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BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

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Contents

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Being Ethical and Responsible Helps in Facing Challenges for Sustainable Development

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Dear Reader,

With every new issue we are trying to improve to bring you better and more qualitative articles to read. We believe our journal has already changed a lot since it was founded in 1995, being then just a journal from a business school, offering faculty members and partners a place to share the work they have done, publishing articles with some research orientation and highlighting the events at the business school. Today EBS Review is a peer-reviewed journal where only about 25-30 % of articles submitted are accepted. There are specialised issues, but all the topics relate to business administration and management. The whole process including reviews, feedback and revision takes about a year and we consider that it will remain about the same in the future.

So far we have published 18 issues about education and management, finance and banking, privatisation, business ethics, the European Union, public administration, e-business, etc., to sum it up, we have written about everything connected with business and the transition to a market-oriented economy. We consider having specific focus topics a good choice for the review and we want to continue in the same way.

Our aim is to pursue a continual process of improvement and by broadening the editorial board with top specialists from various fields of management and business administration, we hope that we have again made another step forward. We are happy to welcome such well-known and highly valued professionals as Professors Jean-Pierre Lehmann from IMD, Jan Jonker from Niemegen University, Ronald Jeurissen from Nyenrode, Eli Berniker from Pacific Lutheran University, Carl Stenberg from University of North Carolina as well as Dr. Jagdish Parikh, Dr. Mary Beth Klinger and René Schmidtpeter onto our board. We are confident that together we can increase the quality and offer a better journal to our readers and partners. From now on we will have primary editors, top specialists from different fields taking the honour and responsibility of selecting the best and most suitable articles for each issue and being responsible for the quality and outcome.

The current issue of EBS Review is devoted to the much discussed and debated topics of business ethics and corporate social responsibility (CSR), including both theoretical and practical approaches. These topics are not new and this is not the first time our journal has chosen these issues, but the contemporary business world requires that we pay more attention to responsibilities and ethics in business activities and we believe it is important to revisit these topics. In recent years we have witnessed that concerns about ethical wrongdoing are almost epidemic, the mass media report unethical activities in government, business, sports, religion, science and medicine on a daily basis, and the situation does not show any evidence of a noticeable improvement yet. In our journal, the authors discuss different concepts and present empirical results. The majority of the studies introduced in these articles deal with ethics and corporate responsibility among organisations based on results from around the Baltic Sea region.

In general, no one denies that organisations are no longer evaluated only according to their financial performance, but also according to their accountability and responsibility. There is an increasing number of people who believe it is no longer enough for a company to say that their only concern is to make profits for their shareholders, when they are undertaking operations that can fundamentally affect (both negatively or positively) the lives of communities in countries throughout the world. The environment around us has changed and this has necessitated a re-evaluation of the purpose of business and the goals of organisations. The ever more complex global economy with continuing economic, social and environmental inequities has created the need for organisations to better understand and be able to account for their performance to all stakeholders, including shareholders, analysts, regulators, activists, labour unions, employees, community organizations and the news media.

While earlier, the dominant approach was 'the business of business is business' and that the sole concern of business was profit maximisation and satisfying shareholders, now the idea of business has changed. At present, organisations have to take responsibility for the whole, and are concerned about all stakeholders, not just shareholders––business success is measured in terms of stakeholder satisfaction and contribution to environmental, social as well as financial activities.

Human beings think by means of concepts. In this way we try to create order in the surrounding world. It is through concepts that we understand the world and relate to one another. Concepts help to make the world meaningful to us. Although the fields of business ethics and CSR have grown exponentially in the last decade, the majority of business leaders still have a confused and murky understanding of the concepts and their meanings in reality. Today we see more companies than ever before engaged in serious efforts to define and integrate ethical business practices and CSR into their operations, but often these efforts remain at the level of talk and not real action. Still nobody denies that expertise in marketing, accounting or management is not enough to adequately deal with the problems related to honesty, integrity, transparency, trust and responsibility that arise.

Ethics as part of every field of human activity is gaining increasingly more importance in all societies. Ethics starts with a person––a real, living, breathing human being––who makes moral and ethical choices everyday for better or for worse. The key to building a sound, ethical community is to consider the character of those people who make it happen. Ethical people make up an ethical society. Ethical questions are essentially questions about whether people ought or ought not to perform certain kinds of actions; about whether those actions are good or bad, right or wrong, virtuous or vicious, worthy of praise or blame, reward or punishment, and so on. Consequently, with business ethics as with any other branch of ethical enquiry, the point of the exercise is to resolve questions of conduct. It has, then, an essentially practical purpose. Success in creating a climate for responsible and ethically sound behaviour requires continual effort and a considerable investment of time and resources.

Sustainability is an issue that the world has to face today faced with a growing population, increasing social disparities and the scarcity of resources that come with the benefits that globalization brings. Corporate Social Responsibility (CSR) has been regarded as the business contribution to sustainable development, and is thus one of the topics covered more often than before in the agendas of the world economic and social forums, debated in global development discussions and addressed in the strategic political frameworks such as the EU Lisbon agenda.

Corporate Social Responsibility can best be understood in terms of the changing relationship between business and society. During the last few years, the view that ethical behaviour is the best long-term business strategy for a company has become increasingly accepted. Treating employees, customers, vendors and the public in an ethical, fair and open way is not only the right thing, in the long run, it's the only way to stay in business.

Doing research in the social sciences and also in the field of business ethics and CSR, and studying and understanding the concepts has become an important issue. An increasing amount of the research being conducted is qualitative—trying to find the meaning behind the words and numbers and interpreting and putting phenomena into context. As usual, the articles published in our journal represent both theoretical and practical approaches. As most of our publications in the past have been relatively practical, we have seen the need for more conceptual and methodological views.

In the first article Professors **Tuomo Takala** and **Anna-Maija Lämsä** from University of Jyväskylä in Finland offer an alternative method to the study of concepts. In their article the authors focus on management studies, but suggest that the method can be applied in other areas of social scientific research as well. The central theme of their paper is the growing interest in qualitative research within management studies. The authors introduce a new method for doing research called 'the interpretative study of concepts', emphasising that the method is not derived from empirical data––as is often the case in qualitative approaches––but is based on conceptual study and stating that despite its importance, this type of study is too rarely discussed and developed in methodical literature. Professors Takala and Lämsä define the interpretative study of concepts as a method that is focused on interpreting written, textual concepts and their definitions.

The interpretation is closely related to the theoretical perspective chosen by the researcher as a lens for investigation. Although the interpretative study of concept is a single method, they suggest that four different categories can be distinguished within it based on the role of the theoretical perspective and the aim of the study. The authors call these categories the heuristic, theory-oriented, descriptive and critical interpretative study of concepts. The authors suggest that the method has two primary advantages. First, the interpretative study of concepts recognises both the interpretative aspect of qualitative research and the importance of conceptual research in management studies. This combination extends the scope of more traditional qualitative methods as well as the application of traditional conceptual analysis. Second, the method offers a plausible scientific framework for the researcher while recognising the need for his or her creative interpretation. Thus, it neither advocates strictly defined methodical certainties nor does it leave the researcher without guidelines for conducting a particular study in practice.

Professors **Jan Jonker** from The Netherlands and **Richard Welford** from the UK in their article, *Beyond Rhetoric: Identifying Organisational Gaps and Individual Challenges in the Achievement of Sustainable Development*, explore the idea that a lack of (fundamental) change is due to a number of 'gaps' between knowing and doing. In order to create change, these gaps should be bridged. But in recognising that organisations are made up of people they also argue that there is a need for deep personal change that is capable of being translated into organisational change.

Both people and organisations are ageing. Age affects our lives in various ways, but one of the most important contexts for this phenomenon today is work. Aging and responsibility for aging in relation to the workforce will be one of the most important topics in the near future according to **Pinja Halme** and **Raili Moilanen**, from Finland. The authors write that the situation, at least in the EU counties, is very challenging in this respect, and Finland is just one of the countries that will face this challenge very soon. Their paper explores the present discussions of age, the aging work force and work on three levels––the individual, organisational and social levels. The discussion concentrates on different aspects of these levels, and the most relevant criterion for formulating the whole picture is the relationship between age and work. To increase our understanding of the scope of age management and "sustainable leadership", the authors have formulated a model that brings together the triple bottom line concept and responsible management derived from HRM and Corporate Social Responsibility.

One's personal maturity and ethical development is challenged when you are required to become a leader. Leadership is one of the many areas of human life and social relationships in which moral character matters most. That is why contemporary leadership development seeks more and more guidance from the ethical perspective and character formation.

The leader plays a critical role in establishing and maintaining an ethical culture within his/her organisation. Too often the emphasis has been put primarily on the manager's expertise, techniques, power, knowledge and strategic choices, at the expense of the leader's moral character, but leadership excellence cannot be evaluated without an assessment of the leader's character, moral vision, integrity, values and care and responsibility for others. In the article, *Discussion of Ethical Leadership*, **Mari Kooskora** from Estonian Business School discusses the need for ethical leadership and introduces different concepts and theories.

In Central and Eastern European countries, which have undertaken vast reforms in the last ten to fifteen years, a number of similarities are evident: issues such as social inclusion, health care, corporate governance; the need for environmental protection and action against corruption and bribery; and trends such as emerging multi-sector partnerships, a strengthened civil society and the focus on SMEs. Like others in the region, Estonia has gone through sweeping reforms and that with comparative success in the regional context. Regional trends, such as the high social cost of economic success and an activated third sector can be seen clearly in Estonia.

The most important realization for policy makers in transition countries is that policies unilaterally made by them are at best sterile pronouncements without popular support and involvement. This is especially true in situations that are complex and solidly entrenched. Policy formulation and implementation is, of course, getting to be more extended geographically and increasingly involved with different elements of society. Thus, questions of corruption abatement and economic development now necessarily also involve EU expertise and funding to help the Baltics integrate their societies and economies with other nations in the EU.

Transparency and honesty in activities are attracting much attention. Corruption has become an issue of major political and economic significance in recent years and the necessity to take measures against it has become evident. **Bruce Finnie, Linda Gibson** and **Gundar King** from Pacific Lutheran University, USA, explore corruption within the context of economic development in the Baltic states and their neighbours. The treatment is broadened to include other factors such as the roles of personal and institutional power as well as increased opportunities associated with freedom and ownership. Traditional strengths such as comparative advantage and technical progress alone do not adequately explain patterns of international trade or national growth. The authors present a more complex model of social organization that includes differences in national economic and political structure, culture, values, institutions and bureaucracies that all profoundly affect competitive success. They analyse and discuss national surveys (Transparency International, Heritage Foundation, Freedom House, and other assessment organizations) of corruption, ownership and freedom, and explore the underlying reasons why autocratic nations fail to prosper. These reasons include endemic corruption, excessive stability and inefficient bureaucratic structures. Their study concludes with recommendations for improvements.

The concept of CSR is often talked about, and at the same time it is interpreted and understood in different and various ways. The concept has presented weighty debates among business and social and political communities, highlighting both pro and counter arguments, most of which start with the essential question of the role of business.

Triin Noorkõiv and **Triinu Gröön** from CSR Forum Estonia ask several fundamental questions related to CSR in their article, *Corporate Social Responsibility: the Concept and its Status Regionally and Nationally in Central and Eastern Europe and Estonia*. They discuss whether it is just to attain profits or is it to contribute to the wider development of the community? Is taking responsibility something "extra" the company has to commit to, or should it rather be perceived as a way of doing business? Does engaging in CSR make business sense, and if so, how should it be best managed on the strategic and operational level? What is the role of the third and the public sector in encouraging CSR? What is the role of CSR in achieving the global Millennium Development Goals? What is CSR for small and medium sized companies (SMEs) as opposed to earlier attitudes to CSR as being only the concern of large multinationals (in spite of the fact that more than 90% of the world's companies are SMEs)? In trying to find answers to these questions, the authors' objective is to describe the reality of CSR in Estonia based on the regional background of Central and Eastern Europe.

The main objective of their paper is to describe the state of CSR in Estonia in the context of the CEE region. They have studied the state of CSR in Estonia by looking at the CSR activities that have attained the most attention, their characteristics and the most common formats of corporate involvement. The authors concluded that, to a large extent, CSR in Estonian small and medium-sized enterprises is unconscious and informal. The principal motivation for enterprises becoming involved in CSR includes increasing the satisfaction of employees, contributing to the good image of the company and ethics. As to the obstacles to engaging in CSR, the lack of time and financial resources are seen as the greatest barriers. When moving on to aspects of the implementation of CSR, the local reality is what defines the needs as well as the specific implications and future perspectives of CSR.

The future perspectives of CSR in Estonia are largely dependent on direction, policies, guidelines and standards from the European Union. Recently, a number of initiatives have been undertaken in this area and current trends suggest greater involvement in the coming years. In regard to Estonian society in general, and raising the general awareness of CSR, NGOs and public sector engagement represent some of the improvements necessary to provide a favourable environment for companies to adopt more responsible practices.

Ruth Alas and **Krista Tuulik** from Estonian Business School have conducted a study of ethical values and commitment in Estonian companies. Their work is based on empirical data from 63 companies studying how values, especially ethical values held by managers, influence the values held by subordinates and their level of motivation. Their study indicates that the values of managers do not have a direct impact on subordinate motivation, but influence it through mediating variables. The values of managers are transferred to their subordinates and the subordinates' own values correlate with subordinate motivation. The authors found that the major challenge in Estonia will be to achieve a paradigm shift: the teaching of management in Estonia should emphasize the development of social skills and business morality instead of focusing mainly on technical systems. The challenge is to design an approach to management education that takes into account the needs and emotions of the employees and respects ethical concerns.

On the global scale, given the size of the market, Estonia is and will continue to be a part of bigger value chains, mostly supplying, producing, consuming or living under the influence of larger Multinational Enterprises (MNEs). Corporate Social Responsibility (CSR) and the sustainable development of the country as well as the surrounding environment provide us with many challenges to grasp, tackle and move ahead with. One question that arises in this context is whether, at this stage of Estonia's development, different players in society might step into a cross-sector dialogue and think more broadly about how to ensure the sustainability of communities and bring value to a broader range of stakeholders, or will they wait until the CSR agenda of the EU or larger MNEs become a priority in Eastern-European communities, including Estonia? Or should such a move come from the bottom-up since the major beneficiary is the bottom itself. Or perhaps Estonia should be thinking about how to become a knowledge based society with a hub of innovative ideas as the advantage of low production costs increasingly moves towards the East and Asia.

Elina Rääsk from CSR Forum Estonia has taken a closer look at the stakeholder concept and the perception of CSR among Estonian companies. She writes that today, since Estonia has joined the European Union, many issues that earlier did not seem all that obvious or relevant, now stand as challenges for further growth and sustainable development. The author highlights as examples issues such as how to retain the best employees, provide them a competitive working and living environment as well as how to attract new investments and produce high quality competitive products and services for a European market. The paper aims to look at the relationship between the extended stakeholder perspective in companies and their approach to CSR. Within this context it also looks through the major findings of research conducted among Chief Executives (CEOs) in Estonian businesses about how they perceive the broader responsibility of their companies.

The activities of companies can be ethical, responsible and accountable. In general the leader is the one who sets the moral tone in the organisation. 'Leaders are born', say gift-oriented leadership specialists, although many leaders themselves say that not one of them was born alone to be leader. "Naturally born leaders" still need to develop themselves. 'Leaders are made', confirm education-oriented leadership specialists, but leaders affirm the importance of their personal character, which is still best developed in the context of human relationships and common practices. **Meego Remmel** from the Theological Seminary in Estonia has focused on the discussion of how to develop responsible leaders by asking what makes a good leader? He presents the arguments of different authors and discusses the topic from different sides.

These topics of business ethics and corporate social responsibility keep fascinating us today and probably also in the future. Companies large and small, the public sector and even social organisations are being held accountable in more ways and for a wider variety of things than ever before. Dealing with these areas, discussing the issues and enhancing our knowledge is not something only for academics and theorists, but has already gained attention from businesses and business leaders around the world. It has become evident that corporate responsibility is not just about the comparatively simple questions of corporate governance, business ethics and corporate philanthropy, but also requires us to attend to the practical need to balance stakeholder expectations. The challenges surrounding corporate responsibility are complex, fascinating, and full of dilemmas and they directly affect long-term business success.

Many therefore argue that the core competence of the leaders of today as well as tomorrow will be relationship management, with the most effective managers being able to show a sure touch in fostering collaboration, engendering a learning culture, managing conflicts of interest and dealing with the attendant complexity. The new mindset will be more concerned with recognising tensions and trade-offs in stakeholder relations, and attempting to demonstrate good intentions in dealing with them. Effective managers will have the skills of influence, political savvy, cultural awareness and the ability to create partnerships and communicate in order to shape and adapt to the new business landscape.

The most important task ahead is to strengthen the evolution of commonly adopted principles and rules of ethical behaviour to support development. To instil hope in managerial ability and conviction about the competence to handle economic relationships, improvement programs have to free up systemic constraints on passive individuals and provide them with the incentive and framework to work more actively on their own and on their own behalf.

This ends my overview of the topics and articles gathered in this issue. All the articles have gone through the time consuming process of review and evaluation, and the authors have risen to the new requirements set for this publication. Widening the editorial board will guarantee the quality of our publication and leave us with the desire to offer ever-greater quality with each new issue. We consider the topics covered to be important and hope, dear readers, you can find something interesting to discover. We would also like to show our gratitude to the authors, editors and partners, indeed to everybody who has helped us to prepare this issue for our readers. Wishing you all a pleasant and stimulating read.

On behalf of the editorial board

Mari Kooskora
Editor-in-Chief

Interpretative Study of Concepts in Management Studies

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Abstract

The central theme of this paper is the growing interest in qualitative research within management studies. We introduce a new method for doing research called 'the interpretative study of concepts'. The method is not derived from empirical data––as is often the case in qualitative approaches––but is based on conceptual study. Despite its importance, this type of study is too rarely discussed and developed in methodical literature. We define the interpretative study of concepts as a method that is focused on interpreting written, textual concepts and their definitions. The interpretation is closely related to the theoretical perspective chosen by the researcher as a lens for the investigation. Although the interpretative study of concepts is a method, we suggest that four different categories can be distinguished within it, based on the role of the theoretical perspective and the aim of the study. We call these the heuristic, theory-oriented, descriptive and critical interpretative study of concepts.

Keywords: conceptual research, qualitative research, hermeneutics, interpretation, method, management research

Introduction

Qualitative methodology is increasingly being used in management studies. This is a more recent development in this field of research compared to some other disciplines, such as sociology and anthropology, but bears similarities to the paradigmatic shift within the social sciences during the 1950s and 1960s in particular (Kuhn, 1962; Burrell, 1997; Burrell and Morgan, 1979). The reason for the shift can be found in philosophical trends, but the work by Berger and Luckmann (1966) has formed the remarkable foundation of qualitative methodology. Their view of the social construction of reality has permeated the social sciences and become well accepted nowadays in many disciplines, i.e. management studies.

Qualitative research began to attract attention in management studies in the 1970s and 1980s (Morgan and Smircich, 1980). Despite the long-lasting dominance of positivism within the field, researchers grew interested in developing qualitative methods since the methods derived from the natural sciences came to be seen as unsatisfactory as a basis for management research. Yet, it was not until the 1990s that qualitative research methods gained stronger emphasis in this field.

Qualitative research is a term that covers a wide variety of approaches––the case study, grounded theory, discourse analysis, content analysis, symbolic interactionism, ethnomethodology, life-story research, action research and so on (see e.g. Alasuutari, 1995; Cassell and Symon, 2004; Denzin and Lincoln, 2000; Grant et al. 2004; Patton, 1996; Phillips and Hardy, 2002). Despite the diversity of the approaches, virtually all qualitative researchers are in agreement that the purpose of their research is to make sense of narrative data, which is usually in the form of texts that require interpretation (Tesch, 1990, p. 4). Thus, the approaches generally draw on hermeneutics, an area of philosophy that deals with the practice and theory of interpretation (Kusch, 1996). The original source of hermeneutics lies in the interpretation of scriptural passages, but the tradition was extended by German philosophers in the 19th century to cover the whole of human existence – 'the world as text'.

The purpose of our paper is to describe and define what we call 'the interpretative study of concepts'. The paper contributes to the methodical literature of qualitative research by presenting a new method which is not based on empirical study but on conceptual study within the field of management studies. While most researchers in this field are interested in qualitative empirical methods, less attention is being paid to conceptual methods. Nevertheless, conceptual study is needed in all management research, either as part of empirical research or as a study in itself. Since we live in the world of meanings, interpretation of concepts is important in the practical managerial world as well. Without some kind of common interpretation of important concepts people in organizations cannot cooperate and communicate. For example, the concept of trust as a core value of a company can mean different things to different people. A common interpretation of the concept is needed so that people are able to act in a similar way. Consequently, a crucial skill for managers is to influence organization members so that clarity and consensus about the interpretation of the central concepts can be reached.

In general, conceptual study can be divided into two mainstreams: conceptual analysis and the interpretative study of concepts. Conceptual analysis is the more traditional way of doing conceptual research and has been discussed to some extent in the managerial literature (e.g. Näsi 1980). This paper does not concentrate on traditional conceptual analysis; instead, our focus is on the interpretative aspect of conceptual study.

Seen from the viewpoint of doing management research, the philosophical research literature consists of abstract principles that are not necessarily very usable in practical research processes. Method books, on the other hand, tend to be quite technical by nature. They often give straightforward 'recipes' for solving technical questions, which novice researchers in particular then try to apply in their work as well as possible. Such normative and technical guidelines for research which fail to take uncertainty into account either ignore or completely deny the perspective that doing qualitative research is more or less a question of 'muddling through'; it is never a strictly logical process that moves on step by step. Instead, it requires open and creative interpretation, as well as going back repeatedly to revise the assumptions and solutions of earlier stages in the process (Phillips and Brown, 1993). This paper attempts to take into consideration the complicated nature of qualitative research and to be useful from the viewpoint of doing research in practice.

The remainder of the paper is organised into five sections. In the first section we briefly discuss the role of concepts from the viewpoint of the interpretative study of concepts. The second section presents a definition and the basic characteristics of the method, followed by an introduction to the data gathering for an interpretative study of concepts in section three. Section four deals with the different types of interpretative conceptual study. Finally, the paper concludes with a discussion.

About Concepts

Human beings think by means of concepts. In this way we try to create order in the surrounding world. It is through concepts that we understand the world and relate to one another. Concepts help to make the world meaningful to us. It can be said that concepts are abstractions of reality called by different names (Luostarinen and Väliverronen, 1991). They refer to objects of knowledge (Fairclough and Wodak, 1997, p. 258), and we create meanings through them. Some concepts exist only in the expressive order, while others are attached to a material referent. The concept of the 'balanced scorecard', for example, refers to an object which gives us an idea of a popular managerial fad aimed at guiding management decision-making toward organisational effectiveness (Kaplan and Norton, 2001). This concept exists only in the expressive order and, thus, we cannot see, touch or taste the object of knowing – in this case, the balanced scorecard. Some concepts, in turn, have a physical referent. For example, the concept of a 'manager' exists in our minds, but the manager in our office is also a material entity, a physical human being, made sensible and given meaning by the concept of a manager (Hardy and Phillips, 1999).

The meanings that are embedded in concepts are contextual, situated in time and place (Ricoeur, 1976). Consequently, it is possible for the same concepts to have different meanings in different contexts. One example of this is the notion of 'emotion'. Among supporters of the psychodynamic school of thought the concept refers to an irrational, unconscious and uncontrolled organisational behaviour, whereas in cognitive approaches it is seen as a basis for sensible organisational decision-making (Fineman, 2003). Thus far, viewed from the perspective of the interpretative study of concepts, we can say that the acceptance of contextuality results in the idea that an interpretation of the meanings embedded in concepts depends on a variety of different factors. One contextual factor that is especially stressed in the interpretative study of concepts is the theoretical perspective adopted by the researcher to investigate particular concepts.

Science keeps creating new conceptual constructions, combining and separating objects with new names. In everyday life we operate with precise as well as with less precise concepts. The concept of a 'computer', for instance, is clear to people who live an environment in which this object is known, whereas the term is probably unclear to people who have never heard about it. Concepts are often rather ambiguous; they may involve defects and contradictions. The concept of 'time' is more or less vague, even though it obviously carries a meaning of some sort that helps every individual to get through everyday life. Yet, it is impossible to say what the final, 'correct' definition of the concept is, and any attempt to do so will most likely lead to a dead-end. The Swiss linguist Ferdinand de Saussure (1857-1913) suggested that concepts are always arbitrary; in other words, that the world can be conceptually partitioned in endless different ways (see Potter and Wetherell, 1987, pp. 24-25).

It can be said that the definition and signification of concepts is a hermetic system (Alasuutari, 1995; Ricouer, 1976). The external object of language does not determine the meaning of any concept; the definition is done through other concepts and their definitions. To carry out an interpretative study of concepts it is important to understand that a great number of concepts have to be left to intuition, and only those concepts that are crucial for the purpose of the study are defined carefully. Wittgenstein (1958) stated that if one wishes to learn the meanings of concepts, one has to examine how they are used. In other words, the usage and the situation determine the meaning. Concepts are always connected to wider contexts. For example, when we talk about an 'ad hocracy organisation', we need to be familiar at least with the thoughts of the management researcher Henry Mintzberg in order to be able to understand the meaning of the concept. Concepts also act as so-called 'totems': by using certain concepts a writer can express her or his membership of a particular academic school, a 'tribe'.

Where do we find new concepts, where do they emerge from, and how are they constructed and specified? One way is to create them intuitively; in other words, a person can spontaneously produce new concepts from her or his experiences, imagination and knowledge. However, concepts created in this way are often quite vague, but they can be explicated in a process referred to as 'reflective thinking'. In reflective thinking a person considers her or his ideas and thoughts through her or his experiential knowledge and through theories. It is a dynamic way of using experiences, thinking intuitively and rationally (Mezirow, 1991). Thus, a person can make use of her or his knowledge about existing signs to produce new concepts and meanings which receive their form via language and its symbols. Again, this opens up further possibilities for creating new concepts and describing their meanings. The whole process can be called dialectical: intuitive and imaginative ideas are refined in the course of the process into concepts which hold an argumentation and finally become accepted in social settings. Figure 1 illustrates this dialectical process.

INTUITION AND IMAGINATION –
IDEAS AND VAGUE CONCEPTS

NEW CONCEPTS

CAREFUL REFLECTIVE THINKING

Figure 1. The Dialectical Process of Intuition and Reflective Thinking

From the perspective of the interpretative study of concepts, the above figure illustrates how concepts and their meanings evolve in a dialectical process of intuition, imagination and reflective thinking. The creative development of new concepts requires a constant movement of knowledge. In a practical research situation this is related to the researcher's theoretical and imaginative ability to produce new concepts. Another essential issue in this movement of knowledge is discourse and social interaction between the members of a community, for example a scientific community.

Definition and Characteristics of the Interpretative Study of Concepts

Methodology has an essential role in research, but the concept itself is an ambiguous one. Originally the term 'method' (Greek *methodos,* 'along the road') referred to any road or direction that would lead to knowledge. A method, therefore, is a road somewhere, not an end in itself. The road to knowledge is marked by the method used. In general, a method can be defined as a policy that is directed by rules and is used in science to search for knowledge or to solve practical problems.

Central to the discussion of methods is the awareness that there are numerous paradigms in qualitative research and that various philosophical positions guide the choice of the method and the research process. Applying a method always involves a set of scientific philosophical commitments. Thus, the rigour and the legitimacy of a method in qualitative research are tied to ontological and epistemological assumptions as well as to assumptions about human nature (Burrell, 1996; Burrell and Morgan, 1979). When we use a particular method we gain knowledge concerning a particular reality, and the acquired knowledge can then be utilised for a particular purpose. It can be said that the interpretative study of concepts commits itself from the very beginning to certain assumptions and that the knowledge it gives is always within some delineated frame. This makes it necessary for the researcher to know all the assumptions to be able to evaluate the relevance and rigour of her or his study.

Now we can define the method of the interpretative study of concepts as follows:

> The interpretative study of concepts is a method which belongs to the interpretative research paradigm of management research which is interested in interpreting written – textual – concepts and their definitions. Concepts and their definitions are contextual and their interpretation is affected by the theoretical perspective chosen by the researcher. The objective of this method is to describe and interpret the meanings of concepts and their definitions. Additionally, it can investigate ideological meanings associated with concepts and their definitions, as well as reveal meanings that are related to power relations in managerial texts.

The method is basically concerned with answering the following crucial questions: What is the aim of the study? What is the research data? What do we mean by interpretation? How is the research process conducted? These questions are highlighted in table 1.

Table 1. Characteristics of the Interpretative Study of Concepts

Aim of the study	Description and interpretation of the meanings of particular concepts and their definitions
Research data	Written texts
Interpretation	Contextual and bound to a particular theoretical perspective
Research process	Hermeneutic circle

Concepts and their definitions are the objects of knowledge in the interpretative study of concepts. For example, a concept like 'transformational leadership' and its definition by James MacGregor Burns (1978) could be the object of study for researchers interested in ethical leadership. The research data, thus, would consist of the text of Burns' book, but it might also be interesting to study his ideas of transformational leadership historically. So, the researcher could take several of Burns' texts published over the years and concentrate on his definitions and potential changes in them.

Any interpretation of the meanings embedded in definitions is influenced by contextual factors. As already noted, the interpretative study of concepts underscores the need for the interpretation to be linked to a particular theoretical perspective. In other words, the main contextual element that affects interpretation is the theoretical perspective chosen by the researcher to thematise the concept and its definition. Theoretical thematisation is a key element here, because it distinguishes the interpretative study of concepts from traditional conceptual analysis. The aim in the traditional approach is to analyse, for example, similarities and differences in concepts, but it does not explicitly bring forth the role of the theoretical perspective on which the analysis is based.

The theoretical perspective that is most appropriate for a given study depends on the text being interpreted as well as on the particular interest of the researcher. A researcher focusing on Burns' 'transformational leadership', for instance, might apply the theory of an ethic of care by Carol Gilligan (1982) to make the interpretation. Besides transformational leadership, the researcher might also choose the concept of 'servant leadership' by Robert Greenleaf (1977), and interpret both concepts from the viewpoint of an ethic of care. The result of the study, then, would be a comparison between the concepts and their definitions from the perspective of care. The researcher might even develop a new typology with new concepts related to ethical leadership from the care perspective.

