goes much further in emphasizing how social initiatives must only enhance the company’s ability to compete. This is most evident in Porter and Kramer’s fundamental equivocation on values when they redefine value in terms of cost-benefit analysis rather than actual values. Moreover, SVM rests on the potential that economic and social interests can be integrated without explicitly addressing how to deal with fundamental tensions between business and society.

Thirdly, the problem of socially distorting decision-making highlighted in the preceding discussion does not happen by chance but instead follows from SVM’s attempt to counter the most challenging criticism of philanthropy formulated by Friedman (1970). In so doing, however, it glosses over an essential point Friedman makes about the relationship between business and society. Friedman’s fundamental concern was with encroachments on a free society including the functioning of a free market. Companies are thus only limited in their pursuit of profit by “the basic rules of society, both those embodied in law and ethical custom” (Friedman 1970). Choices about how to shape the competitive context, even when beyond reproach, venture into the realm outside of the marketplace. While Friedman emphasized how philanthropy by a corporation is taxation without representation, others, like Reich (2008) who build on Friedman’s criticism, point to the distorting effects corporate social actions have on the efficacy of citizens to determine the rules of society and its ethical customs. Companies are influenced by their environments, and can exert influence that shapes their environments. This fact, however, does not justify concluding that companies have license to shape their environments as they see fit but instead raises issues about how and whether such influence is justified.

Clearly, Porter and Kramer are attempting to carve out an unassailable space for the involvement of business in societal issues that counters Friedman style criticism of such activity. And they have done so. Although, in doing so, shared value leaves important matters about values behind: “Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success” (Porter and Kramer 2011, 4). And, other aspects of values are amplified: “Companies can create economic value by creating societal value. There are three distinct ways to do this: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company’s locations” (Porter and Kramer 2011, 7).

SVM draws its boundaries at the precise point where the business-society relationship becomes most complicated, and contested. What remains are the hard problems that business leaders must contend with whether they want to or not. The
risk for decision-makers is over-extending SVM’s competitive context analysis or believing it is a complete analysis of the social context in which business exists. As Gilbert Lenssen (2006) states, “[p]urposefully embedded in society, business can be a force for good and a source for hope in the future.” A simple focus on the opportunity for profit in others’ troubles, however, is not a genuine search for innovation, development, sustainability, or good. Herein lies the great challenge for the business-society relationship and the need for creative, legitimate action not one overarching framework.

**The Prospects for Philanthropy and Governance**

One great benefit of Porter and Kramer’s work is that it reveals just how much theoretical and practical work remains in addressing the business-society relationship. It is commonly acknowledged that the core activities of business have the greatest impact on society. Indeed, the primary consequences of business action revolve around how companies pursue profit and growth. It is clear that responsible pursuit of profit and growth can. Basic questions concerning business are not about whether profit can be made but about how profit is made. SVM captures an important but very narrow aspect of the new demands for governance and collaborative problem-solving where the resources of each of the profit, non-profit, and civil sectors must be leveraged for the greatest sustainability and development effect. Philanthropy, it seems, is an important place to reinvigorate thought and practice about the responsible pursuit of profit because it reinvests in the community to solve social issues.

Philanthropy has played and continues to play an important role in CSR and the overall presence of business in society. It is important to remember that corporate philanthropy is purely voluntary and represents an opportunity for the business sector to engage with the other sectors of society. Returning to Porter and Kramer’s (1999) critique of foundation giving, one of their suggestions to improve the ability of foundations to generate social benefits was for the funders to “move from the role of capital provider to the role of fully engaged partner, thereby improving the grantee’s effectiveness as an organization” (123). Their advice, however, is not news. Many corporate philanthropists recognize that building non-profit capacity makes NGOs more effective and thus enhances philanthropy. As Charles Handy argues, businesses should, as charitable organizations do, measure success in terms of outcomes for others as well as themselves (Handy 2003). Instead of dismissing philanthropy as a non-value added practice, corporations
have incredible potential to contribute to positive social change and to improve the working of the civil sector at the same time.

