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LEADERSHIP, ETHICS, RESPONSIBILITY AND DIVERSITY

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Leadership, Ethics, Responsibility and Diversity

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Dear readers, I am sure you all agree with me that the desire to understand, define and explain the essence of leadership has interested researchers and scholars as well as practitioners for most of the twentieth century. In an effort to find an "accurate and precise" definition of leadership, thousands of studies have been published in recent decades alone and great effort is continuously being made in this direction. In spite of the numerous studies no one has been successful in finding one clear definition.

But it is obvious that the need for effective leadership has become one of the greatest challenges of the 21st Century, and a growing number of academics and senior managers have come to recognize the importance of a new leadership paradigm.

I'm convinced that leadership cannot exist without ethics – ethical behaviour and effective leadership are intertwined and inseparable. The deeds and decisions of leaders, both in politics and organizations, have a strong influence on a wide range of people. It is the leader's task to direct their followers and businesses meaningfully. Meaningful leadership means leadership that is ethically sound, sustainable and that contributes to society at large. Ethical behaviour and ethical leadership are the critical keys to survival in the future.

We have seen much discussion about ethics and leadership, and it seems to be a common understanding among academics and practitioners alike that nowadays the leader who acts ethically will ultimately succeed and the leader who lacks an ethical foundation is doomed to fail. There is no certain proof for that claim, but one thing is apparent – when taking about leadership we have to include ethics and responsibility.

This issue of our journal is dedicated to leadership, ethics and responsibility, and as people and thus also organisations differ greatly, the issue of diversity has become an important aspect to consider when leading people and organisations.

Being good, being effective and ethical and taking responsibility for one's activities is a big challenge. One has to be able to value and respect oneself and others and consider the interests of those who are impacted by the activities within and outside the organisation. Every organisation is a part of society and the environment, and ignoring these may force you to discontinue your activities. Society and the environment will survive if it loses an organisation here or there, but organisations will not succeed without support.

Being a leader is a challenging responsibility, and not something that one does alone. It is an expression of collective action, where certain rules and regulations have to be enforced – it is the unified activity of leaders and followers who trust each other enough to jointly achieve mutual goals. The task of creating a culture conducive to such interactive trust is perhaps the pre-eminent leadership task and without a trusting environment one cannot succeed as a leader.

Failures of leadership are rooted in ethical failures, a lack of a corporate culture in which ethical concerns have been integrated, and an unresponsiveness to key organizational stakeholders; therefore, leaders not only have to accept responsibility for the consequences of their activities, they also have to make every effort to ensure that their decisions, recommendations and actions function to identify, serve, and satisfy all relevant entities: customers, organizations and society. Businesses are obliged to ensure the ethical treatment of their employees, customers, suppliers, shareholders and the communities within which they operate. They ought to create a 'do-it-right' climate that emphasizes core values such as honesty, fairness, good service to customers, a commitment to diversity and good citizenship. People and businesses have to know how to collaborate peacefully and support each other and this requires building trust and respect among all players.

Herman Siebens, a member of the European Business Ethics Network Executive Committee from Belgium, finds that whoever is interested in the issue of business ethics or one of the related topics (such as quality of work and all its aspects, quality care, organisational culture, corporate governance) will soon be confronted with the crucial role of management, and more especially the style of leadership applied by management. According to him, the publications on leadership are approaching the issue in a predominantly philosophical or instrumental way. Therefore, the operational implications of leadership (from the concepts and models) are not yet clear for most people managing an organisation on a daily basis.
In his paper, **'Facilitating Leadership',** he presents a new approach to (the concept of) leadership based on practical experience as well as research literature, and argues that the added value of this new concept of leadership is its operational filling-in.

When talking about ethics in leadership we need to discuss the topic of trust. In organizations, employers want loyalty and trust from their employees beside commitment, but both trust and loyalty are reciprocal concepts. Trust is important and makes doing business with others much easier. As with quality of products and services, business ethics and "fair play" can create a "climate of trust" deeper than that created by norms and labels. This condition lies in coherent collective and individual behaviours as proof of loyalty and a source of trustworthiness. It has been said that if you trust a person, you can do business with a handshake. When you don't trust someone, you try to get all transactions and agreements down on paper. When there is no trust in a society or organization, people substitute rules, contracts and laws.