The research process in the interpretative study of concepts is a hermeneutic circle. This is a metaphor adopted from Heidegger, in the first place, to describe the researcher's experience of moving dialectically between the parts and the whole of a text (Kusch, 1996). The researcher unavoidably brings her or his pre-understanding to the research. This means that all claims of interpretation are made from a given set of fore-structures which cannot be eliminated but are continuously modified in an iterative process of interpretation. The researcher always comes to a particular research situation with this kind of pre-understanding. Moreover, the theoretical perspective chosen for the study is an important part of the researcher's pre-understanding. Consequently, she or he has to acknowledge that the interpretations of the concepts and their definitions is always in some sense 'imperfect'. Accordingly, one of the most important issues in the interpretative study of concepts is the interpretation potential and literacy of the person doing the research. It forms a changing and an essential element of the research process. Moreover, the rigour and plausibility of the study are closely linked to the researcher's interpretative ability. Therefore, the researcher needs to be open and ready for continuous learning in her or his work.

Data and Data Gathering

'Methodology' can also be understood in a limited sense to mean the various kinds of methods used for gathering data (Hirsjärvi and Hurme, 1985). Interpretative research can be divided into two main groups based on the nature of the data. The underlying idea is a classification into naturally occurring data and data collected only for the purposes of a given study (Silverman, 1994).

A common feature in interpretative research based on naturally occurring data is that the data exists regardless of the researcher, and the researcher does not interact with the producer of the data. The following types of interpretative research belong to this category:

– Interpretative study of concepts: The data is written texts about concepts.
– Interpretative study based on other written textual data: The data is written texts not specifically concerned with definitions of concepts; e.g. life histories, biographies, letters, diaries, and so on.
– Interpretative study based on other symbolic data: The data is visual and material; e.g. pictures, paintings, cartoons, logos, furniture, buildings and so on.

In interpretative empirical research, on the other hand, the data is empirical, collected specifically for the purposes of the study.

– Empirical interpretative research based on interviews: The data consists of interviews done for the study. The researcher always interacts with those who are interviewed.
– Empirical interpretative research based on observation: The data is constructed through observation and gathered only for the research at hand. The researcher usually interacts with those who are observed.

A significant number of studies in the field of management research utilise empirical material, such as interviews or observations. This kind of interpretative empirical research and its data are based on the researcher's field work. In other words, the researcher goes out to the field and gathers the data that she or he then interprets. The data collection process is usually based on the researcher's interaction with those in the field, and the data is gathered only for a particular study. The idea in grounded theory according to Glaser and Strauss (1967), for example, is to collect data in the field and then inspect the gathered data to see whether any theory could be developed from patterns found in the data. On the other hand, the researcher's objective may be to describe and interpret a concept or concepts, and such interpretation always has to rely on some kind of sources as well. If we interpret a concept presented in a textural source, in written texts by other researchers or in the professional literature and journals of management and organisations, then we are dealing with an interpretative study of concepts.

Hence, the data in the interpretative study of concepts consists of other authors' written texts and the definitions of concepts in those texts. Interpretative research based on naturally occurring data utilises other kinds of data as well, which differentiates it from the interpretative study of concepts as we have defined it. Such data may include diaries, life histories, biographies, advertisements, pictures, logos, TV programmes, and so on. In one respect, however, this data resembles the data in the interpretative study of concepts: namely, the researcher does not interact with the original producer of the data; that is, the data was created regardless of the research and the researcher.

The interpretative study of concepts, thus, refers to research that emphasises the interpretation and further development of concepts and their definitions as well as conceptual systems. In this method the data could also be described as 'mute', because it does not enable personal contact between the researcher and other people, as is usually the case in empirical interpretative research. In the interpretative study of concepts the researcher faces a 'mute' text, which needs to be make to 'talk'. This is linked with a constant problem with methods, namely, the problem of meaning. The researcher must be able to detect some thematised meanings from a certain aspect of the mute data. The data itself is mute; it could be thought of as an ignorant respondent to whom the research questions need to be posed from a special thematised angle.

Since the interpretative study of concepts is concerned with written sources, it could also be called 'desk research'. The term emphasises the methodical aspect of this research method with respect to data gathering. The researcher has not gone out to the field to interview or to observe, but has collected written material which she or he then tries to interpret at her or his desk. If this process is not carried out successfully, the whole study may end up as a summary of the data. The report would only be a compilation of associated text passages from books. For example, the researcher may have listed and described numerous definitions of the concept of 'organisation culture' by different organisation researchers, without considering the meanings these definitions convey or the way they are associated with one another.

On the other hand, in a successful case, the interpretative study of concepts can result in a fertile re-interpretation of the data from a completely new and fresh perspective. For example, should the many definitions of 'corporate strategy' by well-known theorists be interpreted from a gender viewpoint, we might discover a new kind of meaning of the concept and, specifically, the kinds of gender assumptions that are implied in the definitions of the concept. This example illustrates how, by opening up the concepts and thus revealing the concealed meanings attached to its definitions, it is possible to re-interpret the often already 'cemented' general truth.

Different Types of Interpretative Studies of Concepts

We can distinguish four different categories in the interpretative study of concepts based on the importance of the theoretical perspective and the purpose of the study in question. The categories are described below:

1. **A heuristic interpretative study of concepts** accepts the role of the theoretical perspective as only a loose guide or framework for the interpretation. The concept of 'transformational leadership' mentioned earlier in this paper can be taken as an example. A researcher choosing the heuristic approach may interpret the concept and its definition from an ethical perspective––a rather broad theoretical approach. More focus would be gained, for example, by selecting some key theories in the field of ethics as a starting point for the interpretation. One of the challenges in this type of study is determining the focus. A theoretical perspective that is too broad may cause problems as to the thickness of the interpretation. On the other hand, the researcher may have the opportunity to discover new, previously unthought significations for the studied concept.

2. **A theory-oriented interpretative study of concepts** stresses the role of a focused theoretical perspective and follows the framework more strictly than a heuristic study would. To use of the concept of 'transformational leadership' again as an example, the concept could be interpreted from a particular theoretical perspective like altruism, for example. A focused perspective usually clarifies and strengthens the interpretation.

This may be an easier approach for a novice researcher whose interpretation potential is not yet very deep or broad. However, it may also be that the result is not a very fresh and creative interpretation.

3. **A descriptive interpretative study of concepts** aims at increasing the understanding of a concept. The objective is to describe and clarify meanings. For example, the researcher may be interested in interpreting the concept of 'total quality management' and its changing significations in particular management literature over a specific period of time. Consequently, the researcher will be looking for meanings and possible changes in them while compiling a rich and comprehensive overview of the concept.

4. **Critical interpretative study of concepts**. When the focus is on revealing the assumptions inherent in the studied concept—particularly asymmetrical power relations and ideological loadings in the definitions––it is a question of a critical interpretative study of concepts. For example, a gender perspective to the concept of 'corporate strategy' would probably emphasise the critical aspect. Any study that attempts to change the conventional interpretations of concepts is likely to be critical by nature (Phillips and Brown, 1993). This type of study is transformative rather than informative in character.

Discussion

In this paper we have introduced a new method for doing qualitative research, called 'the interpretative study of concepts'. The method is not derived from empirical data, as is often the case in qualitative approaches, but is based on conceptual investigation. Since all research needs conceptual study, it is interesting that this type of study has been very rarely discussed and developed in methodical literature. Our method contributes to the literature by proposing a framework to meet this need.
We suggest that the method has two primary advantages. First, the interpretative study of concepts recognises both the interpretative aspect of qualitative research and the importance of conceptual research in management studies. This combination extends the scope of more traditional qualitative methods as well as the application of traditional conceptual analysis. Second, the method offers a plausible scientific framework for the researcher while recognising the need for her or his creative interpretation. Thus, it neither advocates strictly defined methodical certainties nor does it leave the researcher without guidelines for conducting a particular study in practice.

Our method is an alternative approach to the study of concepts. We have highlighted different applications of this method by means of examples. However, the method requires wider application in the future. Although our focus in this paper is on management studies, we suggest that the method can be applied in other areas of social scientific research as well. Finally, our method openly admits the aspect of contextuality in doing research. All knowledge comes with a perspective. In the interpretative study of concepts this perspective is specifically bound to a certain theoretical viewpoint. Contextuality is a very complicated concept, and we suggest that when our method is developed further this concept should also be clarified.

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Beyond Rhetoric: Identifying Organisational Gaps and Individual Challenges in the Achievement of Sustainable Development

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Abstract

Mankind seems to be trapped in a complex societal 'prisoners dilemma' grounded in organisations. They provide the 'glue' of modern society, but at the same time are an important source of different kinds of abuse. Protests, political resistance against activities (either local or world-wide) and a deteriorating social climate are the results of this dilemma. In order to achieve sustainable development, organisations have to be part of the process. Still, despite growing 'negative' empirical evidence, no signs of profound change––either inside or outside organisations––can be observed at present. Here the idea is explored that this lack of (fundamental) change is due to a number of 'gaps' between knowing and doing. In order to create change, these gaps should be bridged. But in recognising that organisations are made up of people we also argue that there is a need for deep personal change capable of being translated into organisational change.

Keywords: organisations; systems; sustainability; change.

Introduction

For a large number of people––especially in North-West Europe, the US, Canada and Japan––the world has become a twenty-four hour economy in a global 'village'. Neither time nor distances are issues that really matter in terms of barriers to overcome. Looking back over the past hundred and fifty years, a 'society' was created, the 'glue' for which consisted of organisations (Ghosal & Bartlett, 1997). From when we rise early in the morning until going to bed at night the pace and structure of life is dictated by them. From the electricity that makes the alarm clock tick, the water that comes from the tap or the car which is indispensable for getting to work, all is provided through one or another kind of organising.

From childhood on, people learn to behave according to the rules and requirements of organisations, be it at school or work. Functional specifications and professional development accordingly provide a clear-cut organisational and thus societal position. People are 'members' of these organisations. They help them create and once done, stimulate continuity. A career––if not a full life cycle––is exclusively made within these organisations. In return, they offer longed for societal status and material welfare. To be unemployed is almost the utmost social punishment. All in all organisations have become a category of their own with almost human attributes––the 'living' company'––the ideal (managerial) concept (De Geus, 1997). 'To be organised or not to be' seems to be the appropriate credo. Therefore, criticising organisations is like criticising ourselves. Nevertheless, we seem to criticise a world 'out there' as if it is not ours, as if we do not exist inside organisations. We must recognise therefore that part of the organisational change process has to be an individual change process. This process needs to begin with the leaders of organisations and permeate through every organisation. Each and every one of us therefore has a role to play in considering our own gaps and our own commitment towards sustainable development.

Organisations have real problems engaging with the rapid speed of change in the societies in which they operate. This means that they often make mistakes when they fail to recognise, for example, changing consumer demands, the power of pressure groups, public resistance to their activities and a great deal of scepticism from within and outside the organisation. Part of the problem in such circumstances, however, is not organisational at all but involves an inability among certain individuals to cope with their roles. These people, the senior managers in an organisation, are under daily pressures from a range of different stakeholders making more demands of them than they can possibly meet. Such people are tired and exhausted, become a function rather than a person and do not have the space and the time to engage in the sort of creative thinking that can bring about the much needed change in the organisation. They are the leaders but in many cases they fail to lead. Their stance becomes defensive, they reduce risks by keeping as much as possible under their own control, they have little vision, and of course, they aggressively refute any external criticism.

Since the late sixties, there is growing proof that the human influence through organisations is rapidly and effectively destroying the ecological, if not the social, environment. Almost on a daily basis, species are becoming extinct, square miles of desert are added––not to speak of the hole in the ozone layer and the corresponding rise in the sea level. Since the publication in the late sixties of Rachel Carson's 'Silent Spring', extensive research has built a strong case demonstrating that the 'dark side' of organisations has a devastating effect on natural resources and reinforces an unequal distribution of material welfare. The ecological footprint of nations––especially the countries and parts of the world mentioned above—shows a fundamental discrepancy across the globe regarding the use and abuse of natural resources. A relatively small proportion of people (approximately 20 %) use about 80 % of these resources. At the same time more then a billion people must make a living on daily wages corresponding to the price of a can of Coca-Cola. Even more people are deprived of such elementary things as clean water, proper housing, basic education or a safe (national) environment without wars based on rivalling ethnic minorities. Taken together there seems to be a fundamental lack of 'emancipation' worldwide in terms of the equal division, access and sharing of organisational and natural resources. Twenty percent of the world's population has been able to organise things in such a way that they at least dominate, if not control, the other eighty percent. The minority world has therefore installed an economic role model that seems to be the utmost goal.

From the outside it might appear as if the dominant economic coalition is holding all the cards and 'speaks' in one unified voice. Yet, at the same time, more and more critical counter-voices can be heard. The economic paradigm is severely criticised by its own fans and contributors. Undoubtedly, money makes the world go round, but financial gain, as the ultimate yardstick for organisational and societal success is no longer exclusively seen as such.

The first stage of a move beyond financial performance as the sole criteria of success was the so-called quality movement. This is a movement that installed the notion––especially in Europe––of the measurement of employee, customer and organisational satisfaction before judging the financial results. The second stage was the environmental movement, focusing attention on the impact of the organisation on its natural environment. This began as a movement focusing on technical 'end of pipe solutions' but over the years broadened its scope and is now more and more looking at the organisation as a whole and whole life-cycle environmental impacts of products. The third [and most recent] movement has been in the quest for organisational responsibility [in the business world typified by social responsibility and corporate governance movements].

Taken together, the need for financial success based on a quality management approach, the search for improved environmental performance and the quest for social responsibility has been equated with the move towards policies consistent with sustainable development (Welford, 2000). On paper therefore the move towards sustainable development ought to be relatively easy. Why then do we not see more progress? There is much rhetoric but very little signs of any fundamental shift in policies and attitudes on the part of organisations. We argue here that in spite of the fact that organisations know what they ought to do, there are some fundamental 'gaps' preventing them from putting these things into practice.

The Need for Organisational Change

What can be heard among these many and sometimes confusing voices is growing criticism, if not cynicism, regarding the way organisations function in contemporary society. We seem to be trapped in a dilemma wanting to live without organisations, but not being able to do without them. Not being able to give up the (technical) progress achieved over the years let alone the comfort and well-being. We muddle through––resembling more and more the metaphor of the 'boiled frog'. Knowing––based on abundant empirical evidence––that there needs to be a change, that there should be radical change, but at the same time not knowing how to change things effectively.

So we say: it's time for a change, but looking at what we are actually doing, no substantial change can be observed. Yes, we are adopting and using the right words, inventing new jargon and launching new [organisational] concepts. It goes without saying that nowadays every self-respecting organisation will go 'sustainable', saying that it tries to behave like a good corporate citizen and maintaining a very limited dialogue with a variety of stakeholders. Shareholder value seems to move into the background giving way to a strategy focusing on societal impact and interest. But moving beyond the words and verifying the bottom-line of actual corporate behaviour through annual reports and investments, it becomes evident that the often implicit, yet so familiar, economic paradigm is still in the lead. Those who organise things according to that paradigm seem to be dominating, at least for now. So the contemporary situation could be characterised as one in which organisations (especially commercial one's) are defining and prescribing the rules of the (societal) game.

Organisations are by definition the 'product' of human intellect, invention and intervention. There is nothing 'natural' about organisations. They don't grow despite some popular management concepts that provide a cyclical 'ecological' perspective on them. Looking back, organisations were once created as tools to divide labour and organise work based on a mechanical need and a worldview accordingly. What is now labelled as the 'industrial revolution' was when mankind invented ways to divide labour firstly around energy sources in order to meet the requirements of machines. Machines that helped reproduce human actions. It was the mechanical translation that made it possible to repeat the same action time and again. In order to get this organised, division of labour, and thus of tasks, was a basic requirement. So the concept of what is now called 'organisation' gradually emerged: the clear description of all functions, stable processes and strict hierarchy providing a command-and-control management style.

During the industrial revolution this emerging organisational concept was further developed, refined and applied so that it became almost natural. To organise meant, and still means, to design up front tasks and functions and to have them executed accordingly. Through time this design-concept based on a pure mechanical context, has become so successful and powerful that it has turned into an 'it goes without saying' window on the world. A concept so strong that for a very long time it offered no room for alternative thinking. In retrospect therefore, the industrial revolution could be better labelled as the mechanical revolution in search of organisations.

A search based upon an enlightening philosophy regarding progress and the make-ability of the future. In such a philosophy there is no mental space to consider the negative side effects. They are simply not seen, let alone measured or accounted for. It was only by the mid-fifties of the last century that it became clear that there was a serious price to be paid. The human side of the enterprise was (almost) lost out of sight [as demonstrated unmistakably at the time] and it became clear (although not whole-heartedly) that there were undesirable environmental side-effects. Still, the concept of the modern organisation had acquired through time such a dominant societal position that critics, even when heard, could only raise a modest voice.

While searching for ways to organise for more then a century, something else also changed fundamentally. During the mechanical revolution, organisations where left at the mercy of the marketplace. There was a clear and distinct picture of the role and position of organisations; they had to produce what needed to be produced as long as there was a demand. If not, they didn't deserve to exist. It was a situation where society and government were the recognised major players. They where the ones that determined the moral and ethical rules of the societal game, supported by recognised classical 'institutions' such as the church and nobility. It was precisely this that changed so radically. Where once power had been measured in square miles of land, now the number of employees and factories and inevitably the resulting financial gain became the new dominant yardstick. Being the manager of a large multi-national enterprise provided more status, more power and more societal esteem than all the recognised predecessors such as landowners, bishops, cardinals, king or queen.

The bare essence of why organisations came into being was that they were created as amoral 'tools'––tools simply for organising work––work of a mechanical nature translating actions that were already known into functions. It is only one hundred and fifty years ago that people worked in 'mills' and factories under the most inhumane conditions. Of course, all that has changed in the developed world. We have moved from an industrial society towards a service society––one in which people have become the most important asset. We are in the middle of a dematerialisation, giving way to 'knowledge' as the new fundament of economics. But are we really evaluating and reconsidering what the past century and a half has brought us? What needs to be done to now and maybe for the next fifty years or so to turn the page?

So, what is the big picture after roughly two centuries or organising? The 'classical structure' of society that served so well in shaping, creating and conditioning progress, seems to be 'lost' and replaced by a society of organisations. Nowadays if things, whatever their nature, are not organised, they simply do not exist. And although they create comfort, status and well being it has become very clear that that accounts only for a 'minority'. Instead of promoting emancipation the opposite seems to be true. Along the way we have lost faith in them. Organisations are being criticised more and more for the way they behave, for their mono-disciplinary (financial) focus, for the lack of [external] control, for the way they are accountable for their deeds, for the way they communicate with various stakeholders depending on the organisation and so forth.

The past decades of the last century have also dramatically shown that the 'waste' from organisations has a serious socially and ecologically devastating impact. Nowadays it seems as if organisations can no longer be trusted. 'Show me what you say you do' in addition to transparency, accountability and real demonstrations social responsibility are some of the new criteria that are gradually surfacing, yet difficult to apply. Taken as a whole this could be labelled the full societal dependency of organisations in which they are admired and severely criticised at the same time. Basically we have become aware of this situation, knowing it needs to be recalibrated and rebalanced. Still, to conquer nature again with a pair of wooden buckets is not the way forward. No use travelling back in time, lighting the oil lamps at night. So is nothing changing then?

New Jargon, Tools and Standards

It is perhaps only over the past five years that we have seriously started to debate the role of organisations in society. A debate shaped by the introduction of new words such as 'corporate citizenship', 'corporate governance' and 'corporate social responsibility'. Words often used together with terms such as 'ecological impact', 'sustainability' and the 'triple bottom-line'. These are words and terms that need to be considered as part of a first-wave attempt to make the debate possible. Of course there are smart organisations that 'highjack' these terms in order to prove that they are leading the way (Welford, 1997).

These organisations pay lip service to the underlying notions thus creating perfect window-dressing while changing little or nothing at all––organisational behaviour that can even be regarded as fully natural, given the past. Given the explosive growth of managerial and organisational concepts over the past fifty years, and given the fact that these terms and words mentioned above are certainly not clearly defined, left alone ready to be applied, any self respecting organisation can easily adapt this new jargon thus expressing how modern they are. It requires little effort to become cynical about this demonstrated behaviour. The small amount of fragmented research done in the area shows time and again there is a gap between what organisations say and what they actually do in terms of investment or corporate behaviour.

The same kind of observations can be made regarding the rise of a new generation of tools and standards. It is only very recently that standards such as AA 1000, the SA 8000 were launched. No wonder hardly any organisations can be found that have incorporated these tools into the very heart of their business. One could even question the fact that these kinds of tools might really offer a substantial contribution in creating change. Dreaming up yet another kind of tool might even just reinforce actual practices instead of changing it. As long as organisations are considered to be tools deep down, the social technology that is embedded in those new standards and reporting initiatives has no other value than making people inside and outside the organisation aware of a growing and pressing need for change. As such they have a very elementary contribution but should be abandoned once the debate moves into a new phase. For now, there is nothing better available.

The words and terms recently introduced and this new generation of tools taken together can be considered as the first attempt to shape the debate about the role and position of organisations in today's society––a debate that has hardly started. Moreover it would be naïve to think that after organising in one specific direction, based on clear and successful concepts for the past century, all of a sudden this would change. If that were the case then once again we would have yet another improvement debate, like those already so well known from the quality-movement. It is not another debate about improvement here. It is not about the mechanical 'tool-like' nature of organisations. The debate in its infancy is trying to address the issue of organisations as moral communities.

The present debate is hardly scratching the surface. The current underlying (theoretical) notions and concepts are too well established to be abandoned over night. There are too many gaps that can be identified making it impossible for people either inside or outside the organisation to create practical knowledge leading to fundamental change. And although we might know that change is essential, we might not know how to transform this knowledge into doing things differently. Therefore it might be useful to firstly identify a number of these gaps in order to guide the necessary thinking. After all, the world is shaped on the basis of ideas and ideologies. Without ideas there is no way forward.

Gaps between Knowing and Doing

Below five gaps are identified and briefly described. These gaps are: the knowledge gap, the integrity gap, the perspective gap, the organising gap and finally the action gap. Each of these gaps provides a concise yet narrative 'picture' of elements necessary to be fundamentally reconsidered in further developing the debate regarding what the 'desired' role and function of an organisation should be.

The Knowledge Gap

There seems to be a widespread and firmly accepted misunderstanding that knowledge leads automatically to action. Taking all knowledge (if that was even possible) in regard to the impact of organised human action on the social and ecological environment, the inevitable and immediate conclusion could be none other than––for example, that we should shut down a large number of factories worldwide, stop pre-packaging food, transport less, make less use of cars and so forth. In brief: organise in a different way. The knowledge supporting such a necessity is there already. The facts are there. Almost no day passes without yet another report regarding the impact of these practices. Still very little to almost nothing is happening. There seems to be a kind of mental gap between what we say we think and what we do (and what is being thought about our actions).

This knowledge [or mental] gap allows us to combine different and incongruent ways of thinking and acting at the same time. Or, in even stronger terms, there seems to be no connection between what we know and what we do. Could this be because knowledge creates a world of it's own? Knowledge can only be expressed through words and figures that are, and always will be, debatable? We need to use jargon to express what we know. But in expressing it, we do not necessarily communicate what we want to transmit.

So the debate regarding the terms being used and their definitions, the facts, the verification of those facts and so forth is an open-ended one. The more we enter into this, often academic or political debate, the further we are removed from the impact this acquired knowledge could have on our own behaviour. So knowledge in itself is not enough to create change. Although a necessary ingredient for circumventing the problems at hand, it hardly leads to action in itself. Or could this be because knowledge needs to undergo an 'instrumental' or practical translation before it can be applied––a translation only taking place within a specific context and under certain circumstances? This knowledge is something that needs to be embedded in a kind of 'organisational' strategy before it can be recognised and put to use in terms of choices and actions. Or as a third explanatory hypothesis, could it be that in the same way that we look profoundly at organisations, confusingly, knowledge is not actually linked to our own existence?

The Integrity Gap

Integrity, the second gap to be identified, has to do with 'wholeness', with beliefs, with the 'inside and outside' and connectivity. Last but not least, it has everything to do with norms and values and knowledge. It takes no profound research to find out that for the past decade we have entered into an organisational phase that could best be characterised as the 'I inc'. Given the loss, for many, of social structure and a sense of belonging, and given the increasing demand from organisations for individually measured output, it becomes very difficult to believe in something 'bigger' than oneself. In the end it's only the individual performance that counts in spite the loudly heard demand for teamwork.

Could it be that the rise of a society of organisations has created a disconnection with our social and natural environment? That we are no longer part of a believed in 'whole', a community of some sort that surpasses our own individual being? Just consider the fact that the way we behave as parents raising our children does not necessarily have to correspond with the way we behave while being in charge of our jobs in the organisation. One could describe this paradox as an acceptable multi-personality syndrome of normal nature.

Business has its own acceptable demands, beliefs and values. So we live an organisational life inside the organisation and yet another outside. And all too often there seems to be no connection between the two. People haven't changed in their basic needs for a sense of belonging––of wanting to be a part of something. Call it 'community' or entity or network. The issue at stake here is not to proclaim yet another set of beliefs (or business principles). The issue is to try to reconnect those valuable beliefs once again to our own actual behaviour, as an individual, as a member of different groups, as a member of a community, and to abandon the one-dimensional focus (as Herbert Marcuse already said in the seventies) on a purely economic and financial bottom-line, and instead to recalibrate the balance with respect to the natural and social environment.

In addition though, many of us often feel so powerless that we care not if we lose our integrity as human beings. Such a lack of integrity turns us into hypocrites: people who, for example, argue for increased care of the environment but do nothing personally about it. For me therefore, the beginning of any change process within the individual involves increasing our sense of integrity and eliminating our hypocrisy gap. In doing that, individuals will change the institutions in which they work and with whom they engage. There is no need for the majority of people to change in order to create change in an organisation or in a society as a whole. History has taught us that periods of beneficial change have often been created by a small group of people who have worked effectively together to create what they see as important. Of course there is a need for a critical mass of people to accept the direction of change, but we now live in a society where, perhaps more than ever before in history, people are yearning for that change to take place.

The Perspective Gap

The third gap could be defined as the perspective gap. One way or another, the dominant perspective in centuries past when building an organisational society has been this magical word 'progress'. Looking back, people have focused their efforts on creating an 'enlightened future'; a future in which 'things' would be better; a future in which rationality would be the fulcrum of human action. History shows all to well that at present that's not the case. Rationality has released a tremendous mental power regarding human capacities and capabilities. What has been achieved today in the areas of, for example, technology and health and safety is due to this rational and analytical way of thinking.

The question is whether this fundamental guiding perspective has led to the creation of the longed for enlightened future? Despite discussions regarding post-modernism and in politics the 'third-way', no real perspective is available that could serve as a guiding principle for the next hundred years or so.

So, the answer must inevitably be: no. What started out as the discovery of man's mental power to think and act accordingly, thus creating his own future, has led to a situation where all too often the connection between thinking and acting is gone. Today the idea of the 'enlightened future' is dangerously outdated. "Progress" is a word with empirically evidenced negative connotations to say the least. So instead of progress a new perspective is needed.

Or, if it is impossible to change that word for now, a new and fundamentally different connotation should be linked to it––connotations of environmental and social respect and of emancipation in the true sense of the word. One in which technology is no longer an aim in itself, but profoundly dedicated to solve many of the problems that where created while working towards a better future. It's hardly useful to express either a philosophy of technological pessimism or optimism. Either way technology is the only way to solve problems created by a technology that was invented in the past. So the real issue at hand is the guiding perspective for the next decades to come. As Martin Luther King once said: 'I have a dream'. Perspective is the potential for each and every individual to deliver a genuine and valuable contribution to that dream––one that counts, even the smallest contributions. With that connotation, maybe 'progress' isn't such a bad word after all.

The Organising Gap

The fourth gap could be labelled the 'organising gap'. Basically, organisations as we know them today are built on the basis of a mechanical worldview––one that can be analysed and understood by taking it all to bits and rebuilding it later––organisations as machines, as perfectly working clocks––where nature is simply yet another resource. The bare essence of these organisations was (and still is) to produce goods in large quantities (only later we have added the word 'quality'). Besides these mechanical functions there were no other attributes. The actual hype[s] in and around organisations dealing with constant change is abundantly nourished by efforts to still apply these long valid (and successful) principles. Principles such as: controllability, predictability and organisational continuity. Principles still applied but in a fundamentally change environment, or should we say: context.

There are many 'excuses' for explaining why we organise the way we do, of which the most important is 'success'. This way of organising has led to such a success that as a concept it can now be found throughout the world. A concept exported as a worldwide product. Aren't there some alternatives such as social-technical organisation or a network organisation of the individualized cooperation? The answer is yes, of course. But in analysing these recent concepts they could be considered efforts to create something 'new' while keeping the old firmly in mind. True: it is tremendously difficult to let go of a successful past. So while warmly supporting these first-generation efforts to create new ways of organising, still something very basic, something very fundamental is lacking. If progress is to have new meaning, the basic connotation regarding organisations as mechanical and functional entities operating in a kind of social 'niche' should be abandoned. Instead, organisations should be regarded as moral, or at least social, communities––businesses as a community of people.

Not in the American, narrow-minded sense of the word, but as a kind of European small-town marketplace where people wander about while buying and selling goods and services, meeting each other and feeling connected. That can be created through the available means of information and communication technology. Business controlled by the same democratic principles we now apply to our governments. Not only accountable for their financial outcome regarding the shareholders, but accountable to clearly identifiable stakeholders that include employees, shareholders and consumers all in one. Organising in such a way would imply that the dominant financial accountability has to move into the background. Instead the recently introduced concept of a triple-bottom line––becoming accountable for social, environmental and financial results––needs to be taken onboard and elaborated.

For the majority of organisations this will require a different way of thinking. Thinking that can only be put to use when translated into strategies. Therefore, the long valued strategy 'in search of organisations' needs to be redirected, thus offering a way for a yet to be discovered strategy entitled 'in search of society'.

The Action Gap

Between knowledge and action there is but a loosely, coupled relation. Although we can't exist without doing, there seems to be only a faint connection between our own (private) or organisational thinking and the norms and values it is based upon. It's like being a fully healthy and normal person with an accepted multiple-personality syndrome. This syndrome was earlier referred to while describing the integrity gap. Although we know (and are often fully aware) of the fact that we shouldn't do things the way we do them, it seems as if we do not have any relevant and useful alternatives.

