

Social Responsibility and Professional Ethics in Management: Some Empirical Evidences at Country Levels

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In the presented exploratory study, we demonstrated some empirical evidences on relations between social responsibility of business, managerial ethics, and economic environment at county levels. We conducted desk research on 41 countries using different secondary information sources. We confirmed hypotheses, which associate higher social responsibility and ethics to openness and competitiveness of people and management, enhanced economic performance, higher economic freedom, and lower level of corruption. The rationale behind the research hypothesis is disputed question if socially responsible and ethically managed business is economically more successful and sustainable. Evidently, in the most developed countries unsocial and unethical business behavior is not generally acceptable. However, in less developed economies profit is so high on the priority list that social responsibility and ethics are academic questions. We hypothesize that companies consciously select where it is beneficial to be socially responsible and ethical, and where it is more profitable to make business ruthlessly. We also tested the hypothesis that social responsibility contributes to the resilience of economy. This hypothesis was partially confirmed and partially rejected. Finally, we addressed a question if our results are meaningful for individual organizations, as well. We could just say that more developed countries have a larger proportion of businesses that behave affirmatively regarding social and ethical issues, which means that they find it beneficial also at individual level.

Key Words: social responsibility of business, management ethics, economic performance, corruption

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Introduction

Social responsibility of business is still a disputed issue (Joyner and Payne 2004). Friedman and followers of the neo-liberal school of economy stand firmly on the position that business should not have any social

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responsibility. Its goal is to make a 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 little 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 (US Department of Commerce 2004; United Nations 2007), advocate social responsibility as an essential part of sustainable business strategies and operations. They also tend to treat social responsibility and ethics as two sides of the same coin (Carroll 1991). However, many scholars and managers position themselves somewhere in-between (Donaldson and Dunfee 1994; Lepoutre and Heene 2006; Derry and Green 1989). It does not mean that they reject socially responsible behavior in business; they are just putting the profit and efficiency higher on the priority list.

There are still many questions about efficiency of socially responsible and ethical management (Bavec 2009). If managers believed that this is the most efficient way of doing business than they would spontaneously behave socially responsible and ethically. Obviously, many of them are not convinced. Many behave socially responsible and ethically when it suits them and not when they can reach their business goals with other means. From more idealistic perspective, we would all like to believe that there is not an antonym between business efficiency and social responsibility of business. Many indications, including our research show that this could be the case. However, there are still many very pragmatic questions (Bavec 2007). For example, how different models of social responsibility could coexist and compete in the same economy or in the global market. Can someone be socially responsible while others are not in the same competing market? This dilemma is clearly seen in operations of many multinational companies on the relation developed – developing countries (Jenkins 2005; Jamali and Mirshak 2007; Doane 2005). Many multinational companies have very different social and ethical standards for operating in homeland or developed countries than in the developing world. This behavior is evidently highly unethical and is rightly under the fire of responsible business campaigners.

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 respon-

sibility 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* (European Commission 2010). The emphasis is on voluntary actions. Another interesting issue in this definition is differentiation between the social and environmental concerns. However, we are slowly integrating different environmental aspects of social responsibility into our legal systems, therefore, they are not voluntary anymore and we cannot consider them as social responsibility in the traditional sense. Therefore, social responsibility is focused more on communal issues.

The dark side of social irresponsibility and unethical behavior is reflected in corruption (Williams and Beare 1999). Corruption is the most severe obstacle for economic and social development in any country (Dearden 2000). 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 et al. 2006). Therefore, we have to discuss social responsibility and professional ethics from this point of view, as well. Maybe it is less relevant issue for developed countries, but it is definitely an important one for developing countries.

In our paper, we shall avoid all highly inflammable ideological discussions. We will just present an experiment with available empirical evidences that would confirm some relation between social responsibility, managerial ethics, and economic environment at county levels. 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 business efficiency over time and assess, which social responsibility and ethic strategies lead to the best business results and simultaneously the most positive social implications. The second one would be standard benchmarking between individual companies, with immense difficulties to gather relevant and methodologically comparable data, particularly on social environment and behavior. In practice, both approaches are nearly impossible to implement (McWilliams and Siegel 2000; Korhonen 2003). Therefore, in our desk research 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 and OECD countries. We presumed these relations at national level would give us some significant indications on the situation at the level of an individual organization.

