

The social entrepreneur

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Paper prepared for the conference:
Business as a Calling, The Calling of Business,
The Fifth International Symposium on Catholic Thought and Management Education.
Universidad de Deusto
Bilbao, Spain
July 15-18, 2003

Abstract

Recent developments in economic theory and managerial literature strongly support the notion of 'social entrepreneur'. The literature emphasizes the importance of using a conceptual framework richer than the one provided by the neoclassical theory of the firm. The paper reviews this literature and shows how profit maximization may (and should) be integrated with richer and broader behavioural assumptions. The paper finally points out that a strong commitment to ethical values is crucial for the existence of a social responsibility. The true 'social entrepreneur' does not mimic ethical behaviour. In order to be effective, social responsibility has to be based on strong intrinsic motivation. Government can help to nurture social entrepreneurship widening and deepening good practices through appropriate supporting institutions.

Key words: ethical business, social responsibility, good corporation, social accountability

1. Introduction

There can be little doubt that business ethics and social responsibility have become key issues in public debate and business environment over the last years. Several terms have been used to define and analyse such a view of the firm: corporate social responsibility (CSR), ethical firm, good firm, good corporate citizenship. We have used the words 'social entrepreneur' just to resume these different notions and define a firm incorporating socially responsible practices into its core business activities (Caloia, 1995). The social entrepreneur creates and manages a firm which is committed to its workers, investing in human resources, developing care for nature and the community and concerned with the long-term dimensions of performance.

Economists and strategic management researchers have increasingly moved from a substantial neglect of these notions to a growing emphasis on the factors that may justify them. The idea of business ethics is becoming increasingly fashionable. The field of corporate social responsibility (and business ethics) has grown exponentially in the last decade. An increasing number of firms invest much more human and financial resources to define and implement strategies which make them more socially responsible. (Witness the growth of ethical auditing and social responsibility reporting). New voluntary CSR standards and performance measurement tools continue to be developed. The main purpose of this paper is to provide a general discussion of all these recent developments. The aim is to show how economic analysis and strategic management literature now supports the role of ethics. In particular, there is growing theoretical and empirical evidence according to which profit or utility maximization may (should) be integrated with richer and broader behavioural assumptions. The paper eventually argues that a strong commitment to ethical values is crucial for the existence of a true social responsibility.

In what follows, we shall develop the argument along the following lines. In the next section, we provide some evidence about the relevance of the idea of social responsibility in recent debate and firms' decisions. The third section briefly reviews the main results of the relevant literature. Section 4 focuses on some implications for further economic research, firms strategies and public policies. The fifth section makes some final remarks.

2. The idea of social responsibility is no longer under attack

The notion of social entrepreneur and corporate social responsibility (CSR) are typically defined as the firm's orientation towards achieving commercial success in ways that honour ethical values and respect people, communities, the natural environment and the

legal and social norms. It has not been easy for the idea of business ethics to conquer an adequate room both in the academic and business debate. Up to very recently, the business responsibility debate was still under attack.

Indeed, the idea of a social responsibility of the firm has always had its critics. Some claim that social objectives are inappropriate for business insofar as they can only lower business efficiency and social welfare. As a consequence, companies' only duty is to shareholders. As a corollary, CSR can only be a mere form of window-dressing.

For a long time, the debate has been influenced by the famous article in which Milton Friedman the guru of Chicago, argued that business only social responsibility is to increase its profits. According to such a view, ethical behaviour is reduced to the economic rationality of profit maximization (Friedman, 1970). Then firms promote the common good by solely pursuing their economic interest, they behave ethically, as profit is ethical. This being the case, there would be no need to discuss our topic. Conventional rationality associated to profit maximization in the standard neoclassical theory of the firm would always ensure that business people, being rational, would strive for ever higher standards of socially responsible behaviour.

It should also be noted that the reduction of ethical behaviour to economic rationality amounts to consider that unethical behaviour never pays. With such a reduction, not only it is useless to care about ethical concerns since they are automatically satisfied, but there can be no incentives to be unethical since unethical business cannot be profitable (Le Menestrel, 2001).