Trust is a major strategic component of corporate performance as well as of the sustainability of the corporate social mission. The trust of stakeholders must be gained, built, preserved and increased through permanent efforts and consistent behaviour. It is therefore a matter of management and, as such, trust becomes an instrument requiring a suitable method – the "methodology of coherence".
Michel Coomans from CREE – Centre de Recherche en Ethique Economique, Université Catholique de Lille, France – argues that as in sports, fair play is more than simply "respecting the rules of the game", it is a pro-active attitude undertaken constantly on and off the field by sportsmen as much as by teams, clubs and supporters. It results in behaviours respectful of the "spirit of the sport". It by no means prevents the presence of referees or the use of any culturally and humanly acceptable means in order to win both the match and a good reputation or image.
This happens in the same way in business and management: companies, leaders, managers, employees and workers must practice fair play in all strategic and operational decisions, behaviours and communication. Beyond laws and rules, they must practice and "show" fair play: a life-long voluntary and pro-active attitude to creating respect ("climate of trust") and amassing corporate value ("capital of trust"). In this sense, business ethics and fair play are constitutive of assets much more than standards of quality, even if the latter can contribute.

The degree of a leader's responsibility is a function of the extent of his or her decision and action space. There are limitations to this space for freedom of action (Enderle, 1987), deriving from the inner personal limits of particular leaders – that is, at the micro-level, meaning that ethical leadership finds its limits in the conditions limiting the leader's decisions and actions set from the outside. At the meso-level, the corporation determines – via its culture, policy and strategies – a bundle of conditions, which 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.
Bruce W. Finnie, Linda K. Gibson, and Gundar J. King from the Pacific Lutheran University give a review of selected issues related to individual freedom of action, private property and public control. In the paper **'Freedom, Market Economies and Social Responsibility'** the authors put emphasis on economic performance and international development potential and consider controversial arguments commonly heard both for and against further privatization and control of business in the Baltic states. Beyond limited personal discussion with colleagues from the Baltics, and with minimal references to published theory, their outlook is based mostly on their own accumulated knowledge, experience and research.

Leadership ethics refers to the study of ethical issues related to leadership and the ethics of leadership. Ethics is mainly drawn from books and debates in which philosophical theories about right and wrong are proposed and tested. It has been argued that ethics cannot just be acquired – ethics must be studied. The article by **Carlos Cabral-Cardoso** from University of Minho, Portugal, reflects on the current status of ethics in business education and addresses a number of questions about the actual contribution of the business school system to improve standards in the business world. Particular attention is devoted to the role management educators play in that process. He is trying to find answers to the following important questions: Are business academics ethically aware? Do they play a significant role in the process of raising ethical sensitivity, and in the moral development of their students? What contribution can society expect business faculty to make towards the promotion of ethical behaviour among managers?

People do not often realize what is ethical and what is not. Sometimes people are forced to follow rules that may not take ethical considerations into account. Many people know that being virtuous is more a matter of having the right values than of following a list of rules. But what should an individual do when faced with a legitimate situation in which his or her values conflict with the accepted practice of following certain rules?
Ethics are revealed through activities and behaviour, and the behaviour and character of leaders have a great impact on others – they influence the lives of many people. A belief about "honesty" needs interpretation and application across the company. The familiar phrase "walk the talk" must start at the top and continue down through the structure. The extent to which those in charge apply beliefs to their decisions and behaviour sets the tone. Whether in writing or in discussion, use of those beliefs should be made visible.

The difference between the morality of leaders and everyone else is that the ethical successes and failures of leaders are magnified by their role, visibility, power and the impact of their actions and behaviour on others (Ciulla, 2004). Companies with sound beliefs and ethics have a competitive advantage that extends far beyond one unique product or service, one set of loyal customers, a single technological breakthrough, the original founders or one talented CEO. They help sustain the company at a baseline success level through all the ups and downs that will occur over time. Basic beliefs will not substitute for clear and focused strategy or vision or for effective day-to-day operations. However, when they are clear and consistently applied to influence and test major decisions and behaviour, they allow ethical executives to minimize risk to the enterprise and potentially avoid catastrophe. Individuals perform in many different roles and form organizations that embody different kinds of members and some people are supposed to manage to lead the others. Day-by-day consistent application of beliefs and ethical behaviour is a part of each employee's job and is therefore expected. Examples of outstanding results due to diligent application of beliefs may be rewarded publicly and financially.