Research Methodology and Hypotheses

SECONDARY INFORMATION SOURCES

In our 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. Our research sample included 41 EU, OECD and some Asian countries. The goal was to test different assumptions in different cultural environments.

In the table 1, we collected data that we had used in the research. To simplify some calculations and interpretations of results, we introduced two aggregate indexes: Social Responsibility and Ethical Practices (SREP) and Openness and Competitiveness of People (OCP). However, in clustering countries by these two indexes (figure 1 and figure 2), we used original set of IMD indexes to avoid unnecessary loss of information.

1. *Social Responsibility and Ethical Practices* – SREP (Column 1) is an aggregate index that we calculated from three indicators: *ethical practices, credibility and social responsibility of business managers* (IMD 2010).
2. *Openness and Competitiveness of People* – OCP (Column 2) is an aggregate index we calculated from five indicators: *entrepreneurship of managers, value system in society that support competitiveness, flexibility and adaptability of people, attitudes toward globalization in society, openness of national culture to foreign ideas* (IMD 2010).
3. *Business efficiency* (Column 3) is an index from IMD (2010) (an extent to which enterprises are performing in an innovative, profitable and responsible manner).
4. *Competitiveness* (Column 4) is the main aggregate index from IMD (2010).
5. *Resilience of the economy* (Column 5) is an index from IMD (2010).
6. *Index of economic freedom 2010* (column 6) (The Wall Street Journal and The Heritage Foundation 2011).
7. *Corruption perception index 2010* (Column 7) is an index that ranges countries from 0 – highly corrupted, to 10 – highly clean (Transparency International 2010).

TABLE 1 Data used in the research

Country	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Australia	6.88	7.06	74.5	92.2	7.04	82.5	8.7	3.3
Austria	6.50	6.12	67.1	84.1	5.46	71.9	7.9	3.5
Belgium	6.19	5.37	48.5	73.6	3.48	70.2	7.1	2.5
Bulgaria	3.64	5.04	9.6	47.8	2.43	64.9	3.6	9.0
Canada	6.83	6.89	69.5	90.5	5.55	80.8	8.9	4.4
China Mainland	5.16	6.22	50.3	80.2	6.02	52.0	3.5	10.1
Croatia	3.25	3.99	4.1	40.1	1.93	61.1	4.1	-1.4
Czech Republic	4.73	5.52	36.7	65.4	4.36	70.4	4.6	3.0
Denmark	7.41	6.44	68.1	85.6	5.22	78.6	9.3	3.2
Estonia	5.47	6.47	41.3	62.6	4.79	75.2	6.5	7.6
Finland	7.03	6.10	60.1	80.0	4.02	74.0	9.2	4.8
France	5.97	4.62	43.6	74.4	4.43	64.6	6.8	2.1
Germany	5.90	5.68	52.5	82.7	5.14	71.8	7.9	4.2
Greece	5.03	5.41	31.8	52.3	3.23	60.3	3.5	-7.3
Hong Kong	6.18	7.55	79.5	99.4	5.40	89.7	8.4	5.7
Hungary	4.72	4.54	27.9	54.1	3.00	66.6	4.7	2.3
India	5.86	7.04	60.4	64.6	6.82	54.6	3.3	8.3
Ireland	5.91	6.99	58.8	78.1	2.36	78.7	8.0	-0.7
Israel	5.68	7.54	66.1	80.3	7.13	68.5	6.1	6.8
Italy	4.66	5.30	27.4	56.3	4.17	60.3	3.9	1.4
Japan	7.16	5.48	54.1	72.1	3.78	72.8	7.8	4.3
Korea	5.85	6.45	51.4	76.2	5.55	69.8	5.4	4.9
Lithuania	4.94	6.45	34.0	54.1	3.20	71.3	5.0	0.4
Luxembourg	7.13	6.60	72.8	86.9	4.87	76.2	8.5	3.6
Netherlands	6.41	6.78	65.0	85.7	5.20	74.7	8.8	2.5
New Zealand	6.71	6.36	54.1	78.5	4.11	82.3	9.3	1.4
Norway	7.26	6.02	72.2	90.0	6.11	70.3	8.6	1.3
Poland	4.86	6.30	40.6	64.5	5.80	64.1	5.3	5.2
Portugal	4.16	5.10	22.4	57.1	2.41	64.0	6.0	1.1
Romania	4.99	5.35	22.6	47.5	4.03	64.7	3.7	-1.9
Russia	3.49	5.01	15.3	49.3	1.94	50.5	2.1	0.4
Singapore	7.06	7.29	79.6	100.0	5.78	87.2	9.3	14.6
Slovakia	4.63	5.74	33.7	51.1	3.08	69.5	4.3	4.8