Unfortunately, market competition, with all its virtues does not keep firms from engaging in unethical conduct. Economic theory and empirical evidence suggest that firms may face incentives to behave unethically. While efficient markets may prompt firms to act smart, they do not induce them to act ethically. Markets may be highly imperfect in their enforcement of business morality (Baumol, 1991, p. 24).

There is, however, ample evidence that many organizations have found a strong business case for CSR and also that it can deliver strong public good. Increasing public and corporate interest is changing market and making the case stronger. In contrast to the critical views, the case for incorporating socially responsible practices into core business activities is increasingly accepted and the idea of business ethics is becoming increasingly fashionable.

The Center for Business Ethics (1986) survey extended to 1000 industrial and service companies, found that out of the 28% of respondents 75% had adopted corporate codes of ethics. This represented an increase in the vicinity of five to 10% over the incidence reported in a similar study done in 1979 by the Ethics Resource Center, and a 40% increase against the findings of the Conference Board study of the early 1960s. Similarly in Britain, Schlegelmilch and Houston (1990) found out that 42% of the top 200 companies that 42% of the companies had introduced a code of ethics were implemented. By 1995, Berenbeim was reporting that codes of ethics in over 84% of comparable U.S. companies, 66% of Canadian and 50% of European companies (Greg

and Rimmer,2003). CSR is now more and more part of the mainstream investment scene. The last few years have seen the launch of several high-profile socially and/or environmentally screened market instruments. These developments show that mainstream investors increasingly view CSR as a strategic business issue.

3. New theoretical and empirical evidence supporting social responsibility

There has been important developments, new perspectives and increasing emphasis about social responsibility in recent theoretical debate. A very interesting aspect is that the role of ethics issues in economic analysis has been focused from different perspectives.

3.1 Economic theory and ethics

Contrary to the neo-classical conventional wisdom, more and more evidence shows that ethics does matter. Recent developments in economic theory provide important contributions about its role. There exists a large consensus as to the limits of the standard neoclassical approach. Several studies now recognize and emphasize the importance of social and moral norms.

These developments show that taking ethics seriously is possible and can make economic sense. According to Arrow (1973) ethical behaviour can increase social welfare in the presence of externalities and information asymmetries. The reason is that ethical values may prevent opportunistic behaviour from occurring. Arrow (1979) argued that ethical codes ethics should have a significant impact on controlling agency problems. Given that optimal compensation will not always induce first-best outcomes and that reputation may be unable to control agent opportunism completely, there will exist room for improvements in social welfare through the inculcation of ethical norms.

The importance of ethics in the context of imperfect information has been emphasized. Noe and Rebello (1994) show that monetary and reputational incentives alone may not be able to ameliorate agency problems to the degree required to maintain efficient organization.

The New Institutional Economics (NIE) has greatly contributed to broaden the economic perspective by focusing the implications of opportunist behaviour and the problem of cooperation. Containing opportunism by way of appropriate institutions may boost economic efficiency. North (1990), using a broadly-based definition, defines institutions as any form of constraint that shapes human interactions. This definition includes formal rules (such as constitutions, laws, property and other rights) as well as informal rules (such as habits and moral standards).

In this broader perspective, social norms, moral standards and ethical values, may play a relevant role. Institutional economics predicts that when market fails, non-market governance mechanisms will arise. Market failure can motivate government intervention, but also other types of non-market institutions. In the context of institutional economics, social responsibility is regarded as a set of principles which can influence the firm's behaviour. An ethical code, for example, may be seen as a governance mechanism helping to coordinate economic activities.

Williamson (1985) defines opportunism as “ self-interest seeking with guile. In other words, opportunists seek their self-interest irrespective of the consequences for others. Institutions may help to limit the scope for opportunist behaviour. In a world of imperfect information and uncertainty, explicit rules and regulations may be issued to ensure the well-functioning of the economy. Nevertheless, it is essential that society be based on moral standards and values if the economy is to function properly. Extremely opportunistic behaviour cannot be contained by rules and legislation. In this context, Arrow (1972) observed that virtually every commercial transaction has within itself an element of trust. Similarly, Bowles and Gintis (1998) found that the enforcement costs of a society without trust would be extremely relevant. Sen (1993) pointed out that a world shorn of moral codes is not only normatively indigent, but also be very poor in performance. Sen (1987) strongly emphasized the role of ethical dimensions in suggesting the maximization of some objective other than one's welfare, and in inducing behaviours that make personal welfare rest on a base wider than one's own consumption. Sen's criticism of self-interested behaviour offers direct possibilities for the incorporation of ethical aspects in economic analysis. In a complex world, when it may be relevant to take the objectives of other people into account, ethical behaviour may have a considerable impact on the outcome of economic processes.