The crucial issue that philanthropy raises is to whom is the return expected? This is why philanthropy, and CSR, have been so controversial in the business context. As Roper and Cheney (2006, 264) point out, “Indeed, Porter stated that the exercise of traditional philanthropy does not make good business sense as it does not provide a tangible return.” There are many corporate funders who measure success by their ability to strengthen the capacity of non-profit organizations as they strive to solve social issues. The shared value equation reveals a poor understanding of how many corporations work with the independent civil sector. Many NGOs would be reluctant to work directly with business units seeking financial returns but have comfortably worked with corporate philanthropy departments and professionals.

SVM portrays corporate philanthropy as a largely incoherent activity that overestimates its ability to deal with reputational issues. In so doing, SVM’s criticism generates a cloud of confusion rather than opening up an arena for theory and action about collaborative problem-solving in a global context. Philanthropy differs from charity in that it aims for solving fundamental social problems at their root causes and thus it has always oriented toward being strategic and concerned with effectiveness and impact (Katz 2005). But, it does this in terms of providing the means and not the ends for mutual engagement in solving difficult, often ignored problems. In this sense philanthropy holds significant promise for enabling collaborative problem-solving, social innovation, and the discovery of competence in addressing shared problems.

SVM would seem to be common sense in the contemporary context and, indeed, a way for corporations to regain public trust. Its self-evident logic gains its strength by fusing free-market rhetoric with tropes from social and environmental advocacy. This powerful combination of premises frames the role of business in society in a manner that became particularly poignant during the rise of CSR innovations in the 1990s. The SVM goes further as it outlines a way to organize business relative to the demands of the triple bottom line. It points out alternatives to adversarial approaches for addressing the consequences of business on society. Indeed, the shared value concept and its successes bring much needed attention to the potential for innovative and productive relationship between business and society. However, it is important to see what is hidden in what the shared model value highlights. Under closer scrutiny, it becomes apparent that in emphasizing shared value, values disappear. That in seeking to reinstate the legitimacy of business,
shared value constructs the grounds for its conceptual hegemony. This is neither acceptable nor strategic in the face of the economic, social, and environmental matters at hand across the globe for sustainability and development.

While the implications for the business sector are clear, SVM poses a challenge to NGOs, governments and, in particular, to those who educate future leaders. As the SVM gains traction in the private sector, funding community and in business schools, there is an opportunity for universities to enhance their curricula to broaden debate over the role of business in society. In the case of business schools, as Peter Lacy and Charlotte Salazar (2006, 237) point out, corporate responsibility is at the margins of the current curriculum. Given the questions raised by SVM, the academic community has a responsibility to understand, debate and challenge the role of business in society.

By relegating philanthropy to a subordinate role and labeling it non-strategic, Porter and Kramer sacrifice a powerful tool for change in favor of a model of combining business value and social value that may be simultaneously unrealistic and normatively simplistic. Their own uneasiness with sacrifice is detectable in their argument for CSR as competitive advantage: “If a company’s philanthropy only involved its own interests, after all, it would not qualify as a charitable deduction, and it might well threaten the company’s reputation” (2002, 16). As we continue to understand how reputations are connected to CSR, it is becoming clear that philanthropy has been and will remain, a powerful way for corporations to engage with the community, and more important, to solve social issues collaboratively. History has shown us that corporations have many options to demonstrate their value to society. Those companies that do this most effectively combine a genuine commitment to making the world a better place with a self-awareness of their responsibility to multiple stakeholders, including stockholders.

References


Managing the Social Acceptance of Business: Three Core Competencies in Business Ethics

Nick Lin-Hi
University of Mannheim, Germany

Igor Blumberg
University of Mannheim, Germany

Abstract: The public support of corporations is continuously declining. The view that the system of free enterprise and profit-making are at odds with societal interests is becoming more and more prevalent. Business’s associated loss of social acceptance poses a serious threat to the future viability of the system of free enterprise. Thus, corporate leaders face the task of regaining and sustainably securing the social acceptance of business. This paper presents three interrelated business ethics competencies which corporate leaders require to be able to accomplish this task: (1) the ability to prove that business and profit-making do have a societal function, (2) the knowledge of what defines responsible business, and (3) the ability to organize responsible decision-making within their corporations.