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TABLE 1 *Continued from the previous page*

Country	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Slovenia	4.10	4.24	8.3	48.7	3.41	64.6	6.4	1.9
Spain	4.76	4.81	33.1	58.8	2.44	70.2	6.1	0.4
Sweden	7.04	6.75	71.7	90.9	5.75	71.9	9.2	7.8
Switzerland	6.70	6.53	72.8	96.1	6.27	81.9	8.7	3.7
Taiwan	6.71	7.28	77.6	90.4	6.07	70.8	5.8	8.3
Turkey	5.96	6.43	41.1	51.1	4.87	64.2	4.4	7.3
UK	5.89	6.04	51.6	76.8	3.17	74.5	7.6	6.8
USA	6.05	6.76	66.8	99.1	3.94	77.8	7.1	1.9

NOTES Column headings are as follows: (1) Aggregate index Social Responsibility and Ethical practices (SREP), (2) Aggregate index Openness and Competitiveness of people (OCP), (3) Business efficiency 2010, (4) Competitiveness 2010, (5) Resilience of the economy 2010, (6) Index of economic freedom 2011, (7) Corruption perception index 2010, (8) GDP Growth in 2010.

8. GDP growth in 2010 (Column 8) (<http://stats.oecd.org>) for member countries and (Central Intelligence Agency 2010) for other countries).

HYPOTHESES

The research focused on the following five hypotheses:

- H1 *Social responsibility and professional ethics of management encourage openness and competitiveness of people and management.*
- H2 *Social responsibility and professional ethics of management have positive effects on business performance.*
- H3 *Economies with high social responsibility and professional ethics of management demonstrate economies that are more resilient.*
- H4 *Social responsibility and professional ethics of management positively correlate with economic freedom in the country.*
- H5 *Social responsibility and professional ethics of management lead to lower level of corruption.*

The first hypothesis presumes that socially responsible and ethically managed business is a characteristic of social environment with higher openness and competitiveness of people and management. It indirectly means that societies can build its competitiveness in socially acceptable manner, rather than on unsocial and unethical behavior. Similar claims

were made by some other authors (Singhapakdi, Karande, Rao, and Vitell 2001; Vitell and Hidalgo 2006).

The rationale behind the second hypothesis reflects still highly disputed opinion that socially responsible and ethically managed business is also economically more successful (McWilliams and Siegel 2000; Zairi and Peters 2002; Porter and Kramer 2006).

The third 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 potential troubles. In our relatively simple model, we judged the resilience with the IMD's index of resilience of the economy (based on the opinion of managers in the particular country) and the estimated GDP growth in 2010.

The fourth 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 in the predominant state owned businesses, as well (Blowfield and Frynas 2005; Jenkins 2005; Jamali and Mirshak 2007).

The fifth hypothesis deals with corruption. We anticipated that high social responsibility and professional ethics of management significantly reduce corruption (Dearden 2000; Rodriguez et al. 2006).