There is a discrepancy between a certain routine way of acting (that is, as such often comfortable) and the lack of sensible alternatives, either mentally of practically, at hand. Our 'mental maps' (Weick, 19) seem to be programmed in such a way, either socially or organisationally, that acting only takes place in a limited number of ways. In order for knowledge to become useful it needs to be 'actionable' (Argyris, 19). Actionable meaning: to act upon that knowledge. To be as a person seems to require a different kind of knowledge than being an employee. Given the previous observations regarding connectivity, it might be correct to conclude that there is yet but a faint connection between the different kinds of knowledge necessary to operate in those 'worlds'. Time and again it is brought forward and demonstrated that we only use about 5% of the knowledge we (theoretically?) possess. If only we could improve this percentage slightly by examining the kind of knowledge that could be transformed into action––and examining what also makes knowledge actionable.

Organisations are a 'product' of human action. They are created and therefore can be changed, must be changed––maybe not radically enough within the framework of present thinking. But, given the often-devastating impact of organisational behaviour, it makes little sense to stimulate the longevity of organisations as a virtue. A redirection in thinking that can only take place on the basis of a valuable sense-making perspective and organisational notions accordingly––a redirection that needs to be translated into new local (business) strategies in order to provide an actionable perspective––only then is it possible to create groundbreaking organisations free from many of the conventions that bind the thinking of their contemporaries.

Senior management is often completely ill-equipped to deal with the realities of a changing world. The management tools they use have been learned from other managers and in some cases from traditional business schools that still stress knowledge and functionality rather than skills and creativity. There is even inertia therefore in the types of management styles being used in many organisations. So rather than create change within the organisation, managers have a vested interest in maintaining the status quo where they are in more control of stable situations. In a rapidly changing world, however, such a stance can only lead to failure. And it is of little surprise that managers do not even think about the environmental and social consequences of their activities, and act in a ways that are totally at odds with the concept of sustainable development.

When you put pressure on people do achieve things they cannot see a way of achieving, and at the same time this is accompanied by a constant pressure to attain targets, achieve results, increase efficiency and take on more and more responsibility, people in any organisation will be under more and more pressure. In order to simply appear to be coping, managers are forced to take short cuts and not undertake tasks with the degree of care and precision that is really needed. In these circumstances there is often a growing pressure put on people to engage in unethical behaviour. There is, in other words, a hidden power that encourages all sorts of corrupt practices and the exercise of power, which is not in the interests of society as a whole.

Senior managers are therefore under great pressure––they are drowning under the pressures enhanced by global competitive market places and are often doing the jobs previously done by two or more people. Organisations expect mangers to work harder and harder and this often translates into individuals working seventy-hour weeks for a forty-hour salary. It is not surprising that many managers become self-interested, selfish and disinterested in wider issues associated with sustainable development. Burnout is common and many mangers find themselves under periods of medication for stress. These people who should be undertaking a leadership position are often [literally] just fighting for survival and they do not have the energy, creativity or desire to initiate some sort of change process. In the intense battle of business, they become the walking wounded. They become the victims of the organisations they have created.

The question is whether more than just the above-mentioned gaps can be identified? The answer to this question is certainly yes. As well as on a more global and more detailed level, it really is no burden to add to the list of gaps already described above. So why not make the list more complete, more elaborate? The answer to that question is even simpler. Maybe for to long we have been making lists of the things that are wrong, either at an organisational, national or societal level––depending on the focus of the analysis. Any analysis of what has actually been done with those lists shows that problem solving is not the strongest of human virtues. So it's no use making yet another list demonstrating how wrong things are, but how little we can do about it in the end. Still it doesn't excuse us from attempting to raise the 'How' question. How are we going to translate knowledge into action? How are we going to move beyond the words? What can we do to start bridging the gaps?

The Need for Personal Change

Organisational change needs personal change. If we are to begin to fill these gaps and to create the sorts of changes in organisations that can lead to change in the direction of sustainable development, then to begin with many of us within organisations will have to engage in deep personal change. Many of the systems and approaches we have in our organisations are stagnant and are leading to inertia. These impediments to change have not appeared out of nowhere; of course, they have been put in place by individuals. The same individuals can create deep change in an organisation, which can revitalise its life in a way, which is consistent with sustainable development. However, this requires deep change at the level of the individual. However, it is not only those in managerial positions who need to change. For deep change to occur in societies which can shape the world in a way which is consistent with sustainable development, we all need to consider that change process. And whether we are consumers, producers, shareholders, managers or employees we can all have an influence in creating a more sustainable organisation.

Many people, having been part of a change process in an organisation, know that that process often fails. Once it has failed, any new change process is even more difficult to introduce since it is understandably treated with a high degree of scepticism. When a change process does fail it is very common to blame others for the mistakes and take very little personal responsibility for the poor outcome. On many occasions change processes fail simply because the organisation is expected to change in a way which is separate from the people within the organisation. In other words, it is common to neglect the fact that if we want to bring about a change process, the people involved in that change process have to change as well. Therefore, it is the inadequate preparation for change in terms of the individual him or herself, which can be a major barrier to success.

One key to successful change processes is strong leadership from empowered people who can shape and encourage people to change themselves. Empowered people have generally gone through change processes themselves, re-examining their values, beliefs and desires and having increased both their integrity and credibility. Such people often engage in continuous personal change, spending time thinking and meditating and taking the risks that are required for long term personal fulfilment. Empowered people are very good at confronting themselves and challenging their own integrity. They are creative and open to new ideas and perspectives. But most importantly they are aware of their interconnectedness with the world; they value diversity and care about the damage and suffering often caused by the thoughtlessness of people with power.

For a process of change to bring about real environmental and social benefits people need to be aligned with nations of ethics, equity and futurity. For us to achieve a situation consistent with sustainable development in a rapidly changing world, we must recognise that although we are tiny parts of the cosmos we can nevertheless be change agents and bring about improvements in the lives of others in the world. We need however, to be strong in ourselves if we are to be the initiators of beneficial change. That does not mean that we have to take a singular view and 'sell' it as hard as we can. On the contrary, it means recognising our own continuous need for change and the need to both teach and learn. If we do not change we cannot learn and we are less able to help others. If we allow ourselves to stagnate we will begin to experience the psychological death which fuels a growing market for antidepressant drugs.

Therefore in embarking on our own personal journeys we need to leave aside our safe worlds of security. Such security, rather than making us happy, holds us back and creates the stagnation that we should avoid. We need to give up our traditional ways of thinking and to become open to new views and experiences. Indeed we need to search out diversity and look for the messages, which are all around us if we care to look for them. We need to actively engage with uncertainty. As we begin to challenge and change some of our old paradigms we will experience an expansion of our consciousness and begin to view the world differently. Care for the environment, a sense of interconnectedness, reducing our harmful actions and realising that we are both (ironically) insignificant but also powerful, comes naturally. As we embark on such a process we will strive for even more personal change and that will naturally lead us on to empowering others. At that point we achieve the power to create change outside of ourselves. But inner change must come first.

As a starting point individuals need to challenge their own perspectives on life and on the world around them. Of course, enlarging or changing our perspective is quite difficult to achieve because it means re-evaluating many of our actions in the past. Investments made in the past are not easy to put aside and it is difficult to reach the conclusion that we will have made a number of mistakes. Our present lives are very much a product of the past and it is therefore a formidable barrier to have to come to grips with tearing down and replacing some of our old assumptions and values. However, in order to progress and gain new insight we must re-examine our beliefs and our value systems.

One of the biggest problems that we have to overcome is our success. Whether it is success in gaining a university degree, in becoming a recognised expert or even becoming a chief executive of a large corporation, our apparent success is, of course, based on the decisions and efforts we have made in the past. Therefore, the more successful we appear to be the more difficult it is to challenge the past. Positive experiences and the feeling that we have done things well tend to make us believe that our worldview and our values and ambitions are correct. The more successful we are, the more we believe we are right and the more difficult it is therefore to change. Thus in very powerful positions, we find an arrogant self-righteousness, which is dangerous and stubborn. We must make sure therefore that our apparent success does not reinforce such a position. In making personal changes we will learn to challenge such single-minded arrogance.

As we begin we re-invent ourselves, we all need to find a greater degree of humility in our lives if we really want to help others and recognise the wonder of nature, the importance of the environment and true care for others. We are all quite insignificant, but that should not be confused with being powerless. As we come to understand ourselves better we will increasingly be able to connect with our current world. The process of deep change requires us to change our perspective, challenge our weaknesses, develop ourselves from within and redesign our paradigms. Perhaps more than anything we need to develop our integrity and honesty. This means challenging our own fears, insecurities and hypocrisy. We must acknowledge our own greed, insensitivity and selfishness and gain a clearer vision for the future. This is not an easy process and will lead to problems and difficulties. But not to do it would be worse.

Creating Change and Building Creativity

We have argued earlier that traditional systems and approaches tend to create a degree of inertia. This will inevitably be in conflict with the need for organisations to be more and more flexible in a world that is more and more uncertain and dynamic. There will inevitably be a need for organisations to change more rapidly in the future than they have ever done so in the past. Moreover, if companies are going to take advantage of new opportunities in the future they will also have to be creative in finding new modes of production and distribution, new forms of organisation, new partnerships and an increased responsiveness to the demands of stakeholders. To put it simply they will have to be creative in finding new ways of doing business consistent with the changing times and the need for a commitment towards sustainable development.

Effective organisations in the future will need to embrace change and uncertainty. In order to do so they will have to demonstrate four key characteristics: agility, integration, participation and the ability to think differently.

Agility

The future is going to be increasingly characterised by fast and unpredictable change. Organisations therefore need to be responsive and not tied down to inflexible systems. The complexity of modern society means that it is difficult to make "safe" forecasts and there may be periods of turbulence where the organisation has to adjust in quite radical ways. Companies need, therefore, to be able to respond quickly and have the flexibility to react in creative ways.

Traditional systems cannot deliver this sort of agility. They tend to tie the organisation and its various functional divisions down to certain modes of activity and actually restrict the freedom the organisation has to develop new ways of doing business. This can reduce opportunities available to the company and restrict its ability to respond to changing market circumstances and changing demands from stakeholders. Systems standards such as ISO14001 can lock a company into certain environmental protection measures without sufficient reference to the wider implications for sustainable development, for example.

Integration

There is a need to see the company as a total system because in that way the organisation is better able to respond to change and take advantage of new opportunities. There should be less dependence on functions, which can give the organisation too narrow a focus. A whole range of functions available in the organisation need to be considered as a whole and combined to find solutions.

There is a need to move beyond traditional systems and systems thinking towards more systemic thinking which is able to deliver new solutions for new problems. Only by taking a broad systemic view of the organisation and its interactions can we ever hope to fully recognise a way in which to engage with the demands of moving towards doing business in a way which is consistent with sustainable development.

Participation

Everyone in an organisation has the potential to create change that is good for the company. However, they need to be allowed freedom and need to be empowered to take more responsibility for their own functions. Management has a role in creating an atmosphere where innovation and creativity are rewarded. There needs to be adequate incentives for employees to break out of the routine, ritualised mode and develop more flexible and responsive modes of work.

Participation has a long history in business research. Survey after survey has shown the benefits of working in more participative environments, yet so many companies hold on to rigid hierarchical management systems, which tend to stifle the benefits of working in a participative way. But it is not only good business to encourage participation and involvement in the organisation, it is also more consistent with a move towards sustainable development, where people must not only participate in a change process, but must also take on more responsibility for the planet in every aspect of their lives.

The Ability to Think Differently

It has been argued before that systems can often lead to inertia and in order to avoid this, companies need to encourage innovative and creative behaviour. Each process needs to be examined and those responsible for each process encouraged to come up with suggestions to make it more effective. New demands placed on the company need to be met with new products, new processes and development rather than rigid systems. Indeed, it will be most effective if the company considers new organisational forms in order to stimulate creativity and break down artificial functional barriers.

Thinking differently means that the company must move away from simple solutions to an environmental crisis and growing social inequity. It will not be enough simply for businesses to adhere to environmental management systems standards if our ultimate aim is to move to a situation consistent with sustainable development. There is a need to think about new ways of doing business, new priorities for production and consumption and new ways of behaviour to wards each other. Businesses can and must take a lead, but that will require them to put aside traditional modes of operation and to begin to think differently.

Building Tomorrow's Cathedrals

The 19th century could be described as the century 'in search of organisations' guided by the power of the free market place––as such it led to a groundbreaking thesis for organisational and management thinking offering a practical perspective for almost two centuries. The 20th century is probably best described as one 'in search of government' trying to create a make-able society. A society created as a kind of counter-veiling force against the growing dominancy of organisations. Although grounded on different beliefs and values, they are structured in exactly the same way as the organisation they were meant to keep within socially acceptable boundaries. Trying to create just such a society could be considered the anti-thesis. History shows that even the large-scale nation-wide 'experiments' forced upon people all failed in the end. Society is not a make-able entity that can be structured and guided along the same design rules used to create organisations. You can lead a horse to the river, but you can't force it to drink.

Therefore, maybe the 21st century should be labelled 'in search of society'. A search that has hardly started but possibly and probably provides the synthesis between the 19th century thesis and the 20th century anti-thesis. As any synthesis it will incorporate elements of the thesis and the ant-thesis, thus providing a historically rooted sense of continuity. But above all the synthesis will contain elements not known before––elements still to be discovered––elements that for now maybe beyond our frames of reference, our theories––be they in management or otherwise.

For us, the people living in this day and age, it requires first and above all to be critical and creative. Critical regarding the heritage handed over by our parents, grand parents and their parents. A heritage containing many valuable elements of which some have been lost only recently. Since we can't redo the past we will be obliged to let go, trying to preserve what is really essential. And creative since we have to invent new ways of organising for what until now has been called our 'society', giving a moral and even democratic space to organisations that corresponds to their actual position and impact. A society fundamentally based on organisations, but not as a derivate to be tolerated, but as the 'core-element' whatever the desired meaning. It is within those organisations that the real change will have to take place. The essence––even though it may be the most difficult to grasp––is that change should be created through organisations and not despite or outside them.

So the most important of the identified gaps might be the one regarding strategy, being right in the heart of any business or organisation. A strategy provisionally labelled as 'in search of society'. Based on three corner stones: 1) continuity, 2) connectivity and 3) valuecentrism. Continuity because actions will always be grounded in the past. It is naïve to think we can apply a 'Greenfield' approach. Connectivity since we have to be reconnected with our social and natural environment and even maybe to ourselves. Continuity and connectivity guided by a perspective based on clearly recognised values. Values not as 'add-on's' but right in the centre providing thus a basis for strategies and actions accordingly. Such a strategy for now maybe highly abstract and difficult to grasp, but how might this strategy appear? Here is just one example using an adaptation of the words of René Schmidpeter – (www.corporatecitizenship.de):

A modern concept of organisations should be focused on the challenge of creating inter-institutional arrangements, which allow members to participate in constitutional changes on all levels. By entering into dialogues with relevant actors from the political systems, the academic system or stakeholders from civil society, organisations should develop the ability to take social demands into account. This process of real information exchange allows the generation of knowledge about the conditions for action of other actors and the stabilisation of reciprocal behavioural expectations. These rules and relations developed within constitutional dialogues are based on the social capital of society. Organisational citizenship as a strategy could then be conceived as an investment in social capital that generates new gains of co-operation for the organisation and society in the future.

Neither corporate citizenship nor citizen responsibility in contemporary society should be understood in the way of expecting corporations to take over the paternal role and position widely accredited to nations still––quite the opposite. It should become clear that the economic as well as the social challenges of modern organisations have the same roots and structure. Corporations are not to be seen as a replacement for the family or to be requested to solve all social problems. For organisations a kind of 'community strategy' is becoming a crucial issue in order to attain success in their social environment. As such it is not just the remake of the traditional business ethics debate. It should reflect the fact that the relation between organisations and society has fundamentally changed over the past century and a half. Organisations have to 'invest' in their social environment ['social capital'] as well as in their natural environment ('natural capital'). Just as we learned to invest in roads, machines and buildings ('physical capital') or the professional training of employees.

Really developing this strategy through organisations is a task comparable to building tomorrow's cathedrals (Handy): we'll have to start, but will not see the work finished. Still we know that we have delivered our contribution to the best of our ability. Wasn't it John F. Kennedy who said: 'Do not ask what your country can do for you; ask what you can do for your country'. Replace the word 'country' with 'society' and the quote is pretty much actualised to serve as a guiding principle for the years to come. Since above and beyond all we are obliged to explain to our children what we really have tried to change, even if in the end we haven't successfully accomplished what we meant to change.

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Discussions on Responsibility: The Aging Society, Organisations and the Individual

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Abstract

Aging and responsibility for aging in relation to the workforce will be one of the most important topics in the near future. The situation, at least in the EU counties, is very challenging in this respect, and Finland is just one of the countries that will face this challenge very soon. Age affects our lives in various ways, but one of the most important contexts for this phenomenon today is work. This paper tries to explore the present discussions on age, the aging work force and work on three levels––that is, the individual, organisational and social levels. The discussion concentrates on different aspects of these levels, and the most relevant criterion for formulating the whole picture is the relationship between age and work within the concepts considered in this paper. The outcomes of the paper are theoretical, because the aim was to focus the discussion under one "umbrella". The framework chosen was that of the 'soft' side of human resource management, and more particularly the concept of age management. The three different levels of the discussion, namely individual, organisational and societal, share similarities, but there are also remarkable differences. Responsibility is one of the main themes of the discussion. To increase our understanding of the scope of age management and "sustainable leadership" we have formulated a model that brings together the triple bottom line concept and responsible management derived from HRM and Corporate Social Responsibility.

Introduction

An emphasis on age can be seen at all levels of our societies, and recent discussion abounds with such aspects as the aging society, the aging workforce in organisations as well as aging individuals. Therefore, age is also relevant when considering the corporate responsibility of the workforce. The concepts used here have their origins in corporate social responsibility (CSR), but they also form the background of modern human resource management. We define social responsibility after Elkington (1997), who divides responsibility in three dimensions: economic, environmental and social. This is also known as the "triple bottom line" (Elkington, 1997).

We will start our discussion of responsibility by analysing the social level. The situation in EU countries is rather challenging in regard to age because soon "the EU countries will have the oldest work forces in their histories, the 'middle' age of their work forces falling between 45 and 54 years of age" (Ilmarinen, 1999). In spite of this high average age in the workforce, the problem lies in the lack of young employees to compensate the decrease in older employees (Ilmarinen, 1999). This does not only concern EU countries, because the "reduction in the number of people under 15 years of age and the increase in the number of people over 65 years of age will have an unprecedented economic and social impact all around the world" (Ilmarinen, 1999).

From the organisational point of view there are also various aspects which could be discussed. Here we will concentrate on such issues as corporate responsibility and human resource management. Ethics, values, integrity and responsibility are required in the modern workplace (Joyner & Payne, 2002). Corporate responsibility has three critical areas from the viewpoint of external pressure––they are human rights, labour standards and environmental practices. Economic demands more often present internal pressures, although economic values can also represent external values. Corporate responsibility has been defined here by using the concept of *Corporate Social Responsibility (CSR)*––a businesses contribution to sustainable development. The core of this concept can be found in the ways businesses take into account the economic, social and environmental impact they exert.

This emphasis can clearly be seen in the long-term management and development plans included in strategic management (Porter & Kramer, 2002). The focus of this kind of strategic management is to ensure employee competence, satisfaction and commitment now and also in the future. The more human side of developing employees can be found in the human resource management literature, and this will be discussed more thoroughly later. Satisfaction and commitment appears in the section devoted to work ethics and the meaning of work (see: The individual level).

Individual employees experience social responsibility from their own viewpoints. Safe workplaces, continuity of work, fair pay, meaningful work, good relationships with other employees and supervisors are all important aspects. From the individual's perspective the focus is on his or her work and the employee him or herself, as well as on the relationship between these two. Work seems to become more demanding as the functional capacity of the older workforce declines. For instance, some 15-25 % of the workforce over 50 years of age is reported to have reduced work ability due to aging (Ilmarinen, 2001). From the viewpoint of individuals over 55 years of age, the situation is serious because there are studies indicating low participation rates and early exit from work life all over the world (Ilmarinen, 2001). One solution might be found by reviewing the employees' ethical background and what work means to them.

The aim of the present study is to explore the phenomenon of the aging workforce from the perspective of different stakeholders––that is, the society, the organisation and the individual. The main purpose is to shed light on the concepts behind an aging workforce in order to compose a framework to help us cope with this challenge at all levels. This attempt to compose such a framework has been given the name 'sustainable leadership'. The meaning of sustainability is anyway unclear. Our understanding of the concept has been improved by including the social aspects of the "triple bottom line" concept. The focus in this study is on the above-mentioned social dimension of sustainability and responsibility.

Age Management consists of two words: 'age', which evokes feelings of humanity and human life and "Management", which reminds us of the organisation (Juuti 2002). Juuti (2002) found the concept contradictory because its three dimensions––organisational, individual and social––have a different basis and meaning––and they are not analogical. The definition and understanding at the individual level is different to that at the social level. Research in Finland is advanced, but it mainly concentrates on two viewpoints, the organisational and the individual, but the international discussion has focused on the social and economic problem of aging (Ilmarinen, 1999; Heumann, 2003). Age Management has been defined as a system for managing the aging of the EU population and problems arising because of it (Walker, 1999; Taylor and Walker, 1998).

In this paper we will discuss the three aspects of responsibility starting from the broadest viewpoint and ending up with that of the employees.

The Social Level

European policy makers and trade unions are increasingly meeting a new paradox concerning age and employment (Walker, 1999). "Aging societies" are forced to consider methods for solving economic and social problems in the future. Aging employees is one serious issue confronting European societies and their economy (Walker, 1999). In other words, taking responsibility for an aging work force.

Declining worker groups, early retirement, work disability and unemployment all have serious consequences (Ilmarinen, 1999). This economic problem can be solved by increasing the age at which people typically retire (e.g. Miles, 1997 see Griffiths, 1999). The official retirement age in Finland is 65, but on average retirement occurs at the age of 59 (Ilmarinen, 1999). New and flexible retirement models have enhanced the departure of the labour force long before the age when people qualify for full retirement benefits from Social Security (Greller and Simpson, 1999). Because over 80 percent of people aged over 60 have already taken early retirement, the general 65-year age limit for old-age retirement has lost its meaning (Ilmarinen, 2001). The problem of the aging workforce is serious. The main principal is that the working contribution of one employee should cover the costs of maintaining one retiree (Ilmarinen, 1999).

Taylor and Walker (1997) have pointed out that without radical policies, practical measures and new thinking it is unlikely that significant progress will be made towards overcoming age barriers in the labour market. Neither education nor legislation alone can provide a solution. There is a need for fundamental changes in policies concerning social security, pension schemes, redundancies and retirement (Taylor and Walker, 1997). The policies of most organisations and the expectations of various employees are dissimilar from the more economic interests of keeping older workers in work (Griffiths, 1999). Vision, mission and values statements in organisations, the purpose of which is to create, sustain and project a corporate culture, have no significance since their enactment has failed to challenge social culture and its norms (Swales and Rogers, 1995).

One problem from the point of view of society involves attitudes toward work and retirement. Retirement policy is one basis for general attitudes. Until recently, government policy was aimed at removing older people from the labour market. High unemployment rates were balanced by actively encouraging older people to take early retirement (Walker, 1999). Youth unemployment was given a high priority by governments. Government and organisations provided allowances for people to retire one year prior to the pension age. (Taylor and Walker, 1997.) Today, European governments are reversing the public support they previously gave to an early exit from the labour force and are seeking ways of reducing the opportunities for and cost of early retirement (Walker, 1999). Early retirement increases retirement costs. Because of the poorer functional capacity of an older workforce, society will suffer from high work disability and health care costs. There is a need for improving age-conscious work policies (Ilmarinen, 2001).

The image of aging and being old is depressing. That image is biased, unfounded and untrue. Research has conceptualized the aging process in terms of chronological aging or as a decline of mental, physical and social functional capacity (Greller and Simpson, 1999; Juuti, 2002; Ilmarinen, 1999). Age discrimination and 'ageism', which means age grouping, categorization by age and age norms, are difficult to notice, though they form such a common and wide-ranging societal problem (Vaahtio, 2003). Ageism appears in the institutions of society, e.g. legislation (Vaahtio, 2003).

To conclude, the discussion at the level of society shows us that the problem is broad. It is based on processes and structures that cannot be changed rapidly. Recognition is naturally important, but without serious attempts to change the situation, achievement of societal and individual well-being is unattainable.

The Organisational Level

Social Responsibility

At the organisational level, age consciousness appears in the following discussion areas. Age is a natural aspect of human resource management, but not until recently has this area increased in its significance. Research conducted among major UK employers (Walker, 1992) indicates that most employers have not developed any strategies geared to the recruitment or retention of older workers. The retirement of the baby boom generation has heightened discussion of this issue, and it is possible to speak of a total breakthrough in HRM literature and research. Even if enterprises and society exhibit fundamental differences (Ilmarinen, 2001), businesses cannot exist without society and society cannot go forward without business.

This discussion of aging inhabitants and the aging society can also be seen from the viewpoint of '*Corporate Social Responsibility (CSR)*', which emphasises the value of employees. CSR is a widely accepted concept, which also influences the performance of workers. Understanding of this

concept varies. The World Business Council for Sustainable Development (2000) has defined Corporate Social Responsibility as follows:
"The continuing commitment by Business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and Society at large".

'Corporate sustainability' was popularised by Elkington (1997) in reference to the business goal of achieving integrated and balanced economic, social and environmental performance, which he has referred to as *'the triple bottom line'*. This is based on the earlier concept of *'sustainable development'* introduced by the United Nations in 1987 and expressed as follows: "development that meets the needs of present generations without compromising the ability of future generations to meet their needs" (Bruntland, 1987 ;Wisser, 2003).

Carroll (1999) stated that: "Corporate Social Responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible means that profitability and obedience to the law are foremost cognition when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent."

Here we use the concept of *'Social responsibility'* to label human and social aspects of CSR. Social responsibility also refers to the active role of business in promoting universal human rights. Corporate action is seen in relation to the community––business is the provider of social services and welfare. Social responsibility is also a way of building and protecting company reputation (Teollisuus ja työnantajat, 2000). This may help in the competition for the scarce human resource of the future. Social sustainability supports fair and equal access to information and knowledge. It is a shared responsibility among societal actors for creating sustainability (WBCSD, 2000).

Responsible organisations seek ways of getting the best value out of the employee relationship. HR directors develop policies and practices which could respond to the needs and abilities of each individual. The job of HR is to help anchor responsible business behaviour in the attitudes and behaviour of employees. (FastForward Research, 2003).

To conclude, Social responsibility is a shared responsibility among societal actors for creating sustainability (Teollisuus ja työnantajat, 2001). This also means that the responsibility of keeping aging workers in working life is shared by society, the enterprise and the individual. This question of responsibility is controversial because it might be seen in the light of increasing costs, whereas it should be seen in the light of increasing well-being among employees and increasing income for organisations.

Human Resource Management

Human Resource Management (HRM) has been one of the key concepts and activities in organisational and managerial literature at least over the past 40 years. An organisation-wide discussion of HRM can be derived from the viewpoints presented in the literature on HRM. The difference between "hard" and "soft" HRM seems to affect the foci of the viewpoints taken (Fombrun, Tichy and Devanna 1984, Beer, Spector et al. 1984). When interest focuses on the "hard" side of HRM, performance seems to be one of the key concepts consisting of selecting, appraising, motivating and developing. As Guest (1999) appraised, it is widely acknowledged that the 'hard' version places little emphasis on workers' concerns, and judgments of the effectiveness of HRM are based on business performance criteria. The "soft" side of HRM is interesting from the viewpoint of social responsibility, because it stresses outcomes like individual well-being, organisational effectiveness and social well-being, which come very near the ideal outcomes of social responsibility. As seen by Beer, Spector et al: "One should ask how well the enterprise's HRM policies serve the well-being of the individual employee" (1984, 139).

This performance emphasis can nowadays be detected in the discussion on strategic management and human resources. Forecasting staffing needs is a process of estimating the supply and demand for talent. Future staffing needs are easily defined in organisations where requirements change slowly, but most managers cannot predict the business requirements, organisational changes, economic conditions, productivity and technological changes precisely (Walker, 1992). Furthermore, it is even more difficult to satisfy demand, because educated and experienced workforce will be a scarce resource in the future. Chief Executives all around

Europe reported that the two major issues facing business were the challenges of attracting, retaining and motivating talented employees and the ability to innovate (Cleverdon, 2003).

Winstanley and Woodall (2000) suggested that employee well-being and ethical treatment are as justifiable a focus as strategic fit. They noted that in recent HRM literature the ethical dimension of HR policy seems to have been downplayed and the focus has been "strategic fit". Business will be more successful if it pays attention to ethics as this will enhance its reputation among customers and improve motivation among employees (Wilson, 1997).

On the 'soft' side of HRM, the means for serving the well-being of individuals have been crystallised in some essential human resource choices including employee influence, human resource flow, reward systems and work systems. (ibid. 16) Thoroughly developed and implemented human resource strategies ensure that activities involved in managing human resources are integrated, via business strategies, into the competitive demands. Beer, Spector et al. argue further that HRM policies should be suited to workforce characteristics––that is, the groupings and sub groupings of younger and older workers (1984, 24).

The well-being of employees has an indirect influence on organisational outcomes. HRM policy choices affect the overall competence of employees, the commitment of employees, the degree of congruence between the goals of employees and those of the organisation and the overall cost effectiveness of HRM practices. By these, organisations receive in the long run favourable consequences for individual well-being, social well-being and organisational effectiveness. (Beer et al. 1984)

When the aim is to combine age management and Human Resource Management, it is important to analyse how managers identify, define and analyze human resource issues (Walker, 1992, 1-2). Many human resource issues have value implications and they evoke different emotional responses from different people. Age management is for example a social objective to some, and a business necessity to others. At the organisational level, HRM policy promotes organisational goal achievement and survival. Working conditions affect the physical and psychological health of the individual. How seriously managers consider such consequences, depends upon their values and understanding. This also reflects the social responsibility of the organisation. (Beer *et al*, 1984)

Even if social and organisational discussions exhibit differences, an evaluation of HRM outcomes can also be conducted at the social level. What are the social costs of a poor ability to work or physical health problems? Is it still possible for organisations to pass the costs of their poor management practices on to society? Commitment results in loyalty and better performance. The competence of an organisation is better when the required skills and knowledge are available at the right time; the organisation benefits and its employees experience an increased sense of self-worth and economic well-being. Cost effectiveness is seen in terms of wages, benefits, turnover, absenteeism and strikes. Such costs can be considered for an organisation, for individuals and for society as a whole. Employees expect congruence and equality between individuals in HRM practices. Lack of congruence can be costly to management in terms of time, money and energy, and in terms of the resulting low level of trust and lack of common purpose. It creates psychological problems and stress. (Beer *et al,* 1984)

To conclude, discussing these aspects of human resource management seems to be relevant as long as organisations have a variety of stakeholders. It also seems to be significant from the viewpoint of evaluating diverse resources in organisations, and while money seems to remain the rarest resource, the emphasis on a 'hard' approach to HRM seems to become stronger. It is interesting to follow the latest consideration, that of employees being the rarest resources in organisations. We will soon be able to see whether this rarity affects the stakes––that is, the well-being of individuals.

