts the two extremes along this multi-dimensional spectrum the arm's length contractual relation (ACR) and the obligation contractual relation (OCR) (Marchington and Vincent, 2004). ACR is characterized by a specific, discreet economic transaction, where duties of both parties are laid out explicitly and rules are clearly defined and legally binding. On the other hand, OCR cultivates a level of mutual trust (Marchington and Vincent, 2004) extending beyond explicit contracts. The ACR and OCR polarities are distinct along two dimensions – the interdependence of the parties and the time span of the relationship. Both of these traits are greater in OCR and more limited in ACR (Markovits, 2008; Sako, 2008; Shiffrin, 2008).

However, CSR policies based anywhere along this economic spectrum remain limited in scope to since they are used only as a means to achieve better financial results and would likely be abandoned if they were deemed too risky, insufficiently profitable or unachievable.

A different approach to trust is provided by Wasserman (2006) who wrote in the aftermath of the 1929 economic crisis on the ensuing loss of trust that people developed for markets. Wasserman (2006) argued that it was, in fact, this lack of trust which exaggerated the effects on poverty due to creditors' fear of lending.

In other words, we only trust those who are committed and who undertake full responsibility for their actions (Bucholz, 1987; Gray *et al.*, 1996). Trust, therefore, is the ability not only to seek shared benefit but also to face failure and to put the blame squarely on one's shoulders if a problem arises. Only when assuming full responsibility for a failure can a person commit to devising a solution. Hence, for Wasserman (2006), trust is not extrinsic, logical or social but intrinsic, emotional and individual. The risk therefore is not to the trustor since he is seeking to benefit from this risk undertaking; rather, it is to the trustee who is fully responsible for his eventual failure despite engaging in this risk altruistically and voluntarily (Wasserman, 2006) without expectation of reciprocity. Thus, trust results from the trustee's choice.

Personal responsibility

Even a value such as responsibility is dependent on an obligation to someone or something. As it relates to CSR, the word “responsibility” is intended to reflect the needs of the organisation's stakeholders, yet is based on an awareness that the glass is half-empty (i.e. that one's goal has not yet been accomplished).

Yet those with different worldviews also have different ideas about what this true goal is. According to Kaplan (1990), one relates to truth either as an objective or as a principle. For those in the former group, the goal is to unite with that truth, and they tend to look back in order to draw lessons for the future (Mostovicz *et al.*, 2009a). Assuming responsibility thus entails demonstrating an honest balance-taking. For the latter group, the goal is to create a set of challenges or guidelines to live up to (Mostovicz *et al.*, 2009b). Thus, for them, it entails committing to face future challenges in a structured way based on careful examination of the set of rules that they have formed.

Ethics

Being fully ethical can only be aspirational since every person will at least sometimes act automatically or hide behind social rules and customs (Mostovicz and Kakabadse, 2008). Thus, we cannot expect people who are imperfectly aware of their actions to act ethically in every situation.

This inability has led some researchers to realize that we can only strive toward a true ethical position by gaining better insight into the origin of our ethical behaviors dynamically over time (Csikszentmihalyi, 1990). Scholars who view ethics as a process rather than an end (e.g. Caldwell *et al.*, 2008; Flynn, 2008; Hernandez, 2008; Liedtka, 2008; Verbos *et al.*, 2007) pay attention to deep personal virtues, which generally relate to flourishing, vital, meaningful life purposes and their embodiment (Cameron, 2003; Knights and O'Leary, 2006; Manz *et al.*, 2006; Weiner, 1993). Following scholars who argue for the need to develop authentic leadership (Luthans and Avolio, 2003; Gardner *et al.*, 2005; Yammarino *et al.*, 2008), Liedtka (2008), for example, calls for a search for authenticity by looking internally (Hardt, 1993; Hernandez, 2008) rather than externally as logical, economics-driven theories of ethics advocate. Those with different worldviews also perceive authenticity in different ways (Mostovicz and Kakabadse, 2009), either as truthfulness or as genuineness.

Lévinas (1994) addresses this question by replacing the concept of authenticity with the idea of responsibility to the "other" as the ultimate ethical value since the former has a dual and contrasting meaning whereas the latter relates to the paradoxical, unattainable ideal truth. As such, ethics is something that is out of our direct control. Some look to find similarities with people (Mostovicz and Kakabadse, 2010) and thereby seek to erase the other or unite with it, and thus to become more responsible. Others, however, seek to differentiate themselves from people (Mostovicz and Kakabadse, 2010) and aim to preserve the other while risking the proximity needed for true responsibility. Both approaches imply a paradoxical undertaking since man cannot perceive clearly what ethics implies, yet we can build humility and begin to understand how to construct a more humanistic system for governing each other by pursuing our own worldview.

Way forward

The discussion above describes the dynamics inherent in any social setting and are applicable to companies' efforts to develop their CSR positions. It is paramount to realize that senior managers, as individuals within companies, commit to developing these views dynamically and consistent with their individual worldview.

CSR programs today do not reflect the approaches usually discussed in the relevant literature. These differences can be summarized in three dimensions: personal vs. social, emotional vs logical and paying for one's beliefs vs receiving benefit from these beliefs.