Presentation of Results

CLUSTER ANALYSIS

In the first step in the research, we checked if two aggregate indexes Social Responsibility and Ethical Practices (SREP) and Openness and Competitiveness of People (OCP) have meaningful interpretation. We applied hierarchical cluster analysis for both indexes. However, we did not perform cluster analyses on aggregate indexes but on the original set of variables, avoiding the loss of information by reduction of variables. For the SREP there were three variables (figure 1) and for OCP we used five variables simultaneously (figure 2). From the presented dendrograms, we can visualize similarities between individual countries very easily; however, they are not revealing any ranking of countries.

The dendrogram in the figure 1 is opened to different interpretations and in-depth analysis. We can see over 10 too distinct branches of coun-

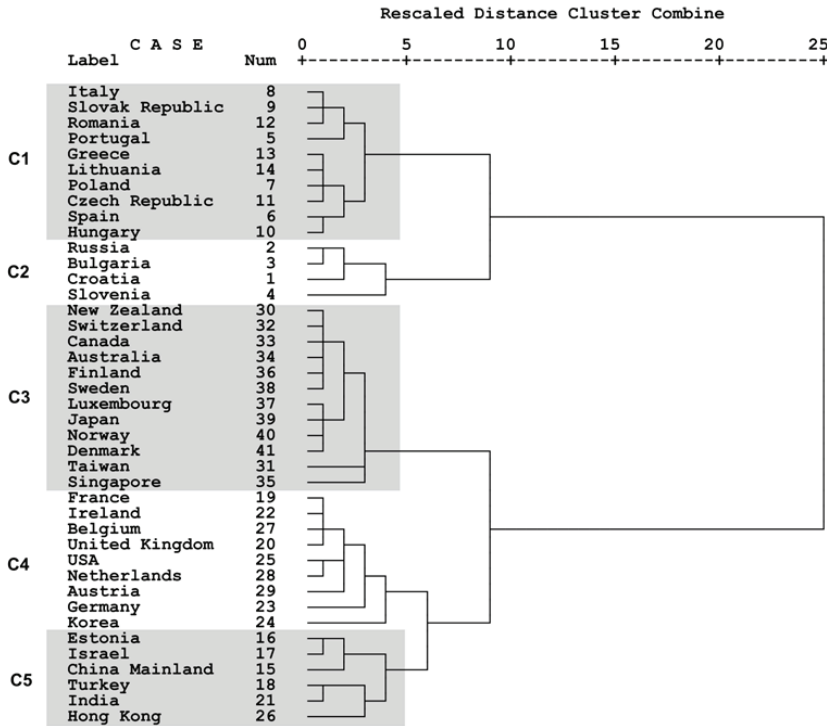


FIGURE 1 Clustering countries by the three variables (ethical practices, credibility and social responsibility of business managers) forming the aggregate indexes Social Responsibility and Ethical Practices (SREP) (based on data from IMD 2010)

tries at the highest level of cluster separation at the rescaled distance. In the first one, there are countries that form C1 and C2 clusters, in the second one are countries in the clusters C3, C4, and C5. It means that a mixture of Eastern European countries, some Mediterranean countries, and Russia (clusters C1 and C2) demonstrates significantly different social and ethical practices than all other analyzing countries (clusters C3 and C4) which all belong to the most developed European and Asian and North American countries. Geographically heterogeneous cluster of countries (C5), which includes China, Turkey, India, Hong Kong, Israel, and Estonia, also belongs to this group. These countries are from very different regions and different cultural backgrounds, but they share similar social and ethical practices of management. These are definitely interesting results, which could lead to many discussions.

We can also see which countries are particularly similar, for example

New Zealand, Switzerland, Canada, Australia, Finland, and Sweden (part of the cluster C₃). However, the whole composition of the cluster C₃ is very enlightening with unexpected group of countries from very different regions. Something very similar can be noticed in the cluster C₄. It shows that similar social and ethical practices of management are not regional characteristics, but are more or less global and depend more on general social and cultural environments.

It would be also very interesting to discuss the composition of the cluster C₁. We would expect that Central and Eastern European countries would share some social and ethical characteristics. However, there are also old EU countries Italy, Greece, Portugal, and Spain in this group. In the cluster C₂, there is also Russia forming the group with Bulgaria, Croatia, and Slovenia, which is also less expected.