HRM and Social Responsibility from the Age Perspective

The concept of age management has various definitions and contexts. Age management takes into consideration the diversity of the workforce. Good management treats individuals fairly regardless of age, gender, race, disability or sexual orientation. Management decides how they value and want to recognise individual uniqueness in areas such as ideas, career path preference and the need to balance work and life. The Finnish national age project emphasizes the variety of demands, strengths and capabilities among different age groups. Work should be reorganized so that it takes into consideration the changing needs of different people. (Rantanen, 1999; Ilmarinen, 2001)

Age Management means that members of various ages are considered in the working team (Rantanen, 1999). Age Management is a policy, which aims at respecting and promoting the role of practical knowledge and experience in organisations. Good age management involves a coaching type of management, and the style of such age management means interaction and teamwork (Juuti, 2002).

Ilmarinen has observed four special characteristics of a good "age manager". First of all, a positive age attitude is necessary, and it is also important that the manager accepts his or her own aging. Secondly, the manager has an ability to develop and utilize co-operation (teamwork). Thirdly, an ability and interest in planning work individually is expected from a good manager. Fourthly, Ilmarinen mentions social skills and interaction. Instead of labelling people according to their age, Ilmarinen has stressed individuality and good human leadership. Age appears in his model only as part of the first tool: one should eliminate negative age attitudes and replace them with the viewpoint that aging personnel represent unutilised strength (Ilmarinen, 2001).

External changes generate human resource issues, most visible of which come after demographic and social changes (Walker, 1992). Walker (1992) has pointed out that in the 1990s and beyond, entry-level talent is scarce because the workforce is aging. Companies need to act creatively to ensure that they are attractive and that they will maintain and effectively manage the talent they need most. Without this, companies may find that they are missing talent in some strategically important areas. The workforce is becoming more heterogeneous––for example, aging workers have different job skills and capabilities. These demographic shifts, changes in economic conditions and societal changes will influence changes in employee attitudes toward work and careers. Relationships between employees and their companies have changed. Thus, changes in human resource issues are also necessary (Walker, 1992, 44-46).

As is clear from the above, discussions at the level of the organisation have varied from social responsibility to ethics and from strategic management to human resource management. It is interesting to notice that the issues and challenges seem to be quite similar. It does not seem to matter so much which label the issue is given, if the philosophical background is similar. The issues discussed here were naturally chosen to be representative of the discussions of aspects of organisational responsibility, but it is still good to notice that the core elements of so many disciplines include the same types of issues.

The Individual Level

Work Ethics

Work seems to be very important to older employees, especially in Northern countries. Finns would prefer full-time work, which is not in line with the European situation. Two-thirds of European women and one-third of European men do not wish to work full-time, whereas in Finland less than one-fifth of the workers are of this opinion. Although we would like to work full-time, the situation is changing in several counties, part-time work among young (under 25 years of age) and older (over 55 years of age) workers is especially increasing (Ilmarinen 1999, 32, 36).

Ageing workers seem to be unemployed more often in Finland than in other countries––that is, the unemployment rate for 50 to 54-year-olds was 13 % of the entire work force––the highest percentage among EU countries (Eurostat 1998; Ilmarinen 1999, 44). These figures seem to be increasing, and ageing workers are not being given enough opportunities to enjoy work as one of their basic rights.

One important aspect of leadership is understanding the ethical background of work. In the early 19th century, Weber thought that work performed a significant role in people's lives (Weber, 1904, Furnham, 1990, 2). Various scholars have presented views about the protestant work ethic. Cherrington (1980) for example, has defined the protestant work ethic by raising certain issues within it (see Furnham, 1990). There is a religious force that makes people work hard and long hours. At the same time, people should avoid pleasure and enjoyment. An employee should be highly efficient and productive. Accomplishing as much as possible at work is a matter of honour for the employee. Employees are very loyal and committed to their profession and their company. They should also be achievement-oriented and seek promotion. "High-status jobs that provide prestige and respect from others are important indicators of a "good person" (Cherrington 1980; see Furnham, 1990). McClelland's major interest then, was mainly in the relationship between the need for achievement and economic growth. The more entrepreneurs an economy has, the faster it grows. Self-reliance leads to an even greater need for achievement. (Furnham, 1990)

Maccoby and Terzi (1979) analysed the different distinctions made within the protestant work ethic. They found a whole range, from workaholic people to people who take all work as punishment. For some people the work ethic means more instrumental values like money and status, with promotion as a reward. For leisure-oriented people, work is an unfortunate obligation for obtaining money, so that they can use money for their non-work activities (Furnham, 1990).

It is not obvious that modern people behave as the protestant work ethic expects. But in any case, we can apply some of the early work ethic definitions even in today's context. Parker (1972) reported that the future of work and leisure will depend on both personal values and personality and the societal structure. Because of increased material well-being, early retirement has become a new way of using leisure time (See Furnham, 1990). Griffiths stressed the importance of understanding older people's cognitive models of work and their needs in relation to work, as a contributing factor to their decision to remain at work (Griffiths, 1999).

Debats, van der Lubbe and Wezeman (1993) have described a variety of concepts which are included in the meaning of life: fulfilment and self-actualisation, engagement, responsibility, sense of coherence, commitment and self-transcendence, integration and relatedness and the sense of wholeness and belonging (see Wisser, 2003).

Previously the meaning of work used to be more important in considering the meaning of life. Work usually represents the area in which the individual's uniqueness stands in relation to society and thus acquires meaning and value (Frankl 1978; Wisser 2003). Could it be possible that the basis of the protestant work ethic is crumbling and the role of work is not as important as before? Frankl thought that industrialisation contributed to the extent of existential neuroses in modern society (Wisser, 2003). Today people suffer more from feelings of uselessness; they have lost their sense of meaning in life. Unexpected unemployment and the resulting neuroses are typical in our welfare society as is the feeling of not being useful. Many unemployed people are struggling with the feeling of uselessness and the loss of self-value. Older workers, whose capabilities and knowledge do not correspond to the needs of current working life, face similar feelings.

Research indicates that the meaning of work has an influence on individual well-being and even retirement. Lievegoed noted (Lievegoed, 1995, see Juuti 2002, 18) that those who show an enthusiasm for art, science, nature or social work in their middle career will manage their mid-life without crisis. They are able to experience life on an intellectual basis. On the other hand, those people who run after success and push other career-disturbing areas of their life aside, will encounter an existence crisis by the age of 55. The same future can be expected for those people who let external circumstances control their lives. People will experience stress and exhaustion, if work has an overly important role in their lives and other life areas are allowed to suffer. (Juuti, 2002.) Work itself is a dominant event in the course of life. Biological, psychological and social aspects of aging are recognised in the course of a person's lifetime.

The Value of Work

Age-aware management should cover the basic values of work. Those values are crucial, when we consider how to motivate aging workers so they could feel useful and valuable. In addition to work-related factors, age management also addresses the aging process and the values and attitudes of aging workers. This is important because employability and work ability are not issues restricted only to aged people, but issues for the whole working community. The values and attitudes of management have considerable significance.

The definition, content and meaning of work involve constant change. Fixed working times and places have disappeared and in the modern world the work itself determines working times. The relationship between work and free time has changed because of changes to responsibilities and the sources of motivation. Work life is in constant change. Hall (1986) already examined twenty years ago the various meanings and motivations that people attach to their work. He found one group for whom the paycheck represents the principal meaning (obligation to live), unlike the other group for whom work is life. Hall was interested in what motivates people and in the ways in which people respond to their work––whether they are satisfied, committed or alienated from it. Hall was, thus, concerned with the individual dimensions of work, including motivation and the meanings people attach to work. He also analysed work commitment, the centrality of work, job satisfaction and alienation. (Hall, 1986, 91-93) The role of work changes during one's career and life. At the beginning of a career one may devote oneself fully to work. Also, when family responsibilities decrease, people often become absorbed in work. The culture of the organisation will determine how an employer considers other life areas and the issue of variation in one's work life (Hall, 1986).

Age is related to job satisfaction, so that certain aspects of work become more or less valued with age (Griffiths, 1999). Wright and Hamilton (1978) suggested that younger workers are systematically less satisfied with their work than older workers (see Hall, 1986). On the one hand, younger workers may have poorer jobs, because they are at the beginning of their career. On the other hand, younger people expect more from their work. They receive less than the older workers, who expect less and receive what they expect. Workers bring their expectations with them and these will vary according to education, age and gender. People have different values with regard to their work. These values consist of personal interest in the work, the appropriateness of the work, financial rewards, and relationships with co-workers, career opportunities and the adequacy of personal resources. Personal socialization and other life experiences as well as non-work social roles, such as family roles, affect work values. They also shape their evaluation of the rewards (Greller and Simpson, 2002, Hall, 1986; Hall and Mirvis, 1995).

The relationship between age and work is obvious. Age is the dominant criterion by which people are placed in the social structure (Riley, 1971; Hall, 1986; Arrowsmith and McGoldric, 1997; Glover and Branine, 1997). One form of age stratification is related to age discrimination. In this case age, rather than other qualifications, is used as a major criterion for actions in regard to personnel. Horizontal age stratification means that neither younger nor older workers are working in strategic business areas, rather, they are more likely to be found in peripheral sectors (Hall, 1986). Young workers are at the beginning of their careers and older ones are moving toward retirement.

Both older and younger workers face discrimination and other work problems because of their age. In some occupations the older workforce is over-represented (social service), while others are occupied by youngsters (IT-sector). Labour in one market segment does not compete with demand and supply in another segment. Job satisfaction changes and may even increase with age. This may depend on the employees' post-material set of values or the different attributes in their work. One explanation is also that they simply settle for less than young people. The most relevant explanation may be that after years in their career they simply have better jobs. Older workers face accelerated promotion opportunities. They have found their place in work life. (Glover and Branine, 1997; Greller and Simpson 2002; Hall, 1986)

To conclude, if the purpose is to manage ageing, we have to understand why people work and their ethical background. This leads us to diversity management. How to manage people with different needs, how to integrate people of different age, gender and culture? This is of course an issue for business managers, but also an issue for the whole of western culture.

The Outcomes of the Three Different Discussions

The aim of the present paper was to explore the content of existing discussions surrounding this important topic of the aging workforce and the responsibility it might involve at different levels. Another aim was to conceptualise the discussion and attempt to find some form in which all these viewpoints could be integrated. A triangle based on the 'soft' side of human resource management has been taken as the basis (Beer *et al*, 1984). By following the concepts of this theoretical viewpoint, the organisation receives favourable consequences in the long run in return for individual well-being, social well-being and organisational effectiveness.

Societal well-being and different structures and values in our society are some aspects of the societal discussion presented in this paper. Organisational systems, such as strategic management and human resource management as well as discussions about values, ethics and social responsibility are aspects to be taken into account from the organisations' point of view. The values and characteristics of individuals work as one of the key elements of an individual's life, and career as the means of commitment and well-being for the individual; these are some of the viewpoints at this level. All these and other elements have been gathered into one picture, which enhances our understanding of the whole phenomenon as a large and interwoven system.

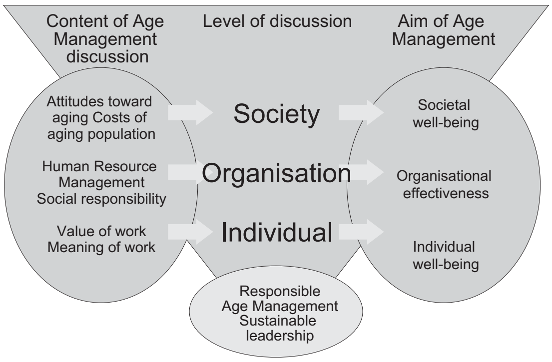

Figure 1. Sustainable Leadership Derived from the Three Discussions.

Discussion

Human resource decisions are often made without the relevant understanding and knowledge of human nature. Even if the significance of age is understood in organisations, decisions are usually made on an economic basis. Age management is an organisational discourse where management as well as other stakeholders are engaged in a language game and its invisible rules. Supervisors and management have heavy responsibilities because they should manage the change of values, attitudes and assumptions so that the organisational culture can accept and adapt to demographic changes in society. Knowledge and training are not enough to change the mode or premise for organisational action. Changes should occur in attitudes. If there is cultural change, the management should understand the nature and construct of age management. Organisations make decisions on an economic basis. Age management is connected to human resource management and is linked to business strategy and organisational effectiveness. This framework should be made visible. The connection between politico-economic circumstances and organisational effectiveness is visible. Co-operation between them is also is beneficial for both. But how to integrate all three is more challenging. The lack of in-depth cultural research reflects problems with integrating the individual and social levels of the issue.

Currently, it is not sufficient that management and human resource management policies and practices respond to the needs of the enterprise. The main question is how well the HRM practices and policies serve the interests of society and the well-being of individual employees. In the future this kind of relative weighting of these three evaluative considerations will be more explicit. HRM policies will simultaneously serve the interests of the enterprise, the individual and society. (Beer, Spector, Lawrence, Mills and Walton, 1984).

In this paper the focus has been on issues where age has taken some role. This was the main criterion when composing the picture of this "responsibility" discussion. The viewpoints taken from social responsibility, age management or human resource management alone would have not been enough to formulate the picture. On the basis of HRM literature it was possible to combine the three discussions into a single framework.

It is very interesting to notice that the present discussion on age management has its roots in human resource management. The concept could easily be seen through the lenses of HRM, and its value and acceptance in organisations could also be better recognised. In a way it is logical to use that framework in particular, because this discussion already exists in organisations. There is a current need for age management discussion. The most important point is the current need for developing tools at least at the organisational and individual levels. The challenge of affecting the situation at the societal level is clearly broader and will be not discussed here.

One organizational consequence of age management and HRM is effectiveness. The organization is responsible for and ensures the sustainability of its own functioning and viability. It also has an increasing number of responsibilities in society.

Corporate Social Responsibility has been discussed in various forms, especially in terms of the social and human issue. In age management research, we naturally concentrate on social responsibility and the human side of responsibility. The other important concept seems to be the triple bottom line and the way it defines social issues. The triple bottom line has therefore been established in corporate reporting, and we use that concept to settle "age management" in organizational discussions. Even if employee development depends on personal initiative, the manager should make sure that no one drops out. People may not have the strength to sustain their knowledge and competence, and the threat in supporting voluntary learning and development is that someone may become alienated. Every organization has an interest in employing a capable and competitive work force.

Sustainable and strategic management analyzes the forthcoming knowledge requirements and invests in training accordingly. It will be more important that organisations and their managers are aware of the wider consequences of ageing. Managers cooperate at all levels and they should be aware of the tasks needed at the societal, organisational and individual level. Managers consider the question of the ageing society and develop working and learning conditions for people of different ages. (Ilmarinen 1999, 13) This is important from the point of view of individuals, but also from the point of view of organisations. Responsible management is one of the challenges of the future (Takala, 1993) and the challenges presented by age will also gain in importance.

It is generally agreed that we need common frameworks for building sustainable enterprises, although the broad definition from Bruntland (UNCWED, 1982) offers little ground to develop such a methodology (Beckett and Jonker, 2002). Social responsibility is not homogenous. However, in this paper the term "social responsibility" is used to refer to those CSR researchers who are concerned with the triple bottom line principle. With the help of these concepts we have composed a framework of sustainable leadership, which helps us understand the viewpoints of society, the organization and the individual.

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A Discussion of Ethical Leadership

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Abstract

Ethics is part of every field of human activity and gaining increasingly more importance in all societies. Ethics starts with a person––a real, living, breathing human being who makes moral and ethical choices everyday for better or for worse. The key to building a sound, ethical community is to consider the character of those people who make it happen. Ethical people make up an ethical society. A person's knowledge, skills and understanding of ethics are all revealed through the decisions s/he makes every day and especially through the way problems and conflict situations are managed. The decisions leaders have to make as well as their actions often influence the life of individuals, businesses and even the whole of society. Ethical behaviour and ethical leadership form the critical keys to survival in the future. In this article the author discusses the need for ethical leadership and introduces different concepts and theories. Research results from Estonia explicitly show the importance of this topic. The words of one successful and well-known corporate leader Mr. Eczacibasi, noted during an interview with him, also support these statements.

Key concepts*:* business activities, business ethics, moral development, ethical leadership, moral values

The Influence of the Behaviour and Character of Leaders

The need for effective leadership has become one of the challenges of the 21st Century, and a growing number of academics and senior managers have come to recognise the importance of a new leadership paradigm. For Aristotle (1996, 135), ethical conduct was the conduct of a virtuous person and none of the virtues are simply given to us by nature or faith, we therefore neither have nor lack them for time and eternity. He said that virtue (ethical conduct) is something that must be learnt and this involves a long process in which we must exercise our practical wisdom and sense of responsibility.

Charles Handy wrote in his book 'The Age of Unreason' (1990)––'People's careers will not be linear, but will mix risk and security, short-term income and long-term gain, and periods of extended leisure and education with periods of intense work-centeredness.' This creates much confusion and today we see that people's lives are more complicated than ever before. Individuals fulfil many different roles and form organisations made up of different kinds of members, and certain select people are supposed to manage and lead the others. Quite often people find themselves in situations without understanding what is required of them or lacking the time for longer reflection and consideration about their behaviour.

Both the character and behaviour of people in positions of leadership have a great impact on others. Max DePree (1993) has stated quite strongly: 'Leadership is a serious meddling in other people's lives'. He places the following three things at the top of all leaders' lists: an understanding of the fiduciary nature of leadership, a broadened definition of leadership competence and the enlightenment afforded by a moral purpose.

In the modern business world, increasingly more businessmen are tending to show a deeper interest in the issues of morality and ethics in business––albeit with a confused or distorted understanding of these issues. Often the author has noted that Estonian leaders confuse ethical behaviour with altruism, and attitudes in our society presume that a good leader must be tough and has to make hard decisions without considering others. This has led people think that consideration of and care for others––being supportive and involving others––indicates weakness not strength.

There is much evidence of the growing demand for businesses to conduct themselves with a greater regard for moral and ethical considerations (Werhane, 2000; Hoffmann, 1999; Paine, 2003; Trevino and Nelson, 1999; Hoivik, 2002; Pojman, 2002; Carroll 2001; Byron, 1999, etc), and today most writers stress the importance of ethics and ethical behaviour in leadership activities––chapters on ethical leadership are included in books and textbooks dealing with leadership and management (Yukl, 2002; Robbins, 2003; Kreitner and Kinicki, 2001; Certo 2000; Moorhead and Griffin. 1998, etc).

Modern corporations have significantly broadened their role in the society and this role impacts many both inside and outside the organisation. According to Paine (2003), in order to survive and thrive, the modern corporation must be more than a profit machine. She says that a growing body of evidence indicates that corporate citizenship, responsibility and accountability are becoming as vital to the bottom line as an effective business model. Organisations do not only provide products and services but also shape the entire field of public politics, the physical landscape, attitudes, customs and many other factors.

This has raised public expectations about the right and ethical behaviour of corporations and in turn forced much higher requirements upon leaders in terms of their conduct. To succeed in this environment, managers need to realise that companies are increasingly being judged, not just from a technical or financial point of view, but also from the moral point of view (Paine 2003a). High quality leadership may be considered the single most important factor in assuring the behaviour of companies and therefore it is vital to have the right people in managerial positions.

Manuel London (1999) has said: ‘The leadership challenge as we embark on the rough and fast-paced world of the twenty-first century is to get things done expeditiously and profitably, and to do so in a way that shows high integrity, trust and honesty’.

The Relationship between Individual Ethics and Organisational Ethics

A fundamental problem in business ethics is to understand how an individual’s ethics are related to organisational ethics. People do not invent their ideals in a vacuum, but rather take these from the moral traditions of society and tailor them to their own needs. This leads to a need for better and moral leadership.

According to Ciulla (1995), good leadership refers not only to competence but also to ethics. Edward Aronson (2001) finds ethical behaviour a necessary condition for the establishment of an ethical organisation, but claims this alone is not to sufficient, since ethical leadership is required. Mendonca (2001) has stated that true and effective leadership is when a leader’s behaviour and the fulfilment of his or her leadership role is consistent with ethical and moral values. The territory of ethics lies at the heart of leadership studies and has veins running right through leadership research (Ciulla, 1995). Chryssides and Kaler (1993) have stated: ‘We inquire not simply in order to be informed, but to inform our actions; to provide those actions with a better and sounder basis than they might otherwise have’.

Leadership ethics refers to the study of ethical issues related to leadership and the ethics of leadership. According to Bass (1999), the ethics of leadership rests upon three pillars: 1) the moral character of the leader; 2) the ethical legitimacy of the values embedded in the leaders vision, articulation, and program, which followers either embrace or reject; and 3) the morality of the processes of social ethical choice and action that leaders and followers engage in and collectively pursue. Such ethical characteristics of leadership have been widely acknowledged (Kanungo and Mendonca, 1996; Trevino, 1986; Kouzes and Posner, 1990, 1992).

Rost (1991) has said that the leadership process is ethical if the people in the relationship (the leaders and followers) freely agree that the intended changes fairly reflect their mutual purposes. Burns’ (1978) theory of transforming leadership rests on a set of moral assumptions about the relationship between leaders and followers. Aronson (2001) presented both the modes for influencing followers that are inherent in the directive, transactional and transformational styles of leadership (described by Kanungo; Mendonca, 2001) and the major perspectives in business ethics––deontological and teleological––and finally proposed a conceptual model that links ethics to leadership.

The difference between the morality of leaders and everyone else is that the ethical failures and successes of leaders are magnified by their role, visibility, power, and the impact of their actions and behaviour on others (Ciulla, 2001). The individual's mental model is a critical factor that influences his or her ability to make quality decisions, in addition to creating a framework for the beliefs and values that ultimately determine his / her ethical framework (Caldwell *et al,* 2002). The practice of leadership is to guide and look after the interests of people, organisations, countries, or causes and to put the mission of the organisation or the good of one's constituents first––to take the responsibility. Individuals cannot be responsible for everyone and everything all of the time.

The degree of responsibility a leader has is a function of the extent of his or her decision and action space. There are limitations to the space for freedom of action (Enderle, 1987) derived from the inner personal limits of particular leaders (i.e. the micro-level). This means that ethical leadership finds its limits in the conditions set from the outside that limit the leader's decisions and actions. At the meso-level, the corporations determine, via their culture, policy and strategies, a bundle of conditions the leader cannot but accept (given his or her decision to remain in the corporation). At the macro-level, many circumstances are determined by market forces, by law and by other socio-cultural factors.

According to the results of research into conflict management (Virovere *et al,* 2002, Virovere and Kooskora, 2002) and a separate survey about decision-making in business situations conducted two years ago in Estonia, at EBS (Kooskora, 2001), it was found that students who had practical work experience and were involved in managerial tasks at that time, did not feel as free to make decisions as they would have liked. There were several who even answered that they knew how they should make ethical decisions, how they should act according to ethical principles, but they also knew that in real life, in real business situations they would act differently. They would consider the corporate, organisational aspects, the characteristics of the manager-leader, relationships between individuals and act accordingly. But these decisions no longer considered ethics and these people didn't feel free to make the choices they wanted to.

The leader is responsible for the set of ethics and norms that govern behaviour in the organisation. It is up to the leaders to keep the signs of moral purpose alive and visible. Leaders have to see themselves as role models, 'as creators of value in many forms and for many people. They should not regard profit as the overarching objective of their endeavours, but as the result of building strong business relationships and creating value for others' (Nash, 1990).

Ethical Leadership and Values

Every person at the managerial level has felt the temptations and seen that sometimes the rewards for unethical behaviour are great. Ethical leadership requires discipline, mental and personal discipline that not all leaders are strong enough to keep to. Some senior executives arrive in their leadership positions with all of the necessary cognitive and emotional tools to be an active ethical leader. Part of the reason many of them ascend to senior leadership positions is because they have a reputation for integrity, for treating people well and for doing the right thing. By the time they reach the executive level, their values are solid, and when challenged, the leaders hold to them without question. On the other hand however, senior executive positions have a way of challenging values in a way that they have never been challenged before (Trevino *et al*, 2000).

To be perceived as an ethical leader, it is not enough to be just an ethical person. A reputation for ethical leadership rests upon two essential pillars: perceptions of you as both a moral person and a moral manager. The executive, as a moral person, is characterised in terms of individual traits such as honesty and integrity. As a moral manager, the CEO is thought of as the Chief Ethics Officer of the organisation, creating a strong ethics message that gets the attention of the employees and influences their thoughts and behaviour (Trevino *et al,* 2000). An executive's reputation for ethical leadership must also find ways to focus the organisation's attention on ethics and values and to infuse the organisation with principles that will guide the actions of all employees.

Trevino *et al* (2000) have stated that being a moral person encompasses who you are, what you do, and what you decide as well as making sure that others know about this dimension of you as a person. Being a moral manager involves being a role model for ethical conduct, communicating regularly about ethics and values, and using a reward system to hold everyone accountable to these values and standards. Ethical leadership pays dividends in employee pride, commitment and loyalty––all particularly important in a full employment economy in which good companies strive to find and keep the best people. During an interview with Mr. Bulent Eczacibasi (2004), he said that the CEOs function as a role model is extremely important, as these people are being observed, listened to very carefully and the small things are especially considered important.

Values are important guiding principles, which make us do the things we do and behave the way we behave. Sometimes, due to the values we hold, it is much easier to make difficult decisions, but sometimes we may feel that our personal values contradict the action we are expected to carry out. A similar point arose in the interview with Mr. Eczacibasi (2004), when he stated that he quite often stressed the values, clear principles and priorities in life that had made his job as a CEO easier on one hand and more difficult in the other hand because conditions in the country often rewarded unethical behaviour.

Regardless of how well leaders get along with people, they have little credibility without a high level of leadership competence, they have to be competent in managing organisations, making decisions and taking action. Kouzes and Posner (1992) found three characteristics of leaders that were most admired by employees: integrity, competence and leadership. Mr. Bulent Eczacibasi (2004) said that a CEO has to be tough, but not ruthless, it is not always possible to win and principles cost something. He continued by saying that for him the people-decisions are the most difficult to make. He added that he never compromised the values of the corporation, individual rights and justice towards people. The values he highlighted as being the most important were: respect for yourself – integrity; respect for the work you do – good school; respect for other people (human beings) – letting them participate in decision-making; respect for human environment and society – helping others and respect for the natural environment. Respect for people as a principle is the foundation of ethics. Mutual respect is central to forming bonds of long-term commitment and it may also be the way to forge short-term bonds.

In an organisation, besides commitment, employers want loyalty and trust from their employees, but both trust and loyalty are reciprocal concepts. Ciulla (2000) has noted that it is ironic that the less stability and loyalty companies have to offer employees, the more commitment they demand from them. Good ethical leaders are those who build trust and loyalty in their organisations. Trust is important and makes doing business with others much easier. ‘If you trust a person, you can do business with a handshake. If you can’t trust someone, you have to try to get all the transactions and agreements down on paper. When there is no trust in a society or organisation, people substitute rules, contracts and laws’ (Ciulla, 2000). Robert Solomon (1998) has observed that without trust, there can be no betrayal, but more generally, without trust there can be no cooperation, no community, no commerce, no conversation. In short there can be no interaction, no business at all.

Robert Rogers (1995) has stated that top managers truly live in glasshouses where people scrutinise every move and word for their true meaning. The behaviour of senior leaders is the major thing that determines if and how the organisation’s values are admitted. Leaders have to realise that when they make commitments, following through and keeping them are essential. If they don’t, they have no one but themselves to blame when their credibility takes a nosedive. If leaders want to earn and build trust, they must ‘walk the talk’ and additionally share their feelings and beliefs so that employees gain a clear picture of their leader’s values and priorities. Senior leaders must truly lead the way in creating a culture that reinforces and models open, honest, straightforward communication.

Ethical Behaviour and Effective Leadership

Ethical behaviour and effective leadership are intertwined and inseparable. Meaningful leadership, leadership that in the long run counts for something, cannot be accompanied by moral collapse. It may not be correct to say that ‘the leader who acts ethically will ultimately succeed’, but reality has proven that the leader who lacks an ethical foundation will ultimately fail, maybe not immediately, but in the long run.

The leader's role is to create the circumstances where people can act according to ethical norms and with their own behaviour they are role models, they are being watched and followed. Willard C. Butcher, the retired chairman of the Chase Manhattan Corporation, has expressed this idea in the following manner (1997): 'Business leaders today can't shrink from their obligations to set a moral example for those they lead. They must draw the line between, on the one hand, the perpetual push for higher profits, and on the other, actions antagonistic to the values of the larger society … ethical business leadership requires not only harvesting the fruit we can pluck today; not only investing in the small trees and experimental hybrids that won't yield a thing in this quarter or the next, but also caring for the soil that allows us to produce such a rich harvest in the first place'.

Strong leaders may have clear vision, creativity, pride and even trust among employees, but these may not be enough unless being accompanied by competency, transparency, integrity and humility. In this case all these positive traits may loose their value and the organisation may not recognise their leader as an ethical role model. 'The final litmus test is when staff members, regardless of their organisational status, do not hesitate in choosing the hard right over the easy wrong' (Hofmann 2004, 41).

Management quality is largely dependent on the decision-making ability of a manager and also on the kinds of decisions he or she makes. There is often an ethical conflict between making money and doing what is right. A dilemma must be solved – whether to perform in the most beneficial way either to the employer or to one's own career or to the customer. The author has had heated discussions with Estonian business leaders, who claim that the only thing that is important in business is earning profit, nothing else matters as much. Profit is definitely an important part of every business activity, in fact it is critical, because without profit there cannot be any business and development, but thinking about earning profit alone is definitely not enough. Life has shown that leaving ethics behind will be very expensive and even fatal in business.

While studying conflict situations over the last five–six years at Estonian Business School (Virovere, Kooskora, 2002) we have witnessed that managers in Estonia have underestimated the importance of ethical criteria: that a good, conflict-free working environment encourages people to work with greater commitment, which in the end is profitable for the company. We have also seen that the human aspect in business has not been considered significant because most conflicts end with an employee getting fired or leaving their job without ample opportunity to defend him/herself. And we have observed that managers did not realise that the loss of an employee is a loss not only for the employee, but also for the company. We have also seen that in the end this style of business has turned into the most ineffective, resulting in severe consequences: conflicts, damaged relationships, failed businesses and bankruptcies (Kooskora, 2004).

