

SOCIAL RESPONSIBILITY AND PROFESSIONAL ETHICS IN MANAGEMENT: DOES IT MATTER?

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ABSTRACT

In the presented exploratory study, we demonstrate some empirical evidences on relations between social responsibility of business, managerial ethics, and economic environment. We conducted desk research on 26 European countries, using different secondary information sources. We confirmed a set of hypothesis, which links high social responsibility and professional ethics with enhanced economic performance, higher economic freedom and lower level of corruption. However, we rejected the hypothesis that the EU member states with high social responsibility and professional ethics are more resilient, and will exit the current crisis faster than other countries. The rationale behind the research hypothesis is a rather disputed perception that socially responsible and ethically managed business is economically more successful and sustainable. Finally, we discussed the possibility for more comprehensive benchmarking of few selected EU member states to see in more detail if social responsibility in business means just financial and organizational overhead, or it could be compensated with potential benefits offered by the social environment. It is also an intriguing question if we could reduce corruption with systematic support to social components of the business. The answer is far from trivial, because any state or local community involvement in business could trigger the opposite effect, and increase corruption. We also raised the question if the results at national level could be applied at the level of individual company. We hypothesize that companies consciously select where it is beneficial to be socially responsible and ethical, and where it is more profitably to make business ruthlessly.

Keywords: social responsibility of business, management ethics, economic performance, European countries

INTRODUCTION

Social responsibility of business and professional ethics in management are issues still highly disputed. Both are loaded with ideological charges. Friedman and followers of the neo-liberal school of economy stand firmly on the position that business should not have any social responsibility. Its goal is to make the profit, and that is all. In his interview for The New York

Times, Friedman (1970) explicitly declared that “*the social responsibility of business is to increase its profits*». They are slightly more benevolent to the issue of management ethics, but just as long as ethical behavior directly supports business activities and consequently contribute to the profit. On the other side, responsible business campaigners, followed by many managers and politicians (Business Ethics, 2004)(Geneva Declaration, 2007), advocate social responsibility as an essential part of sustainable business strategies and operations. They also tend to link social responsibility and ethics into one connected issue (Carroll, 1991). However, majority of scholars and managers position themselves somewhere in-between (Donaldson & Dunfee, 1994)(Lepoutre & Heene, 2006).

There are still many significant differences of opinion among practitioners and academic community(Derry & Green, 1989) (Joyner & Payne, 2004) (Doane, 2005). For example, how could we keep politics away from business, who will decide what would be social responsible, etc. There is also a question, how could different models of social responsibility coexist and compete in the same economy or on the global market. The main disputes linked to social responsibility and business ethics are on the relation developed – developing countries (Jenkins, 2005) (Jamali & Mirshak, 2007). Many multinational companies have different standards for operating in developed and developing world. In the future, globalization of economy and possible climate changes with their largely unpredictable global social implications will put these issues much higher on the agendas of researchers and managers, not to mention politicians. We could also mention that during the current economic crisis, awareness of this subject has drastically risen because public, politicians and many scholars believe that this crisis has one of its roots in business ethics misconduct and lack of responsibilities (WEF, 2010).

The EU and many developed countries have partially embedded some concepts of social responsibility and ethics into their legal systems, particularly environmental issues. However, when we refer to social responsibility and ethics in general, we usually consider just non-legal binding incentives. In its strategy for Europe 2020, the European Commission defined social responsibility of business as *a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis* (EC, 2010). However, we slowly integrate different environmental aspects of social responsibility into legal systems, so they are not voluntary anymore and we cannot consider them as social responsibility in the traditional sense.

The dark side of the social responsibility of business and professional ethics deficiency is reflected in corruption (Williams & Beare, 1999). Corruption is the most severe obstacle for economic and social development in any country. It is one of the main reasons for enormous economic and social difficulties in developing countries, and cannot be ignored even in the most developed countries. Many studies reveal that higher social responsibility of business and professional ethics significantly reduces corruption, or vice versa (Rodriguez, Siegel, Hillman, & Eden, 2006). Therefore, we have to assess social responsibility of business and professional ethics from this point of view as well. Maybe it is less relevant for developed countries, but it is definitely an important issue for developing countries.