With similar research goals and similar methodology, we performed cluster analysis also on five variables representing openness and competitiveness of people – OCP (figure 2). The clusters are not the same as in the figure 1, but there are some striking similarities. Again, we can see two distinguished branches of countries at the rescaled distance over 15. The composition of these two branches is nearly the same as in the figure 1. For example, the composition of clusters C₃ and C₄ in the first dendrogram is very similar to the composition of clusters A₁ and A₂ in the second one.

The most developed European and Asian countries together with China, Turkey, and India (clusters A₁, A₂ and A₃) are again separated from Eastern European countries, some Mediterranean countries, and Russia (clusters A₄ and A₅) pointing to the significant differences in openness and competitiveness of their people. However, for the dendrogram in the figure 2 there are also some less obvious grouping. Clusters A₆ (Japan), A₇ (Hungary and France), and A₈ (Croatia and Slovenia) demonstrate so large differences in openness and competitiveness of their people that they could be treated as separated clusters with very low level of similarities with others. These countries are somehow unique by these criteria. An interesting feature could be also seen in the cluster A₃, which contains a small group of Lithuania, Turkey, Poland, and Estonia that would be expected in separated clusters.

TEST OF HYPOTHESES

Similar composition of majority of clusters leads to the conclusion that SREP and OCP are interdependent. More formally, it can be also seen

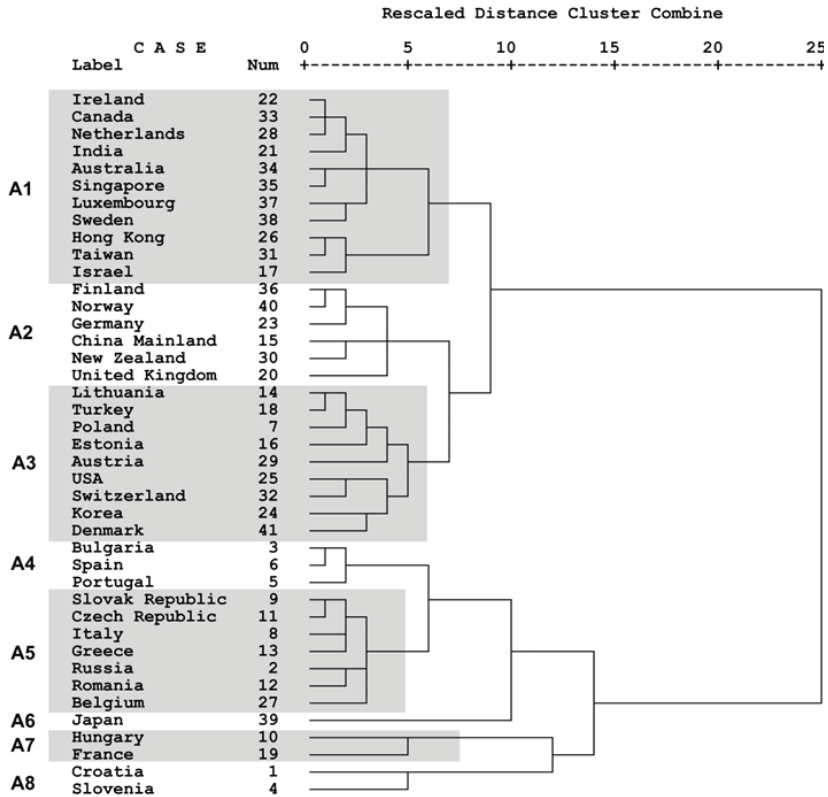


FIGURE 2 Clustering countries by five variables (entrepreneurship of managers, value system in society that support competitiveness, flexibility and adaptability of people, attitudes toward globalization in society, openness of national culture to foreign ideas) forming the aggregate index Openness and Competitiveness of People – OCP (based on data from IMD 2010)

from their correlation which is 0.658 significant at the $p < 0.01$ level. However, from statistical correlations we cannot assess the position and similarities of individual countries. Therefore, visual comparison of the structures of two dendrograms provides additional information that can significantly deepen our insight into potential similarities and dissimilarities of countries and group of countries. Both approaches confirm the first hypothesis that socially responsible and ethically managed business is a characteristic of social environment with higher openness and competitiveness of people and management.