Key Words: business ethics, corporate responsibility, system of free enterprise, responsible and effective leadership, responsible behavior, social acceptance of business

1. Introduction

Over the past years, the field of business ethics has received an increasing amount of interest in the academic discourse. In very general terms, business ethics deals with the relationship between business and society (Frederick 1994). Under such labels as Corporate Social Responsibility (CSR), Corporate Citizenship, Stakeholder Management, or Corporate Sustainability, this field addresses the question
of which social responsibility corporations have in the globalized world (Carroll 1991; Scherer and Palazzo 2007). In its essence, the responsibility of corporations is to serve the interests of society (e.g., Bowen 1953; Sethi 1979; Wood 1991).

The academic discussion in the field of business ethics is characterized by a high degree of pluralism. There are a variety of viewpoints and positions with regard to the responsibility of business, which are not always compatible with one another (for an overview of the discussion see, e.g., Gond and Crane 2010; Lee 2008). Despite the differences in individual positions, today, the academic community shows a positive attitude toward business ethics issues. Whereas in the past the discussion about the responsibility of business was rather viewed with a critical eye (e.g., Friedman 1970; Jensen 2002; Levitt 1958), now, the dominant motto is: “it is no longer about whether to make substantial commitments to CSR, but how?” (Smith 2003, 55)

The attitude toward business ethics has not only changed in the academic world but also in business. Over the past years, ethical issues have gained enormous significance in practice. A reason for this lies in the circumstance that the acceptance of business in society has suffered considerable damage. In recent years, the public criticism of corporations has intensified dramatically (e.g., Bakan 2004; Clements 2012; Hertz 2002; Klein 2000; Tasini 2009). Corporations are increasingly being perceived as actors who realize their own interests at the expense of society (e.g., Madrick 2011; Ritholtz and Task 2009). In order to counteract “the rise of the anti-corporate movement” (Osborne 2007), corporations must be able to prove that they serve the interests of society. This proof is directly related to the assumption of social responsibility. Thus, the management of the social responsibility of business is a necessary precondition for regaining and maintaining the social acceptance of business.

A central role in this context is played by corporate leaders who not only significantly influence the way business is run, but also shape the perception of corporations in public. This article presents three interrelated core competencies that corporate leaders require to manage the social acceptance of business:

1. Corporate leaders must be able to prove that business and profit-making do have a societal function.
2. Based on this, corporate leaders must know what defines responsible business.
3. Finally, corporate leaders must be able to organize responsible decision-making.
These three core competencies are aimed at securing effective and responsible leadership. Effective and responsible leadership is oriented toward strengthening the social acceptance of the system of free enterprise in order to ensure a fruitful interplay between business and society.

The present contribution is oriented toward the structure of the previously mentioned competencies in business ethics: Section 2 shows that business and profit-making have a societal function and that corporate leaders must be able to prove this function in public. Section 3 highlights that responsible business is always related to avoiding corporate misconduct. This provides the basis for outlining the fundamental challenges with regard to sustainably securing responsible business practices in section 4. Finally, a conclusion is drawn in section 5.

2. The Societal Function of Business and Profit-making

The criticism of corporations—and also of managers—has notably intensified over the past years. An increasing number of people have the impression that corporations recklessly pursue their own interests and do not care about societal well-being. This is, for instance, clearly evidenced in a public opinion poll in twenty industrialized, emerging, and developing countries (GlobeScan 2006). Across all countries, 47 percent of respondents reported that they have little or no trust that local companies operate in the best interest of society. The view of multi-national companies was even more critical: 52 percent doubted that global corporations serve the interests of society. The problem of low social trust and acceptance of corporations is also reflected in a poll conducted by Edelman (2012): only 47 percent of respondents in twenty-five countries trusted business in general, just 27 percent believed that corporations treat employees well, and only 26 percent were of the opinion that business places customers ahead of profits.

The criticism of corporations is closely related to the distrust toward the entrepreneurial profit principle. The frequently encountered notion is that an orientation on profit-making promotes greed, selfishness, and an elbow mentality. This is precisely what—so the belief—undermines virtues such as community spirit, benevolence, or empathy and eventually impedes societal solidarity. Against this background, it is rather unsurprising that, time and again, the general public—and sometimes also academics (e.g., Kolstad 2007; Thielemann 2000; Ulrich 2008)—demand that corporations abdicate from strict profit-making in the name of responsibility.