In our paper, we shall avoid all highly inflammable discussions. We will just present an experiment with available empirical evidences that confirm some relation between social responsibility, managerial ethics and economic environment. It would be methodologically extremely difficult to assess these relations at the level of an individual organization because we could do that only in two ways. The first one is to follow changes in the organization over time and assess, which social responsibility and ethic strategies lead to the best business results and the best social implications. The second one would be standard benchmarking between individual companies, with immense difficulties to gather relevant data, particularly on social environment. In practice, both approaches are nearly impossible to implement in any objective way (McWilliams & Siegel, 2000) (Korhonen, 2003). Therefore, we decided to experiment with data at national levels. We can find many meaningful data in different published studies and national statistics, particularly for the EU countries. We presumed that relations at national level would give us some meaningful indications on the situation at the level of an individual organization.

RESEARCH METHODOLOGY AND HYPOTHESIS

Secondary information sources

In our exploratory desk research, we focused on relations between social responsibility of business and professional ethics in management on one side, and different indicators of business environment and level of corruption on the other side. In our research, we used secondary data at national levels for 24 EU member states (not including Cyprus, Malta and Latvia) and two candidate states (Croatia and Turkey). The sources of data were:

1. IMD World Competitiveness Yearbook 2009 (columns 2 to 6 and 8, Table 1)

2. Preliminary IMD World Competitiveness Yearbook 2010 (columns 1 and 9, Table 1)
3. Eurostat 2010 (columns 8 and 12 to 14, Table 1)
4. Index of Economic Freedom 2010 (column 10, Table 1)
5. Transparency International 2009 (column 15, Table 1)

To exploit the most recent data we decided to combine data from 2009 with all available data from 2010. It means that we compared data from two consecutive years. From methodological point of view, this is not a real problem because data series are relatively independent.