Ethical norms and values can be seen as a component of social capital. As such, they can promote the well-functioning of economy (Coleman, 1987). Donaldson (2001), using the notion of “competitive advantage of nations” (introduced by Porter, 1990) indicated how ethical values may create economic advantages for nations. If ethical resources may create or reinforce cooperative tendencies, higher levels of cooperations can avoid forms of self-destructive economic interaction such as the ones described in the prisoner dilemmas.

Similarly, Frank (1996) argued that economic activity is more efficient when guided by principles and values. Ethical values increase the ability of economic agents to solve “commitment” problems, that is problems that create failures and inefficiencies when parties are unable to behave responsibly to one another. Towards the firm's stakeholders as well as towards other firms.

3.2 Game theoretic literature

A relevant theoretical support for the role of ethics comes from the results of influential lines of research in game theory. Game theoretic literature has emphasized the role of trust and ethics as a facilitating the development of cooperation. Several findings confirm the importance of trust and reciprocity for the emergence of cooperative outcomes. The main theme is that trust increases the propensity of economic agents to cooperate in order to produce socially efficient outcomes and to avoid inefficient non cooperative traps such as the ones which are seen in the prisoner's dilemma. The prisoner's dilemma game (PD) clearly arise as a problem of trust. In the absence of trust, each player would not be willing to cooperate even though cooperation creates the potential for mutual benefit. Thus trust favours cooperation in a one-shot PD game.

Can repetition in itself result in cooperation? When the game is repeated a finite number of times the answer is no.. Both players will defect in the last play as there is no further play of the game in which the players can benefit from a good reputation.

The perspectives would seem different in the indefinitely repeated prisoners' dilemma game. The theory of repeated games play an important role in demonstrating how cooperation may be sustained in a long-run relationships among self-interested players. Repetition allows the players themselves to enforce an agreement. Each player has a way of influencing his (her) opponent's behaviour: if he refuses to cooperate this time, you can refuse to cooperate next time. If both parties care enough about future payoffs, the threat of non-cooperation in the future may be sufficient for achieving the efficient outcome. Rationality leads to cooperation (Axelrod, 1984). However, the idea that cooperation can spontaneously occur in ongoing relationships is quite fragile. Cooperation is not the only equilibrium. Defection is an ever present threat and almost anything goes in the indefinitely repeated PD game. The prediction is not that cooperation occurs but only that repetition may lead to a greater likelihood and duration of cooperation. Evolutionary game theory does not encourage optimism with respect to the prospects of cooperation even in the case of repeated PD. Thus, this literature confirm that cooperation is a possibility but its emergence is not guaranteed in the absence of trust and ethical values disciplining agents' behaviour.

Cooperation is not a spontaneous outcome of market interactions as indicated by the very notion of the prisoner's dilemma. In the absence of confidence in a cooperative behaviour of other agents, the dominant option from the standpoint of a self-interest agent is defection. As a consequence, ethical agents can create an economic advantage for nations to the extent that their behaviour corrects market imperfections and reduces market failures.

Thus trust and ethical values can play a crucial role. Kreps et al. (1982) show that trust and ethical values may affect the character of the equilibrium leading to a greater likelihood and duration of cooperation. Ethical behaviour may also be optimal from a selfish viewpoint in a sequence of repeated games (Schotter, 1981; Binmore, 1994) in which the stakeholders of a firm get to know each other over time and where selfish

behaviour may be optimal in the short run, but will be punished in subsequent games, being therefore discouraged by the existence of possible damage to the firm's reputation.

3.3 The management literature

Ethical behaviour means that the firm adopt a set of principles and rules which limit the range of acceptable activities. According to the conventional view of standard management literature, such behaviour would be inconsistent with profit maximization. However, a recent finding of recent management literature is that firm's ethical resources can be a source of competitive advantage.