It cannot and should not be denied that corporations repeatedly behave in a socially problematic and hazardous manner and realize profits in irresponsible
ways. Virtually every day, the media reports on corporate misconduct—from price fixing to the violation of human rights. Additionally, the recent financial crisis confirms the prejudice of many people that corporations can and do realize profits at the expense of society: for years, banks have made billions of profits and subsequently, the financial system had to be rescued from meltdown with billions of tax payers’ money.

Despite recurring misconduct in business, sweeping criticism is misguided. Such blanket condemnation carries the danger that the societal function of the system of free enterprise is not taken into consideration appropriately. It must be kept in mind that corporations make an important contribution to society through their general business activities (e.g., Hannafey 2003; Pies, Beckmann, and Hielscher 2010): corporations produce goods and services, employ people, qualify employees, invest in research and development, pay taxes, and much more. Moreover, corporations coordinate economic activities and constantly search for new forms of labor division and specialization (Lin-Hi and Blumberg 2012). This does not only allow corporations to continuously improve products and offer them at a lower price but also to integrate an ever increasing number of people into a variety of processes of value creation. In doing so, corporations ultimately contribute to socio-economic development of regions and entire nations (Baumol 2002).

Therefore, corporate activities, in principle, serve the interests of society as a whole and thus, the system of free enterprise is a pillar of the “wealth of nations” (Smith [1776] 1905). Additionally, by fostering the social “cooperation for mutual advantage” (Rawls 1971), corporations make a contribution to societal solidarity (Luetge 2005; Velamuri 2002). As corporations essentially depend on different co-operation partners in order to successfully operate in the marketplace (Freeman 1984), they constantly look out for opportunities to realize mutual gains. Thereby, competition pressures corporations to invest in the well-being of other actors, to be able to obtain the resources required for their own value creation in return. In light of a variety of socially beneficial effects promoted by the system of free enterprise, the sweeping public criticism that corporations do not contribute to the well-being of society is misguided.

In fact, it is correct that corporations are primarily interested in the realization of profits. However, contrary to the conjectures of many critics, the realization of profits not only serves the interests of corporate owners, but equally the interests of society as a whole. The opportunity to realize profits is the systematic motivation for undertaking entrepreneurial activities which ultimately engender socially desirable effects (Koch 2010; Lin-Hi and Blumberg 2012; Pies, Beckmann, and
Corporations invest billions of dollars in the improvements of products, research of new technologies, or the creation of jobs purely because this allows them to make profits. Thus, the associated beneficial effects for society are only by-products of the pursuit of profits. In all its clarity, this logic was already highlighted by Adam Smith: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith [1776] 1905, 11)

Against this background, corporations’ pursuit of profits as such cannot be deemed wicked and immoral. On the contrary, the profit principle in competitive markets has an important societal and hence, moral function. If this societal function is neglected within the framework of criticism of corporations—notwithstanding the fact that criticism is frequently justified—the danger arises that people, with the best knowledge and intentions, sweepingly oppose business and thereby endanger a fruitful relationship between business and society. Ultimately, the socially valuable system of free enterprise does not have a future in a democratic society if citizens do not see the societal function of business and profit-making.

Against this backdrop, the first business ethics competence for corporate leaders becomes clear: corporate leaders need profound knowledge about the societal function of business and profit-making and they have to be able to publicly demonstrate this function in an argumentative manner. Corporate leaders must be able to show that business activities are not only linked to efficiency, but equally to societal solidarity. It needs to be proven that business and profit-making are not ends in themselves, but have an ethical dimension since they, in principle, are targeted at generating value for society.

To date, however, practice shows that corporate leaders are inadequately prepared for this challenge. This is already exemplified by the fact that, so far, business has not succeeded in counteracting the loss of public trust. A possible reason for this failure is that corporate leaders are under-represented in the public debate about ethics in business and that the public discussion is dominated by business-critical or even business-hostile actors. In the interest of business, corporate leaders should not leave the field of public opinion making to critics but rather actively shape the current and future debate.