To confirm the second hypothesis that high social responsibility and professional ethics of management positively have a positive effect on

TABLE 2 Correlations between the selected variables

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	1	.658**	.893**	.885**	.695**	.783**	.837**	.319*
(2)		1	.807**	.815**	.738**	.780**	.565**	.447**
(3)			1	.923**	.796**	.680**	.788**	.443**
(4)				1	.757**	.839**	.845**	.407**
(5)					1	.547**	.521**	.529**
(6)						1	.803**	0.254
(7)							1	0.243
(8)								1

NOTES Column headings are as follows: (1) Aggregate index Social Responsibility and Ethical practices (SREP), (2) Aggregate index Openness and Competitiveness of people (OCP), (3) Business efficiency 2010, (4) Competitiveness 2010, (5) Resilience of the economy 2010, (6) Index of economic freedom 2011, (7) Corruption perception index 2010, (8) GDP Growth in 2010. ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

business performance, we calculated correlations between the SREP and two indicators that describe business performance: Business efficiency and Competitiveness (table 2). Both correlations are very high (0.893 and 0.885) significant at the $p < 0.01$ level. In our very simple model, these two indicators are an indication of business performance; therefore, we could also confirm the second hypothesis.

With the same methodology, we confirmed the third hypothesis that economies with high social responsibility and professional ethics of management are a characteristic of economies that are more resilient. We used just two indicators: Resilience of economy and the growth of GDP in 2010. The correlations between SREP and Resilience of economy is 0.695 significant at the $p < 0.01$ level, confirming the hypothesis. However, the IMD’s indicator of resilience is just a matter of management opinion, therefore, we also tested the hypothesis with the growth of GDP in 2010. The rationale behind this second assessment is a presumption that resilient economy will exit the current crisis faster than other countries. This deduction is a clear simplification, but it still gives some objective information of economic resilience. We can notice a small correlation at 0.319 and significance at the $p < 0.05$ level. Therefore, with this indicator we cannot convincingly confirm the fact that country with high SREP will exit current economic crisis faster than others.

Confirmation of the fourth hypothesis is straightforward. Correlation

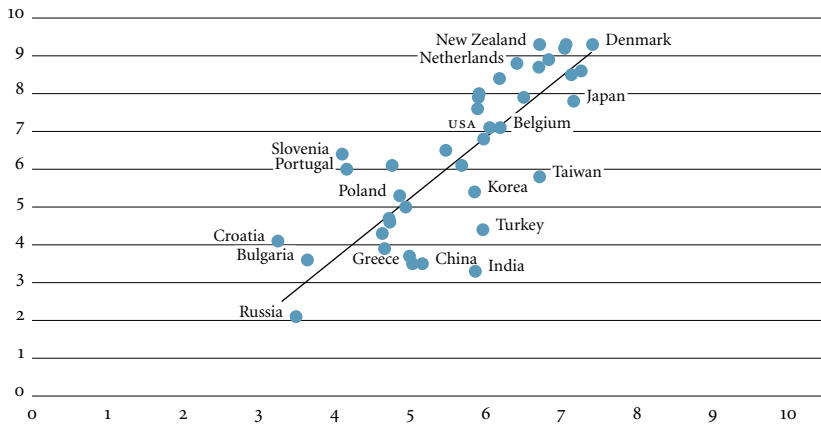


FIGURE 3 Dependence between the aggregate index Social Responsibility and Ethical Practices (SREP) and Corruption Perceptions Index

between the SREP and the Index of economic freedom is 0.783 significant at the $p < 0.01$ level. 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 stimulate each other.

We also found high correlation between SREP and Corruption Perceptions Index which is 0.837 significant at $p < 0.01$ level. It confirms our fifth hypothesis that high social responsibility and professional ethics of management lead to lower level of corruption. To visualize this relation and to illustrate the positions of some individual countries we presented the dependency between SREP and Corruption Perceptions Index in the graph (figure 3).