Ethical Leadership and Caring for Others

Leaders who do not look after the interests of their followers are not only unethical, but ineffective. The practice of leadership is to guide and look after the interests of people, organisations, countries or causes, and to put the mission of the organisation or the good of one's constituents first (Ciulla, 2001, 315). Leaders have to be effective and they have to be ethical. There are times when simply doing something ethical makes a leader effective and other times when being very effective makes a leader ethical.

Our roles in various areas of life––work, family, politics, etc––are distinct and yet closely connected with one another because, in spite of the multiplicity of roles, the subject of the roles remains the same. Leader's decisions do not only have technical, economic and financial consequences, they also concern employees as individuals (Enderle, 1987).

Being a leader, without developing others is not enough. Kouzes and Posner (1992) have observed that when leaders are working at their personal best, they are also transforming their 'followers' into leaders. The best leaders guide their organisations and the people in them to new levels of learning and performance, transforming the present into reaching towards potential. Leadership thus becomes a process of learning, risking and changing lives.

Developing others, caring about them, being concerned about their well-being is closely connected to love. Kouzes and Posner (1992) state that 'love creates the desire to see others grow and become their best'. While interviewing the successful and world famous General Stanford they heard him say: 'I have the secret to success in life. The secret is to stay in love. Staying in love gives you the fire to really ignite other people, to see inside other people, to have a greater desire to get things done than the other people. A person who is not in love doesn't really feel the kind of excitement that helps them to get ahead and lead others and to achieve. I don't know any other fire, any other thing in life that is more exhilarating and is more positive a feeling than love is.' Ethical leadership accesses the healing and energising powers of love, recognising first that leadership is a reciprocal relationship, a leader's passion comes from compassion, leaders ultimately serve and support and honesty is essential for moral (transformational) leadership.

Conclusion

Ethical questions are essentially questions about whether people ought or ought not to perform certain kinds of actions; about whether those actions are good or bad, right or wrong, virtuous or vicious, worthy of praise or blame, reward or punishment, and so on. Consequently, with business ethics as with any other branch of ethical enquiry, the point of the exercise is to resolve questions of conduct. It has, then, an essentially practical purpose. Success in creating a climate for responsible and ethically sound behaviour requires continuing effort and a considerable investment of time and resources.

The leader plays a critical role in establishing and maintaining the ethical culture within his/her organisation. Too often the emphasis has been put primarily on the manager's expertise, technique, power, knowledge and strategic choices, at the expense of the leader's moral character, but leadership excellence cannot be evaluated without an assessment of the leader's character, moral vision, integrity, values and caring for others and taking responsibility.

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Corruption and Growth Potential in the Baltic States: The Role of Freedom and Ownership

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Abstract

Corruption is explored within the context of economic development in the Baltic states and their neighbours. The treatment is broadened to include other factors such as the roles of personal and institutional power as well as increased opportunities associated with freedom and ownership. Traditional strengths such as comparative advantage and technical progress alone do not adequately explain patterns of international trade or national growth. A more complex model of social organization is presented that includes differences in national economic and political structure, culture, values, institutions and bureaucracies that all profoundly affect competitive success.

National surveys (Transparency International, Heritage Foundation, Freedom House, and other assessment organizations) of corruption, ownership, and freedom are analyzed and discussed. The underlying reasons why autocratic nations fail to prosper are also explored. These reasons include endemic corruption, excessive stability and inefficient bureaucratic structures. The study concludes with recommendations for improvements.

Key Words: Baltic States, Corruption, Economic Development, Freedom, Ownership, Power, Values

Introduction

Currently, in the European Union (EU) there is very active discussion about the economic development prospects in the new member states, especially Estonia, Lithuania, and Latvia. It is estimated that Latvia, today the poorest of the Baltic states, will not reach average EU levels of per capita income for 10 to 50 years (*Neatkariga Rita Avize* 12 May 2004). This lack of consensus regarding economic development is best explained by the varying assumptions about major factors in economic development, the unknown nature of future policies and the ability of the Baltic states to take advantage of increased trade opportunities in the EU.

The causes of economic development represent the core of economic and political inquiry. Respected economists (e.g., Gillis, Perkins, Roemer, and Snodgrass, 1996) tend to stress changes in national policies and the interaction of major economic factors. Others see development as a process where political and social forces have important roles. In response to rapid environmental changes, the view that a perpetually transforming social organization is both the foundation and a key building block of development emerges (Thurow, 1999). This view is sensitive to personal and institutional power in the processes of forming a new balance of stability and innovation. It sees corruption as an expression of misused power and as a major symptom of ineffective social organization. The recognition of intellectual social capital is perceived as an increasing force in the relationships that are characteristic of the new era of knowledge. This essential role of social capital (King and Barnowe, 2003) is now a subject in Baltic scholarly journals and at association meetings.

The key role of culture in economic development is now being recognized. In *Culture Matters: How*

Values Shape Human Progress edited by Harrison and Huntington (2000), the first section of the book is devoted to "culture and economic development." There are indeed many factors in the dynamic interactions observed in individual and organizational behaviour that contribute to economic development. For example, factors such as trust and cooperation, discussed earlier in *EBS Review* (Barnowe, King and Krûmiòa, 2003), are important in socially responsible and economically effective organizations.

Furthermore, innovation and risk (King, Finnie, and Gibson, 2003) and ownership and personal freedom (Finnie and Gibson, 2000) have also been shown to be critical for economic growth. Without the freedom to pursue individual business ventures and the ownership of success, there will be no risk-taking and consequently no innovation. Without personal incentive there is no action.

Economic growth seems to hinge on the complex interaction of several key factors not amenable to either traditional theory or empirical investigation. The focus of this study is to provide a holistic framework for development with emphasis on the impact corruption has on growth potential. In particular, we will use statistical analysis to explain corruption as a critical factor that reduces freedom and economic performance. We are especially drawn to trends tracked by major international assessment and rating organizations. Beyond correlation analysis, we will present a working theory of some of the causes of corruption and examine ways corruption and other unethical behaviour can be reduced.

We believe this to be important in shaping attitudes and actions taken in the Baltic states. The most fundamental expression of anticipated progress is hope. It is hope that convinces individuals and their organizations of their ability to control their fate and to improve economic performance and their lives. As seen in the collapse of powerful societies, corruption is the diversion of economic resources to serve powerful decision makers. It is a force that destroys hope in the value of the individual. It reduces trust and cooperation. It prevents the optimal functioning of social organization. Corruption blocks the building of a better, more productive society.

A multi-disciplinary approach is essential to the study of economic development and corruption. There are practical limits to a truly comprehensive investigation of all possibly relevant factors related to corruption in economic activity. More important however, is the realization that all societies develop their own ways to allocate power, to formulate economic priorities and to choose friends and partners abroad. For this reason, any comparisons of trends in Estonia, Latvia, and Lithuania, approximate as they may be, should include those of their geographically and culturally close neighbours on the shores of the Baltic. Thus, we place emphasis on the characteristics and performance of the Nordic nations as well. Below, multi-disciplinary perspectives are considered, as is the human need for ownership and freedom.

Multi-Disciplinary Perspectives

Kluge Prize winner, Kolakowski (1990), makes clear the importance of the individual and the need to act freely, eschewing absolute ideological truths. He argues that the human need for certainty was the root cause of Marxism transforming into a form of religion, with its own dictates for economic and ethical behaviour. Originally a Marxist, Kolakowski realizes that the communist ideal is vulnerable and would yield to corruption, complexity and dogma. It is this spiritual certainty of the faithful and the "yearning after the archaic community" that, according to Kolakowski, inspires any totalitarian society. Without freedom, tolerance and individual dignity, totalitarian ideology becomes oppressive as it gives way to enforced conformity. Actually, it is the conflict of values, democracy, markets and individualism that keeps cultures alive and thriving.

Albert Einstein once remarked, "Bureaucracy is the death of all sound work." He was writing about socialism, but at any level. Bureaucratic governments and corporate organizations are both based on rules, procedures and the specialization of functions as a means of imposing order on individualist tendencies. The classic bureaucracy is based on a model of administration by rule of law as opposed to the capricious rule of individuals. Max Weber eventually proposed that large-scale organizations required a formal set of procedures––operating like rational clockworks, precisely and unambiguously. More recently, organizational scholars have pointed to the many problems with bureaucratic models, especially in complex situations.

Progress, however, is born out of turmoil and creative destruction––the antithesis of bureaucracy. This helps to explain why most new jobs are the product of entrepreneurial effort. Commonly, the annual rate of return on small-company stocks greatly exceeds that of large firms. Smaller, simpler, flexible organizations allow members to maintain a coherent line of sight encompassing an optimistic view of how they will function in the marketplace. On the other hand, larger, more complex, less flexible organizations become increasingly risk averse and provide less potential for innovation and growth.

At the most basic level, Milton Friedman stresses the importance of individual self-interest and freedom. Friedman's core belief in limited government is rooted in his observations of the debilitating entanglements of bureaucracy on individual rights and incentives. Similarly, Friedrich Hayek argues that since the Renaissance, all real progress has been in the form of individualistic civilization. Collectivism, which exhorts individualism as greedy and socially unproductive, does not allow for the development of individual talents and inclinations.

Similarly, economist Shen (1996, 1997), in analyzing the reforms in the Ukraine and Romania, clearly reveals the demoralizing effects of the interplay of one bureaucracy communicating with another, the mentality of bureaucracies, the lack of associated courage within a command/control structure and the elimination of profit-oriented motivation as an agent for efficiency, freedom and responsibility. His research also provides an instructive case analysis of how hierarchical structures simply do not support either organizations or societies and thwart both creative impulses and ambition.

The Need for Ownership and Freedom

In writing about the seeds of the Industrial Revolution, the historian Landes (1999) asks "And in Europe, why Britain?" His answers include private property, liberty, rights of contract and a stable, responsive, honest, and moderate government. He points out that Britain was also largely free of the ideological controls that fettered the Continent. He suggests that today's gap between the rich and poor stems from the fact that some countries are largely unable to develop the necessary individualistic values essential to industrialization. Landes ascribes the rapid recovery of West Germany after World War II to the values of work, thrift, honesty, patience and tenacity. Viewed from a more Baltic perspective, the same attitudes are important in the recent development of Finland.

In contrast, Landes shows that China, even with a long record of technical inventions, has been severely hampered by the absence of individual freedom and its companion institution of ownership. Chinese bureaucracy, with a lack of entrepreneurial curiosity and incentives, and with inherent complexity in decision-making, tends to strangle initiative.

The historian Pipes (1999) also makes the important connection between the guarantees of ownership and liberty, suggesting that while property does not ensure liberty, freedom is not possible without property. Whether democracy in the West is either the cause or consequence of success within the capitalist world-economy remains problematic. In an empirical investigation of the underlying determinants of growth across 165 countries, the economist Barro (1997) also finds that growth is positively influenced by political freedom. Similarly, the economist Sen (2000) contends that both freedom and ownership are necessary for development. Although he does not place as much weight on ownership, he stresses freedom and democracy as preconditions for economic growth. To Sen, freedom in a broad context includes a free market and individual success within the market.

Methodology and Data Sources

The basic methodology used in this study includes the analysis of five widely accepted national indices, which help us to operationalize concepts such as corruption, freedom and ownership. These are statistical summaries, assessments and comparative ratings that cover 97 countries or about 90 percent of the world population and which provide different measures of growth potential. Most ratings, especially those developed by Sala-i-Martin, Schwab and Porter (2004) for the World Economic Forum, are composed of more detailed results of other surveys that are available in their publications.

The five indices, developed by five independent organizations, while admittedly somewhat subjective, importantly all portray a consistent and revealing pattern. Without high levels of both freedom and ownership, corruption and the corresponding low levels of competitiveness is the result.

The intent is to first explore how concepts such as corruption, freedom and ownership interrelate and impact economic development potential. The indices most suitable as proxies for corruption, freedom and ownership are:

Index I "Growth Competitive Index 2003," *The Global Competitiveness Report 2003-2004*, prepared by Sala-i-Martin, Schwab & Porter for the World Economic Forum.

Index II "Corruption Perception Index," *Global Corruption Report 2003,* prepared under the auspices of *Transparency International.*

Index III *Freedom of the Press 2003,* issued by the Freedom House.

Index IV *The 2003 Index of Economic Freedom,* sponsored by the Heritage Foundation and *The Wall Street Journal* of the Dow Jones Company.

Index V *Government Indicators, Democracy Score 2000,* maintained by the World Bank Institute.

Index I: The first measure is called the "Growth Competitiveness Index (GCI)." Developed by Jeffrey Sachs of Columbia University and John McArthur of The Earth Institute, it is a relatively new index for comparing the competitive abilities of countries that encompass the world. This particular measure combines both hard data and attitudinal survey values from leading executives and entrepreneurs. Respondents are also asked to provide insight into obstacles to growth within their own countries. GCI scores are bounded between a low of 2.30 (Haiti) to a high of 6.01 (Finland).

Index II: The second index measures levels of corruption. "The Corruption Perceptions Index (CPI)," now in its eighth year of publication, is designed to facilitate research into the causes and consequences of corruption. The CPI is based on surveys of the perception of "well-informed" people with regard to the extent of corruption, or more precisely, the extent of bribery. In all, 15 data sources are employed ranging from the World Economic Forum and World Bank to Gallup International. According to Transparency International, the strength of the index lies in the inclusion of multiple data sources in a single composite index, so that a potentially erratic finding from one source can be balanced against other results. Values range from 1.2 (Bangladesh) to 9.7 (Finland).

Index III: The third index (*Freedom of the Press 2003*) is used as a proxy for individual freedom. This survey has been conducted since 1980, and it classifies nations according to media independence and the free flow of information. The data comes from overseas correspondents, international visitors, government reports and press organizations. Three broad areas are considered including the legal environment, political influences and economic pressures. Combined scores range from 88.0 (Zimbabwe) to 8.0 (Iceland).

Index IV: The fourth index illustrates that the path to economic growth begins with economic freedom and ownership. The purpose of the annual *Index of Economic Freedom, IEF,* is to track international progress toward economic development. For the past nine years, ten key areas have been evaluated. Countries are scored on the basis of trade policy, taxation, government intervention, monetary policy, capital flows and foreign investment, banking policy, wage and price controls, property rights, regulation and black market activity. Within the context of the current data set, a high IEF score for ownership is 1.5 (Singapore) and a low score is 4.4 (Zimbabwe).

Index V: The fifth index of government indicators represents a measure of democracy. It is comprised of six components including voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. Composite scores vary from a low of -1.14 (Zimbabwe) to a high of 1.95 for Finland.

As seen above, the ownership and freedom estimates score those countries with the highest ownership and freedom levels with the lowest scores. This is reversed with the corruption, democracy and competitiveness measures. Additionally, different scales are used which makes interpretation and comparison quite difficult.

In this study, the score values are transformed into more tractable, uniform measures. All rating scores are converted to a 0-100 point system for easy comparison. In other words, the most corrupt country has a score of 100 and the least corrupt a 0 value. Conversely, those countries with the highest ownership, freedom, democracy or competitiveness scores now receive a 100 and the lowest is given a 0 value. Importantly, this in no way affects the distribution or rank orderings of any of the five indices.

Analysis and Results

Table 1, entitled "Indices of Development," provides the rating summaries for the Baltic states, their Nordic neighbours and selected other trading partners. Five-year averages (1995-2000) of per capita GDP are used as a general indicator of welfare and relative economic strength. The data shown is arrayed in order of wealth.

Interpretation of the data is straightforward and can be summarized by a series of generalizations:

1. The level of corruption is inversely related to the level of freedom, inversely related to the level of ownership and also inversely related to the level of wealth.
2. Ownership and freedom are directly related. Additionally, wealth is directly related to both freedom and ownership.

3. The level of corruption is inversely related to the level of democracy. Also, freedom and ownership are directly related to the level of democracy.

4. Lower tier countries are far more corrupt, less democratic and less competitive than higher tier countries. Thus, lower tier countries have lower levels of freedom, limited ownership, and accordingly far less wealth than higher tier countries.

Table 1. Indices of Development

		I	II	III	IV	V
Country	Wealth	Growth Competi-tiveness	Corruption	Freedom	Ownership	Democracy
Russia	$2,166	31.3	82.4	27.5	24.1	9.7
Latvia	$2,381	60.4	70.6	87.5	67.2	50.5
Lithuania	$2,526	56.3	57.6	87.5	70.7	52.1
Estonia	$3,239	71.7	48.2	88.8	89.7	66.3
Poland	$3,827	49.9	67.1	87.5	51.7	58.9
Czech Republic	$5,257	58.8	70.6	81.3	65.5	59.5
United Kingdom	$22,475	79.0	11.8	87.5	87.9	92.6
Finland	$24,546	100.0	0.0	97.5	86.2	100.0
Netherlands	$25,159	79.2	8.2	91.3	86.2	98.4
Germany	$26,583	79.2	28.2	91.3	79.3	88.3
Sweden	$27,358	94.3	4.7	100.0	86.2	94.2
United States	$30,798	94.6	23.5	88.8	89.7	88.0
Denmark	$32,828	89.2	2.4	96.3	89.7	93.9
Norway	$34,808	81.7	14.1	98.8	75.9	88.3

Observations on Causality

It is appropriate at this point to comment on what are at least some of the root causes of corruption and their effects on development. It is known for certain that corruption is inversely related to wealth and that this relationship is clearly nonlinear as well as very robust. Furthermore, forms of corruption may range from systems complexity issues and associated inefficiency, to bribery and other forms of ethical violations. Nevertheless, in all cases corrupt systems are complex and, therefore, not transparent. It is generally known that such systems nearly always fail or produce inferior economic results.

For example, large corporations, rivalling smaller nations in resources and political power, are extremely complex and involved with many associated rules, regulations and standard operating procedures. These phenomena help to explain organizational stability, high overhead rates, low profitability, weak performance and failures, and minimal innovative ability (Finnie and Gibson, 2003). Countries may also be very complex if social rules are pervasive and collective conformity is a guiding principle of behaviour. This appears to be especially the case in theocratic, totalitarian (originally a fascist concept) or communist cultures bound to a simplified faith or distorted rationality. They are uniformly unsuccessful economically and tend to reward loyalty rather than economic performance. There is absence of individualism, freedom and ownership. The result is corruption and poverty.

The causal relationship of corruption and economic factors is well established. Lipset and Lenz (2000) refer to Paolo Mauro's statistical analysis. According to Mauro, corruption reduces Gross Domestic Product (GDP). A decline of 2.4 on his corruption index (scaled 1 to 10) increases per capita growth rate by about 4 percentage points, mostly due to changes in investment. A similar reduction of corruption also increases public spending on education by about 0.5 percent of GDP. Economic development apparently is a factor in the reduction of corruption by having a positive impact on democratic processes.

For the causal relationship of corruption and its ultimate effects on national wealth levels, the following specification seems to be useful:

1. Corruption = f (Freedom, Ownership). Specifically, Corruption = 100 - $(X/100)^2$ where X represents the average of the freedom and ownership indices for each country. This non-linear specification suggests that after a certain point (e.g. an average index value = 50), as freedom and ownership scores both rise, corruption levels fall rapidly. The coefficient of determination is reasonably strong (R^2 = .73) between a simulated corruption index and the corruption index values measured by country. The parameters for the equation are significant at the .05 level.

2. Wealth = f (Corruption). Specifically, Wealth = ((1/ (Y/100)) * 100) - (Y/100) where Y equals the simulated corruption index value as derived above for each country. The coefficient of determination (R^2 = .66) between the simulated wealth index values and the measured wealth levels (5 yr. average GDP per capita levels) remains strong for cross-sectional data. The equation parameters are again significant at the .05 level.

Effectively two-thirds of the variation in wealth between countries is explained by freedom and ownership alone. The model, however, tends to underestimate wealth levels for central Europe, Japan, Korea, and Israel. This is where wealth is now considerably higher than freedom, ownership and corruption values would imply. Conversely, the model significantly overestimates wealth levels for New Zealand as well as the Scandinavian countries (excluding oil-rich Norway). Simulated wealth in these prosperous, but certainly unique, low population states greatly exceeds the actual value possibly because of the accumulative negative growth impacts of past or current collectivist programs. Estonia, Chile and Ireland, on the other hand, all show great potential for increasing wealth based on their current freedom, ownership, and corruption levels. Actual and simulated wealth are presently very close in such diverse countries as Canada, China, India, Mexico, Russia, United Kingdom and the United States.

Finding Balance

The economist, Thurow (1999), suggests that "chaos must be balanced against order" if creativity is to thrive––too much of either one leads to disaster and stagnation. Decades earlier, Joseph Schumpeter stressed the flexibility necessary for stimulating innovation, causing what he called "creative destruction" that made old ideas and social organizations obsolete. "Fortune favours the bold" (Thurow, 2003). With reference to the Baltic states, there is more need for change––for a new balance that favours more rapid economic development.

And, a new balance can be expected in Baltic economic relationships. In the EU, the Baltic states compete with each other for new international partners and for foreign direct investment. Minor differences in reputation and competitiveness can become relatively more important, and may even be decisive in many cases. For several reasons, new employment opportunities should have a high priority in the Baltics: (1) to permit higher productivity, (2) to provide employment to those displaced by new economic relationships, and (3) to accommodate the potential for work with higher technologies.

In this context alone, the World Economic Forum collection of data is useful for Baltic comparisons. They show that Finland is highly rated on technology and also on higher education, while Estonia is developing in these areas. But, this is not a matter of just adopting new technologies. It is also a question of developing close relationships with partners abroad, which requires more trust and less corruption. This explains the close relationship Estonia has with Finland and Sweden. The higher level of corruption and lower level of social capital in Latvia may well explain the Latvian inability to attract direct foreign investment. In 2003, foreign direct investment to Estonia increased by 27 percent, in Lithuania by 4 percent, while in Latvia the accumulated foreign direct investment declined by 0.5 percent (*Delfi* 14 May 2004).

Another factor that may need review in the Baltics is the excessive concern with stability of all kinds. While too much change paralyzes progress out of fear of the unknown, too much control results in pervasive opposition to change, favouring excessive stability. This is especially the case in countries once controlled by the Soviet Union. For example, large segments of the elderly population, traditionally dependent on Soviet pensions and now with no significant accumulated resources and poor earning prospects, are afraid of the future.

When the natural human tensions associated with freedom and ownership go slack, so does resistance to corruption and tyranny. Tolerance of unethical behaviour rises, and it is tempting for office holders to seek bribes actively and even aggressively.

Holmes and Kirkpatrick (1996), however, make an important and relevant warning––that as formerly individualistic countries become wealthy, over time they tend to reintroduce restrictions on economic freedom and begin to add "extensive welfare and other social programs that were not affordable when they were poorer. Protecting the people that rapid economic growth has left behind is important, but in Europe in particular it has been carried to levels that impede growth and depress living standards." Nobel laureate Milton Friedman (Buckley, 2004) warns nations in transition that they are simply not rich enough to finance the complex bureaucratic structures seen in affluent countries. This can be a chronic problem in a rich country such as Sweden and, also until recently, even in the more individualistic New Zealand.

New Zealand's per capita income rank prior to their 1960s experiment with socialism was third in the world, just behind the United States and Canada. By 1984, however, it fell to 27th alongside Portugal and Turkey. Its current rank, though, is still remarkably low in view of its potential. Similarly, Germany's economic freedom index also fell for many years, possibly due to increased bureaucratic government controls. Another factor seems to be the German inability to privatize state-owned industry.

Other analysts (such as Gwartney, Holcombe and Lawson, 1998) suggest that within fully developed countries large governments significantly reduce growth rates, a finding supported by the analysis in this study. Countries with moderate governments have the highest economic growth rates and the highest levels of development. This helps to explain why both New Zealand and Sweden have had to trim waste and subsidies.

Differential growth rates have little to do with political ideology per se. It is more a matter of bureaucratic complexity and the associated lack of individual initiative, as well as excessive public employment. In this sense, the corruption abatement and economic development in the Baltic states are endangered by almost feudal systems of power allocated to political parties participating in governing coalitions. Both entrenched patronage and a drive towards detailed control may become endemic.

On the other hand, earlier American experience suggests that enforceable property rights, easy capital accumulation, moderate government, free trade and investment in education might help the developing nations rise to the next level, but only if cultural values permit. It appears, then, that only particular configurations of values constitute the major barriers to economic development and real prosperity. Conversely, new ties with other member states of the EU may induce Baltic leaders to review their own values and policies. Because most changes are external in origin, evolutionary societies have an opportunity to foster a new balance in their social organization.

All economic activity is subject to political and social control. The analysis above shows that this control can frequently be excessive, especially in countries with autocratic traditions. For optimal development, there must be limits to such control. Bureaucracies, driven more by rule and arbitrary exercise of power––rather than reason––nearly always systemically implode due to a lack of meaningful consideration of human nature and the need for ownership to help ensure responsible and rational behaviour. In other words, actions and consequences should be linked. Markets provide this essential link by both directing and simplifying activity and organizations. Consequently, development policy should be non-bureaucratic, open and understandable and uniform in application––not preferential to insider groups and supporting responsible private enterprise.

Development is a movement, not a condition. Even within the realm of highly developed nations, rising levels of power still crushes both prosperity and inhibits individuality. The balance process best suited for the Baltic states is one most conducive to the reduction of corruption and a corresponding increase in competitive economic development. This process may be summarized as a movement from passive dependency to more active individual freedom and its related values. For the long term, this movement permits the evolution of a more democratic society and the gaining of a higher level of economic welfare.

Policy Suggestions for the Baltics

The most important realization for policy makers in transition countries is that policies unilaterally made by them are at best sterile pronouncements without popular support and involvement. This is especially true in situations that are complex and solidly entrenched. Policy formulation and implementation is, of course, getting to be more extended geographically and increasingly involved with different elements of society. Thus, questions of corruption abatement and economic development now necessarily also involve EU expertise and funding to help the Baltics integrate their societies and economies with other nations in the EU.

Importantly, in more democratic societies various interest groups and the general population are either actively supporting, keeping neutral and uninvolved or are quietly opposing policies made by autocrats and bureaucrats. This lack of common agreement (or shared value systems) is today characteristic of nations emerging from Soviet rule. Such shared value systems are visible on a smaller scale, in tightly knit families, in successful enterprises and the Stockholm School of Economics in Riga. On a larger scale, there are strong common values in Finland and in the whole of the Scandinavian peninsula.

A review of corruption in the Baltic states suggests that corruption abatement policies and legislation are formulated and announced topside, taken advantage of in some circles and ignored by most others. Explanations for this are many. They include the lack of knowledge about social and economic damages due to corruption, as well as lots of mistrust in a divided society and a passive attitude anticipating no real change in power relationships.

To improve the situation, the most important task is to strengthen the evolution of commonly adopted principles and rules of ethical behaviour to support economic competition in the private sector. To instil hope in their ability and conviction about their competency to handle their economic relationships, improvement programs have to free up systemic constraints on currently passive individuals and to provide them with the incentives and frameworks to work more actively on their own and on their own behalf. For example, a much better understanding of Scandinavian values may lead Latvian contractors to new and profitable sales abroad. Locally, a change in ownership rules may mean the elimination of rent controls that would lead to rehabilitation of apartments in the less affluent suburbs of Riga.

Rather than to suggest the design and implementation of a vast reform program, it is suggested improvements be planned in four interrelated phases:

1. The first, and the most immediate task is the waking up of large segments of the population to a wide range of improvements that should now begin to take place, twelve years after the Soviet collapse. There should be publicity and educational programs to alert nations about the feasibility of law enforcement to curb clearly illegal and harmful acts. At this stage of public knowledge, the need for a wider recognition of social damage and economic losses due to corruption is equally important––long reported by Lipset and Lenz (2000). The public should understand that there are opportunities for everyone to help improve the situation. It is not too soon to introduce "right" or "wrong" concepts of ethical behaviour.

2. The second phase begins with massive popular pressure for the enforcement of laws
intended to curb corruption and to reduce arbitrary power. People in the Baltic states may have diverse views about what is or is not ethical behaviour. However, they are, by and large, in agreement on what is or is not criminal. This recognition suggests that in the early phase of reform, considerable weight should be given to legal points and prescriptions. The general public will thus support the authorities in the prosecution of corrupt policemen and building inspectors, and in levying specific taxes and penalty taxes on undeclared (illegal) incomes. The public wants corruption abatement to become a visible and trusted process. Traditional organizational structures almost certainly need the support of horizontal problem solving techniques—both informal and formal discussions on a neighbour-to-neighbour basis, across procedural fences and organizational walls.

3. On a long-term, indeed permanent basis, social organization should be improved in all three states. This is a task along the lines suggested by Thurow (1999, 2003). It is internationally oriented, and it will consume time and energies. It is not a mechanical task of just re-writing regulations, or issuing orders to the police and prosecutors. It is tied to values held in each country, or at least, in major population centres. For this, probably gradual change and a pragmatic educational approach are warranted. As Gunta Veismane, the Director of the Latvian State Chancery, likes to say: *To enforce what laws we have, we need new thinking.*

Her statement implies new values for a new age and strengthening the hyper-values we need to keep. Values in the Baltics change, but they change slowly. This change is, however, undermined by institutionalized corrupt practices. Yet, the success gained by the leading business schools in the Baltic states in making student behaviour ethical suggests that this change can be accelerated. This should be done on an expanded, larger scale. Action oriented ethical education and training with practical assignments should have priority.

Best practices should be emphasized and encouraged. Economic integration with the EU offers much promise that is not widely understood or accepted in the Baltics. The benefits of international cooperation, especially with Nordic nations, must be explained and promoted with success stories that include ethical dimensions. The new priorities should include the reduction of growth in government and bureaucratic controls. More individual action and responsible ownership are more likely to bring about more tangible benefits than empty promises of large, poorly funded government agencies.

We conclude with the words of Kârlis Skalbe, a noted Latvian patriot, a celebrated poet, and a great believer in democratic processes: '*Those who support corruption are those who create doubts, insecurity and destroy faith in a free and independent Latvia. Therefore, they must be fought as the greatest enemies of our nation'.*

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Corporate Social Responsibility: The Concept and its Status Regionally and Nationally in Central and Eastern Europe and Estonia

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Introduction

Sustainability is an issue that the world has to face today in the situation of growing population, increasing social disparities and the scarcity of resources that come along with the benefits that globalization brings. Corporate Social Responsibility (CSR) has been regarded as the business contribution to sustainable development and is thus one of the topics covered more often than before in the agendas of the world economic and social forums, debated over in global development discussions, and addressed in the strategic political frameworks such as the EU Lisbon agenda.