This paper calls for CSR policies to grow out of personal commitment and dedication. Modern research into social psychology warns us that if we fail to admit guilt, we commit moral hypocrisy (Batson *et al.*, 1997; Batson and Thompson, 2001; Batson *et al.*, 2002; Batson, 2008). A proper approach to CSR should stand on four personal pillars that require people to commit to their beliefs and be consistent with their worldviews while allowing others the same ability. This should precede engaging others in our activities (Brown, 1998).

Commitment to one particular worldview should not imply that this worldview is an ultimate, transcendent truth for describing reality. Rather, this could lead to disrespectfulness, collectivism or even fanaticism (see also Frankl, 1986, p. xxvi, for a similar idea; McGregor *et al.*, 1998). However, Jewish scholars (Baruchovitch, 1992) observe that fanaticism cannot go hand-in-hand with altruism, which is defined as the "motivational state with the ultimate goal of increasing another person's welfare" (Batson *et al.*, 1995, p. 1042). Hence, while one should be critical of oneself, he should at the same time empathize with the other's needs, defined as the "other-oriented emotional response congruent with the perceived welfare of another person (if the other is in need, empathy includes feeling sympathetic, soft-hearted, compassionate, tender, and the like)" (Batson *et al.*, 1995, p. 1042).

Similarly, case studies such as the Deepwater Horizon oil spill disaster should serve as an example to companies in emerging markets that even the biggest global companies still fulfill their CSR objectives imperfectly. Any organizational structure can pose risks to our personal values and to our sense of personal responsibility in our work. The acid test in any organization is ultimately what the people working within it are ready to sacrifice.

Unfortunately, instead of sacrificing financial success for ethical values, corporations are built to sacrifice their human assets for a questionable quick profit. If corporate goals are structured profit maximization and based on passionless and emotionless logic and rationality, then all human values disappear, enslaving the people within the corporation to the goal of the organization as a whole. They are measured only along skills, performance, knowledge, abilities and competencies (Ashkanasy and Daus, 2002). Financial rewards, in turn, seem to interfere with or to “crowd out” (Frey, 1998) intrinsic motivation (Deci *et al.*, 1999; Gneezy and Rustichini, 2000), that is based on morals and values (Frey, 1998) and can become addictive (Souvorov, 2003).

Diffusion of responsibility in its various forms and the fear that a corporation's practice removes any authentic self-expression is the antithesis of any true CSR practice. CSR is thus not an ultimate solution for corporate ethical practices in that these policies are not built to anticipate and solve eventual problems. Disasters will eventually occur and we will always face cases where we realize only *post-hoc* that we acted irresponsibly. However, by finding the courage to continue identifying our failures or limitations offers the chance to stay attuned to problems earlier.

CSR is based on the premise that natural capital is limited, and companies need to radically increase resource productivity (i.e. minimize their usage and maximize their utility). The CSR promise is that the adaptation of responsible strategies for natural resource preservation can also significantly benefit a firm's bottom line and can support future CSR and environmental projects (Porritt, 2005). Nevertheless, we should not forget that our ultimate natural resource is our human capital, a resource that disappears over time. Time wasted is time lost never to return.

We keep on looking at our society's half-empty glass trying to describe what this glass is missing, yet we should instead look at the half-full glass, at the existing human capital we have, and try to do the most with it. CSR is a call for being critical of ourselves and empathizing with others in society.

The case of emerging markets

Emerging markets with their rapid growth and industrialization present two challenges (Jain, 2006) to the prevailing CSR approach taken by global companies (such as BP) today. First, these markets present potential opportunities for rapid economic growth, yet they are also more risky and less concerned with CSR (Jain, 2006). Thus, practices in emerging markets might lead to excessive environmental damage and even unethical and wrong practices (Chang, 2003). Second, the lack of enforceable rules and regulations in these markets may attract foreign capital that either does not require CSR best practices.

Moreover, these emerging markets are often not interested in western-style economic approaches, whose underlying social values are not consistent with their own. In general, more political conservatism is growing rather than shrinking, and more Russians today support the concept of “a strong leader” over “democracy” than they did ten years ago because of the evident corruption, inequity, and decline in average living standards. China and Brazil, which fared better during the 2008 crisis go their own way and refuse to emulate western economic models even though they are operating within global systems of free trade and finance established by the west. Consequently, more state control becomes the norm (Foroohar and Margolis, 2010).

We therefore, can recommend only an approach captured by the Biblical statement “we are verily guilty” (Genesis, 42, 21). The western corporations, in spite of claiming that they have put in place one CSR policy or another, remain fundamentally flawed since they are not

explicit about what they are willing to sacrifice for proper CSR practice but rather only by what value they can deliver to shareholders. Thus, global CSR practices should serve only to inform emerging market businesses about approaches to CSR rather than end points. Further, these CSR practices must strive to reflect the social values of the society where they are implemented. The west has managed to enforce some CSR practices but has largely failed to put into practice or benefit from the research being conducted in this field. If we are in doubt of this view, the emerging economies can be examined in order to illustrate how irrelevant current research into CSR is to these countries.

As these countries continue to build wealth, they have an opportunity to scrutinize the academic literature in order to build CSR programs that reflect their unique values. They can also learn and benefit from the mistakes being made by today's biggest global businesses, including BP. After all, each should keep saying "we are verily guilty" (Genesis, 42, 21).

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