The recent resource-based view (RBV) of the firm provide a useful conceptual framework to emphasize the role of ethical resources. According to this view, the firm is defined and its performance determined by the resources available to the firm. These resources are tangible and intangible firm-specific assets (such as capabilities, information, knowledge) and they play a decisive role in allowing firms to develop competitive advantages. Recent empirical work on the RBV highlights the importance of resources that are likely to be rare, difficult to be imitated and imperfectly substitutable as the main sources of sustained competitive advantage.

The RBV of the firm an interesting analytical tool as it explicitly recognizes the relevance of intangible resources such as knowledge, corporate culture and reputation. Human resources, in particular are considered very important and the notion is very broad. It includes not only expertise and skills of employees but also culture, commitment and loyalty. It is easy to recognize here the role of ethical resources (Russo And Fouts, 1997).

Thomsen (2001) argued that, according to the predictions of the RBV of the firm, ethical values and codes are particularly important and effective to the extent that the firm has specific information and knowledge. As long as this information is unique to the firm, ethical business codes are all the more likely to improve social well-being, given that they are based on firm specific issues which the firm is in a unique position to solve

A further important development has been provided by the stakeholder paradigm of the firm. The stakeholder approach suggests that strategic management decisions should not narrowly focus on creating shareholder value. The firm should broaden its objectives to address the expectations and interests of several stakeholders. Such objectives may include customer satisfaction, regulatory compliance, good corporate citizenship, and social and environmental responsibility. Much of the recent strategic management literature takes into account how poor social and environmental performance can have negative consequences for a firm's relationship with its stakeholder. This may negatively affect the firm. Shareholders will suffer monetary losses on their investments if a company is found liable for environmental damage or if its poor social and

environmental records makes the news and lead to a negative reputation effects. As a result, not only shareholders, but also financial institutions, perceive such firms as riskier and may demand a higher risk premium or refuse to extend new loans (Buisse and Verbeke, 2003).

Firms with a reputation for ineffective social and environmental management may also find it harder to attract or retain highly qualified employees. In addition, a firm with a weak social and environmental strategy may face an overall loss of competitive advantage when ethical behaviour and active social management becomes a common practice among its rivals. This means that the threat posed by various stakeholders in response to poor ethical management may induce firms to improve their corporate practices. Moreover, firms adopting advanced ethical strategies often cooperate with some stakeholders such as regulators and non governmental organizations with positive results for their performance. The main normative implications of these works is that firms should rethink their corporate strategies, define more rigorously their basic values and then design strategies consistent with these values (Freeman et al., 2000).

Empirical evidence supports the hypothesis that social responsibility is possible and may also pay. In the last decade several studies have been conducted to examine whether there is a relation between socially responsible business practices and positive financial performance. Even if there is no general consensus, there is empirical evidence supporting the hypothesis that socially responsible conduct can have a positive impact on firms' profit performance. The reason is that ethical behaviour and CSR initiatives can reduce operating costs. For example, many initiatives aimed at improving environmental performance also lower costs. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees allow increased productivity and reduction of hiring and training costs. CSR may also lead to enhanced brand image and reputation. There is evidence that customers are generally drawn to brands and companies with good social reputations. CSR increases the firm's ability to attract capital.

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. Firms have to satisfy not only customers' (desiderata) in terms of price, quality, safety and convenience, but also growing desire to buy (or not buy) because of other values-based criteria. Company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity. Increased Ability to Attract and Retain Employees: Companies perceived to have strong CSR 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 public agencies of regulation) and/or government entities). In the U.S., for example, federal and state agencies overseeing environmental and workplace regulations have formal programs

that recognize and reward firms that have taken proactive measures to reduce adverse environmental, health and safety impacts. In many cases, such companies are 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 governmental permission. The U.S. Federal Sentencing Guidelines allow penalties and fines against corporations to be reduced or even eliminated if a company can show it has taken "good corporate citizenship" actions and has an effective ethics program in place.