Quite often people are in situations without realising the need (or having enough time) to reflect and consider their behaviour and decisions, and this will lead to problems and wrongdoings. Sometimes these seem to occur very suddenly and unexpectedly, but deeper analysis of the situation reveals that things have gone on unnoticed or have been hidden from the public, important stakeholders and sometimes even from members of the organization. One of these cases that shocked the whole world was Enron. Still only blaming managers and leaders in these wrongdoings may result in a relatively narrow view. Leaders and managers have a lot of influence by setting the tone of the company, but too often the environment, public expectations and willingness to achieve success at all means lead managers to the assumption that wrongdoings are allowed or even encouraged.
Michael S. Aßländer from the International Graduate School, Zittau, seeks an answer for how, in the middle of 2004, 31 former leading managers of Enron were accused of deception and falsification of their balance sheets. He finds that in order to analyze the rise and fall of Enron, the focus of an objective investigation should not be laid exclusively on the individual wrongdoing of Enron managers, but also on the inefficiencies of the governance structures that enabled Enron's managers to succeed in their dubious practices. Nevertheless, referring to the results disclosed in the case of Enron, the thesis outlined in the article is that governance structures as a tool to enforce managerial moral behaviour are too weak to suppress deviance.

Business, whether we like it or not, has become the most powerful collective entity on the planet. Yet such a position of dominance in any society necessitates a level of responsibility for the whole. This is the new role for businesses, and it is gradually gaining more understanding and acceptance. Corporate

social responsibility or CSR not only emphasises the importance of morality in business, but also the ethical, environmental and social issues that confront businesses on a daily basis.
Empirical examples of ethics and responsibility in business can be found from an article written by **Mari Kooskora, Tiina Hiller and Katlin Omair**. With their paper the authors present an overview of the perceptions of corporate social responsibility among business leaders in one of the new European Union member states, Estonia. It can be argued that CSR has already been developing in Estonia for some years – the topic has been under close public scrutiny, and the drive behind CSR is inevitable. However, the authors argue that the results of the latest research show that CSR in Estonia is still developing, and is seen as a rather confusing concept for most businesses. CSR is rarely an integrated part of a company's businesses strategy and there is much to learn from other countries as well as from company to company practices within Estonia.

While some people in the world live well, many more are just surviving in desperate conditions. Partly due to global contrasts and the so-called moral development of society, the corporate role and social responsibility are being discussed globally with growing intensity. Obviously, owners of corporations have a strong influence on the behaviour and social responsibility of their organisations. As a result of social tensions and problems, the concept of a socially responsible investment (SRI) emerged in the 1960s, and considers both the positive and negative, social and environmental consequences of investments. Such a mindset led to the creation of many mutual Socially Responsible Investment Funds (SRI-Funds) in the 1990s, which, while being referred to as institutional investors, are in fact the owners of corporations.
Uku Lember from the University of Tartu has made a study of perceptions of Estonian institutional investors. His article, published in this issue, focuses on analysing the results of interviews with the representatives of Estonian institutional investors. The author argues that since regaining independence, there has been some scientific research in the area of CSR in Estonia. However, socially responsible investments and Estonian institutional investors have not yet been studied. His empirical analyses present institutional investors' opinion of corporate objectives, CSR and SRI; along with investors' personal investment strategies through the paradigm of SRI more specifically in the Estonian context.

The business of business has changed over the ages. Corporations, products, customers and the theories to explain it all have all changed. But the underlying reasons for conducting business are still as constant as the basic requirements for survival. Still, doing business without considering ethics and taking responsibility does not lead us far. Ethical conduct in business is beyond the realm of law; it stems from the culture and mindset of management and cannot be regulated by legislation alone. Ethical leadership and corporate responsibility are the terms that have been explained in various ways, using different concepts and different approaches. One of these approaches is Corporate Governance.

