

THE CORPORATE GOVERNANCE RESPONSIBILITY BETWEEN CRITICAL THINKING AND PROACTIVE IDEAS WITHIN PERSPECTIVE OF SELF-REALIZATION

*Alberto Dello Strologo**, *Federica Ricci***, *Emiliano Marocco****

Abstract

The purpose of this paper is to clarify the main problems that the company's economic doctrine has raised in recent years on the subject of corporate social responsibility; in particular, the work, considering the critical and eventually incomplete profiles emerged, has the ambition to outline an alternative reading useful to interpret the issue of corporate social responsibility in terms of effective utility management approached in the perspective of self-realization****.

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**Business and Management, University Europea, Roma, Italy*

Email: a.dellostrologo@yahoo.it

***Business and Management, Department of Economics and Law, University of Cassino and Southern Lazio, Italy*

Email: federica.ricci@unicas.it

****Business Economics, University Roma Tre, Italy*

Email: emiliano.marocco@tiscali.it

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1 The positioning of the study

Preliminarily, it is necessary to specify that the actual contribute is not willing to examine the origin of corporate social responsibility.

And, likewise, no need to investigate on the development that the theme has gone through over time and on the relevant trend of thoughts developed.

Nevertheless, still not having such purpose (target), for a clear exposure and methodological rigour, it is suggested to check some foremost positions related to the theme of the corporate social responsibility.

Preliminarily, it would be good for us to specify that the theme of the corporate social responsibility is indeed complicated itself, because it is not referred to a clear definition. And being a hardly limited concept for a semantic point of view, the same complexity is reflected in the organization praxis, that is all efforts made from literature to try to give a structure for an easy governance tools.

In other words, if it is not easy to clarify the meaning of social responsibility, it is much more difficult to define the way of application and, above all, the utility in the social praxis.

The vast amount of reasoning based on corporate social responsibility, has, by one side, helped the increasing of scientific output – often interdisciplinary – and in the other side, it has conducted to different interpretations of the theoretical basis on which the thesis is based.

Generally, all actions around the theme of the corporate social responsibility come from the combination of neo-institutionalist [Grossman, Hart, 1986; Hart, 1995; Hart, Moore, 1990; Williamson, 1988]; of stakeholders [Jensen, 2001; Donaldson, Preston, 1995; Freeman, 1984; Freeman, Mc Vea, 2002; Mitchell, Agle, Wood, 1997]; and neo – contractual [Rawls, 1971].

At this point, the inquiry on the corporate social responsibility should be placed within the discussion about the business purpose as well as its role in the modern society [Favotto, Michelon, 2008].

For this reason, it is propaedeutic referring to the contribution of Bearle and Means [1966] who, well-known, considered the institutional modifications in a historical period when all business were facing important change, and therefore underlined the organizational impact of the splitting between property and management.

According to the authors, the administration committed to a manager with a specific and professional knowledge, helped to overtake the interest of the property, looking to a new concept of business linked to an idea of social property.

Similarly, Briloff [1966] considered the social responsibility such as a “correct” responsibility, in dualism words between property and power: «in one side there are subjects of high level power who check every day the use of the company stuff (goods); in the other side the property that means subjects with the important role to decide how to use this stuff (goods).

The property includes the shareholders, but also the employees, users, banks and anyone who has invested in the company even including the government – we are indeed all and always involved in every big business».

This means that the business is considered as an institution for the community and not only a profit source for the property.

According to Fischer setting [2004], the discussion on the corporate social responsibility can be analysed in two different points:

- 1) classic approach;
- 2) socio-economic approach.

For the classic approach the corporate social responsibility should achieve the maximum value for the shareholders:

Any other target would be extremely subversive [Friedman, 1962].

Having said that, the company would keep a social responsible behaviour in case of respecting the laws and social rules in good faith.

The socio-economic approach extends the concept of corporate social responsibility because it considers other actions to get to the social target.

People (scientists) afferent to this line, more properly, state if the company management is responsible in case of simultaneousness economical and social targets.

According to Coda [1988], all enterprises should follow a social strategy just to be included in an external context (social, exactly), coherent – at the same time – both with the economic and relational target.

The social strategy has to joint to the competitive and economic-financial strategy, according to the doctrinal interpretation that considers the company as institute where different dimensions can coexist but only the economical dimension matches with the company, while the others are separate.

And just the acceptance of the institutionalist business conception brings to some opportunities of debate about the social responsibility because of the need to aline, in this circumstance, the interests sometimes far or even contrasting.

2 The interpretive approaches to the corporate social responsibility

Referring to the specialized literature, the deep investigation of the trend of thoughts of the corporate social responsibility, it is important to underline how so many disapproval arise and how, most of them are strictly due to the lack of the company motivation to act with full responsibility.