The growth of socially responsible investing means that companies with strong CSR performance have increased access to capital that might not otherwise have been available. In its 2001 report on socially responsible investing in the United States, the Social Investment Forum reported that social investing rose to \$2.34 trillion despite an extended market downturn for most of the two-year period since the publication of the 1999 study. The primary driver for this growth was portfolios screened for socially concerned investors, which climbed 36 percent from \$1.49 trillion in 1999 to \$2.03 trillion in 2001. It is important to note this amount accounts for nearly 12 percent of the \$19.9 trillion in investment assets under professional management in the U.S.

In short, the managerial literature, strongly support the idea that ethical resources available to the firm and its managers may play a crucial role (a) to reduce the possible negative externalities associated to their normal business activities; (b) increase the positive ones, and (c) to meet other societal needs.

More in general, works in all three of the research fields examined (economics, game theory, managerial literature) tend to emphasize the same theme: the legitimacy and the potential relevant role of corporate social responsibility.

This does not mean that the social entrepreneur is a well consolidated and defined notion. The analytical results reviewed in the previous section show that the idea of social responsibility has won the struggle against the conventional neoclassical view of the firm and is here to stay. Much more work both theoretical and empirical remain necessary to develop the idea and to define private and public institutional frameworks to support its diffusion. In the next section, some indications will be provided about the main directions for future research.

4. New directions for research, firms' strategies and policies

Notwithstanding the improvement of our knowledge about the role of ethics in economic analysis, several conceptual and theoretical issues remain to be explored. While the theoretical and empirical results examined in the previous section emphasize the important economic function of ethics, in this section we argue that, to be effective and provide social and economic advantages, ethical concepts must rise to the status of

intrinsic value. Several lines of research indicate the need of a strong ethical commitment.

Frank (1987) observed that a strong disposition to ethical behaviour, even when it is irrationally grounded, may actually serve as a competitive advantage (Frank, 1987). If there is reason to believe that an agent will keep his (her) commitment, even in instances where it is in his self-interest to not do so, it will be more likely that he will be chosen as a business partner. Many aspects of economic activity and several problems in management decisions depend on the fact that their solution requires individuals to make ex ante commitments to behave in ways that will not be self-serving ex post (Frank, 1987). Indeed, there is evidence that corporate excellence frequently depends on a non-instrumental commitments to ethics namely on firm's decisions taken with reference first to ethical dimensions and only second to shareholder wealth (Quinn and Jones, 1995).

As noted by Frank, we ought not to be surprised by the role played by intrinsic value in economic activity. "In daily life we prefer doing business with people who show independent concern for values. [...] If we believe that our lawyer or banker is constantly lying in wait, looking for the moment he can abandon integrity, and that he is routinely seeking the hidden moment when acting unscrupulously will fatten his advantage and decrease ours, then we suppose it is time to hire a new lawyer or banker. Most of us prefer doing business with a lawyer or banker who places some intrinsic value on integrity."

Similarly, Donaldson (2001) argued that the values that serve national economies require the status of intrinsic value from the standpoint of individual firms and persons. "If [...] ingrained social cooperation, and the adoption of economic duties, then it is hard to imagine such conditions being met by citizens simply pursuing maximal self interest and treating such goods as having merely instrumental worth."

This means that, ethical behaviour must be based on strong intrinsic motivation. In order to be successful, the values referenced above must have a clear intrinsic worth. Without an individual's independent commitment to ethical values, they easily fall prey to the standard notion of self-interested rationality. The key assumption in the notion of social entrepreneur is that ethical rationality is broader than traditional neoclassical rationality based on self-interested calculation.

While the stakeholder approach provides, as we have seen, an innovative and very useful conceptual framework to broaden the view of the firm and redefine its goals in a more balanced way, such an approach maintains some points of weakness just in relation to the issue of social responsibility. While Freeman, Pierce and Dodd (2000) propose 'stakeholder capitalism' as a 'values-based capitalism' that is a system of cooperation among stakeholders around important values, the stakeholder approach views firms' behaviour as essentially determined and constrained by the specific interests of various stakeholders. The problem is that ethical values and social welfare may not be necessarily represented in their goals. For example, stakeholders may simply be

interested in ever-larger share of corporate resources (Sethi, 2003). The social entrepreneur should do much more than taking into account the interests of stakeholders. It is interesting to note that recent scandals have revealed serious weaknesses and deficiency of standard versions of the stakeholder theory just in terms of social responsibility. Standard versions of the stakeholder theory are still very naive just because they do not include an appropriate emphasis on ethical values. The executives at Enron and WorldCom, for example, might have “rationalized” their actions by appeal to the stakeholder theory. Carson (2003) observed that the stakeholder theory would be more plausible if executives should make it a precise commitment to adopt ethical behaviour. It is good policy for business people to regard certain acts as out of bounds and not even consider whether they would promote the interests of stakeholders. In other words, the stakeholder theory needs “side constraints” in order to be clearer and simpler as an action guide and to guard against rationalizing wrong conduct.