It must be clearly emphasized at this point that this business ethics competence is not targeted toward equating the realization of profits with the responsibility of
business or toward the glorification of business. Rather, the aim is to break the semantic juxtaposition of corporate against societal interests and profit-making against solidarity. Corporate leaders should contribute to creating a basis for a rationalizing discourse in which business and ethics are not played off against each other. This is the pre-condition for the opportunity to discuss approaches for ensuring that business and ethics can be made fruitful for each other.

In order for corporations to regain public trust, they not only require strong arguments but also have to do responsible business and thus, ensure responsible profit-making. Corporations have to assume social responsibility and this presupposes that corporate leaders know what defines responsible business.

### 3. Responsible Business

Nowadays, the assumption of responsibility has evolved to common courtesy in practice. Many corporate websites contain sections in which corporations provide communication about their responsibility activities. Also, global players in particular, publish annual reports about such topics as CSR, Corporate Citizenship, or Sustainability. A recent study by KPMG finds that 95 percent of the 250 largest global companies report about their responsibility activities (KPMG 2011). In addition, corporations do not only publicly commit themselves to their social responsibility, but also attach very high importance to this topic as evidenced by various statements by corporate leaders. For example, Jim Skinner, the CEO of the McDonald’s Corporation, asserts in the company’s 2011 sustainability report:

> Being socially responsible is part of McDonald’s heritage. . . . We will continue to use our size, scope and influence to make a positive difference for children, families and communities around the world. Doing so creates value for both our company and our stakeholders. (McDonald’s 2011, 1)

In a similar vein, Brian Goldner, the president and CEO of Hasbro, declares on Hasbro’s website:

> I believe it will be the companies who recognize, systematically address and sustain strong CSR principles, and view such practices as a strategic imperative, that will enjoy the greatest success today and well into the future. (Hasbro 2012)

The increasing commitment of business to the topic of social responsibility practice is reflected in a broad variety of activities. Among other things, corporations engage in the fight against poverty, support local communities, use renewable
energy, and develop particularly environmental-friendly technologies. Hence, corporations purposefully devote themselves to societal problems and make a contribution to their resolution (Scherer and Palazzo 2011, 899). Herewith, corporations signal that they are interested in and willing to contribute to societal well-being. A corporation that assumes social responsibility positions itself as a strong partner in society.

It has become well known in practice that the assumption of social responsibility has nothing to do with altruism, but rather, is an ingredient of good management. The assumption of responsibility can have a real business case for corporations (Barnett 2007; Carroll and Shabana 2010). For instance, the assumption of social responsibility entails positive effects on corporate reputation (Fombrun, Gardberg, and Barnett 2000), provides differentiation opportunities in competition (McWilliams and Siegel 2001), increases customer loyalty (Bhattacharya and Sen 2004), and enhances organizational commitment (Peterson 2004). Thus, the assumption of responsibility constitutes a classical win-win situation between corporations and society.

In light of the positive effects engendered by the assumption of social responsibility, it is not surprising that corporations’ activities in this field are expanding (Lee 2008, 54). More and more corporations are assuming social responsibility in order to position themselves as good partners in society. The growth of responsibility activities is also accompanied by increasing professionalization. This is, for instance, reflected in the fact that corporations now frequently employ CSR experts or even possess specialized CSR departments (Brammer, Millington, and Pavelinn 2006, 235). On the whole, corporations are following the new imperative in business: doing well by doing good!

In general, the public positively perceives responsibility activities. This is, for instance, indicated by a study conducted by Pfau and colleagues (2008) who find that the communication of CSR campaigns positively influences public opinion about corporations in terms of enhanced image, reputation, and credibility. Against the background of the positive reactions on behalf of society to the assumption of responsibility and the associated increase in responsibility activities, it is almost surprising that the social acceptance of business is still impaired. As depicted above, despite all the measures undertaken by corporations in the social responsibility field, public criticism of business has intensified over the last years.