CSR has offered heavy debates among businesses and social and political communities, highlighting both pro and counter arguments––these starting with the essential question about the role of business. Is it just to attain profits or is it to contribute to the wider development of the community? Is taking responsibility for something "extra" the company has to commit to or could it rather be perceived as a way of doing business? Does engaging in CSR make business sense, and if so, how should it be best managed on the strategic and operational level? What is the role of the third and the public sector in encouraging CSR? What is the role of CSR in achieving the global Millennium Development Goals? What is CSR for the small and medium sized companies (SMEs) as opposed to earlier approaches to CSR as only being the concern of large multinationals (yet knowing that more than 90% of the world's companies are SMEs).
These are just a few of the questions raised in the whole debate about CSR. With a number of them in mind, the objective of the current paper is to describe the reality of CSR in Estonia based on the regional background of Central and Eastern Europe (CEE)[1].

To achieve the objective, in the first chapter the authors seek to provide the reader with the understanding of CSR by presenting definitions and common features of the concept. Thereafter, a business case involving CSR provides an understanding of the whole range of potential financial and non-financial benefits of responsible behaviour since it is most likely the key driver for private businesses to engage in CSR. Concluding the theoretical side of the paper, specific features of CSR for small and medium size enterprises are introduced.

In the second chapter, a regional overview of Central and Eastern Europe is presented from the perspective of CSR, and then CSR in Estonia is discussed in the regional context. Emphasis has been placed on surveying the state of CSR among SMEs as these make up the majority of enterprises in the region.

[1] Central and Eastern Europe – herein defined as consisting of the countries of Poland, Czech Republic, Hungary, Slovakia, Estonia, Lithuania, Latvia, Russia, the Ukraine, Bulgaria and Romania, bringing together the countires that have similar economic and historic realities, not including countries such as Austria, Switzerland or Germany, which geographically could be considered as Central European countries, but are instead rather referred to as Western Europe

The current paper has been prepared on the basis of various sources. To define the concept of CSR, theoretical articles have been considered along with information from the websites of international organisations working in the field. In exploring the nature of CSR among SMEs, The Observatory of European SMEs has been one of the key input papers. Among other key sources the authors have also used a report on the current state of CSR in Estonia and an empirical survey carried out among Estonian SMEs to evaluate the state of CSR in the country.

Understanding the Concept tf Corporate Social Responsibility

Defining Corporate Social Responsibility

There has been considerable discussion about the essence of corporate social responsibility (CSR) in its current meaning over recent decades. The profit seeking private sector has served as a powerful development engine that has affected progress in most areas of society. If we turn our focus to the inadequacies of this development, questions arise about the cost; while companies are the source of such development, more information is required about where this is all leading.

CSR[2] is one approach that has emerged to balance the disparities in our society (Pettinato, 2003, 4). Issues such as the unequal distribution of welfare, environmental concerns, crises concerning values and many other similar problems are shared by most levels of society. What role should enterprises perform in responding to these challenges and what problems should business organisations take responsibility for.

A uniform understanding of CSR has been missing since its very appearance in the 1950s. Among academic researchers in the field, Howard R. Bowen (1953, 6; quoted in Carroll 1999, 270) is considered to have been the first to define CSR. His definition states that it is the responsibility of companies to construct their policies and make their decisions according to the values and objectives that society aims to achieve. In the 1960s, further emphasis was placed on the idea that the responsibilities of companies are more profound than their economic and technical interests, thereby encouraging responsibility to be taken throughout the entire social system (Carroll, 1999, 271-272). In the 1970s, Harold Johnson (1971, 59; quoted in Carroll, 1999, 273) laid the basis for stakeholder theories, emphasising the need to balance the interests of different stakeholder groups. Coming back to the role of the business sector as a profit maker, Peter Drucker (1984, 62, via Carroll, 1999, 286) said that the real nature of CSR is making social problems into business opportunities, profits, productivity, skills, well-paid jobs and wealth. Archie B. Carroll (1991, 40, quoted in Carroll 1999: 289) distinguishes between four different types of responsibility that private companies need to take into account concurrently––economic, legal, ethical and philanthropic.

To date, promoting CSR and initiating dialogue and the practice of sharing has been concentrated among international organisations, making it relevant to look more closely here at their definitions of CSR. Not surprisingly, different institutions offer different definitions, including those from private companies as well as organisations such as the Commission of European Communities, which could all be quoted in the context of this paper. This ensures that we maintain a business perspective as well as concurrence within the European framework, in which Estonian enterprises and those in the majority of CEE countries are operating.

Business for Social Responsibility. CSR is achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment. It also means addressing the legal, ethical, commercial and other expectations society has for business, and making decisions that fairly balance the claims from all key stakeholders. (Overview of Corporate … 2004)

Commission of European Communities. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Communication … 2002: 5).

International Organisation of Employers. CSR encompasses initiatives by companies voluntarily integrating social and environmental concerns in their business operations and in their interaction with their stakeholders (Corporate Social Responsibility. An … 2003: 2).

[2] Other expressions, such as “corporate citizenship”, “corporate responsibility” and “corporate sustainability” are seen as expressing similar objectives, but these are less well used. The International Organization for Standardization (ISO) suggests “organizational social responsibility”, extending its applicability also to organizations other than businesses.

World Business Council for Sustainable Development. CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (Corporate Social Responsibility. The … 2002: 2).

From these definitions, the following key features of CSR may be concluded: Voluntary – it is voluntary action performed by companies that goes beyond simple legal compliance; Core aspect of business – it is applied to all business activities throughout the company; In broad categories it comprises social, environmental and financial responsibility––also known as the Triple Bottom Line––being a framework for measuring and reporting corporate performance against economic, social and environmental parameters.

A *b*usiness *c*ase for *c*orporate *s*ocial *r*esponsibility
The benefits for companies from applying socially responsible behaviour may be manifold, depending on the nature of the enterprise as well as the nature of the activities undertaken in this field. Tom Bateman has divided business cases into two categories: the broad case and the narrow case, illustrated in Table 1 (2003, 9-10).

Table 1. The Broad and Narrow Case for CSR

The Narrow Case	The Broad Case
Calculation	Conviction and culture
Risk management	Visionary, strategic planning
Does no harm	Promotes the good of the community
Reduces costs	Makes investments
Seeks profit	Seeks quality revenues (stability and quality of life)
Short term planning horizon	Long term planning horizon
Stay out of the news	Engage other social actors in dialogue

Source: Bateman 2003, 9-10.

From the table, two viewpoints of socially responsible practices become evident: one is a more calculating case, while the other stretches the concept of the self-interest of business to approach the ethical case in favour of doing good through business more directly. Often the former proves to be the motivation for embarking on socially responsible practices, while the latter is the one that is more sustainable and has long-term orientation. The business case must take into account the asymmetric investment return characteristics of different types of CSR practices. Some may include easy income saved or brought in, while other practices may take some time to return benefits to the business. (Bateman, 2003, 10)

This point should be considered when reviewing the benefits from taking up socially responsible practices. Table 2 gives an overview of the potential gains from getting involved in CSR and the justification.

In addition to the benefits raised by Business for Social Responsibility, there is often also the advantage of **risk management**. Responsible employment practices, product quality control and environmental standards protect a company from costly litigation and the damaged reputation that can follow. Good social performance may reduce pressure on governments to regulate a sector or business. Good management practices also shield a company from scandal and factor price instability. (Corporate Social Responsibility: Lessons … *sine anno*, 35-40)

The World Bank Institute emphasises the benefits of **cooperating with local communities**––benefits that come from adopting responsible practices related to the society. Increasingly dynamic marketplaces mean that a company's success depends on its ability to respond to the needs of the community or culture in which it operates. Cooperation with local communities help in tailoring products and services to local markets and make it easier to use local expertise, distribution channels and production facilities, thus reducing the cost of new investments and increasing the loyalty of employees. (CSR Main … *sine anno*, 23)

According to the survey carried out among small and medium-sized European enterprises, **improved customer loyalty** and **better relations with the community at large/public authorities** were the main benefits that companies identified (European … 2002, 29).

Corporate Social Responsibility in Small and Medium-Sized Enterprises

Before discussing the state of CSR in Central and Eastern Europe and in Estonia, it is important to discuss the specific features of CSR in small and medium-sized enterprises (SMEs). Approximately 90% of the total number of the world's business

The respective figures for EU 10 countries, the countries that most recently joined the EU and make up a large part of CEE, is even higher––a total of 98.5 % of all enterprises are considered either micro or small enterprises. The number of people employed is comparatively similar to the figure given above (SMEs in Europe…2003, 15-20).

According to Maya Forstater and Peter Raynard, to a certain extent SMEs are already more socially responsible in character––some aspects of their behaviour can be seen as examples of "silent corporate social responsibility" (2002, 35):

- SMEs are generally less internationally mobile and therefore may take a more long term view of investment in an individual locality,
- Some family-owned companies exhibit strong religious/philanthropic approaches,
- SMEs have more links to the local civil and cultural environment and may be more aware of local risks and emerging issues than internationally managed companies.

While focusing on the CSR of SMEs, there are some more distinctive characteristics that need to be emphasised as they affect the contents, nature and extent of the activities these companies may adopt (European ... 2002, 16).

In most small firms, ownership and management/control are usually concentrated in the same hands, so the entrepreneur plays a central and key role in the development of an SME that allows him/her to make personal choices about appropriate ways to allocate funds. Thus, personal preferences of top management and owners are the most influential factors affecting the type and extent of external community involvement among SMEs.

Small business managers/owners are strongly embedded in their local communities. Thus, SMEs rely strongly on the health, stability and prosperity of the local communities in which they operate as most of their clients and the majority of their employees come from the surrounding area. Therefore, the reputation of a company at its location, its image as an employer, producer or actor on the local scene, certainly influences its competitiveness.
SMEs often lack personnel, financial and time resources. SME managers/owners are very likely to have little time and energy to reflect strategically and plan future activities, especially if they are regarded as 'beyond' the usual business activities. The socially responsible activities of SMEs are likely to be affected by the state of the economy, so these activities fluctuate through times of recession and boom.

Personal relationships and close individual contacts are more frequent in smaller businesses. The enhanced potential for personal contacts between the owner-manager and employees, financing partners, suppliers, customers––and sometimes even competitors––very often help to build trusting and open business partnerships in a way that would be impracticable in larger firms. However, if things go wrong, the existence of a personal relationship may add stress to both sides.
These aspects are to be taken into account when exploring the state of CSR in Central and Eastern Europe, including Estonia. The following chapter aims at providing the relevant overviews.

A Regional and Country Perspective - Corporate Social Responsibility in Central and Eastern Europe and in Estonia

Central and Eastern Europe – Regional Overview

Contrary to Western Europe and Scandinavia, CSR is a relatively new concept in Central and Eastern Europe (CEE). These are countries that have experienced rapid changes over the past 15 years while moving from planned economies to market economies, building democratic institutions and societies. While some have taken a strong leap ahead with their reforms, others have faced more challenges in managing the economic and social changes. Next to enjoying the benefits of a free market economy and being more a part of Europe and the World now than before, the negative effects of the changes have also become more visible in all CEE countries. Rising unemployment, inflation and social exclusion among many others factors are just some of the challenges that governments, civil institutions and the private sector in these countries have to face.

Market-oriented institutions in these countries are often fragile and in some cases non-existent, and corruption hampers reform efforts. A general mistrust of the private sector, inadequate physical infrastructures, environmental problems and low standards of corporate transparency and accountability, in addition to the need for public sector reform are some of the difficulties in the region (Advancing the CSR… 2004, 4-5).

The subsequent need for rapid transition and the unprecedented scale of industrial restructuring and privatisation are among the main causes for the following (The IBLF in… 2004):

- High social costs – unemployment, corruption, the need for social protection, lack of social provision for vulnerable groups.
- Health problems – a decline in the quality and scale of healthcare, falling life expectancy, an unhealthy workforce.
- The rise of myriad non-government organisations competing for ownership of projects, private sector resources and agency funds; the hitherto unknown NGO sector has not yet developed a sufficient track record to earn the confidence of much of society.
- A mistrust of large corporations and foreign investors and a lack of understanding on both sides of how business can add value.

Nevertheless, there are visible signs of the CSR concept becoming more known in the region. Large, mainly multinational companies have started to adopt their corporate CSR policies and programs in the local context. Foreign investments have encouraged a rise in the CSR agenda. Business leaders have more often than before started to at least talk about whether CSR contributes to business success––understanding that although the primary focus of business is to generate profits, corporations can at the same time contribute to social and environmental goals through applying CSR as a strategic line in their core business practices, corporate governance and management instruments. In a number of countries, forums of business leaders have been created to facilitate the awareness raising process and to share positive examples of CSR. In some cases these have joined the various CSR network organizations such as CSR Europe.

The most tangible signs of progress can be seen in the "Big Three": Hungary, the Czech Republic and Poland, where large companies and multinational enterprises have been working with local stakeholders and training organizations in order to tackle social exclusion. ABB, Danone, Nestle, DHL, and Johnson & Johnson are among the many that have contributed to upgrading regional conditions. (Advancing the CSR… 2004, 4-5).

Surveys conducted by the East West Management Institute over the last two years show that more and more CEE companies are starting to report on CSR issues. Hungary, Czech Republic and Poland have a clear advantage regarding CSR practices. In particular, 89% of companies listed in Hungary disclose relevant CSR information, 74% of Polish listed companies provide information on the structure of their board and 91% of Czech listed companies provide information on their corporate structure, while 39% of the listed companies report on energy and water use (Survey Analyzes Disclosure… 2003, 2004).

Other studies confirm that CSR awareness is at a comparatively high level in these three countries (Trnkova, 2004), but while the progress made by the Big Three is impressive, other countries in the region are facing larger obstacles on the road to progress. In countries where foreign direct investment has been less active (Romania and Bulgaria, for example), and where many of the educated young people leave to seek better opportunities in Western Europe, economic revitalization and the creation of an active civil society are crucial to secure a level of social cohesion. However, since the concept of CSR has become so widely promoted in Western Europe as well as in the most progressive CEE countries, growth in the awareness of CSR is also expected in these less fortunate countries in the next decade. Already now there are CSR initiatives starting to take place in countries outside the Big Three––a number of CSR initiatives and awareness-raising activities are taking place in the Baltic countries, Romania, Russia and others. The majority of CEE countries are part of a Pan-European CSR campaign, being run by the European Commission in 2004-2005, fostering the growth of CSR awareness in the region.

Since all CEE countries have made some, although often marginal, progress in developing CSR programs, certain characteristics among these are worth highlighting. Mazurkiewicz and Crown, in taking a closer look at the role of governments in this process, suggest that a typical program for promoting CSR in CEE countries should include a number of factors, placing emphasis on those most critical for success in their local setting, but touching each of the following six aspects (Mazurkiewicz, 2004, 6-11): corporate governance, environmental protection and enhancement, focus on SMEs, social inclusion, strategic partnering and cooperation and lastly addressing corruption.

The main idea of **corporate governance** is to ensure that business operates under adequate and meaningful systems keeping in mind the rapid changes in the CEE region. It is also one of the most widely discussed concerns in governments, among business leaders and across society. The exact emphasis on corporate governance issues depends on the specific CEE country, but it is typically an issue confronted in these societies. Generally speaking, for private businesses operating in a market system, the traditional model of governance sees management as solely accountable to investors (shareholders). But a growing number of corporations have been encouraged to consider, and many have accepted, that stakeholders other than shareholders have a legitimate interest in the workings and behaviour of their business, and that the corporation must also be accountable to them (Mazurkiewicz, 2004). This idea itself is not completely new in CEE countries, but organizations still struggle to apply it to their own circumstances, sometimes because of an incomplete legal framework, which fails to reinforce the application of corporate governance standards.

Environmental protection, which has been at the top of political and business agendas, has progressed remarkably well towards meeting the new requirements of the European Union. Yet, not all the problems have been solved––a lot of environmental concerns are still to be tackled. CEE countries have inherited a heavy legacy of pollution as a result of an environmental infrastructure that was neglected by the regimes of the past. As a pre-condition for joining the EU, these countries had to put in place environmental legislation and standards that meet EU requirements. While CEE countries will eventually benefit from addressing their environmental problems by realizing more efficient industries and creating real benefits (health, amenity) for their citizens, it will take time and effort to achieve such progress.

The third aspect––**focus on SMEs**––is actually not something characteristic only to CEE. SMEs make up more than 90% of the businesses in the world, similarly so in Central and Eastern Europe. Developing a sense of environmental and social responsibility is an important issue facing big and small businesses alike. Indeed the understanding of CSR has evolved in recent years and extended its focus to all organizations instead of only spotlighting large multinationals. Further engaging SMEs in social responsibility provides a key opportunity for businesses of all sizes to work together and share best practice along the entire supply chain.

Social inclusion, the forth aspect, is a concern in many countries where historic and cultural barriers have segmented society. Promoting social inclusion is a complex challenge where companies can play a significant role through CSR activities. In many countries of the region, businesses have already started developing initiatives that help to bring opportunities to those who have been marginalized through the transition process. Yet these have predominantly been confined to large, mainly foreign companies, and the statistics actually still indicate an increase in social exclusion. Therefore, there is room for improvement in order to include the majority of the business sector––including increasing the number of SMEs––as well as other sectors in this process.

Establishing **strategic partnerships for sustainable development** between companies, government and society are relatively new phenomena, but represent a growing feature in CEE economies. Working together, partners seek to recognize common objectives and develop the means of reaching them together.

Returning to governance issues, economies in transition often have particularly acute problems with issues of general governance and **corruption**. In CEE, the speed at which the liberalization of markets occurred, exposed the problem of trying to disregard the previous command and control system without having a new one properly in place. In particular, it highlighted the problems associated with immature legislative and institutional frameworks that helped to fuel such practices. Over the last ten years, many initiatives have been established to pressure and encourage CEE governments to tackle corruption. According to Mazurkiewicz, less attention though, has been paid to engaging the corporate sector in fighting corruption and promoting governance. During the last decade, dramatic new imperatives have emerged for companies to take action against corruption and bribery. Once viewed by many firms as an awkward but necessary requirement of doing business, corruption and bribery are increasingly seen as a form of business malpractice instead. Leading companies, mainly the offices of multinational corporations, have responded to these imperatives by establishing comprehensive codes of conduct, and/or anticorruption and bribery programs that include strong written policies, extensive training, auditing and internal controls.

Generally, many companies across CEE are trying to adhere to international standards, conventions and guidelines, but in regards to environmental standards, governance, and law enforcement, there remains a large gap and the CEE still lags behind EU norms. In the context of the Lisbon strategy and the goal of the EU to become the world's most competitive and dynamic knowledge driven economy by 2010, cross sector partnerships and investment will have to be promoted in order for CSR to become a key theme on the agenda of CEE countries. The business community, the public and third sector, and the media will all need to take an active role in building private sector development.

In accordance with the regional characteristics of CEE countries, measures appropriate for each context must be considered when advancing the CSR agenda in the region. The International Business Leaders Forum (IBLF), which has worked with a number of countries since the beginning of the 1990s, has put forward the following conclusions (The Continuing Revolution…2004: 7): firstly, the importance of the private sector's leadership role in investing in human development and social infrastructure, improving the environment and living standards, and providing opportunities for all; secondly, the need for creative and inspirational responses to radical changes––responses that invoke the idea of personal responsibility, encourage a willingness to take risks and empower people to find their own solutions to local challenges; thirdly, the ability to harness the potential of the limited local resources to maximum effect (for example, by providing forums where local knowledge, experience, skills and contacts can be shared) and emphasizing the power of the collective action model and the partnership approach to encourage different sectors to work together on solutions to issues of mutual concern; finally, the existence of an external intermediary to facilitate dialogue and to challenge current thinking in order to stimulate fresh approaches.

The lessons learnt by the IBLF working on CSR development in the region match to a large extent with the regional characteristics described above. One source for change certainly involves multisector approaches in addressing the needs of transitional societies, and due to the historic and economic background of CEE, there is potential in empowering private sector leadership and promoting innovation and creativity to form an integral part of such an approach. Having provided a general overview of the progress of CSR in CEE, the next chapters will move on to examine the state of CSR in one of those CEE countries, Estonia.

Corporate Social Responsibility in Estonia in The Overall Context of Central and Eastern Europe

Within the last 14 years, Estonia has undergone a rapid transition from being a member of the Soviet Union to becoming a member of the European Union. Taking into account the general regional background, it is not surprising that the concept of CSR is only finding practitioners in recent years, after companies have gone through the survival-journey of finding new markets and developing new organisational cultures enabling them to continue their existence. It is only now that CSR is becoming more consciously introduced to business practices, academic curricula and the general public.

In Estonia, as well as CEE in general, companies are trying to adhere to international standards, conventions and guidelines. The regulative frameworks at the state level are aligned with those of the EU, since this was a precondition to accession.

Scandinavian companies that have made considerable investments into Estonian companies and applied their own standards have largely shaped the local understanding of CSR. Rapidly developing sectors of the economy, such as telecommunications and banking, are largely owned by the Scandinavians and are also taking on the culture and standards of the Scandinavian context. Therefore companies such as Statoil (the leading Scandinavian Oil Company), Hansabank (Swedbank as the main shareholder), Nordea Bank and EMT (leading communication service provider) are demonstrating a proactive attitude in this area and bringing the standards to a higher level. (Elmik *et al,* 2004, 9)

There are other multinational companies that are about to adopt the CSR agendas of their headquarters––this applies to both the Estonian national as well as the CEE regional level as was also indicated in the previous chapter. The same is happening with the sub-contractors that are a part of the international supply chain and are thus required to acquire certain CSR standards, practices and/or labels.

There are no organisations whose main activity or operation is directly and only related to developing CSR practices, know-how or understanding in Estonia. In the umbrella bodies and trade associations that unite private sector organizations, CSR is not part of the main agenda. However, there are several NGOs that have taken on the role of bringing different sectors together for the common good, and they often initiate CSR related activities in cooperation with different companies. (Elmik *et al,* 2004, 8)

It is clear that the multi-sector approach in addressing the needs of the transitional society, and the potential in empowering private sector leadership as part of the progress is of significance for Estonia, and the same is true for the whole CEE region. Social dialogue and the idea of engagement––be it business sector engagement in policy-making or stakeholder engagement in business––has topped the agenda for societies in general. Remarkable progress can be seen in the public and NGO sector in Estonia, where its own stakeholder engagement models have been developed, and some positive results are already being delivered as a result of the Development Concept for a Civil Estonian Society (initiated and created two years ago by the leaders of the third sector and now discussed and accepted through multi-sector dialogue). Initiating and maintaining multi-sector partnerships is still a challenging task, and will take further effort to cultivate and drive these changes. Thus, the time for enjoying the benefits of the progress has not dawned yet, as it takes time and perseverance for all the sectors to work together in sustainable and long-term multi-sector partnerships.

One area of strength worth highlighting is the attention that has been given to environmental protection. Since the beginning of 1990s, a number of environmental organizations have been founded both in Estonia as well as in the CEE region in general. Now a number of leading companies are already publishing their environmental reports and the trend is growing (Elmik *et al*, 9).

Until recently, Estonia had been regarded by most international organisations as relatively free of corruption: the country has consistently obtained the most favourable score of all the transition countries in the Transparency International Corruption Perceptions Index, it has also received the most favourable assessment in this area from the European Commission and is also regarded by the Economist Intelligence Unit as having the most favourable business environment in the entire region (Reed, 2003). It has relatively advanced anti-corruption legislation, the media is free and there is freedom of information. Nevertheless, due to this period of rapid change, not all areas have been covered. Quentin Reed suggests that there are a few key areas that need to be addressed––political corruption, local governments and public procurement (2003). Therefore, corruption will continue to be a topic of attention.

Joining the European Union has encouraged further focus on CSR in Estonia. On the one hand, Estonian companies will have to adopt certain CSR practices due to external pressure from more knowledgeable customers and demanding business partners/headquarters. On the other hand, Estonia will be more easily involved in the discussions and development of the CSR agenda at the European Union level and with other member states as the European Union officially stresses commitment to CSR.

As with the entire CEE region, SMEs[3] play a significant role in the Estonian economy––through providing jobs and contributing to socially balanced economic and regional development, especially in disadvantaged areas, these are the companies that offer the opportunities for self realisation and wealth accumulation (Ettevõtlik … 2002, 8). In 2001, SMEs accounted for 98% of the total number of enterprises in Estonia, employing 75% of the labour force working in the private sector (Ettevõtluse ... 2003, 6, authors' calculations). On the basis of these figures, CSR in Estonia must be considered within the context of the networks of SMEs.

[3] SMEs in Estonia are identified as follows (Ettevõtlik … 2002: 8):

In order to gain an overview of the current state and future perspectives of CSR in the Estonian business environment, Triin Noorkõiv carried out a survey among 50 SMEs in March 2004, this number represents 30% of the organisations initially contacted. From this response rate, it could be concluded that CSR is not yet sufficiently attractive and managements in SMEs still see it as a low priority. After the first contact, five companies indicated that they did not go into business to deal aspects of social responsibility. Twenty companies showed a complete lack of interest in this area and rejected the questionnaire. Therefore, while looking at the results of the survey, it should be taken into account that replies were received from those companies that are already *per se* more 'socially minded'. Based on the results of the survey, however, it may also be concluded that companies are interested in expanding their CSR related activities in the future. SMEs are interested in improving their employees' working habits—more investments can be expected in training (Noorkõiv, 2004, 22).

To further characterize the essence of CSR activities in Estonia, the following three aspects of SMEs in Estonia can be highlighted from the survey results:

CSR activities attracting the most attention. It is becoming evident that the welfare of employees––developing their knowledge, skills, working habits and the quality of their work environment––is one of the primary directions of CSR investment. Eighty-five per cent of the respondents had taken measures to improve these areas during the past year. This category was followed by that of decreasing the environmental impact of the activities of companies, which appeared on the agenda in 60% of the SMEs surveyed last year. Approximately half of the companies participated in or supported education. About one third of the SMEs contributed to community development, culture or sport (both among their own employees and also on a wider scale). Participation in environmental projects not directly connected to the companies was the least 'popular' activity. It seems clear that interests among these companies are primarily directed towards those activities that are also largely encouraged by law (employee welfare and reducing the environmental impact), but other areas have also shown relatively active participation.

The nature of CSR related activities. Currently almost half of the companies do not have a strategic approach for their activities in CSR. This suggests a 'random' nature to the activities and a low level of awareness in dealing with them. Therefore, it can be assumed that often the benefits are not maximised for the companies and there is not enough leveraging for the greatest impact.

The format of involvement. Most commonly, Estonian SMEs offer a financial contribution, although employee involvement and offering products or services are also relatively widespread.

While evaluating the state of Estonian SMEs in respect to their general CSR framework, presented at the end of the last chapter, the following three key conclusions can be drawn (Noorkõiv, 2004, 25-29):

1. To a large extent CSR in Estonian small and medium-sized enterprises is unconscious and informal.

According to the theoretical approach to CSR in SMEs it was stated that SMEs are often in closely linked to their environment and to people as this is a precondition for successful operation. And, from this, their activities may often be more socially responsible than consciously acknowledged.

During the survey, companies were asked to indicate their previous contact with the notion of corporate social responsibility. Their answers showed that 42% of the respondents had had some contact with CSR as a concept, 40% had not had any contact and 18% didn't know. Yet, 65% of SMEs could describe their previous experience with a CSR related activity, which means that their knowledge of CSR became more conscious even during the process of filling in the survey questionnaire.

2. The principal reasons for enterprises becoming involved in CSR include increasing the satisfaction of employees, contributing to the good image of the company and ethics.

Based on the information about the SMEs' background understanding of CSR , it could be assumed that the main reasons for becoming involved in CSR might be maintaining good relations with local government, having the chance to contribute to the development of the region, as well as being influenced by pressure from their business partners. However, the replies from the respondents indicated that only 50% of them regarded a good relationship with the local authorities and contributing to the development of the region as important incentives; only 40% of the companies considered improving customer relations an important motivation and general societal pressure was felt as almost non-existent.

Surprisingly, the following incentives were put forward as the most significant in encouraging involvement in CSR:

Increasing the satisfaction of employees––regarded as ‘important’ by 43% of respondents (an additional 32% saw it as being ‘important rather than not important’).

Contributing to the good image of the company––regarded as ‘important’ by 43% of the respondents (an additional 30% saw it as being ‘important rather than not important’). In the Estonian context this could be explained by the fact that social marketing has been the area of CSR that has gained the most coverage in the Estonian media and recently published management books. It is also evident that the benefits of behaving responsibly are relatively easily understandable through marketing principles.

Ethical reasons––regarded as ‘important’ by 30% of the respondents (an additional 41% saw it as being ‘important rather than not important’). This result may be seen as rather unexpected, but could be related to the long tradition of philanthropy and sponsorship in Estonia where different events and institutions are supported. This could also explain why economic benefits are realised as incentives by only every second SME.

3. The most notable obstacle to socially responsible behaviour in Estonian small and medium-sized enterprises comes from the lack of time and financial resources.

Due to their size, SMEs are often limited by a lack of time and financial and human resources. As a result of the survey it can be seen that Estonian SMEs perceive a lack of financial resources as their main obstacle to engagement in CSR activities (confirmed by 70% of the respondents and supported by 18% who regard it ‘important rather than not important’). Lack of time is seen as an important obstacle by 58% of the companies and human resources by 44%. It is also this 44% of respondents who indicated that socially responsible behaviour is not part of the company’s role. Lack of interest and little public attention are not seen as obstacles to making company behaviour more socially responsible. Also, in contrast to the opinion that a company’s human resources do not often allow it to engage in CSR, Estonian SMEs do not see this as being a challenge thus far.

If we look at the future perspectives of CSR in Estonia and CEE, it is evident that raising the awareness of the general public, entrepreneurs, consumers, and policy makers is of key importance. Increasing the understanding of CSR, especially of its potential, in both companies as well as the society at large, would on the one hand help create responsible and knowledgeable customers, and on the other, lead companies to become more responsible in their everyday business operations, their contact with society and in becoming more environmentally friendly and eco-efficient. Besides the awareness raising and the role of business itself in such progress, there is significant room for the public sector to support the enhancement of CSR in the country.

Summary

Corporate Social Responsibility is a concept often talked about, and at the same time interpreted and understood in equally different and various ways. This paper set forth one current definition of CSR, which, while not put into a single uniform phrase, indicates the following key features of CSR: its voluntary nature––it involves voluntary action by companies beyond simple legal compliance; it is a core aspect of business––it is to be applied to all business activities throughout the company; it involves the triple bottom line––it comprises the social, environmental and financial responsibility of business organisations. CSR being a core aspect of business refers to the business case it should and could make.