In other word, most of the critical debates about the corporate social responsibility theme, are based on the following question: why should the company act according to the standard socially responsible?

As known, the responsible approach, further the compulsory obligation, gives to the stakeholders the

chance to receive all kind of information in addition to the ones of the accounting nature, and moreover to build up a larger and fixed process that considers the social implications of the company choices [Gray, 2002].

The existence of a voluntary action presupposes a strong motivation on the part of organizations with regard to the integration of standard responsible.

According to Freeman and Gilbert [1988] the interests of stakeholders have to be correctly integrated to the company strategy: that means acknowledged for their value.

For this, the responsible action is based on ethical principles (concepts).

It is demonstrated that «on the basis of the definition given to the European commission, the corporate social responsibility should be interpreted as gaining awareness, that is the consciousness, of the ethic dimension of the business companies » [De Nicola, 2008].

In fact, if the responsible action is based on intentional ethics, the acting would qualify a behaviour as ethic and, therefore, as responsible.

This concept generates an immediate critics: the intention is insufficient because, by itself, might not be enough to give the right weight to the direct and/or induced effects of the individual company.

If my activity (business), although managed from a right intention, produces negative externalities which fall upon other subjects, the action right for the management could be instead wrong for the society.

It could be helpful what Zamagni [2004] says «deciding to entrust my savings to a financial institution to be sure to get the highest rate of return, is a right action according to the criteria of the next and past rule. Nevertheless if the financial institution uses my savings wrongful, the said action is objectively censurable. This means that foreseeing the effects of the action is the main part of ethical behaviour. More generally, nowadays given that all business companies work in a global market, and therefore obliged to further rules, their operators are not entitled to feel free from their social obligations».

The answer to the above mentioned critics is given by the institutionalist approach: the corporate social responsibility represents the way to achieve a competitive advantage and not a simply responsibility itself.

In other words, the corporate social responsibility should be analysed strategically, because the responsible governance would give benefit to the community and, whereas, avoiding the business need of legitimation.

By this meaning, the responsible governance offers brand new solutions which better satisfy the need of all stakeholders, with the aim to use these solutions for getting growth factors of the business competitiveness [Molteni, 2004].

Actually, this last point of view is anyway criticized, especially if we consider that the corporate

social responsibility is a voluntary action of the decision-making process, free and aware, performed by the company; on the contrary, if the motivation of the responsible governance is an economical profit, it would be merely exploiting.

Anyway, the corporate social responsibility is not considered unrelated to the survival logics inherent to the business concept: obviously the corporate social responsibility is a market trend requirement.

Conte agrees with this point of view, as he states that «the phenomenon of the corporate social responsibility is a phenomenon that comes out the market to which it belongs to. The lately news talk about companies obliged to use “virtuous” behaviour in order to satisfy the sensibility of users associations and no-government organizations, which were trying, globally, all methods of reactions always more efficacious and hard» [Conte 2008].

Nevertheless, it is important to clarify that the corporate social responsibility does not come out only from the company need to have a competitive advantage because it would be a simply action of self interest.

3 The main criticisms about the classical approach

Going back to the classic approach, the corporate social responsibility is considered even as a threat to the survival of capitalist system. Levitt [1958] judges serious and dangerous for the companies to develop functions of corporate social responsibility, which could produce, under demagogic considerations, a lot of damages to the firms and whole community.

According to Levitt, the social aims should be unrelated to the entrepreneurial logics.

Friedman says that «few trends can threaten the fundamental principles of the free community like the acceptance by the manager of the social corporate responsibility with other aims than doing profit for the shareholders».

According to Friedman, in fact, beyond the respect of the law, the only social responsibility for the manager should be the maximum production of profit for the shareholders. «Every other idea is deeply subversive» [Friedman, 1962].

Possibly, the only strategy acceptable is the corporate social responsibility untruthful: the manager acts properly when using social and environmental values merely to profit maximization for the shareholders. It's true, as Friedman says, «this opportunistic vision of the corporate social responsibility reduces the truthful values to an “hypocrite decoy”». Nevertheless, the hypocrisy is virtuous if increases the profit, on the contrary the virtue is immoral if it doesn't get the same result [Bakan, 2004].

In '80, Rappaport agreed this concept and so he published a paper which, starting from its title, pressed

the manager to create value for the shareholders [Rappaport, 1986].

Even if originally the theory of value production was criticized from the who believed that it could have put in a second figure, even endangering, the traditional aims to do business: production innovation, new products introduction, employment generation.

Against the critics, the economists gave several answers better examined here under.

Particularly Friedman states that:

1. the firm gets its own position in the market;
2. the market is itself legitimated;
3. being the firm in the market, the firm is automatically legitimated.

According to this methodological statement, the application of the corporate social responsibility would remove the meaning of market and business.

Zamagni [2004] at this reference, notes that Friedman syllogism has no doubts - while should have instead.

