Towards Sustainable Corporations

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Many decades ago, Weber (1949) and Myrdal (1967) emphasized the need for objectivity in social sciences. Scholars should be aware of the most value-laden assumptions and prescriptions of management theories than any other social science (Ghoshal, 2005; Gapper, 2005; Pfeffer, 2005). Therefore, the present essay discusses ideologies as a set of value-laden assumptions behind Corporate Governance (CG) and Corporate Social Responsibility (CSR) to shed light on their effective integration. It contributes to the on-going debate concerning the proper design of corporation for the benefits of society.

CG may be defined as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p.737) (Shleifer and Vishny, 1997). The rational behind CG is that separation of ownership and control may be explained as an effective type of economic firm within the “set of contracts” view (Fama, 1980; Berle, 1965). CG can be dependent on: economic structures and corporate rules (Bebchuk and Roe, 1999); institutional and legal rules, the origin of these rules, and the quality of their enforcement (La Porta et al, 1998; Coiffi, 2009) and capital, labour and management (Aguilera and Jackson, 2003).

CG is mainly dominated by economic-based theories of self-interest and antisocial view (i.e. agency theory and transaction cost economics) (Ghoshal, 2005; Gapper, 2005). Individualistic ideology of CG emphasizes a negative view of human behavior, mainly based on individuals’ imperfections and absence of moral obligations (Donaldson, 2012). Modern management practices can be described as an art of warfare with never-changing Darwin’s law of “survival of the fittest” (Donaldson, 2005). Almost every nation has experienced consequences of management selfishness and investor shortsightedness notwithstanding advanced risk management systems (Conyon, Judge and Useem, 2011; Power, 2009). It is a worldwide knowledge that a society driven by win-at-any-cost cannot sustain itself in a long run.

Following such scandals as Ahold, Palamat, Daimler and scores of other organizations, scholars and policy-makers attempt to integrate sustainability approach into corporate world. CSR is understood as “as a component of new systems of stakeholders’ governance” (p, 297) (Maon, Lindgreen and Swaen, 2008). It is concerned with creating a balance between the economic and social goals of business encompassing the effective use of resources, accountability in the use of its power, and the behavior of the company in its social environment (Klettner, 2011; Porter and Kramer, 2011).

The utilitarian ideology of CSR emphasizes principle of justice that is fair treatment of every individual on this planet. It entails accountability of the corporation to all stakeholders involved. In particular, it produced personalities with prominent virtue ethics codes (i.e. Brown & Williamson’s Jeffrey Wigand and UBS’s Brad Birkenfeld) having in common such virtues as honesty, integrity and fairness. Moreover, CSR ideology emphasizes that society has and should play an important role in governing global business activities to secure growth and prosperity of the future generations. Several authors indicate that, CSR can be based on a synergetic effort of all the members of society including public, government, service providers and corporation (Jo and

Harjoto, 2011; Porter and Kramer, 2011). Therefore, let me discuss key steps on how to achieve effective integration of CSR and CG to bridge the gap between the two.

Perhaps, business schools should play a key role in deligitimization of the utopian self-interest approach and focus on more positive management theories (Pfeffer, 2005; Gapper, 2005). The call for a more positive view of organization could stress theoretical development and practical application of stewardship theory (Hambrick, 2005). In contrast to the existing economic-based theories of CG, the stewardship theory focuses on other ends besides financial gains like altruism, a good reputation, a sense of purpose and a feeling of satisfaction (Donaldson, 2005). By viewing managers as a responsible stewards acting on behalf of wide array of stakeholders, academics could train future global leaders with remarkable moral and ethical values (Donaldson, 2012). More optimistic view of human nature could prevail within an academia and hopefully it could positively influence behavior of business elite across the globe.

Numerous examples of voluntary CSR reporting positively influence corporate performance (Cohen et al, 2012). Comprehensive CSR regulation was initially desired, however, it was not implemented in most countries, except Denmark (Dam and Scholtens, 2012). Examples of CSR window-dressing mechanism to achieve sales growth and brand improvement abound. Future alleged superpowers (i.e. China and India) are conspicuously absent from CSR dialogue. Specific environmental regulation could ensure that firms contribute to tackling the problem of global warming (Unerman and O’Dwyer, 2007). It could enable companies to manage effectively their long-term risks (Cai, Jo and

Pan, 2011). Mandatory CSR reporting shall also ensure that CSR practices of organizations are visible to stakeholders involved. Policy-makers could lead the process of societal and environmental initiatives' integration into internal part of corporate decision-making.

Traditional financial accounting information does not provide a necessary framework for environmental and social reporting to stakeholders (Cohen et al, 2012). There is a clear demand for the development of sustainability accounting as a subject. Given the existence of several novel accounting metrics (i.e. Accounting for Carbon Emissions Trading), a shift should be taken towards a new accounting statements development (Starks, 2009). This could enable firms to be able to report on their social and environmental performance indicators to all stakeholders involved (Porter and Kramer, 2011). In turn, it could reduce information asymmetry between the people and the corporation. Thus, future generations could know at what cost, in terms of natural resources', fortunes could be made.

To conclude, the present essay has provided an overview of dominant ideologies of CG and CSR. It has suggested three key steps on how to achieve effective integration between CG and CSR: shift towards the more positive management theories, obligatory CSR regulation and development of sustainability accounting. However, it is all about human choice in regard to which road to choose: to glorify management selfishness and investor shortsightedness or to challenge and to contest them.

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