When advancing to aspects of the implementation of CSR, the local reality is what defines the needs as well as the specific implications and future perspectives of CSR. Thus the main objective of this paper was to describe the state of CSR in Estonia in the context of the CEE region. In Central and Eastern European countries, which have undertaken vast reforms in the last ten to fifteen years, a number of similarities are evident: issues such as social inclusion, health care, corporate governance; the need for environmental protection and action against corruption and bribery; and trends such as emerging multi-sector partnerships, a strengthened civil society and the focus on SMEs.

Like others in the region, Estonia has gone through sweeping reforms and that with comparative success in the regional context. Regional trends, such

as the high social cost of economic success and an activated third sector can be seen clearly in Estonia. The six characteristics of potential CSR programs referred to in the study by Mazurkiewicz and Crown clearly point out the issues that Estonia is also addressing today: environmental problems, SMEs and social inclusion, multi-sector partnerships, governance and anti-corruption measures. Until now, progress and development in third sector activities in Estonia has been remarkable and promises further success in the creation of solid multi-sector approaches to various needs in society. In that context, the role and potential of SMEs as part of the process needs further investigation as these represent a large part of society, embedding enormous potential for channelling progress throughout the country.

This paper has studied the state of CSR in Estonia by looking at the CSR activities that have attained the most attention, their characteristics and the most common formats of corporate involvement. It was concluded that to a large extent CSR in Estonian small and medium-sized enterprises is unconscious and informal. The principal motivation for enterprises becoming involved in CSR includes increasing the satisfaction of employees, contributing to the good image of the company and ethics. As to the obstacles to engaging in CSR, the lack of time and financial resources are seen as the greatest barriers.

The future perspectives of CSR in Estonia are largely dependent on direction, policies, guidelines and standards from the European Union. Recently, a number of initiatives have been undertaken in this area and current trends suggest greater involvement in the coming years. In regard to Estonian society in general, raising the general awareness of CSR, NGOs and public sector engagement will be some of the improvements necessary to provide a favourable environment for companies to adopt more responsible practices.

Table 2. Potential Benefits for Companies from Socially Responsible Behaviour

Improved financial performance	In the last decade an increasing number of studies have been conducted to examine the link between socially responsible business practices and financial performance. A recent study by Orlitzky, Schmidt and Rynes that involves a meta-analysis of 52 independent studies, suggests that corporate social performance and corporate financial performance have a higher correlation than assumed by many business scholars (2003, 403).
Reduced operating costs	For example, several recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absence and increased retention of employees often save companies money through increased productivity and reduction of hiring and training costs.
Enhanced brand image and reputation	Customers are often drawn to brands with a good reputation in the area of CSR. The benefits for an enterprise may come both from its enhanced image with the public as well as its status within the business community, increasing the ability to attract capital and partners. A survey by Hill & Knowlton and Korn/Ferry International reveals that 94% of European CEOs believe that socially responsible behaviour affects their reputation (2003 Corporate … 2003: 6). In The Millennium Poll on CSR, the majority of the respondents indicated that social responsibility was the major factor shaping their image of a company (1999, 3).
Increased sales and customer loyalty	Several studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy the customers' key buying criteria (price, quality, availability, safety and convenience), studies also show a growing desire to buy (or not buy) because of other values-based criteria, e.g. 'child-labour-free' clothing, lower environmental impact, absence of genetically modified ingredients, etc. As to the Millennium Poll on CSR, over one in five consumers report either rewarding or punishing companies based on their perceived social performance, and almost as many have considered doing so; in Northern Europe 40% of respondents have been using info on CSR as reason for punishing/rewarding companies (1999, 4).
Increased productivity and quality	Company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate. For example, companies that improve working conditions and labour practices among their suppliers often experience a decrease in merchandise that is defective or can't be sold.
Increased ability to attract and retain employees	Companies perceived to have strong socially responsible commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs.
Reduced regulatory oversight	Companies that demonstrably satisfy or go beyond regulatory compliance requirements are given more free reign by government entities. In the US, federal and state agencies overseeing environmental and workplace regulations have formal programs that recognize and reward companies that have taken proactive measures to reduce adverse environmental, health and safety impacts. Such companies may be subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of government permission.
Access to capital	The growth of socially responsible investing means companies with strong socially responsible performance have increased access to capital that might not otherwise have been available.

Source: (Overview of Corporate … 2004)

organisations are SMEs, providing 50-60% of jobs (Raynard and Forstater, 2002, 2).

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Ethical Values and Commitment in Estonian companies

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Abstract: Based on empirical data from 63 companies this paper studies how values, especially ethical values held by managers, influence the values held by subordinates and motivation. The current study indicates that the values of managers do not have a direct impact on subordinate motivation, but influence it through mediating variables. The values of managers are transferred to subordinates and the subordinates' own values correlate with subordinate motivation.
The major challenge in Estonia will be to achieve a paradigm shift: the teaching of management in Estonia should emphasize the development of social skills and business morality instead of focusing mainly on technical systems. The challenge is to design an approach to management education that takes into account the needs and emotions of the employees and respects ethical concerns.

Keywords: Ethics, managers' values, subordinates' values, subordinates' commitment.

Introduction

Intensive global competition, higher customer expectations and greater focus on quality have resulted in much greater requirements being placed upon employees today compared with decades ago (Quinn and Spreitzer, 1997). Psychologists, sociologists, economists, management scholars, as well as other researchers from other disciplines have been attempting to find answers to the following fundamental questions: how to get better results out of people so that these people themselves appreciate the methods used to manage/lead them and so they would be happy to act in their owner, manager/leader's favour. One key factor, which has been talked about, is values and especially shared values. If employees and their managers have common/shared values, working together would at least be emotionally easier.

The pressure of these extra demands may seem especially high for employees from the former soviet countries, because the demands are fundamentally different to those under the Soviet regime. During this period the soviet state was responsible for guaranteeing work for everyone and so enterprises were internally overstaffed and passive, and work places were over-secured (Liuhto, 1999, 16). According to Edwards and Lawrence (2000), the emergent change to processes in transforming countries can only be truly understood by examining the constitutive practices of individuals and groups at the local micro levels of the economic system. Research in countries going through transformation has shown that the transfer of knowledge from market-economy practices often fails because of institutional and cultural tensions and conflict (Clark and Geppert, 2002).

The research problem is, how values, including ethical values held by managers influence the values held by subordinates and motivation. In this paper a conceptual framework for the study will be presented followed by the results of an empirical study called the 'CEO study' in Estonian companies. This study was part of the GLOBE project.

Theoretical Background

Management is the process of getting things done through (other) people. In order to manage, one has to know "the things" that must be done and one has to know the people who have to do it. Understanding people means understanding their backgrounds––from which present and future behaviour can be predicted. A useful way to look at people in organisations is in terms of the socialisation they have received before joining the organisation and the socialisation they receive at work. Differences in socialisation explain why equally gifted people will act quite differently in a given situation (Pucik et al, 1993, 140).

During the second half of 2001, Estonia (and the authors of this article) joined phase II of the Cross Cultural CEO Leadership Study carried out by Robert J. House and his colleagues of the Global Leadership and Organisational Behaviour Effectiveness Research Program (GLOBE). GLOBE is a long-term project directed toward the development of systematic knowledge concerning how societal and organisational cultures and subcultures affect leadership and organisational practices (House et al. 1996).

While the GLOBE project as a whole is focussing on culturally endorsed leadership perceptions, the CEO project looks at leadership behaviours as seen from the followers. In the CEO study, how the managers perceive themselves is also included. In the GLOBE project, leadership is seen as socially constructed by managers and followers as well as by the culturally based assumptions of a society. Socialisation theory supports the idea of a learned behaviour supported by role models from the past and the present in politics and economy (Alt et al, 2003). Successful leadership therefore requires acceptance of the style by the followers, and is in turn a result of the leader's success. In the frames of the GLOBE project, the definition of leadership was formulated as follows: 'Leadership is the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organisation of which they are members' (House et al, 1996).

The results of the GLOBE project provide some evidence that preferred leadership styles vary according to culture (Koopman, 2002). Clusters of European countries that share similar cultural values were shown to also share similar leadership prototypes (Brodbeck et al, 1999).

Impact of Values and Ethics

Values are "constructs representing generalised behaviours or states of affairs that are considered by the individual to be important (Yukl, 2001, 133). In work-place settings values can affect decisions about whether to join an organisation, organisational commitment, relationships with co-workers, and decisions about leaving an organisation. It is important for leaders that it be possible for individuals in the same working unit to have considerably different values, especially since values cannot be seen directly, but only inferred on the basis of people's behaviour (Yukl, 2001, 134).

Values represent the deepest level of culture. They are broad feelings, often unconscious and not discussible, about what is good and what is evil, beautiful or ugly, rational or irrational, normal or abnormal, natural or paradoxical, decent or indecent. These feelings are present in most of the members of a culture, or at least in those persons who occupy pivotal positions (Pucik et al, 1993, 141).

According to Milton Rokeach, a leading researcher into values, a value is "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence." Rokeach (1973) defines an individual value system as an "enduring organisation of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance. Rokeach divided values into instrumental and terminal values. Instrumental values are alternative behaviours or means by which we achieve desired ends (terminal values). Terminal values are end-states or goals the individual would like to achieve during his/her lifetime, basically, what life is all about.

Managers have to be aware of three types of value conflict in themselves and their co-workers––intrapersonal, interpersonal and individual-organisation value conflict (Pucik et al, 1993, 143).

While values represent global beliefs that influence behaviour across all situations, attitudes relate only to behaviour directed toward specific objects or situations. An attitude is defined as " a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object. Attitudes tend to be consistent over time and across related situations. Values and attitudes are generally in harmony, but not always. Because our cultural backgrounds and experiences vary, our attitudes and behaviour also vary. Attitudes are translated into behaviour via behavioural intentions (Pucik, 1993, 143).

According to Massey (1979), each person's values reflect contributions made by diverse inputs, including family, peers, the education system, the media, science and technology, geography and current events. Although one's values can change throughout one's life, they are relatively firmly established by young adulthood.

Ashkanasy (2000) writes that one issue that has attracted considerable attention in the values literature has to do with the distinction between values in the general sense and work values––a concept that implies the existence of particular sets of values that govern employee work behaviour, in all of its forms. Most conceptions and definitions of work values are consistent with most general definitions of values in the broader sense, but they focus on work, work behaviour and work related outcomes.

The GLOBE research project specifies connections between societal culture and organizational culture.

The Globe Research Project

In Calgary in 1994, at the international meeting of Globe Country Co-Investigators, and based on discussions and deliberations among 84 social scientists and management scholars representing 56 countries, a definition of leadership was formulated as follows: 'Leadership is the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organisation of which they are members' (House et al, 1996).
The specific criteria used to differentiate collectivities (cultures) usually depend on the preferences of the investigators and the issues under investigation, and tend to reflect the discipline of the investigator. For the GLOBE research program, culture was defined as the common experiences of individuals, which result in shared motives, values, beliefs, identities and interpretations (meanings) of significant events (House et al, 1996).
For the purposes of the GLOBE research program, culture is operationally defined as the use of measures reflecting two kinds of cultural manifestations:

a) The commonality (agreement) among the members of the collectivity with respect to the attributes (values, beliefs, etc) of culture.
b) The commonality of observed and reported practices by entities such as families, work organisations, economic and legal systems and political institutions.

The theoretical basis that guides the GLOBE project is an integrated construct of several theories. A diagram of this integrated theory is presented in Figure 1.

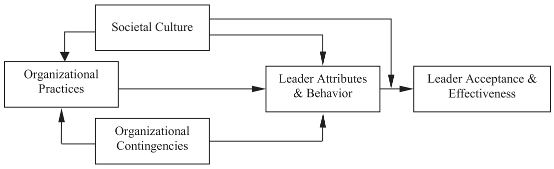

Figure 1. Theoretical Model of Research, source: House et al, 1996, 6.

The integrated theory consists of the following assertions:

1) Cultural values and beliefs provide incentives, cues, guidance, constraints and reinforcements for selected behaviours and practices.
2) The implicit motives that are stressed in the culture result in the differential social learning of implicit motives by members of the culture.
3) Jointly, the dominant cultural values, beliefs, assumptions and implicit motives endorsed by cultures give shared meaning to leader attributes and behaviour and organisational practices. They provide meaning in the sense that selected behaviours and organisational practices are understood in a particular way in each culture.
4) The shared meaning, values, beliefs and motives take on the status of norms, which are socially learned, communicated and enforced by members of the culture. These norms are cultural level variables that guide individual behaviour and the evaluation of such behaviour.

According to Koopman (2002), the result must, where Central and Eastern Europe is concerned, be placed in the context of recent history. Their results provide some evidence that preferred leadership styles vary according to culture. Clusters of European countries that share similar cultural values were shown to also share similar leadership prototypes (Brodbeck et al, 1999).

Ethics is the discipline that examines one's moral standards or the moral standards of a society (Velasquez, 2002). According to Korhonen (2003), ethics is a cultural and normative phenomenon. Ethical means accepted standards in terms of one's personal and social welfare.

Individual behaviour is directed by moral beliefs (Kohlberg, 1978). Morality is the standards that an individual or a group has about what is right and wrong or good and evil. Moral standards are not established or changed by the decisions of particular authoritative bodies. Instead, the validity of moral standards rests on the adequacy of the reasons that are taken to support and justify them. So long as these reasons are adequate, the standards remain valid (Velasquez, 2002).

An environment of justice and fair treatment in the workplace has a strong impact on employee self-esteem and helps them to cope with change, stay committed and take risks (Gratton, 2000). Organisational commitment has been defined as psychological attachment to the organisation (O'Reilly and Chatman, 1986). Commitment attitudes could lead to commitment behaviour, which would in turn influence commitment attitudes (Reichers, 1985).

The best reason for taking such risks is the expected gains in security which come from a climate of trust (Baier, 1985). Research into the area of trust is also relevant to research into quality of life, security and business ethics (Michalos, 1995).

The organisation's management reinforces the firm's culture and behaviour. Research results indicate that the firm's ethical culture has an impact upon ethical behaviour (Keith et al, 2003). But the findings are still contradictory. Jones and Kavanaugh (1996) found managerial influence on the behavioural intention of subordinates only in one experiment out of two. This makes it worthwhile investigating how the values of managers influence the values of subordinates, including ethical considerations, subordinate commitment and motivation.

Creating an ethical environment with respect to employees is not as simple as it might seem. Corporate ethics initiatives might appear to foster ethical behavior in employees, but the success of efforts to develop ethical corporations also depends on other factors that influence employee perception of the ethics within a company (Weaver, 2004).

The authors formulated the following research questions:

(1) Do managers have common, that is, shared values with their subordinates?
(2) Are the values of managers related to the commitment of subordinates?
(3) Are the values of subordinates related to the commitment of subordinates?

A theoretical framework of the study is presented in Figure 2.

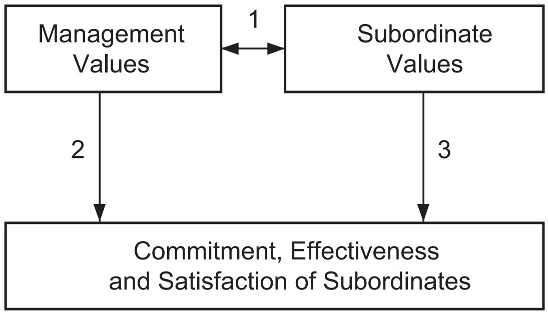

Figure 2. The Impact of the Values of Top Managers upon their Subordinates

Empirical Study in Estonian Organisations

During the second half of 2001, Estonia (and the author of this article) joined phase II of the Cross Cultural CEO Leadership Study carried out by Robert J. House and his colleagues of the Global Leadership and Organisational Behaviour Effectiveness Research Program (GLOBE). GLOBE is a long-term project directed toward the development of systematic knowledge concerning how societal and organisational cultures and subcultures affect leadership and organisational practices (House et al, 1996).

The design of the Cross Cultural CEO project required 20 CEOs from entrepreneurial firms and 20 CEOs from non-entrepreneurial firms or larger organisations. Heads of divisions in domestic companies were not considered CEOs and did not qualify to be included in the sample.

In 2001, more than 60 companies were visited. Complete research kits, including interviews, CEO questionnaires and all the required questionnaires for subordinates (2 from type c, d and e), were returned from 40 companies. In total 324 questionnaires were completed by subordinates in addition to the 53 questionnaires completed by CEOs. This data was sent to the University of Pennsylvania for further investigation related to the subject of cultural differences and leadership.

The study also involved interviewing the CEOs; the interviews were recorded on audiotape and transcribed onto written protocols. Questionnaires were also administered to at least those subordinates immediately below the chief executives. Thirty per cent of the data gathered during the field research did not meet the requirements of the Cross Cultural CEO project. The main reason for this was that some of the questionnaires per company distributed to the subordinates did not come back.

The current paper was prepared on the basis of the following the Estonian sample: 60% men and 40 % women, whose average (mean) age was 36.9 years. The majority of respondents (61,7%) had a university degree. The majority of CEOs (38%) belonged in the 31-40 age group, followed by the 41-50 age group (29%); the proportion of CEOs in the age groups 20-30 and 51-60 was practically equal (13 % and 14 % respectively). Of the subordinates reporting directly to the CEO, 58% belonged in the 31-40 age group.

According to positions in the companies, 17 % of subordinates were working in sales and marketing, 15 % in the finance department and 13 % in operations.

Methods

Scales
In order to form scales of values, a principal component analysis and factor analyses with varimax rotation was completed for the 17 items. In order to develop subscales for measuring attitudes, items were selected with a factor load in this particular factor above [0.30] and the same load in other factors below [0.30] (Table 1). In order to find differences, a factor analysis was done separately for CEOs and for their direct subordinates.

For the **CEOs,** the two factors received describe together 66,5% of initial variability. The internal consistency, or Cronbach's Alpha coefficient, is .892 for the first scale and .793 for the second scale. The Rotated Component Matrix is presented on Table 1.

Table 1. Items and Factor Loadings in the Value Scales for CEOs

Item	Factor 1	Factor 2
Economic welfare of the nation	**.91**	.15
Economic welfare of the local community	**.88**	.07
Effect on minority employees	**.58**	-.03
Ethical considerations	.29	**.83**
Effect on long-term competitive ability of the organisation	-.16	**.80**
Employee professional growth and development	.09	**.77**

Note. N=53.

The content of the scales in the light of values with the highest factor loadings was as follows:
The three items of the first scale, *welfare of society* (WS) addressing the degree to which CEOs during the decision making process take into account the economic welfare of the nation and the local community and how much they consider the effect of their decisions on minority employees.
The second scale from three items addresses Ethics (E). In addition to ethical considerations, the following issues were considered: the effect on long-term competitive ability of the organisation and employee professional growth and development.

For the **subordinates,** the four factors received describe together 61.5% of initial variability. The internal consistency, or Cronbach's Alpha coefficient, is .759 for the first scale, .853 for the second scale, .610 for the third scale and .530 for the fourth scale. The Rotated Component Matrix is presented in Table 2.

Table 2. Items and Factor Loadings in the Value Scales for Subordinates

Item	Factor 1	Factor 2	Factor 3	Factor 4
Effect on firm profitability	.75	-.08	.13	-.17
Effect on product quality	.74	.02	.18	.13
Effect on long-term competitive ability of the organisation	.68	-,03	.24	.18
Effect on sales volumes	.67	-.03	.02	-.27
Effect on relationships with other organisations	.59	.29	-.02	.26
Customer satisfaction	.54	.24	.13	-.03
Economic welfare of the nation	.07	.90	.15	.11
Economic welfare of the local community	.05	.89	.16	.19
Ethical considerations	.16	.11	.74	.29
Employee professional growth and development	.29	.05	.71	-.16
Effect on female employees	-.02	.18	.68	-.03
Effect on supernatural forces	-.04	.18	-.20	.79
Pleasing, respecting, not offending a divine being (god, idol)	.02	.11	.27	.74

Note. N=324.

The six items of the first scale, *profitability of company* (PC) consists of the effects of subordinates' decisions on profitability, product quality, sales volumes and customer satisfaction. Also long-term competitive ability of the organisation and relationships with other organisations are taken into account.
The three items of the second scale, *welfare of society* (WS) address the degree to which subordinates, during the decision making process, take into account the economic welfare of the nation and the local community.
The third scale from three items addresses e*thics* (E). In addition to ethical considerations, the effects on employee professional growth and development and on female employees were considered.
The fourth scale brings together the effects on *supernatural forces and religion* (R).

To compute subordinate commitment, specific rules were provided by prof. Robert House. The scale was formed from 11 questions in the subordinate's questionnaires.

Connections between the Values of CEOs and Subordinates

To answer the question about whether top managers and their direct subordinates share the same values (RQ 1), a correlation analysis was conducted. The results of the correlation analysis in Appendix 1 indicate that 12 out of the 17 values measured show a statistically-significant positive correlation. This means, that the values held by managers and subordinates are similar.

At the same time a comparison of the factors of values in these two groups also indicates some differences in the connections between their values. Because of this, the values held by both CEOs and subordinates are given, item by item, in Appendix 2 according to clusters from the Hierarchical Cluster Analysis on the basis of the variables using the Squared Eucledian Distance method. According to the dendrogramm, the values could be divided into four major groups as follows: (a) values related to the welfare of society; (b) values related to the short-term welfare of the organisation; (c) values related to the long-term welfare of the organisation; (d) values related to religion and supernatural powers.

The most important values for CEOs in Estonian companies were values related to short-term welfare (on the seven-point scale m=5,58). Ethical values belonged to the group of long-term welfare values (m=5,11), which followed short-term values. Welfare of society was even less valued (m=3,8) and the least important were values related to religion (m=1,9).

A comparison of the means of values for these groups––managers and their subordinates––indicated that the rating of the importance of values in each group was practically the same.

Statistically relevant correlations indicate that the ethical considerations of subordinates are connected to the ethical considerations of their managers (r= 0,167, p< .01) and also to how much attention their managers devote to their professional growth and development (r= 0,174, p< .01). The ethical considerations of managers also influence the amount of attention subordinates pay to product quality (r= 0,225, p< .01), to the firm's profitability (r= 0,119, p< .05) and customer satisfaction (r= 0,118, p< .05).

Connections between Values and Subordinate Commitment

In order to find how the values of manager influence the commitment of their subordinates (RQ2), the authors used a linear regression analysis. In the analysis, subordinate commitment was taken as a dependent and two factors of the values of CEOs, as independent variables.
To find out how the values held by subordinates influence their commitment (RQ3), a linear regression analysis Stepwise method was used. The subordinate's commitment was taken as a dependent and four factors of the values of subordinates, as independent variables.

In both cases the determinant coefficients R^2 were calculated for the regression model. According to the linear regression analysis results, subordinate commitment was not influenced by manager's values (R^2=.005, F(2,49)=.134, p< .875).

Out of the four factors of values held by subordinates, the Stepwise method excluded two: *ethics* and *supernatural forces and religion* do not have any predicting power. Eight point nine per cent of the variability in subordinate commitment can be explained by reference to such values among subordinates as the profitability of the company and the welfare of society (R^2=.089, F(2,298)=4.296, p< .001). In Table 3, the standardised regression coefficient Beta enabled us to predict how strongly value estimates forecast commitment attitudes among subordinates.

Table 3. Connections between Subordinate Values and Commitment (according to standardised regression coefficient Beta)

Factors	B	Beta	t	Sig.
Profitability of company	.29	.24	4.2	.000*
Welfare of society	.11	.15	2.6	.009*
Excluded factors:				
Ethics		.07	1.2	.226
Supernatural forces and religion		.04	.81	.418

Note. * - coefficient statistically significant, p< .05

A correlation analysis was used in order to find connections between the subordinate's single value items and their motivation level (Appendix 3).

Ethical considerations among subordinates were positively correlated with their motivation, but only after sales volumes, customer satisfaction, cost control, firm's profitability and many other factors. Even welfare of the nation and the local community were considered before ethics.

Conclusions

The most important values for CEOs in Estonian companies during the transition from a centrally planned economy to a free market economy were those values related to short-term welfare followed by long term welfare values and then those related to the welfare of society. The least important were values related to religion. Ethical considerations belonged to long-term welfare values and were considered only after sales volumes and the firm's profitability.

This kind of rating of values is probably connected to the fact that during the period of transition the main aim of the management of companies is to ensure survival—achieved through sales and cost control. When talking about sales, we need a satisfied customer and this is achieved via quality products. After the short-term welfare of an enterprise, new variables such as employee relations, inter-organisational relations, environmental protection and ethical aspects gain importance in order to provide a continuous, long-term competitive advantage.

The values of the two groups––managers and their subordinates––turned out to be similar according to the way they rated the importance of values in each group. This is a good grounding for establishing leader acceptance and effective outcomes. The study implies that the ethical values of subordinates and CEO's are linked to each other. The ethical values held by subordinates are also connected to the attention their managers pay to their professional growth and development. The ethical considerations of managers also influence the amount of attention subordinates pay to product quality. In order to be ethical, subordinates need to believe in the fairness of their managers. In other words, subordinates expect ethical behaviour from managers in order to consider ethical values in the decision-making process.

The current study indicates that values held by managers did not have a direct impact on subordinate commitment during the process of transition from a centrally planned economy to a free market economy in Estonian society. But the values held by managers are similar to the subordinates' values and those values held by subordinates predict subordinate motivation.

Estonian managers were trained in an environment in which the production process, machines and materials were paramount and people––their aims, desires and needs—were underestimated (Üksvärav and Nurmi, 1992). The social skills needed for achieving referent power were not taught. Also, in 1992, at the beginning of the transition to a market economy, a time when managers from Finland were worried about marketing, personnel and the development of organisations, the priorities and concerns of Estonian managers were things like privatisation, ownership, supplies of raw materials and wages (Üksvärav and Nurmi, 1992). Research carried out in 1992 indicated that Estonian managers were not yet sufficiently prepared for success in a market economy or to become competent international managers. At the same time, a study conducted in 2002 showed that the majority of Estonian subordinates would prefer a consultative or participative style of management and only 3% of respondents preferred a directive style (Barnowe et al, 2003).

In order to achieve sustainable development in Estonian organisations, managers need different skills from those that were taught during the Soviet regime and during the early stages of the recent transition to a market economy. On the 1st of May 2004, Estonia joined the European Union. Were our leaders and managers, the CEOs of enterprises, already there, or were they just starting out on the road to Europe? Will these people be competitive in an environment characterised by the free flow of labour, or must Estonia be ready for an influx of people from other countries that will take up managerial positions in our companies.

The successful implementation of organisational change requires an increase in social capital. According to Barnowe et al (2003), making human relations more ethical directly increases the value of social capital. The major challenge in Estonia will be to achieve a paradigm shift both at the societal and the organisational level: the development of social skills should be emphasised as much as the development of technical skills. A change in the attitudes among managers toward business morality is necessary. Companies should build up ethical competencies as they do technical competencies. By ethical competencies we mean a company's ability to change its activities so they conform to a set of ethical standards, and so, to manage its own values and commitments. Reinforcement of important values, including ethics, could be achieved through improved training and improved management practices and also by having the right leaders for the job. A written code of ethics could be promoted and actively used in everyday decision-making. To achieve the sustainable development of an organisation, it is essential to integrate a social and ethical perspective into a company's governance processes and its day-to-day management.

The main conclusion of this research is that the ethical values held by subordinates and CEO's are linked to each other. This emphasises the importance of teaching ethics in business schools and other institutions dealing with management education. The challenge is to design an approach to management education that takes into account the needs and emotions of employees and respects ethical concerns.

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Appendix 1.
Comparison of Values of Managers and their Subordinates.

Value	r**	Value	r*	Value	r
Economic welfare of the nation	.322	Customer satisfaction	.128	Cost control	.035
Employee professional growth and development	.250	Effect on supernatural forces	.123	Effect on female employees	.019
Effect on sales volumes	.228			Effect on minority employees	.058
Economic welfare of the local community	.210			Effect on long-term competitive ability of the organisation	.074
Effect on product quality	.208			Effect on relationships with other organisations	.021
Effect on firm profitability	.207				
Pleasing, respecting, not offending a divine being (god, idol)	.197				
Effect on the environment	.189				
Ethical considerations	.167				
Employee relations (well-being, safety)	.165				

Notes: N=317
r – correlation coefficient
** - Correlation is significant at the 0.01 level (2-tailed)
* - Correlation is significant at the 0.05 level (2-tailed)

Appendix 2.
Statistics about Values of CEOs and their Subordinates.

Cluster	Value	Mean CEOs	Std. Deviation	Mean Subord.	Std. Deviation
Welfare of society	Economic welfare of the nation	4,15	1,04	3,99	1,24
	Economic welfare of the local community	4,33	1,11	4,14	1,17
		3,61	1,47	3,67	1,35
	Effect on female employees	3,12	1,30	3,20	1,40
	Effect on minority employees	**3,80**		**3,75**	
Long term welfare of the organisation	Employee relations (well-being, safety, working conditions)	5,18	0,10	5,28	1,04
	Effect on relationships with other organisations	5,07	0,82	5,07	0,97
	Effect on the environment	4,53	1,12	4,30	1,25
	Ethical considerations	5,09	1,16	5,05	1,28
	Employee professional growth and development	5,18	0,85	5,28	1,02
	Effect on long-term competitive ability of the organisation	5,6	0,86	5,43	1,07
		5,11		**5,07**	
Short term welfare of the organisation	Effect on product quality	5,59	1,09	5,77	1,04
	Effect on sales volumes	5,33	1,06	5,49	1,48
	Effect on firm profitability	5,73	0,89	5,56	1,13
	Cost control	5,31	1,01	5,31	0,94
	Customer satisfaction	5,96	1,23	6,09	0,96
		5,58		**5,64**	
Religion	Pleasing, respecting, not offending a divine being (god, idol)	2,44	1,62	2,30	1,43
	Effect on supernatural forces	1,54	0,91	1,58	1,06
		1,99		**1,94**	

Note: the scores are given on scale from 1 to 7

Appendix 3.
Connections between the Values held by Subordinates and their Motivation Level.

†	Values held by subordinates	r	†	Values held by subordinates	r
1.	Customer satisfaction	0,251	7.	The welfare of the local community	0,172
2.	Effect on sales volume	0,250	8.	Effect on the long term competitive ability	0,168
3.	Effect on product quality	0,231	9.	Employee professional growth and development	0,162
4.	Effect on female employees	0,191	10.	Cost control	0,151
5.	Effect on relationships with other organisations	0,179	11.	Effect on the firm's profitability	0,151
6.	Contribution to the economic welfare of the nation	0,177	12.	Ethical considerations	0,150

Note: All correlations in the table are significant on the .01 level.