In this issue we start discussing this phenomenon and will continue doing so in our next issue. Corporate governance has caught the imagination of all segments of the corporate world. Governance has enjoyed even more limelight as a result of the series of corporate failings, both in public and private sectors, following which markets, investors and society at large have begun to loose faith in the infallibility of these large systems. Recent corporate governance failures in the US and Europe remind us that such breakdowns can severely affect the lives of thousands – employees, retirees, savers, creditors, customers, suppliers – in countries where market economies are well developed. At this point in time the conduct of those who take care of public money is being questioned. They are being tested on the basis of minimal ethical standards.

Madan Bhasin, from Mazoon College, Muscat, Sultanate of Oman, has written about corporate governance in Asia. He claims that corporate governance has been high on the agenda for Asian regulators in recent years, with most markets having introduced comprehensive regulations. Yet, as a recent independent study shows, much work remains to be done and despite compelling evidence of the financial benefits to companies of a good governance culture, the ethos of corporate governance has yet to sink in. Regulators, companies and investors all have a vital role to play. The result has been a slew of rule and law making that has rapidly improved the regulation of corporate governance in key Asian markets. With so much achieved in a relatively short period of time, regulators now appear to be succumbing to the understandable temptation to shift their focus from rule making to rule enforcement. The author finds that full convergence with international accounting and audit standards, better protection of minority investors and stronger enforcement of existing laws and regulations are some of the recommendations to improve CG in Asian countries.

Another important topic when talking about ethics and responsibility in leadership is diversity. Organisations and their leaders have a task to create an environment where employees understand the need for ethical conduct; they have to develop and sustain a culture where diversity is valued and leveraged, where all employees are treated with dignity and respect, are optimal contributors to business objectives and have equal access to opportunity. Sharing knowledge is important within all organisations. Only with open communication, trust, tolerance, integrity and respect of all members, can the organisations succeed in highly competitive environments. People create organisations and organisations are created for people, and people differ in their age, sex, skills, work experience, wills and needs. Ethics and diversity, in fact, have a multi-dimensional relationship that affects not only what issues we consider, but also the very process of engaging in ethical reflection.
Sanna Virtainlahti and Raili Moilanen from the University of Jyväskylä, discuss the topic of sharing tacit knowledge in organisations, a challenge in managing young and ageing employees. Their article focuses on different aspects relating to recognising and sharing tacit knowledge. The authors give an overview of an empirical study where data was gathered in four large organisations, and semi-structured interviews were conducted among young and ageing employees and supervisors as well as HR specialists. The authors argue that the outcome confirms that the competencies of young and ageing employees are different and their competencies are used differently in the organisations. Their study highlights the importance of sharing tacit knowledge especially between different age groups in order to prevent organisations losing core competencies.

In conclusion we can use the statement by Joanna Ciulla (2004), which says that people become leaders in different ways, leaders act in different ways, but no matter how people become leaders, no one is a leader without willing followers. Leadership is not a person or a position; it is a complex moral relationship between people, based on trust, obligation, commitment, emotion and a shared vision of the common good. Leadership is a process of learning, risking and changing lives and good leaders develop through a never-ending process of self-study, education, training and experience.
According to Georges Enderle (1987, 657), business leadership would be relatively simple if corporations only had to produce a product or service, without being concerned about employees; if management only had to deal with concepts, structures, and strategies, without worrying about human relations; if businesses just had to resolve their own problems, without being obligated to take the interests of individuals or society into consideration, but this is not the case. Leadership is always about self and others and leaving ethics out here, just won't work.

This ends my overview to the topics and articles gathered in this issue. As in most quality scientific journals, it has become our requirement that all the articles go through a time consuming process of review and evaluation, and the authors often have to rewrite and submit their papers several times before our distinguished editors are satisfied with the results. We consider the topics covered to be important and hope, dear readers, that 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 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

Facilitating Leadership

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Abstract
Whoever is interested in the issue of business ethics or one of the related topics (such as quality of work and all its aspects, quality care, organisational culture, corporate governance) will soon be confronted with the crucial role of management, more especially the style of leadership applied by management. A lot of research is being executed to better understand the implications of leadership style and of specific characteristics (such as the differences between men and women, cultural differences, differences between different categories of organisations) of the performance of leaders and of their organisations. Also, over time, a lot of theoretical concepts (such as leadership based on virtues, on situational contingency, on transformation, on participation, on spirituality) have been developed to identify and prescribe the best performing style and to steer leadership towards the most effective and efficient one. Most of these concepts are linked to consultancy or vocational training. Often these concepts are based on theoretical research. And often there is a clear link to corporate responsibility.