Table 1: Data used in research

	Ethical practices (2010)	Credibility of managers	Corporate Boards	practice	Social responsibility	Corporate values	Aggregate index ISRE	GDP per capita in PPP	Competitiveness 2010	Economic freedom	GDP Growth 2009	GDP Growth 2010	GDP Growth 2011	Index 2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(12)	(13)	(14)	(15)
Austria	7,18	5,76	5,45	7,67	6,61	7,20	6,65	37,91	84,09	71,60	-3,6	1,1	1,5	7,9
Belgium	6,71	5,58	5,38	6,94	5,43	6,49	6,09	35,18	73,59	70,10	-3,1	0,6	1,5	7,1
Bulgaria	3,36	4,96	4,72	5,28	4,70	5,15	4,70	11,92	47,76	62,30	-5,0	-1,1	3,1	3,8
Croatia	3,30	4,18	3,69	5,86	4,07	4,86	4,33	16,76	40,06	59,20	-5,8	0,2	2,2	4,1
Czech Republic	4,67	5,16	5,00	6,54	4,11	5,47	5,16	24,69	65,44	69,80	-4,8	0,8	2,3	4,9
Denmark	7,86	7,43	6,54	7,85	7,76	7,91	7,56	35,68	85,59	77,90	-4,9	1,5	1,8	9,3
Estonia	5,57	4,96	4,84	7,44	4,28	5,12	5,37	19,64	62,64	74,70	-	-0,1	4,2	6,6
Finland	7,85	7,62	6,59	8,54	6,88	7,49	7,50	34,75	80,00	73,80	-7,8	0,9	1,6	8,9
France	6,65	5,74	4,74	6,13	4,82	4,99	5,51	33,69	74,37	64,20	-2,2	1,2	1,5	6,9
Germany	7,29	4,43	4,95	7,12	5,51	6,77	6,01	34,91	82,73	71,10	-5,0	1,2	1,7	8,0
Greece	5,16	4,61	4,60	5,15	4,55	4,70	4,80	29,28	52,30	62,70	-2,0	-0,3	0,7	3,8
Hungary	5,58	3,95	4,32	6,37	3,38	4,82	4,74	18,87	54,12	66,10	-6,3	-0,5	3,1	5,1
Ireland	6,40	6,05	4,20	5,68	5,35	6,20	5,65	42,99	78,14	81,30	-7,5	-1,4	2,6	8,0
Italy	4,58	4,82	4,37	4,58	3,85	4,97	4,53	30,06	56,32	62,70	-5,0	0,7	1,4	4,3
Lithuania	4,98	4,82	5,86	6,86	5,13	5,93	5,60	18,27	54,10	70,30	-	-3,9	2,5	4,9
Luxembourg	7,43	6,69	5,96	6,87	5,78	6,36	6,52	79,38	86,87	75,40	-3,4	1,1	1,8	8,2
Netherlands	7,42	5,94	5,23	7,40	6,60	7,41	6,67	39,22	85,65	75,00	-4,0	0,3	1,6	8,9
Poland	5,28	4,57	4,74	5,77	3,97	4,33	4,78	16,75	64,48	63,20	1,7	1,8	3,2	5,0
Portugal	3,96	4,72	4,28	5,48	4,20	4,76	4,57	22,78	57,10	64,40	-2,7	0,3	1,0	5,8
Romania	4,74	3,05	5,15	4,47	4,71	4,24	4,39	13,27	47,48	64,20	-7,1	0,5	2,6	3,8
Slovak Republic	4,54	5,24	5,67	6,81	4,81	5,76	5,47	21,30	51,10	69,70	-4,7	1,9	2,6	4,5
Slovenia	4,24	4,70	3,58	6,03	5,47	5,64	4,94	27,94	48,69	64,70	-7,8	1,3	2,0	6,6
Spain	5,28	4,84	4,31	6,69	4,24	4,69	5,01	31,05	58,75	69,60	-3,6	-0,8	1,0	6,1
Sweden	7,68	6,32	5,81	8,23	6,65	7,97	7,11	36,18	90,90	72,40	-4,9	1,4	2,1	9,2
Turkey	5,23	6,71	6,10	6,28	5,21	5,44	5,83	13,53	51,12	63,80	-5,8	2,8	3,6	4,4
United Kingdom	6,87	5,36	4,71	6,08	5,53	5,77	5,72	35,35	76,81	76,50	-4,9	0,9	1,9	7,7

Sources: WCY2009, WCY2010, Eurostat, IEF2010, Transparency International 2009

We took the following six indicators that were available in secondary information sources (IMD World Competitiveness Yearbook, 2009 and 2010) as indicators of social responsibility of business and professional ethics in management:

- Q1. Ethical practices implemented in companies (2010)
- Q2. Credibility of managers in society (2009)
- Q3. Corporate Boards supervise management (2009)
- Q4. Auditing and accounting practice are adequately implemented (2009)
- Q5. Social responsibility of business leaders (2009)
- Q6. Corporate values takes into account values of employees (2009)

To simplify some interpretations of research we also constructed an aggregate index of social responsibility and ethics (ISRE) from all mentioned indicators. However, in our analysis we tried to avoid oversimplification and loss of information by reducing six indicators into single one, so we also implemented cluster analysis, which employs all indicators simultaneously. Therefore, ISRE was just an auxiliary indicator.

Hypotheses

The research focused on the following four hypotheses:

- H1: High social responsibility and professional ethics of management have positive effects on economic performance.
- H2: European countries with high social responsibility and professional ethics of management demonstrate economy that is more resilient and will exit the current crisis faster than other countries.
- H3: High social responsibility and professional ethics of management positively correlate with economic freedom in the country.
- H4: High social responsibility and professional ethics of management lead to lower level of corruption.

The rationale behind the first hypothesis is a rather disputed perception that socially responsible and ethically managed business is also economically more successful and sustainable. We take just two indicators into discussion: GDP per capita in PPP and National competitiveness.

The second hypothesis presumes that socially responsible and ethically managed business makes economies more resilient to economic and social crisis, because social environment is more ready to support business in trouble. In our relatively simple model, we assessed a successful engagement with the crisis with estimated GDP growth in 2009, 2010 and 2011.