In fact the principle of market organization is different from the business one: the market creates relations between available and aware Subjects, producing horizontal links, the business organization is based on hierarchical concept.

The corporate governance means the performance of authority, action and control [Zingale, 1998]. Although during the years the authority meaning was going to be missed in the business organization, we cannot say, actually, that many business organizations have not a leadership at all [Brafman, Beckstrom, 2006].

Therefore, as immediate consequence, the functions of leadership and control are fully respectful of standard line of corporate social responsibility. This is confirmed from the theory of limited rationality which, as known, implies that the leading actor of the decision-making process is “administrative man” who, being not an omniscient, cannot see all kind of problems, cannot find resolution alternatives and nor the relevant consequences [Simon, 1979].

The lack of omniscience justifies the need to apply the standards of the corporate social responsibility when the economical subject would not consider the application.

With an efficient market (that is no transaction costs, no asymmetric information and the presence of homogeneous and rational expectations on the profit return), probably, it does not make sense to talk about corporate social responsibility [Fama, 1980].

Nevertheless in the actual contest, the markets are not complete and even inexistent.

This lack creates the well-known agency problems [Jensen, Mecklin, 1976]; the particular contribute of the theoretical setting is the definition of the agency link such as the alternative system of coordination comparing to the ones already known, which are the market system and classic authority system [Grandori, 1999]. In this scenario, the thesis of corporate social responsibility is considered as social

contract made to avoid and prevent the opportunistic behaviour of the leader. Really, the social contract is not a proper and real contract but it is an hypothetical agreement among several subjects and the aim of this kind of contract is to protect human dignity, inviolable and independent, of both parties [Gough, 1986].

4 The main criticisms about the multi-stakeholder approach

Indeed, the multi stakeholders approach generates further criticism because: a) it is not clear how the company can select time by time the relevant stakeholders; b) there isn't, nowadays, a unique opinion on how making compatible the different and conflicting interests of stakeholders.

Goodpaster [1998], emphasizing the difficulties of the manager to equilibrate the stakeholders interest in front of the company, talks about "paradox of the stakeholders", referring to the ambiguity of the manager who cares of both property interests and everyone interests. The stakeholders model, in particular, interprets the ethics of responsibility of Max Weber [1969], who defines the responsibility how the criterion values the acting on the consequences basis produced by the acting, also with the necessary tools for the realization of the acting itself.

While the ethics of the standards is based on the interior aspects, the ethics of the responsibility examines, most of all, external aspects (or consequences).

Subsequently, Jonas [1990], formulating the lines of the new conception of ethics, elaborates a third way for the human acting defined as "heuristic of fear". For the author, in fact, the fear for the wrong action - made or willing to - of the human being, would push the individuals to undertake actions of responsibility; «when we talk about the fear which is part of the responsibility, we do not mean the fear which might stop the action but the one that helps to performer it; in other words, the fear of the responsibility itself».

According to Jonas, though, the reason that makes the human being understand what is really important and then conscious of the importance of the responsibility, is indeed the fear of having the risk to lose something. He (human being) does not consider only the foreseen aspects but also the unexpected ones; the link between the philosophical pattern above mentioned and the stakeholders theory, is directly due to the fact that the manager is responsible not only in front of the stakeholders generally speaking, but also in front of the stakeholders in the Kantian meaning who take part to the business survival.

Freeman, on this point, states that: «the company is a whole of relations of groups of people interested to the business activities, but it is engaged in the way the customers, family, employees, lenders (shareholders, bondholders and banks), communities

and managers interact and produce value. In order to understand what the enterprise is, it is necessary to understand how these relations work» [Freeman, 2004].

So, the stakeholders theory has to be interpreted to find the right way which allows to get to a balance between the stakeholders and not to their interest competition. The referred metaphor is the value creation and not the value conflict [Zamagni, 2004].

After Sacconi [2004], the solution to find out the balance of the interests of stakeholders could be found if the moral equality of all participants is guaranteed: it is a contracting balance that all stakeholders would accept. The strength of this contractualism, in rawlsiano meaning, is in the connection between the individual interests of stakeholders and the justice (that is the equity): the interest of a kind of stakeholder cannot prevail to another interest of another kind of stakeholders.

Having said that, the company, handled this way, maximizes the satisfaction of the interests of all involved parties.

5 The problem of motivation

Now, having illustrated that the corporate social responsibility implies a consciousness of the company to satisfy the interests of stakeholders, anyway there is still a question:

«What is the best way to keep under control the full respect of all principles of the corporate social responsibility applied by the enterprises?»

According to the business-management literature, it is request the application of the reputation mechanism [Gotsi, Wilson, 2001].

The reputation is the reason that makes the stakeholders trust the company and consequently cooperate with it, given that the transactions have to be done at low costs.