The Stakeholder Concept and the Perception of CSR among Estonian Companies

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Introduction

Now that Estonia has joined of the European Union, many issues that earlier did not seem all that obvious or relevant, now stand as challenges for further growth and sustainable development. Some examples being issues such as how to retain its best employees, provide them a competitive working and living environment as well as how to attract new investments and produce high quality competitive products and services for a European market. Or perhaps Estonia should be thinking about how to become a knowledge based society with a hub of innovative ideas as the advantage of low production costs increasingly moves towards the East and Asia.

On the global scale, given the size of the market, Estonia is and will continue to be a part of bigger value chains, mostly supplying, producing, consuming or living under the influence of larger Multinational Enterprises (MNEs). Corporate Social Responsibility (CSR) and the sustainable development of the country as well as the surrounding environment bring many opportunities to grasp, tackle and move ahead with. One question that arises in this context is whether, at this stage of Estonia's development, different players in society might step into a cross-sector dialogue and think more broadly about how to ensure the sustainability of communities and bring value to a broader range of stakeholders, or will they wait until the CSR agenda of the EU or larger MNEs becomes a priority in Eastern-European communities, including Estonia? Or should such a move come from the bottom-up since the major beneficiary is the bottom itself.

This paper aims to look at the relationship between the extended stakeholder perspective in companies and their approach to CSR. Within this context it will also look through the major findings of research conducted among Chief Executives (CEOs) in Estonian businesses about how they perceive the broader responsibility of their companies.

CSR - Building Value and Balancing the Interests of the Stakeholders

Various authors and institutions highlight different angles in their definitions of Corporate Social Responsibility (CSR) depending on their focus or the context of where they are working. However, these definitions include some common elements that this paper will take into account.

Stakeholder value – CSR has to do with bringing additional value to stakeholder relationships by listening and following the expectations of the stakeholders regarding the company (Clarkson, 1995), (Kochan and Rubinstein, 2000).

Environmental, economic and social success – The company is a part of a complex environment, and therefore depends not only on financial inputs, but also on environmental and social success, and also has itself an impact on all three dimensions (Preston, 1975).

The way profits are conducted – Being accountable for the inputs and outputs of business processes (Shrivastava and Venkateswaran, 2000).

Innovation – CSR strives to achieve more than just doing what you do everyday to produce your service/product in a sustainable manner. It is about reallocating your resources in an innovative manner for the sake of the needs and expectations of your stakeholders. Businesses should look at their resources in an innovative manner and see how these resources could bring additional benefit to those in need (Kanter, 1999).

Leadership – CSR is a continuous and strategic process (Mukerjea, 2003).

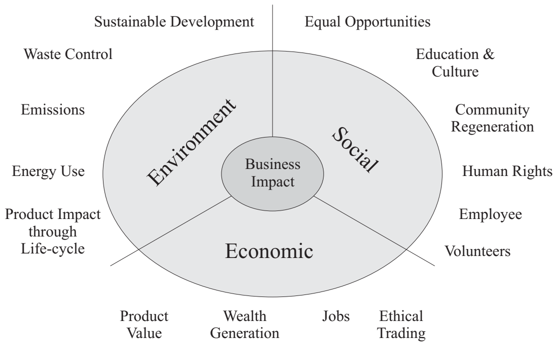

Figure 1. A company"s Triple Effect on Society

Given these elements of Corporate Social Responsibility, this paper will further discuss the stakeholder concept.

The most quoted classic of the shareholder perspective, Friedman, stated in 1962, that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits as long as it stays within the rules of the game, which would mean engaging in open and free competition without deception or fraud. Moreover accepting social responsibilities other than making as much money as possible for their shareholders could undermine the very foundation of a free society.

First attempts at challenging Friedman's concept tried to understand the social involvement of business through looking at the impact of various business activities in different social groups. McGuire (1963) defined social responsibility as going beyond legal and economic requirements; and Eells and Walton (in: Wartick and Cochran, 1995) brought up the concept of caring for the broader social system.

Earlier the stakeholders were perceived as being connected to an organization that was like a "black box" transforming inputs from suppliers, shareholders and employees into outputs for the clients. The concept of stakeholder theory was raised by Freeman (1984), according to whose view, all those who can voluntarily or involuntarily affect or are affected by the firm, as it goes about achieving its objectives, are valid stakeholders. A company's stakeholders are all those influenced by its decisions and actions, either locally or internationally. Freeman argued that the central challenge of managers is to create a satisfactory balance between the interests of various constituencies.

This vague statement about who is and who is not a stakeholder was further clarified by Donaldson and Clarkson (1995), according to who, stakeholders are persons or groups that have or claim ownership, rights or interests in a corporation and its activities, past, present or future. Those stakeholders relate to organizations by two-way ties from the organization (Fig. 2)

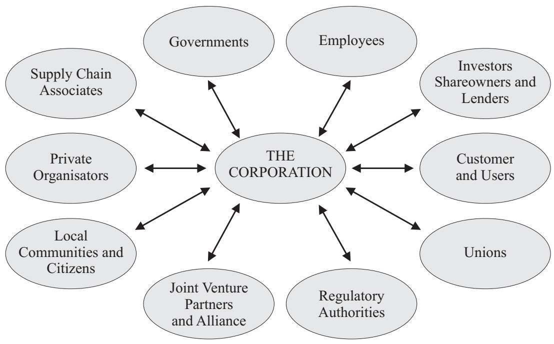

Figure 2. Stakeholder Model (Adopted from: Donaldson & Preston, 1995)

Donaldson and Preston gave additional value to the stakeholder theory by defining its descriptive accuracy, instrumental power and normative cause––all three aspects being integrated into each other. The outer scale being the descriptive aspect that describes the relationships the organization has with the outside world. Descriptive spectre is related to certain instrumental activities that would lead to certain results. The core is the normative aspect that advises managers to act with every stakeholder in a way that it would bring additional value to the organization.

There has been a lot of criticism of stakeholder theory in terms of specifying and limiting organizational stakeholders. Kochan and Rubinstein (2000) add one important criterion for the identification of stakeholders––that stakeholders supply critical resources and in doing so place something of value (to the stakeholder) "at risk".

The roles and impact of different stakeholders (Post et al, 2002) are further described in the following table.

Table 1. Stakeholders and their relationship to companies (Adopted from: Post et al, 2002)

Stakeholder	Roles & Impacts
Employees	Development of Human Capital, team production, collaboration in the workplace
Customers	Reputation and brand loyalty; Repeat Purchase, Collaborate in problem solving, new products/services
Investors / stockholders	Sources of capital, Capital Costs and risk management
Suppliers / contractors	Network efficiencies, collaboration on cost reduction and technology
Business partners	Several exchanges; e.g. knowledge exchange, product exchange
The Government	Possibilities for adaptive Integration and/or conflict
Unions	Workforce Stability and conflict resolution; mediates inter-union conflict
Communities	Mutual support, "licence to operate" in local ventures
Non-Government Organization (NGOs)	Multiple opportunities for collaboration/and or conflict; reputation; applying voluntary standards (ISO 14001, UN Global Compact)
Regulatory Authorities	Creates collaborative and conflicting incentives and behaviours among diverse elements of the enterprise network

Stakeholders and CSR

According to Post et al (2002), the long term survival and success of the firm is determined by its ability to establish and maintain relationships within its entire network of stakeholders and especially critical stakeholders. Their new stakeholder model implies a complex web of relationships and secretes the familiar stakeholder model into a diagram showing the position of the various stakeholders in relation to the three-dimensions of the strategic setting - resource base, industry-market and social-political arena (Figure 3). Hence it recognizes the multiplicity and diversity of

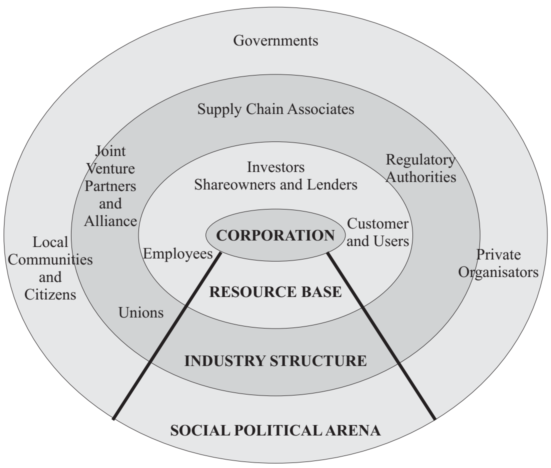

Figure 3. The extended view of the corporation (Source: Post et al, 2002)

Hence it recognizes the multiplicity and diversity of stakeholder relationships and of the fact that any stakeholder relationship may be the most critical one at the particular time or on a particular issue.

According to research, firms conventionally devote more attention to analysing the core stakeholders and managing relations with them on a routine basis. Hence, the prevailing view according to Post et al (2002) seems to be that relationships between the firm and these stakeholders involve dyadic linkages firm-investor, employer and the firm, firm-customer rather than a network of mutually interactive stakeholder relationships. As a consequence there is no necessary consistency among policies and practices surrounding each of those linkages, and there is no attempt to develop synergies among them. Moreover, it is perceived to be a zero-sum game where anything gained by employees comes out of the pocket of investors or customers (Post et al, 2002).

The stakeholder view directly challenges this perspective, emphasizing that these stakeholder linkages are part of a single network, that consistency and balance in stakeholder relations are critical manifestations of corporate culture, and most importantly, that organization-wide stakeholder management should lead to the dynamic evolution of positive-sum strategies that give rise to benefits for all of the most critical stakeholders over the long run. This extensive view of the stakeholders is also supported by Leana and Rousseau (2000), according to whom, the relationships rather than transactions are the ultimate sources of organizational wealth.

Identifying its stakeholders and managing them as an extended enterprise network is of crucial importance for any company aiming to be sustainable, guarantee its licence to operate within the local environment and be successful in the long term. Through identifying the expectations of the stakeholders towards the company's social, environmental and financial performance, and shaping the company's actions upon the balance of interest is actually building value in stakeholder relationships that can lead to business benefit (business case of CSR)

CSR in Estonian Companies

The tremendous changes over the past 50 years in terms of ideology and regime have had a significant impact on people's perception to corporate social responsibility. Philanthropic thinking was, in a way, part of the socialist era and corporate giving, for example, helping or even adopting schools and hospitals in the surrounding environment, was a common practice. This changed to the absolute opposite with the shift to a market economy, where profit was the one and only objective, and thinking of the broader impact of the company as well as its role in the local community was shifted to the bottom of the priority list. Moreover, these changes have also caused a clash of values between the younger generation, who has grown up in the market economy, and the older members of the population who have been influenced by the new paradigm, but still live somewhere in between the different sets of values. So for the younger generation, CSR is something new and interesting to think about, but for the older generation it just "smoothes" the perception of profit as the only end.

With this background, facing the overall concept of CSR would hypothetically bring out different connotations and reactions, starting from "giving" in the socialist era, to a very strong business-case approach. The generation that has been shifted from one paradigm through 180 degrees to pure business thinking would most likely look at the broader triple bottom line and the balancing of the needs of different stakeholders (and not only the shareholders) as something fluffy. It should also be admitted that CSR is not included in the curricula of Business Schools in Estonia quite yet.

Objectives and Methodology

The objective of the qualitative study was to get an overview of the determination and practice of Corporate Social Responsibility in Estonian enterprises.

The following research questions were proposed:

What is the approach to corporate social responsibility across different industries? What does it involve and how is it put into practice?
How do different business sectors identify their business environment? What is their approach to stakeholder roles/impacts, and derived from that the realisation of corporate social responsibility?

Based on earlier studies, two hypotheses were suggested about approaches to CSR in the Estonian businesses environment:

Hypothesis 1: The approach to CSR in business depends on its stakeholder perception

Hypothesis 2: A reactive approach prevails in Estonian companies––on the reactive-proactive scale businesses incline towards the reactive side.

Nineteen interviews were carried out with Estonian CEOs from large & medium size enterprises in spring 2003. Quality data analysis was carried out using Grounded Theory and Simple Text Analysis.

Findings
There were five dimensions constructed to analyse the social responsiveness of businesses:

The identification of the operating environment, organizational stakeholders and descriptions of relationships
Determination of a broader role in society; linkages to the core work of the organization
Time
The reasons for CSR and the expected benefits
Inner or outer conviction

Responsiveness was classified into four major types by adapting Carrol's (1979) RDAP scale to the Estonian context.

The four major types of approaches to CSR identified as prevailing in Estonian Businesses are as follows:

Reactive approach – The company prefers to deny CSR. According to this approach the business has only one responsibility that being using its resources and participating in activities that help the company to maximize its profits with the condition to stay (follow) within the rules of the game.
Defensive – Company admits, but would rather deny CSR. According to this view CSR is not that important, although it concedes that to generate profits one needs to have supportive actions, such as motivating and developing employees, achieving quality standards, etc.
Accommodative - a) Company accepts its responsibilities and does everything necessary, admitting that CSR is important and that it is an indicator of business success. In order to be successful in the long term it is important to fulfil some social functions – contribute to development of the operating environment as well as ensure positive relationships with its major stakeholders – employees, customers and shareholders.
b) Depending on the size of the business, CSR is a natural duty of and part of corporate activity. Besides production, lots of attention is paid to developing the well being of the local environment and the local culture. CSR is also believed to be an important part of a company's business reputation.
Proactive – The business has to do more than directly required. CSR is a part of value creation in stakeholder relationships. This type of company is a pioneer in the field and leads by showing a positive example to other companies in the industry (e.g. via industry associations), helping others to also join the "club".

The major results of the study are presented in the Table 2.

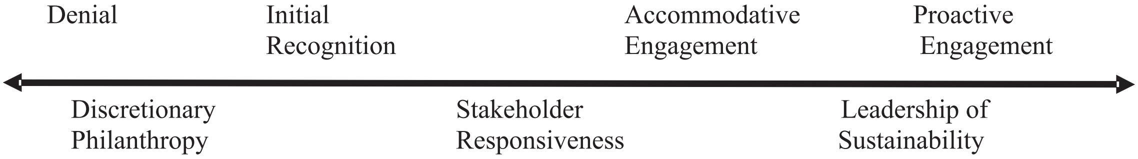

Figure 4: Corporate Responsiveness

As a result, the first hypothesis was proven. Indeed, companies that had an extended view of their stakeholders and associated their CSR with bringing added value to stakeholder relationships were more proactive in regard to CSR.

The second hypothesis was partly confuted. On the reactive-proactive scale, Estonian businesses tend to be towards the proactive side. Though, it must be admitted that this fact relies on the study among large and medium-sized enterprises. The sample was not broad enough to confute/prove the hypothesis.

It was also observed that companies with a share of international ownership were mostly on the proactive side, asserting the assumption that the practice of CSR has been partly brought in through multinational enterprises and investments from the West, and has been successfully integrated in the companies where the management is led by the younger generation that have integrated it in the values of respective organizations.

CEOs also suggested that the business benefits and drivers of CSR are not strong, being more philosophical and part of the culture especially in the companies with a more proactive approach. Customer-drive or support from the government as incentives were perceived as weak or non-existent.

Summary

This paper reaffirms the relationship between the extended view of stakeholders and CSR practices in the company.

It is important to analyse stakeholders at different levels. The consistency and balance in stakeholder relationships help the company to run the business with maximal value creation for all stakeholders and sustainability in the long term. Through identifying the expectations of stakeholders towards the company's social, environmental and financial performance, and shaping the company's actions upon the balance of interest is actually value building in stakeholder relationships and leads to real benefits for the business.

The study conducted among the CEOs of larger Estonian companies demonstrated that companies that had an extended view of their stakeholders, and associated their CSR with bringing added value to stakeholder relationships, were more proactive in CSR. In fact, on the reactive-proactive scale, Estonian businesses tend to be more proactive, although more towards the middle of the scale being classified as having an accommodative perception of CSR. However, different factors such as the nature of ownership and shares, field of business, the historical background and the culture of the companies also have their influence on perception and practice. As the study was conducted with individuals, individual background and experience also had an impact on the results.

In terms of CSR practice there is a lot of room to learn from the perspectives of other countries as well as from company to company practices within Estonia. CSR is not yet an integrated part of business education, although an extended view of stakeholders and creating a balance between the expectations of different stakeholder groups would require managers that have knowledge and skills in this area.

In the current context, now that Estonia is part of the European Union and becoming more integrated into the European market where CSR is turning into a separate professional field, the impetus for CSR is inevitable. One option is to wait for the area to be imposed by the agenda, definition and thinking of the West, but another option is to find and activate the drive from inside and build on already existing practice.

Table 2. Comparison of Corporate Social Responsiveness

	Reactive approach	**Rather reactive than proactive**	**Rather proactive than reactive**	**Proactive approach**
The description of environment and stakeholders	Descriptive identification, Limited perspective looking at stakeholders on a resource level as owners and customers. Relationships with employees are less important.	Descriptive identification of stakeholders. Would rather concentrate on resource level, though the industry level is also considered, although passively.	Stakeholder perspective is extended – besides resource level the industry level is strongly emphasized – relationships with other enterprises in the industry, participation in industry associations etc. Positive relationships between stakeholders and organizational mission/goals are highlighted.	All three levels –resources, industry and the broader social-political are involved. The trust and respect towards mutual interests is strongly emphasized. Stakeholder provides value for the company.
Description of the role in the surrounding environment	Follows the laws, pays taxes (honestly), and produces profits. Fulfils quality standards, produces quality products/services offering maximum satisfaction to the clients. External influence is not important. CSR is fulfilled by "invisible hand"	Besides profit generation, the company performs an existential role on the local level. CSR is perceived mainly as sponsoring activity (philanthropy) where you have your favourites. The relationship with core work, nature of business is rather unimportant.	Development of the industry. Directing accumulated resources into the wider development of society and fields of industry as this would return in the long term through increased consumption. Ties with core work and core competencies exist though are not strong. Value creation to stakeholder groups is important.	Profit as the basis for CSR. Sustainability comes through responsible action and partnerships that are related to core work and core competencies. Strong reasoning.
The cause and benefits of CSR	Better employees, PR/advertising	PR/Advertising, showing off. Inner feeling/support to philanthropic cause among management Added value to the customer	CSR as the supporting function and the indicator of success. Contribution to the development of society and as an indicator of the inner harmony of the organization.	Value creation across 3 levels: Employees-customers-shareholders Partners and Industry associations Local community
Time dimension	Longer perspective is not mentioned	Longer perspective is not highlighted. However the further development of business as well as innovation is perceived as important. CSR is perceived as a new developing definition.	Longer term existence though time dimension tends to disappear.	Longer term existence, sustainability
Internal or External Conviction	CSR is viewed as an external pressure, duty, all depends on the size of the company and the "popularity" of the company in society	External conviction, rather pressure	Depends on the size of the company: Rather external conviction among bigger enterprises, Rather inner conviction based on synergy of inner stakeholders among medium-sized and local enterprises.	Attitude/approach is based on the corporate philosophy, values and culture of the organization. Integrated at the management as well as employee level.

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Developing Responsible Leaders

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One's personal maturity and ethical development is challenged when you are required to become a leader. Leadership is one of the many areas of human life and social relationships in which moral character matters most. That is why contemporary leadership development seeks more and more guidance from the ethical perspective and character formation.

Development: alone or Together?

What makes a good leader? 'Leaders are born', say gift-oriented leadership specialists, although many leaders themselves say that not one of them was born alone to be leader. ÒNaturally born leadersÓ still need to develop themselves. 'Leaders are made', confirm education-oriented leadership specialists, but leaders affirm the importance of their personal character, which is still best developed in the context of human relationships and common practices.

Business gurus have put a lot of effort into identifying the desirable characteristics of a good leader. Charles Handy, for instance, a British management sage, lists good judgment, strong values and the ability to take tough decisions as the three key qualities (see, for example, Handy, 2000). Jim Collins, co-author of a massive study of the common factors in companies that have notched up exceptional long-term growth, found that their leaders shared tremendous ambition for the cause, the company and the work––but not for themselves––and unbelievably terrifying will to make good on that (Collins, 1997; 2001). Dr Sumantra Ghoshal, the management guru, leading economist and founding dean of the Indian School of Business – Hyderabad, who passed away in 2004, stressed the intellectual ability to create clarity in big, complex companies, to deal with inherently conflicting demands and to make wise decisions in the face of not just the unknown, but of the unknowable (see, for instance, Ghoshal and Bartlett, 1991; Ghoshal and Bartlett, 1999). But if leadership were merely an innate quality, there would be no place for the vast industry that aims to teach it. In fact, the shelves of bookshops are overflowing with tomes on the subject, and business schools are rushing to insert the word "leadership" into the titles of courses on conventional subjects such as organisational behaviour.

> "ARE corporate leaders born or made? The answer seems to be a bit of both. Being the kind of person to whom others turn for a lead does not ensure you will run General Electric, but without that quality you will never reach the top," states The Economist article of Press Clippings on Creating Leaders under the subtitle Charisma helps, but it's only a beginning (The Economist, 2003).

Accordingly, attempts to discover an innate characteristic that marks people out as potential leaders, popular half a century ago, fell out of fashion in the 1960s when leadership came to be viewed more as a pattern of behaviour that can be learned. Yes, social geneticists on "social potency" suggest that there is indeed a quality that allows someone to emerge from any social situation as the dominant force (Tellegen and Waller, 2004). According to Frans de Waal (2000) the author of a book on Chimpanzee Politics, there is some evidence that the quality is inheritable––at least in the contests for leadership among male chimps in a Dutch zoo. The study of monkeys supports the idea that being a leader may greatly reinforce the qualities required to be effective. But, Noel Tichy, a guru at the University of Michigan teaching business leaders, claims "that with growth, an organization can flourish even after a leader has gone" Tichy (2004) writes:

> "To add value to your assets, you need a vision of where you're taking the institution

> and a strategy for getting there. You have to paint a clear picture of your destination and the route. That may require a total transformation of the organization, especially when past practices and assumptions forestall growth. Successful leaders of such journeys are invariably creative thinkers. They know how to look from the outside in, to challenge the status quo, to move proactively, and spot and cultivate talent. They translate their vision of the future into what I call a 'teachable point of view'.
>
> This has four elements: 'Ideas'––the products, services, markets, distribution channels, or customer segments that are going to be most important; 'Values'––the behaviours and ideals that support those business ideas; 'Emotional energy'––the drive communicated to others to create positive outcomes; 'Edge'––an engagement in the business that allows leaders to make tough, yes-or-no decisions. All of these are essential to asking the right questions about the future and to formulating and implementing a growth strategy. A teachable point of view, grounded in an understanding of your mission, also helps you know when to say no to people, practices, and opportunities that no longer add value to the work of the organization."

The Economist ends the issue by saying: "Whether people can learn to be leaders, either from traditional business-school courses or from the new touchy-feely leadership development programmes, is a moot point. Most people probably learn largely on the job, by watching and by making mistakes, as they have always done. When a young executive at IBM once lost the company $30,000 on an experiment that did not come off, he expected to be fired. But Thomas Watson, the company's founder, had different ideas. "Why would I fire you?" he asked. "We've just spent $30,000 educating you." Some leadership lessons do not come cheap (The Economist, 2003).

Right here one can see how another aspect of a good leader and leadership development comes in. It is about the moral perspective of character formation. From such a perspective, leadership development may be described as the process of forming one's character. At the same time it takes more than one person alone to become a leader since any process of 'leadership development needs others to help others to become good and do well' both in human relationships and common practices. 'Leadership development' becomes a 'common practice', which according to Alasdair MacIntyre, may be defined by the 'moral perspectives of a particular community', deriving from and driving towards 'the virtuous image of being and doing good' by influencing others.

MacIntyre, in his book, After Virtue (MacIntyre, 1984), defines virtues in the following manner:

> "The virtues therefore are to be understood as those dispositions which will not only sustain practices and enable us to achieve the goods internal to practices, but which will also sustain us in the relevant kind of quest for the good, by enabling us to overcome the harms, dangers, temptations and distractions which we encounter, and which will furnish us with increasing self-knowledge and increasing knowledge of the good. The catalogue of the virtues will therefore include the virtues required to sustain the kind of households and the kind of political communities in which men and women can seek the good together and the virtues necessary for philosophical enquiry about the character of the good. We have then arrived at a provisional conclusion about the good life for man: the good life for man is the life spent in seeking the good life for man, and the virtues necessary for the seeking are those which will enable us to understand what more and what else the good life for man is."(MacIntyre, 1984, 219)

Recent studies on leadership development stress more and more the role of community in the process of forming virtuous leaders and ethical leadership (see, for instance, Pawelke, 2002). Ruth Knutson's thesis about '*Discipling Individuals In Collectivist Cultures'* indicates that the presence of strong collectivist traits (placing high value on the opinions of immediate and extended family and friends) predicts growth in good leadership development (Knutson, 2001).

In such communal perspectives, the development of leaders and their virtuous character is dependent on: first, the particular sense of virtue(s) valued and practiced by a particular community within his or her own moral tradition, narratives, practices and vision of the ultimate *telos* of the community; second, the relationships between a particular community and his or her sense of goodness on one hand, and the personal character formation of the developed virtuous leaders on the other; and third, the contextual language of communicating the meaning in a particular communal life-setting.

Responsibility: to what or to whom?

There are currently two different approaches to understanding one's own or common responsibility:
1) Legal responsibility ("to what") – this means people's response-ability to particular texts made authoritative in the context of a particular historical community;
2) Social responsibility ("to whom") – this means people's response-ability to particular persons made authoritative in the context of a particular historical community.

In the context of contemporary Western democratic market-based societies shifting from a modern worldview to a post-modern sense of life, legal responsibility (and its language of rights) is losing ground before social responsibility (with its language of oughts). At the same time, the premodern holistic sense of responsibility––religious response-ability––with its strong stewardship concept, is also starting to have appeal again in many areas (e.g. the environment, medicine, art, etc.)––people may be starting to see themselves, in terms of individuals as well as communities, like entrusted stewards before the Ultimate Being. By recognizing the Ultimate Being as the owner (*kyrios*, in Greek) of all that there is (*oikos*), one is taking a stand as a steward (*oikonomos*) to serve others with all that has been entrusted (*oikonomia*). In addition, traditionally Christian societies have inherited very important moral capital through the holistic religious responsibility of Jesus' teaching to love the Ultimate Being (God) over all, and any fellow human being as yourself (see, for instance, the Gospel of Matthew, 22:36-40).

Dr. Francis Schaeffer, relying on Max Weber, points out how the prosperity of some post-reformation Western economies (*oikonomias*, if you wish) have depended on the taking of the traditional moral and religious response-ability to the O/other seriously (Schaeffer, 1976). In this context the better developed leaders, mature in their character and virtuous in their ethical perspectives of and for the community, recognizing their responsibilities not only to some legally authoritative texts (like human rights or eurolaws, for example), but also socially authoritative persons (like God and our fellow humans), are about to put into practice both a responsible leadership and responsibility as such before themselves and also before their own intimate and extended relationships with the oikos of their life. Such leaders embody a model character and virtuous relationships in the context of daily leadership practices of the community (oikonomia, if you wish).

Leadership: Exercising Power or Empowerment?

Every leader or group of leaders ultimately faces the real leadership process with the question of how to delegate well the responsibilities and input for the common good. If leadership as such, both in its corporate and private form as a communal and personal practice, is seen and described through the prism of influence, one of the main questions about its quality is the use of the power of influence exercised by leaders delegating responsibilities to others.

In developing (socially) responsible virtuous leaders, the leadership task of delegating responsibilities using power is going to be connected to the task of communication via empowerment. Empowerment is the use of power aimed at and for the people, and not at and for the tasks. Communication (a primary task compared to the secondary task of delegating) is accomplished *best* by the leaders of empowerment, responsible socially in their development of the sense of virtuous belongingness and common good.

In his No.1 bestseller, '*The Habits of Highly Effective People: Restoring The Character Ethic*' (1990), Stephen R. Covey presented a framework for personal effectiveness. While working on his doctorate in the 1970's, Covey reviewed 200 years of literature on success. He noticed that since the 1920's, success writings have focused on solutions to specific problems. In some cases such tactical advice may have been effective, but only for immediate issues and not for the long-term, underlying ones. The success literature of the last half of the 20th century largely attributed success to personality traits, skills, techniques, maintaining a positive attitude, etc. This philosophy can be referred to as 'p*ersonality ethics'*. However, during the 150 years or even more that preceded that period, the literature on fruitfulness was more character oriented. It emphasized the virtuous characters and communities of a certain moral perspective instead of plain success. This philosophy is known as *'character ethics* or *virtue ethics'*, in which the ultimate perspectives of life are attributed more to underlying characteristics or virtues such as integrity, courage, justice, patience, etc. Virtues in character ethics are primary traits, while in personality ethics for success they are secondary. While the characteristics of personality ethics may help one to play the game and succeed in some specific circumstances, in the long-term the characteristics of both are necessary. One's virtues are what are most visible in long-term relationships. And all lasting communities are about lasting relationships, not short-sighted success. So Covey has kept on and on communicating his message, touching mutually upon the issues of leadership and living together with others (Covey, 1992; 1994; 1995; 1997; 1999).

Covey's practical training concept of The 4 Roles of Leadership is ultimately about empowering the leaders to become who they really ought to be:

1. Pathfinding: Creating a Blueprint––great leadership begins with clarity of thought and purpose. Stephen R. Covey says that all things are created twice––that "mental creation precedes physical creation." You wouldn't build a home without a blueprint. Similarly, it's folly to rush into action without understanding your purpose. The Pathfinding role helps you create a blueprint of action and ensure that your plans have integrity before you act.

2. Aligning: Creating a Technically Elegant System of Work––if pathfinding identifies a path, aligning paves it. Organizations are aligned to get the results they get. Think about that. If you are not getting the results you want, it is due to a misalignment somewhere, and no pushing, pulling, demanding, or insisting will change a misalignment. Therefore, as a leader, you must work to change your systems, processes and structure to align them with the desired results you identified through pathfinding.

3. Empowering: Releasing the Talent, Energy, and Contribution of People "Empowerment"––it's an overused term but under-utilized in practice. Empowering isn't abandoning people, letting them "figure it out" on their own, nor is it allowing individuals minute freedoms while controlling other aspects. True empowerment yields high trust, productive communication between individuals and teams and innovative results where each member of the team feels welcome to bring his or her genius to the table.

4. Modelling: Building Trust with Others – the Heart of Effective Leadership. The 4 Roles of Leadership do not just teach you what a leader does, but who a leader is. You learn the essential balance between character and competence––an individual with outstanding abilities will never be a true leader if his or her character is questionable (Covey, 2004).

Ralph Waldo Emerson once said, "What you are shouts so loudly in my ears I cannot hear what you say." Leaders should first become ethically mature in their character and relationships so they can communicate and empower others with their virtuous existence and actions, and then become entrusted by others in the use of their power.

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