Social responsibility has to be given more precise contents. For example, it is not always clear what conditions influence managers’ willingness to engage in activities primarily designed to promote societal goals. Although the theoretical and empirical development reveal firms’ willingness to think about business ethics and adopt social responsibility practices, much more work remains to be done to enhance ethical behaviour.

In several cases, firms’ approach to social responsibility is based on a ‘me-too attitude’. In the case of codes of ethics, for example, Wood and Rimmer (2003) find that “a relatively low priority is given to the actual moral content of codes. Rather, researchers have focussed on procedural aspects of codes (how are they formed, and reinforced) and the attendant socialisation processes (how are stakeholders informed, trained, or brought towards acceptance of codes”).

It should be noted that focussing on profitability alone might send the wrong message about the reasons or the ‘means’ for pursuing ethical business practices. Firms should consider that profitability is a ‘result’ of having the code, ‘not the aim’ of having the code. For such a focus on profitability being the motive is a manipulation of the concept of business ethics (Wood and Rimmer, 2003).

Some problems in this regard remain both in terms of ethical behaviour patterns as well as in relation to the motivation and determinants of such behaviours. There is, for example, evidence that codes of ethics have proliferated because senior managers see them as a means of appearing ethical (Wood and Rimmer, 2003). Codes can be a useful starting point on a firm’s path to achieving ethical behaviour, but they should be viewed only as a first step in creating an ethical culture.

The existence of a social entrepreneur cannot rely on a set of stand-alone documents. Rigorous ethics programs targeted at improving ethical commitment require a strong intrinsic motivation.

The codes are no solution. Indeed, codes need to be part of an entire program aimed at increasing the commitment to actually being ethical and not just appearing as such.

Despite the existence of economic incentives to adopt ethical behaviour, the external pressure to adopt may be lacking in precisely those situations in which the social rationale for such codes appears to be strongest, namely in situations where the firm has access to unique information.

A profit maximizing firm may find it difficult to commit irreversibly to an ethical behaviour. It will be in the interest of the profit maximizing firm to signal commitment to ethical values if the signalling costs are small and if ethical appearance is perceived to have a positive financial effect. An implication is that business managers will find it in their interest to mimic ethical behaviour to the extent that the public cannot distinguish between ethical and unethical behaviour. The plethora of ethical business codes with unclear empirical content indicates the relevance of this problem.

Given the empirical relevance of unethical behaviour, we need to understand more about the relationship between social responsibility and social accountability. According to Sethi (2003) the notion of corporate social responsibility should be replaced by the concept of corporate social accountability. Corporate social responsibility may supplement, but not supplant corporate social accountability.

Enron, Tyco, Global Crossing, Ahold were considered the paragons of socially responsible corporations. Even under the best of circumstances, the good corporation should be viewed as not all good and not good for everybody. Imperfect competition as well as imperfect and asymmetric information determines the firm's ability to harm various stakeholders and reduce social welfare. Ethical values may discipline firms' conduct resulting in lower agency costs and negative externalities. However, highly competitive markets may be inimical to the creation and sustainability of the social entrepreneur. Although competition makes business efficient, it does not make it virtuous. One could even argue that highly competitive markets provide greater opportunities for illegal and unethical behaviour (Baumol, 1991; Sethi, 1994).

This means that we have to deepen the analysis of structural conditions that support or weaken good corporate behaviour. The desirable course of action for the society should be to create those structural conditions – economic and socio-political – that would induce all businesses to do good by doing well.