The third hypothesis assumes that we can achieve high socially responsible and ethically managed business only in countries with high economic freedom. This claim is not obvious because many responsible business campaigners are convinced that they can achieve their goals in countries with lower economic freedom and state owned businesses as well.

The fourth hypothesis deals with corruption, which is the most severe obstacle to economic and social development (Dearden, 2000). We anticipated that high social responsibility and professional ethics of management significantly reduce corruption. We used the Corruption Perceptions Index (Transparency International, 2009), which measure perception of corruption as seen by business people and country analysts. It ranges between 0 (highly corrupted) to 10 (highly clean).

PRESENTATION OF RESULTS

Cluster analysis

To verify how meaningful selected indicators are, we employed hierarchical cluster analysis and grouped European countries by all six variables simultaneously, avoiding simplification with reduction of variables. The Figure 1 reveals a distinct structure in the group of European countries described by six indicators defining social responsibility of business and management ethics. Analyzing the dendrogram in the Figure 1, we notice that countries group in the way that we would intuitively expect. For example, one distinguish cluster with countries that demonstrate very similar social responsibility of business and professional ethics in management (on the top of list) binds Austria, Netherlands, Sweden, Luxembourg, Denmark and Finland. We can also notice that these countries are significantly different from all other European countries (at the rescaled distance 25). Slightly less obvious is the second cluster with Lithuania, Slovakia and Turkey. The third cluster with France, United Kingdom, Ireland, Belgium and Germany is again something that we would expect from our general perception on similarities in European economies. We could say the same for the fourth cluster with Estonia, Spain, Czech Republic and Hungary. Very interesting is the fifth cluster with Greece, Poland, Bulgaria, Portugal and Italy. It links three Mediterranean countries with

Poland and Bulgaria. In the sixth cluster are Slovenia and Croatia, which is not so surprising because of their neighborhood and some similarities in recent history. Finally, Romania looks as a very different case that has very little similarities with all other European countries.

Dendrogram using Average Linkage (Between Groups)