It is our opinion, however, that publications on leadership are approaching the issue in a predominantly philosophical or predominantly instrumental way. Therefore, the operational implications of leadership (from the concepts and models) are not yet clear for most people managing an organisation on a daily basis.
In this paper we present a new approach to (concept of) leadership, based on practical experience as well as research literature, a new approach called 'FACILITATING LEADERSHIP'. The added-value of this new concept of leadership is its operational filling-in.
More precisely we address:

- A new view of leadership, which at the philosophical level might be close to concepts such as servant-leadership (Greenleaf, 1977) and 'level 5' leadership (Collins, 2001), but from a much more operational point of view, is rooted in group dynamics and techniques for meetings and is based on an axiology with four axes (agenda, procedures, group and intention) – 'facilitating leadership'. This new description enables us to make a clear break from the adverse elements of autocratic and psychopathic leadership styles;
- An initial overview of the day to day competences needed as well as the practical obstacles arising when applying facilitating leadership;
- The added-value of facilitating leadership, its ethical value and its relation to other ethical philosophies and concepts (such as the ethics of care and the stakeholder approach);
- A first attempt to determine the corresponding profiles of the resulting organisational culture and co-worker and leadership development curricula.

Keywords: business ethics, corporate responsibility, leadership, management, participation

Introduction
It is our profound conviction that modern leadership in Western organisations is confronted with the following three challenges: change, pluralism and the rise of knowledge and information.

In contrast with almost all other issues, most management gurus agree on one point. They all have the feeling that we have a terrible shortage of leadership in business and in the world community. This seems to be the consequence of the rapid pace of change all over the world. However, it raises the question of what kind of leadership we need. In other words, what do we have to understand when using the word 'leader'. Therefore the crucial question is not what kind (type, style) of leadership do we need, but what kind of leadership do we need in these times of continuous and influential changes. Whatever the concept of leadership used, it will

have to be capable of managing change. It will have to be a 'change-leadership'.
We also believe that leadership actually has to confront the relatively new situation of diversity, meaning pluralism. No longer is pluralism a synonym for passive tolerance, but it has now become the indicator of an active surge of other, deviant opinions with which we must live together in our modern Western society, and from which we can learn and become a richer person, group, organisation and society. Modern leaders must have the competence to handle 'active pluralism' within their own teams and organisations.

Thirdly, most modern leaders are confronted with highly skilled and specialised co-workers – sometimes more specialised than they are – due to the constantly rising level of knowledge through continuous education, training and IT. Therefore, a situation of collective control has been born that could be defined as a 'panopticon[1]', being a situation with a high ethical risk factor. Any type of leadership that implies leadership status where the leader knows everything or that seduces a leader to appropriate such a status, cannot meet the actual leadership situation in Western organisations. It will be counter-productive. Any modern manager and leader has to accept the fundamental complexity of the collective panopticon.

About the Issue of Leadership Today

A Preliminary Exploration of (Ethical) Leadership Using Selected Leadership Literature
Studying leadership is not new at all. Machiavelli based his notorious booklet on leadership – Il Principe (Machiavelli, 2004) – on literature about famous leaders of the past, whether real or legendary. Especially in turbid and trembling times, people look out for clear strong leadership. So, we should not be too surprised that interest in leadership has also been considerable in recent times. Thus, a lot of research, books, theories and concepts have emerged during the past two decades, such as the concept of participative leadership, the idea of situational leadership (Blanchard and Johnson, 1981), effective leadership (Covey, 1989), leadership based on the experience of and parallel to the techniques used by coaches of professional sports teams (Juchtmans and Leekens, 1998; Adecco, 2005) [2] , leadership based on feminist values and the ethics of care (Gilligan, 1982), spiritual leadership (Verstraeten, 2003), leadership based on integrity (Kaptein, 2003). And of course, many books present a lot of best practices (Baltussen, 2003; Rutgers van der Loeff, 2001). Given the fast growing influence of the media on the reputation of any organisation, and given the ethical vulnerability of any organisation, leadership must be aware of the importance of ethics for their organisation and thus must be ethical themselves.