In particular, the reputation can be defined as «a complete representation of actions – in the past and in the future – of a company, that describes how the lenders acknowledge the company proposal and how they justify the competence of the company to perform their need» [Fombrun, 1966, 2001].

There are a lot of factors that could influence the reputation of a company: some are more managed and others are less. Generally, the reputation is based on how the stakeholders perceive the company behavior – voluntary and involuntary – in a medium-long term period: only by knowing the company, the stakeholders can give their opinion.

As a matter of fact, the reputation is influenced by the area which the company belongs to, the country of origin and other elements; however the stakeholders give their opinion based on their own experience gained during the time spent in the company and obtained according to the key elements. These elements can be classified in: character (for example, organization culture), competence (management,

proficiency of the employees) and the product offering (quality of goods and services, vast range of products, prices and brand). The above mentioned elements are aspects of the corporate identity: the stakeholders know these aspects on the basis of the company behaviour (communication, competitiveness, social, environment, customers focus, profits) [Dowling et al., 2004].

The company using a self-discipline line – for example ethical code – in case of lack of responsible standard, punishes itself and it provides to improve its relational capital (image) valued from the stakeholders.

The corporate social responsibility, such as the reputation and the virtuous relations with stakeholders, represents for the company the way to increase its so-called intangible capital which, in this particular moment for the economy, is one of the main way to produce value.

Nevertheless, the reputation mechanism presents some “cognitive fragilities” [Sacconi, 2004]: the reputation mechanism is really efficacious in the business organization if the agents can have a perfect symmetry informative in order to compare the choice of the company with the other possible available choices.

Moreover, it has already been pointed out, that the person making an economical action has got a “administrative rationality” which has cognitive gap.

Following these considerations, it can be noted that the ethical code, together with other auto regulation lines, is a mean which motivates the social responsible action, but it is, still, incomplete.

6 Going to the conclusion, there are some criticism

In the last years, a part of Doctrine has started a research to find out if the corporate social responsibility is based on the ethics of virtues.

As Smith says in his work “The Theory of Moral Sentiments”, the human being has got some moral values that make him take part to the success of his community and therefore it’s necessary for him to bring happiness to everybody, even if he gets a merely enjoyment to look at.

Moreover, the human being has a moral imagination which allows him to understand what the other persons think, notwithstanding he cannot read the others thinking.

The morality is based on the relations between each other: the individuals would look for a sharing experiences.

The sociologist Simmel [2004], in particular, investigates the link between economic and social transactions. He notes that the coins are engaged documents which are based on the assumption of a stable collective trust between anonymous parts, which ensures that, at some future date, the pledge received under an exchange of the past will be

honored in the future by a third party, in a subsequent exchange. Rifkin [2010], similarly, recognizes that trade is always preceded by social exchange, confirming that the economic and cultural capital precedes the economic one and the economic activity represents an expansion of cultural relations.

The compliance to standards of responsible behavior, analysed from the point of view of ethics of virtue, means the individual acceptance of such standards by the economic agent.

The problems relevant to the corporate social responsibility can be solved if the company members have the intention to do it; in fact, if the economic agents, do not recognized the moral value of ethical code, the corporate social responsibility would not last long.

This consideration opens another opportunity for debate, always on the motivation of economic agents regarding the social responsibility.

In this regard, according to Zanda [2009] suggestion, the social responsibility would satisfy the need of executive managers. In the traditional setting of Maslow [1954], as is well known, the needs of higher - level are related to social needs (self-evaluation, evaluation of others and self - made).

Zanda writes that «the needs of a higher level are gratified by assigning to the company a system of aims summarized in the development of profit, in the company growth and in the assumption of responsibility».

The corporate social responsibility, therefore, help to ensure that managers are able to meet the needs of self-evaluation and, over time, to self-realization.

Accepting this setting, that qualifies the social responsibility as motivational push to get a self - realization, it will be able to overcome the widespread problem of business motivation and to overtake the conflict between individual interest and collective interest.

With this structure, in fact, the corporate social responsibility would qualify as a common good, which does not coincide with the mere sum of individual goods, but the good to be part of a social structure, that is the company.

According to Aristotle the corporate social responsibility can be showed through the actions and works.

So, the economic agent, who selects an alternative socially responsible, at the same time, does good to himself and to the stakeholders.

In fact, as soon as the economic agents will understand that responsible action would be done for its own sake, then, the problem of motivation will cease to exist because individuals are naturally motivated to achieve what is in their own good.

In conclusion, it is urgent to wake - up the “human conscience” of business leaders with the aim of structuring business strategies oriented to ethics and social responsibility.

In this perspective, it is believed that a fundamental role in the production and dissemination of new values and standards of behaviour socially responsible should be done by business schools, institutions, the media and universities in the belief that corporate social responsibility should be revisited as a virtue socially responsible in the collective interest.

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