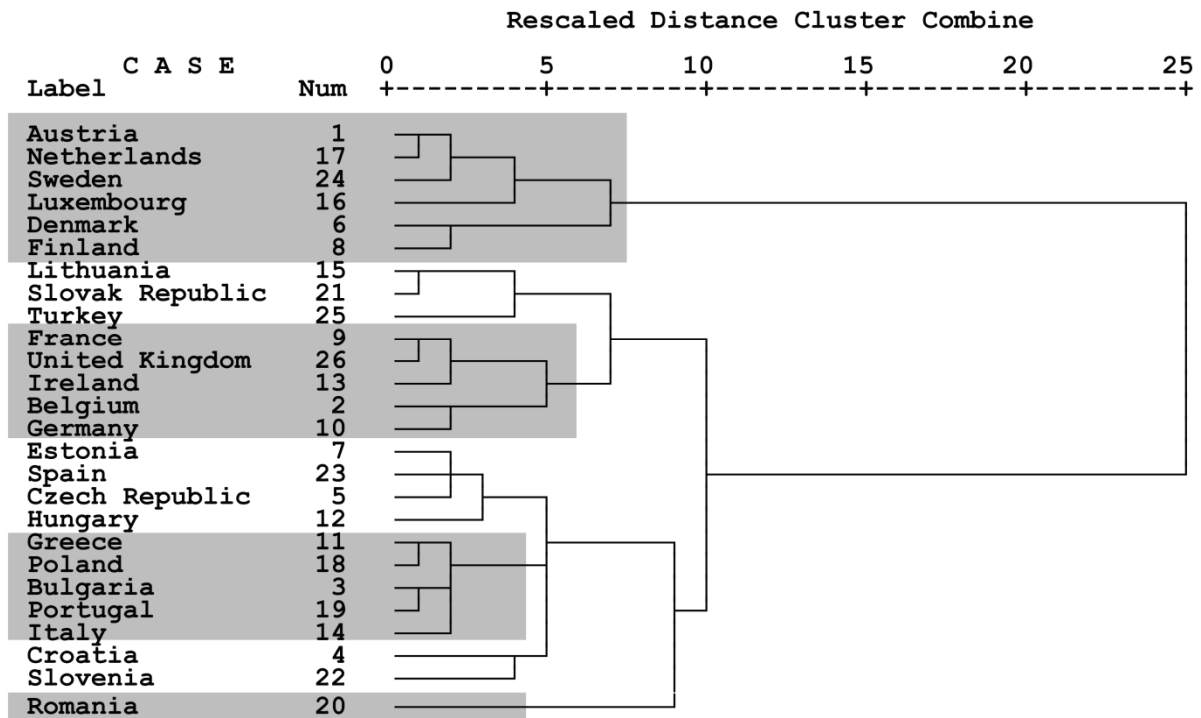


Figure 1: Clustering European countries by six indicators defining social responsibility of business and management ethics

With the clustering, presented in the Figure 1, we just tested if the selected six indicators have any sensible interpretation in the set of real data. As we proved, they definitely reflect unique properties of individual European countries and make sensible grouping. The next step was to analyze relations between these social responsibility and ethics indicators (rows 1 to 6 in Table 1). They are all correlated at significance level $p < .01$ (Table 2) with correlations that are relatively high, showing that they describe similar and related properties. High correlations are also a rationale for introducing a single aggregate index assessing social responsibility of business and professional ethics in management (ISRE) at the country level. As a one-dimensional variable, ISRE also simplifies some interpretations of results (for example, Figure 2).

Table 2: Correlations between selected variables

	Ethical practices (2010)	Credibility of managers	Corporate Boards	Auditing and accounting practice	Social responsibility	Corporate values	Aggregate index ISRE
1) Ethical practices	1						
2) Credibility of managers	,663**	1					
3) Corporate Boards	,590**	,689**	1				
4) Auditing and accounting practice	,702**	,653**	,629**	1			
5) Social responsibility	,758**	,750**	,665**	,681**	1		
6) Corporate values	,779**	,737**	,633**	,806**	,912**	1	
7) Aggregate index ISRE	,880**	,853**	,781**	,854**	,914**	,936**	1
8) GDP per capita in PPP	,674**	,533**	,256	,352	,493*	,522**	,532**
9) Competitiveness	,932**	,657**	,488**	,661**	,724**	,792**	,836**
10) Economic freedom	,735**	,582**	,438*	,616**	,627**	,689**	,703**
11) GDP Growth 2009	,099	,047	-,109	-,197	-,034	-,087	-,271
12) GDP Growth 2010	,251	,309	,229	,159	,241	,178	-,047
13) GDP Growth 2011	-,247	-,118	,062	-,017	-,253	-,215	,256
14) Corruption Perceptions Index	,884**	,675**	,392*	,740**	,798**	,834**	,850**

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Test of hypotheses

To confirm the first hypothesis we calculated correlations between the six indicators of social responsibility and ethics, GDP per capita (column 8, Table 1) and Competitiveness (column 9, Table 1). All correlations are significant at the level $p < 0,01$, except two. GDP per capita does not correlate with indicators that show how corporate boards supervise management and how companies implement auditing and accounting practice. Nevertheless, other correlations with GDP are higher than 0,5, indicating a relevant relationship between economic power of the country and its attitude towards social responsibility of business and professional ethics in management. This relation is even more pronounced looking at correlations between national competitiveness and these indicators. For example, correlation between competitiveness and ethical practices is surprisingly high, reaching 0,932. We can confirm the first hypothesis, that high social responsibility and professional ethics of management have a positive effect on economic performance, particularly competitiveness.

With the same methodology, we tried to confirm the second hypothesis, but did not detect any correlations between estimated GDP growth in the years 2009, 2010, and 2011, and social responsibility and ethics. It means that we have to reject the second hypothesis that European

countries with high social responsibility and professional ethics of management are economically more resilient and they will exit the current crisis faster than other countries. It is obviously that economic resilience has other roots.