In spite of all the research carried out to better understand the implications of leadership style and of specific characteristics (such as the differences between men and women, cultural differences, specific values and virtues of effective leadership) of the performance of leaders and of their organisations, and in spite of all the theoretical concepts that have been developed to identify the best performing style and to steer leadership towards the most efficient and effective one, it is still unclear what aspects characterise leadership that is performing well and ethical leadership in particular. Given the vagueness of ethics and the absence of any commonly agreed framework for analysing leadership, this fact too may not surprise.

Although, from recent research on the issue of leadership, we can basically conclude that leadership is not synonymous with management. The latter focuses on day-to-day technicalities (organising and controlling), based on technical rationality, whereas the former is based on and oriented towards a consistent set of values, virtues and principles – organisational culture, commitment, integrity and so on. According to Drucker (Bennis, 1987), "managers do things right, leaders do the right things". As stated by Bennis and Thomas (2002): managers manage, leaders innovate; managers maintain, leaders develop; managers control, leaders inspire; managers are oriented towards systems and structures, leaders towards people; managers ask how, leaders ask why; etc. In the end it's all about the difference between extrinsic and intrinsic motivation. A leader is a person who stimulates and supports intrinsic motivation, putting aside the necessity for external control as just one format of extrinsic motivation (often combined with punishments and benefits). According to Bennis and Thomas (2002), there is also a difference in time perspective: managers manage the short term output, whereas leaders are oriented towards long term objectives.

Whether or not there is an essential difference between a manager and a leader, most people still define a leader by his ability to lead, meaning to create a vision and to make other people aware of it. According to the research of Fisscher, Karssing and Nijhof (2005), the following competences are needed: they must be able to understand their responsibility towards all stakeholders and to argue their decisions (within the framework of responsibility) in a broader, deeper, richer and better way. However, we have to pose the question of whether this approach of leadership is correct. Is it correct to define a leader as the one with all the answers, as the one who is looking further and broader than every one else in the organisation? Although the research mentioned confirms the importance of the role of vision, it also mentions a lot of other competences. The vision of a hierarchical leader must mostly be his personal spirituality, making him an enthusiast and passionate for his organisation and his job, but he must never become a pure dictator to his organisation and his fellow co-workers. His vision must challenge them to build and express their own vision within the group and the decision making processes.
We must even go one step further. The traditional view of leadership – leadership based on vision – implies the presupposition that only the leader has to build a vision of the organisation. We strongly disagree with this silently subscribed to point of view. In the modern organisation, especially when it is an organisation with a large number of knowledge-workers, every one needs a vision, though this doesn't imply of course that everyone within an organisation builds the same vision. Therefore, leadership is not so much characterised by its competence to build a vision for itself, because this would be a very leader-centred approach to organisations, and because every co-worker must have this competence, but by its competence to disseminate all necessary information, helping the co-workers to realise their own personal opinion and to structure, coordinate and finalise the group and organisational processes towards a common vision.

In spite of the huge amount of research, the philosophies and the literature, there still is no consensus on the crucial characteristics of sound, effective leadership and on what virtues and competences make a person a true leader. On the one hand, we don't agree anymore with the simple utilitarian and opportunistic definition of Machiavelli, for whom leadership was simply the art of staying in power. We must admit that indeed leadership is often about staying in power, as managers are often afraid of loosing their power and influence, or more precisely their control of the situation, as they are also afraid of losing their status and position. This fear of managers to leave the traditional role of the autocratic leader for a partnership approach is the psychological pendant of the famous fear of co-workers participating in teamwork and participative projects (Siebens, 1999). On the other hand, we have already learned that good leadership is no solid phenomenon, but must be understood within its relationship with the environment: the co-workers, the group and its dynamics, the organisation and the broader environment in which this organisation operates. Thus, situational leadership has learned that good leadership has a very specific momentum within the evolution of a group and organisation. Leadership must be understood as a dynamic phenomenon not a static type of personality. However, whether leadership itself can grow and thus be taught is still uncertain. On the one hand, academics such as Kohlberg and Covey strongly believe it can. But a lot of theories start from the presupposition that leadership is built on characteristics that people either do or do not have.