An explanation for this phenomenon can be provided by the fact that corporations, despite undertaking more responsibility activities, have not succeeded in avoiding corporate misconduct. Corporate misconduct undermines the societal
function of business and profit-making and therefore, is a sure way to destroy social acceptance. Across almost all industries, examples of misconduct such as corruption, child labor, discrimination, negligent customer advice, the exploitation of employees, the use of toxic production methods, or miserable working conditions are regularly being uncovered. Furthermore, business repeatedly produces big scandals which remain present in the media for weeks. Recent examples include the corruption scandal at Siemens, the oil spill disaster in the Gulf of Mexico caused by BP, or the international phone hacking scandal of News Corporation. Such scandals are opposed to the strengthening of the societal acceptance of business and raise more critical voices with regard to the social desirability of the system of free enterprise and entrepreneurial profit-making.

In light of the repeated misconduct in practice, it is not without reason that many people pose the question of how seriously corporations treat the topic of social responsibility. Indeed, it is simply inconsistent when corporations demonstrate social responsibility with their left hand, but cause harm to society through misconduct with their right hand. In the long-run, such inconsistencies lead to corporations having to deal with the accusation of greenwashing (Lin-Hi 2010). Corporations must be aware that inconsistencies obliterate their CSR-efforts: the trust in corporations’ commitment to the responsibility of business is undermined if words and deeds deviate.

Corporations will only sustainably regain social acceptance, if they are able to avoid misconduct. This leads to the second core competence in business ethics which corporate leaders must be in possession of: corporate leaders must know that responsible business activities are directly related to the avoidance of corporate misconduct. It is insufficient for corporations simply to operate single responsibility lighthouses—even the most beautiful responsibility activities cannot compensate for wrongdoing. Therefore, the social responsibility of corporations essentially rests on conducting all business activities in such a way that misconduct is systematically avoided.

At first glance, it seems trivial to define a core competence of corporate leaders in terms of the knowledge about the relevance of the avoidance of misconduct. This, however, can be countered with empirical evidence that demonstrates that the avoidance of misconduct is by no means established in reality—otherwise, examples thereof would not repeatedly come to light. In some cases, it might be precisely such a trivialization that is detrimental to the avoidance of misconduct. In everyday life, self-evident facts are easily overlooked (Pöppel and Bao 2011). In light of the plethora of corporate scandals in practice, it seems that only when
an incident has already happened and it is too late for the necessary preventive measures, misconduct receives the attention in organizations that it is entitled to.

The business ethics competency addressed here gains additional relevance in light of the ex-ante diffuse character of the economic effects stemming from the avoidance of misconduct. On the one hand, it is known that corporate misconduct can engender a variety of negative consequences for corporations, such as fines or penalties, loss of reputation, decreased brand perception and employee morale, as well as poorer business relationships (e.g., PWC 2005). On the other hand, it is hardly possible to precisely quantify such negative consequences, especially as not every example of misconduct is detected (Minor and Morgan 2011). In addition, the uncertain negative effects are opposed by easily quantifiable costs that, for instance, emerge from compliance and employee trainings. This shows again that it is imperative for corporate leaders to understand that the avoidance of misconduct is not an add-on, but a necessary precondition for responsible business activities and thus, for the management of the societal acceptance of business.

In order to ensure that responsible behavior and thereby, the avoidance of misconduct can be implemented in practice, corporate leaders do not only have to know about the relevance of these issues, but also require the competency to organize responsible behavior in everyday business activities.

4. Organizing Responsible Decision-making

Ensuring responsible value creation and hence, the avoidance of corporate misconduct requires a suitable internal organization (Spitzeck 2009). Since corporations are represented by the actions of their employees, governance structures must be implemented which regulate their behavior. Ultimately, it is the individual employee who chooses whether profits are realized in a responsible or irresponsible way. The individual employee, for instance, decides how to handle information about environmental problems in the production processes, which products to recommend to customers, and whether to control suppliers with regard to their compliance with labor and social standards or not. Thus, organizing social responsibility requires the implementation of appropriate governance structures that encourage employees to make responsible decisions (e.g., Perera Aldama, Awad Amar, and Winicki Trostianki 2009). The associated instruments, for example, include codes of conduct, compliance systems, whistleblowing hotlines, safety standards, work instructions, and process definitions.