A crucial objective is then to (a) examine the external conditions, i.e., competitive market-based, that create opportunities for the corporation to engage in ethical/unethical behaviour, and the institutional temptations, e.g., corporate culture and individual morality that lead individuals and corporations to take advantage of those situations; (b) assess the importance and potential impact of various instrumentalities that might be available to enhance ethical business conduct at both the institutional and individual level.

We know that improving ethical conduct for businesses is less likely to be influenced through bureaucratic and institutionalised organizational procedures and more driven by the personal values of the entrepreneur/manager. Firms tend to resist externally imposed standards of ethical conduct that differ from the ethos of their owner/managers. On the

other hand, there is an important role for public policies. The external threat of imposed legal standards may create an incentive to voluntary adoption of ethical codes. A more direct role for public policy regards the creation of supporting institutions for nurturing social entrepreneurs.

There may be economic rationale for adopting socially responsible behaviour. However, our analysis emphasizes that economic rationale may well be neither necessary nor enough at least to the extent that it contributes to favour instrumental attitudes.

In the absence of economic rationale, a firm's socially responsible behaviour is in the nature of public goods. A free rider problem arise for those firms that wish to adopt an ethical behaviour. The free rider firms benefit from the social values and public goodwill created by social entrepreneurs. They also put inexorable pressure on the socially responsible firms to create more and more good deeds but receive less and less social rewards. This situation is not sustainable over the long term. Therefore, from society's point of view, it is essential to enhance institutional frameworks that are necessary for improving the ethical norms of corporate behaviour (Sethi, 1996; Sethi, 2003)

One approach to limiting the free rider problem would be to raise the level of overall good corporate behaviour that must be met by all business firms. This would be accomplished by raising public expectations and creating societal conditions to enforce them. The former would be accomplished through public pressure in general and pressure from important corporate stakeholders in particular. Social customs and traditions may also be used to inhibit bad corporate behaviour. It would also require regulatory actions proscribing corporate activities considered antisocial and inimical to public interest.

No consensus currently exists as to the nature of more inclusive standards to evaluate firms' ethical performance. Nevertheless, an improved and more comprehensive societal standard of corporate behaviour, including not only economic but ethical and moral values, would go a long way in making our system of market economy more humane and just, while contributing to greater economic welfare.

The best approach seems to raise the corporate norms of socially responsible conduct by voluntarily adhering to certain standards of corporate accountability and by a cooperative effort among firms, government agencies, and responsible civil society organizations. Voluntary, however, does not mean entirely discretionary. It is necessary to avoid subjective and no comparable measures of the nature and extent of corporate social performance (Sethi, 2003).

Ethical and social norms of corporate behaviour cannot be left entirely to the personal preferences and predispositions of individual corporate managers, industry practices, the degree of successful pressure applied by community activists and other stakeholders.

As we have seen, ethical behaviour must be based on strong intrinsic motivation to be successful. Without an independent commitment to ethical values, the firm easily fall prey to the standard notion of neoclassical self-interest behaviour.

An important literature developed by Schumpeter (1942), Hirsch (1976), Hirschman (1982), Bowles (1998) points out that markets may corrode 'nice traits,' i.e. 'behaviours which in social interactions confer benefits on others. This literature tend to suggest that the market system may boost morality but can also erode ethical values. Clearly, to the extent that such an hypothesis has empirical relevance, we are left in the uncomfortable situation of assisting to the weakening of resources which are not only of crucial relevance by themselves but that also might play a very effective role in correcting and avoiding market failures.

Our understanding of these mechanisms is still very imperfect but clearly this is a crucial area in which more research is needed. We need a better understanding of the factors at work in undermining the reproduction of socially valuable resources.

A crucial implication is that both firms and nations should take much more seriously the issue of ethical educations. Given the role played by ethical resources and the advantages associated to an ethically motivated behaviour, it is worthwhile to allocate social resources to instil and reinforce ethical values. As noted by Shavell (2003), from the perspective of welfare economics, investment in fostering the learning of notions of morality is investment in a valuable form of social capital.

First, the ethical education should be able to generate intrinsic motivation and this motivation has to be strong. Appearing ethical and mimic in order to be successful is a weak approach.

We need to develop new public and private institutions to support social responsibility. The debate over next years will be about how to promote and develop strong ethical commitment. Indeed, new voluntary CSR standards, codes and performance indicators will continue to proliferate. But voluntary external standards need to be consolidated, increasing the credibility of their transparency and reporting efforts.