Confirmation of the third hypothesis is straightforward. Correlation between the six indicators and Economic freedom was significant at level $p < 0,01$. The only exception was correlation with the perception that corporate boards supervise management which was significant just at level $p < 0,05$, but still statistically significant. It means that social responsibility and professional ethics of management positively correlate with economic freedom in the country. However, we did not discuss what the causes and consequences are. We would just guess that these two national characteristics continuously stimulate each other.

We also found high and statistically significant correlations at level $p < 0,01$ between Corruption Perceptions Index and indicators of social responsibility and management ethics, so we confirmed the third hypothesis that high social responsibility and professional ethics of management leads to lower level of corruption.

We would get the same result assessing all four hypotheses with the Aggregate index ISRE (see the correlations in the Table 2). As we see, ISRE correlates with GDP, Competitiveness, Economic freedom, and Corruption Perceptions Index, but it does not correlate with GDP Growth in 2009, 2010 and 2011.

To visualize the forth hypothesis and to illustrate the positions of some European countries we presented the dependency between ISRE and Corruption Perceptions Index as the graph (Figure 2). If we focus on the ISRE interval between 5,5 and 6,0 we can notice two groups of countries with similar ISRE, but significantly different corruption perception index. For Slovakia, Lithuania and Turkey this index is around 5, on the other side for France, Ireland and United Kingdom it is between 7 and 8. These two different groups indicate that there are other forces beside the social responsibility of business and professional ethics in management, which influence the level of corruption in the country. However, the correlation $r = 0,85$ is very high and indicates that 72% of corruption ($r^2 = 0,723$) can be explained by social responsibility of business and management ethics.

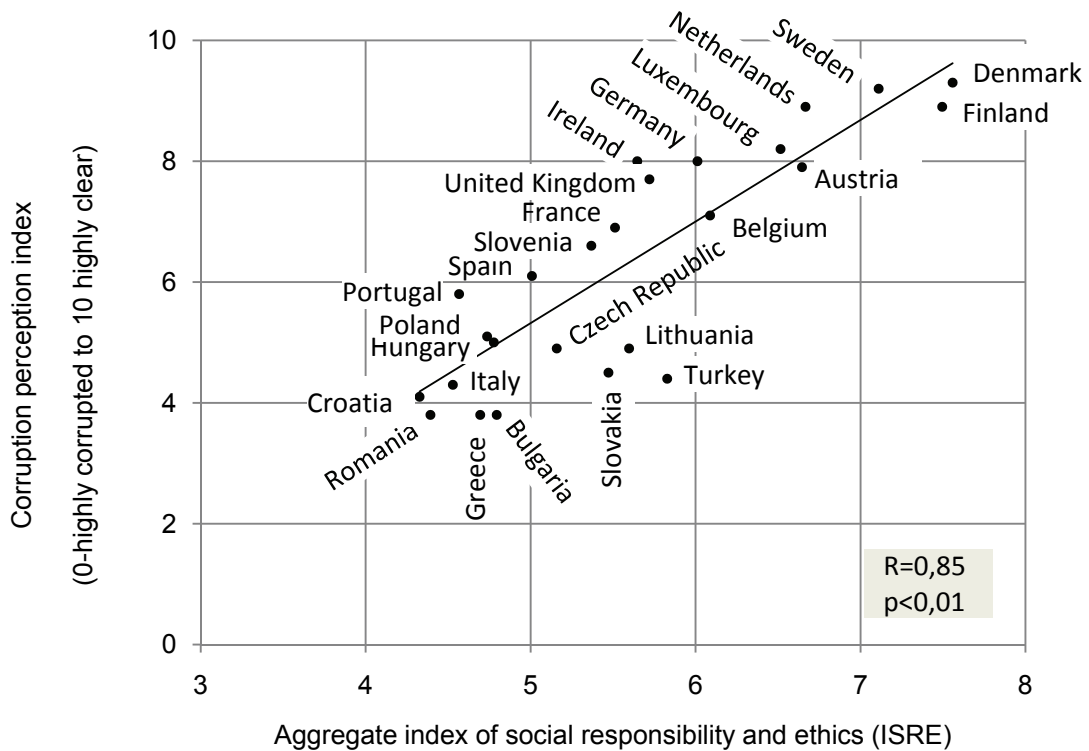


Figure 2: Dependence between Aggregate Index of business social responsibility and management ethics (ISRE) and Corruption Perceptions Index