However, such instruments alone are insufficient to ensure that decisions are made responsibly (Lin-Hi and Blumberg 2011). It is one thing to put down
on paper that corrupt behavior or cheating customers will not be tolerated. It is another thing to ensure that decisions are made accordingly. A possible reason for the contradiction between formally prescribed and actual behaviors lies in the prevailing incentive structures in corporations (Harris and Bromiley 2007; Suchanek and Lin-Hi 2011). For example, if bonus payments are based solely on the number of completed transactions, individual employees are strongly incentivized to make irresponsible decisions. An employee can increase her/his bonus by selling more, irrespective of whether the financial products sold are suited to a customer’s needs, or by raising sales figures by engaging in corrupt dealings. Analogously, the abstinence from irresponsible behavior can result in a lower bonus and thereby possibly make an individual employee worse-off in comparison to his colleagues, who did not refrain from irresponsible behavior. Such a remuneration scheme sanctions responsible decision-making. A similar effect is engendered when those employees who show the best numbers are promoted, without taking into consideration that these numbers could have been achieved by dubious tactics.

The organization of responsibility thus always encapsulates the management of inconsistencies. Firstly, this requires the identification of those mechanisms and structures in an organization that stand opposed to the promotion of responsible decision-making. Secondly, these mechanisms and structures have to be adjusted in a way that renders them sufficiently compatible with the goal of avoiding misconduct. In essence, this means to create and adjust governance structures in such a way that employees’ own self-interest guides them into making responsible decisions: “In a goal congruent process, the actions people are led to take in accordance with their perceived self-interest are also in the best interest of the organization.” (Anthony and Govindarajan 2003, 93) This shows that the organization of responsible value creation is a holistic and not an isolated task.

However, also a holistic design of governance structures alone is not sufficient to ensure that employees behave in a responsible manner. A corporate culture that promotes responsible behavior is also required (e.g. Chen, Sawyers, and Williams 1997; Sims and Brinkman 2003). Corporate culture reflects shared norms, values, and assumptions that shape the decisions of organizational members (Schein 2004). Corporate culture, for example, influences the way employees process information or interpret situations and hence, affects employees’ reflection and decision-making processes (Sathe 1983). Without an appropriate corporate culture, the risk that even the best governance systems amount to nothing is omnipresent. This was evidenced at Enron. For many years, the company was considered to be a corporation with excellent governance structures (Rudolph 2005). However,
the governance structures were not relevant for employees’ everyday behavior, as they were outweighed by Enron’s corporate culture that followed the motto: “you can break the rules, you can cheat, you can lie, but as long as you make money, it’s all right.” (Quoted after Schwartz 2002, C1). Such a corporate culture virtually encourages employees to make irresponsible decisions and disregard existing governance structures (Sims and Brinkmann 2003).

Corporate culture can be understood as the DNA of an organization which, to a large extent, determines whether responsibility is lived internally or not. The relevance of corporate culture for responsible decision-making also becomes evident against the backdrop that governance structures cannot contain precise instructions for actions in every single decision situation due to the complexities of corporate everyday life. In addition, it is reasonable and necessary to deliberately grant certain freedoms to employees, for instance, in order to release their creative potential (Amabile 1998). Corporate culture significantly influences the way in which employees make decisions in situations which lack clear guidelines. It offers reference points to employees regarding the expectations placed on them and hence, also defines what is understood by right and wrong (Treviño, Butterfield, and McCabe 1998).

The organization of responsible value creation is thus not only a highly ambitious task, but also a genuine management task. In order to master this task, corporate leaders require the associated competencies. Thereby, corporate leaders do not only have to organize responsibility effectively, but also personally set a good example. The behavior of corporate leaders essentially shapes the corporate culture (Schein 2004). A corporate leader whose behavior exemplifies that responsible decision-making is beyond question fosters the establishment of responsibility in corporate culture. To put it in Treviño and Brown’s words: “If management says, ‘We want you to do the right thing, the ethical thing, and we’re going to try to create a culture that helps you to do that,’ employee response should be quite positive so long as employees believe that management is sincere and they observe consistency between words and actions” (Treviño and Brown 2004, 78).

5. Conclusion

Business is on thin ice. The creeping loss of social acceptance poses a serious threat to the future viability of business. Without sufficient support in society, the system of free enterprise cannot exist in the long run. Therefore, it is in the enlightened self-interest of corporate leaders to be able to regain and sustainably secure social acceptance of business. In order to achieve this goal, corporate leaders must