Without going into details, we can see general distribution of countries with labels to some individual countries. Regardless of high correlation, we can also notice that some countries (for example India, Turkey, China, Taiwan, and even Slovenia and Portugal) are relatively far from the trend line, indicating that for them the fifth hypothesis should be taken with some precautions.

Comments and Conclusions

The presented exploratory desk research started with the question if social responsibility of business and professional ethics in management contributed to business performance and its sustainability, or they mean

just a necessary burden. We would like to believe that social responsibility and business performance are not opposed forces, but in reality, many managers are not sure. They share a 'contingency' approach in the sense that in some environments it is beneficial to be social responsible, however, in others it would reduce business results. They consciously select where it is beneficial to be socially responsible and where it is more profitable to make business ruthlessly. Consequently, we are dangerously close to the Friedman's idea that the profit is all that matters. Not going into detail discussions, this approach shows deeply unethical behavior particularly in relation developed – less developed countries. Evidently, in the most developed countries unsocial and unethical business behavior is not acceptable.

However, in many less developed economies profit is so high on the priority list that social responsibility and ethics are more or less academic questions. They even do not have efficient social or legal mechanisms to fight such behavior.

In the paper, we discussed some empirical evidences on relations between social responsibility of business, managerial ethics, and business environment at the national levels. We confirmed hypotheses, which associate higher social responsibility and ethics to openness and competitiveness of people and management, enhanced economic performance, higher economic freedom and lower level of corruption. However, there is still an unanswered question what the cause and what the consequence are. If we observe this issue in the last century in the most developed countries, we can easily notice that at the beginning no business cared about social responsibility and ethics. With economic and particularly social development in these countries, they reached the level when such misbehavior was much less acceptable. High level of economic development leads to higher sensitiveness towards social and ethical questions. We could expect the same development in future in developing countries that are still fighting with basic economic problems.

Another intriguing question is relation between social responsibility of business and professional ethics in management and openness and competitiveness of people and management. These issues do not look related, but intuitively we would claim that in socially responsible organizations with ethical management employees are more motivated, opened for competition and globalization and consequently to innovative ideas. We confirmed a significant correlation between two aggregate indexes that measure these issues (SREP and OCP) consequently confirming that

higher social responsibility positively influences openness and competitiveness of people.

We also briefly addressed the issues of corruption and economic freedom. In many less developed countries, corruption is the biggest obstacle for economic and social development, but this is a part of never ending discussion about the economic costs of corruption (Dearden 2000). It is also indicative that most of Europeans, including Western Europeans, still believe that corruption is a problem in their countries, with exception of Denmark, Sweden, and Luxembourg (Eurobarometer 2009). It would be important 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 unintentionally trigger an opposite effect, increasing corruption. 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. However, in the research we also showed that for some non-European countries higher social responsibility and ethical behavior do not reflect in lower corruptness, which additionally complicates the picture.

We also experimented with the correlations between social responsibility and professional ethics with the resilience of national economies. In our very simple model, we used two indicators. IMD's indicator of the resilience of the economy revealed high and statistically significant correlation confirming the hypothesis that social responsibility contributes to the economic resilience. This issue is also highly relevant because resilience and consequently sustainability of business could be important arguments for higher social responsibility and higher ethical standards. This is something that every manager would understand; profit yes, but it should be sustainable. We also assessed the economic resilience with estimated economic growth in the 2010, expecting that more resilient economies will grow faster and exit the economic crisis faster. However, the correlation was low and we could not confirm the hypothesis with this indicator. This result was a minor surprise, because we expected the opposite. Obviously, there are many other factors, which make an economy resilient.

In our research, we used data at national levels. It immediately raises a question if our results are meaningful for individual organizations, as well. Results at national levels are statistical average of all individual orga-

nization, therefore, we would conclude that in average we could 'shrink' these conclusions to the level of an individual organization. However, we could just say that more developed countries have a larger proportion of businesses that behave affirmatively regarding social and ethical issues, which means that they find it beneficial also at individual level.

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