Several governments reveal a growing interest and action. In Europe, CSR has moved to a prominent place in both the business and policy agenda. The European Commission has placed CSR at the core of Europe's competition strategy (as indicated by the recent Green Paper on CSR). The increased interest in CSR has been paralleled by substantial growth in the number of external standards produced by governmental, non-governmental, advocacy and other types of organizations. These various standards are designed to support, measure, assist in implementation, and enhance accountability for corporate performance on CSR issues. The majority of CSR-related standards produced in recent years ask companies to voluntarily develop and implement policies and practices and commit to specific performance standards on various CSR.

If social responsibility is to be regarded as an integral part of business decision-making, it merits a prominent place in a company's core mission and vision. In order to be successful, CSR programmes have to be included into firms' long-term strategic planning processes, identifying specific goals and measures of progress or requiring CSR impact statements for any major company proposals. The system of recruiting,

hiring, promoting, compensating and publicly honouring employees has to be redesigned to promote corporate social responsibility. In particular, given that employees cannot be held accountable for responsible behaviour if they are not aware of its importance and provided with the information and tools they need to act appropriately in carrying out their job requirements, firms have to publicize the importance of corporate social responsibility internally, include it as a subject in management training programs and provide managers and employees with decision-making processes that help them achieve responsible outcomes.

Firms have to assess their social performance on a regular basis. Annual CSR reports are important to build trust with stakeholders and encourage internal efforts to comply with a company's CSR goals. The best reports demonstrate CEO and senior leadership support, provide verified performance data against social, environmental and economic performance indicators. Given that several dimensions of CSR imply the existence of "credence" dimensions, that is contents which stakeholders cannot always observe, firm's claims are not enough. Transparency, stakeholder feedbacks as well as external auditors are necessary.

5. Concluding remarks

The debate about social responsibility, business ethics, and 'social entrepreneur' has evolved from whether to include ethics in economic models and firms' strategies to how to promote and develop strong ethical commitment. A crucial implication of the above analysis is that a strong commitment to ethics is needed. An ethical behaviour can increase both profits and social welfare, but to make ethics work it is necessary a strong moral focus. The old intuition of Adam Smith according to which markets have the great advantage of saving scarce resources of altruistic motivation remain valid. But this idea does not mean that strong ethical values cannot and do not matter. On the contrary, recent economic research strongly support the role of ethics and the notion of social entrepreneur. And the notion of social entrepreneur cannot be based on a minimalist ethics. The 'social entrepreneur' is much more than the neoclassical 'homo oeconomicus'. Ethical values play a crucial role in his (her) decisions. It is this fundamentally ethical orientation that distinguishes the 'social entrepreneur' from other more conventional view of the firm.

A values-based firm is essential to develop a strong commitment to ethical behaviour. A durable and effective ethical behaviour occurring without an intrinsically motivated effort seems especially unlikely. In some way, this conclusion bring us to the importance of call, that is to the core theme of this conference and to the need of broad new decisive emphasis of ethical values at all levels in our society. This dimension is crucial for the European society. The European model of a social market economy can be useful

to develop business ethics issues and to repopulate social space with attitudes and arguments other than the ones to which instrumental rationality has accustomed us.

There is an interaction between economic development and values. Growing prosperity boosts individualism and may lead to “self-destruction”. To correct and counterbalance these negative externalities we need more vision to make the capitalist system function more efficiently ... This paper has tried to show that social entrepreneurs may play a key role for such an improvement. A new moral consensus may finally emerge based a more general form of concern for the human and the natural environment.

Everything today seem to appear as social and/or ethical: from balance sheets to finance, from the recognition of equal opportunities for everybody to ethical contracts guaranteeing that no children have been put to work. At this point some line must be drawn between economy and society.

The capitalist philosophy has deeply penetrating into us. We compete all the time and the human Dimension never manages to win over our status as consumers workers or organization makers. It is therefore very positive to have raised the issue of the hiatus between economy and society by questioning, as we have done in this paper, the entrepreneurial and working people world and by registering the progress achieved by the best professional thought in the area of social responsibility and entrepreneurship.

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