COMMENTS AND CONCLUSIONS

The rhetoric question in the title of the paper was if social responsibility of business and professional ethics in management contribute to business success and its sustainability. Many people would support this claim, but many would strongly oppose. We would guess that the main reason for this disagreement lies in the fact that under some circumstances and in some environments, for example in the most developed European countries, social responsibility professional ethics definitely makes business more efficient, or even acceptable. In many less developed countries, for example in China and other emerging economies, profit is so high on the priority list that social responsibility of business and professional ethics are more or less academic questions. This is the main reason that in this exploratory study we concentrated just on European countries. On the other hand, we should not forget that not so long ago in European countries nobody was concerned about these issues as well.

In the paper, we demonstrated some empirical evidences on relations between social responsibility of business, managerial ethics, and economic environment at the national level.

We confirmed hypothesis, which links higher social responsibility and professional ethics with enhanced economic performance, higher economic freedom and lower level of corruption. However, the question is what the cause and what the consequences are. Are some countries economically more developed because their positive social responsibility of business and professional ethics in management, or vice versa? From our research, we cannot make any decisive conclusions we just noticed regional differences. All northern and western European countries demonstrate high level of social responsibility and ethics. On the other side, all new EU member states (including two candidate countries) and the old EU members from southern Europe are far less benevolent to these issues. Obviously, tradition and level of development matter. We could just assume that high level of economic development leads to higher sensitiveness towards social and ethical questions as well, at least in Europe. It would be interesting to conduct a similar research in US and developed Asian economies. The results could be very different.

In the research, we briefly addressed the issues of corruption and economic freedom. Particularly in some new EU member states, corruption is the biggest obstacle for economic and social development. It is also very indicative that majority of Europeans, including Western Europe, still believe that corruption is a problem in their countries, with exception of Denmark, Sweden and Luxembourg (Eurobarometer, 2009). It could be important from a political and economic point of view to understand if we could reduce corruption with systematic support to social components of the business. The answer is far from trivial, because any state or local community involvement in business could trigger an opposite effect, increasing corruption. But this is a part of never ending discussion about the economic costs of corruption (Dearden, 2000). The other side of the same medal is economic freedom, which significantly correlates with non-corruptness. Therefore, together with social responsibility and ethics it could be one of mechanisms to fight corruption.

We also experimented with the correlation between social responsibility and professional ethics with the resilience of national economies. This issue could be methodologically very complex, so we intentionally stayed on the level of initial simplification. In the first approximation, we assessed economic resilience with estimated economic growth in the years 2009, 2010 and 2011. Based on correlations we rejected the hypothesis that the European countries with high social responsibility and professional ethics are more resilient and sustainable. This result was a minor surprise, because we expected the opposite. We tried to

interpret this finding by using the case of Finland, which stands nearly on the top of the European countries by social and ethic criteria, but in the current crises, it demonstrated a very vulnerable economy. Obviously there are many other causes that make economy resilient. Social responsibility of business and professional ethics are definitely not very high on this list.

In our research, we used the data at national levels. It immediately raises a question if these results are meaningful for individual organizations as well. Results at national levels are statistical average of all individual organization, so we would conclude that in average we could “shrink” these conclusions to the level of individual organization. However, statistical average means that some elements are lower and some are higher than average. Consequently, we could just say that more developed European countries have a larger proportion of businesses that behave affirmatively regarding social and ethical issues, which means that they find it beneficial at individual level as well. But definitely not all of them. What could be particularly worrying is an indication that many companies behave differently in Europe and very differently in other parts of the world. They consciously select where it is beneficial to be socially responsible and ethical, and where it is more profitably to make business ruthlessly. It leads to the conclusion that individual companies are social responsible and ethical only in environments where they find it beneficial. Consequently, we are dangerously close to the Friedman’s idea that the profit is all that matters.

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