Moreover, some recent psychological research (Board and Fitzon, 2005, 17-32) seems to prove that so-called successful managers have or must have some of the characteristics of psychopaths, especially the emotional components. Successful business managers score, on average, higher than psychopaths on characteristics such as superficial charm and insincerity, narcissism together with a lack of empathy, manipulation, rigidity or even a tendency to autocratic behaviour, a strong urge for personal independence, perfectionism and a great dedication to work. What they are looking for is not money (being rich) or power, but being admired and loved. Their lack of empathy, low internal barriers to the use of manipulation and the strong narcissism must especially attract our attention given their crucial role for any form of ethics. Hence, the reason why we dare to proclaim actual, psychopathic leadership in contrast to genuine ethical leadership. This explains why so many business people and managers are often very critical towards their co-workers and competitors, but seem to be very uncritical towards themselves – especially when it is about ethics – and often have a very strong belief in their own convictions, opinions and concepts. Because of their narcissism, these leaders are often not very keen on change, except when it is clear that they can benefit from the new situation. All this explains why they often seem to be very sure of themselves, unchangeable and unshakeable, act very quickly and without compassion and why it seems that they always decide to act quicker and with less ethical reserve than anyone else in the organisation. The picture of the 'executive psychopath' or 'psychopathic manager' matches in a very striking way the ideal of Il Principe by Machiavelli.

To us, one of the main sources for understanding the fundamentals of good leadership could be pedagogical theory. Being involved professionally in and committed to education, we strongly believe in what we can learn from (good and bad) teaching practices. After all, teaching is about leading (groups of) people. Over the centuries a lot of theories and books have been published about this specific topic. One of the most controversial, inspiring and influential pedagogical theories of the past decades is that by the Latin-American pedagogue Paulo Freire (1970). According to Freire we can fundamentally distinguish two styles of education and so of leadership: the 'educaçao bancaria' (banking concept) versus the 'educaçao problematozadora' (problem-posing concept). Whereas the former is oriented towards the learning of subject matters, the latter is oriented towards the learning process with the pupils. So, the first focuses on the agenda of learning, whereas the second focuses on the process side.

At the same time, Freire's distinction runs parallel with the fact that the first educational style is based on a one-way-direction from teacher to pupil and with a firm distinction between both parties, the pupil being defined as an empty recipient (as is a bank account in which the teacher has to deposit money). As stated by Freire (1970), the banking concept considers people as adaptable and manageable beings. The second educational style, however, starts from the conviction that the pupil already has a lot of experience and expertise, but has to bring this into the open, must reshape this into conscious knowledge. Therefore the role of the teacher is not so much one of bringing new knowledge, but activating the intrinsic learning competences of the pupil by putting questions and confronting the pupil with problems. People must learn from themselves and each other. Teaching is creating opportunities for learning. Thus, this second concept of education does not create an opposition between teacher and pupil and does not favour the principal distinction between both parties. In this second and highly favoured style of teaching we, of course, can recognise Socrates' opinion of educational training.

If we now consider the interpretation and management of conflicts, the problem-posing approach also implies a difference to the more classical style of leadership. Whereas the second, classical style confuses problem with person, the first one makes a clear distinction between the "what" of the problem and "who". Using this approach the manager or organisation no longer shoots at the pianist instead of the music score. In a problem-posing approach problems are interpreted as practical, organisational problems that have to be solved, whoever the person posing the problem within the group or organisation.

A second of my personal favourites for understanding leadership comes from the literature of group dynamics –– part of and historically situated in sociology. For four decades this very practical discipline has studied the dynamic evolution of groups and in groups, looking to understand groups and how to steer them. Understanding and steering leadership, of course, has been one of the main topics of this discipline, because leadership is not static and a-historical, but a contextual and dynamic phenomenon (Quinn and Spreitzer, 2005). It seems that almost every author produces his own scale and criteria for leadership styles. The Hay Group, specialised in school management, uses a six-type scale: coaching, affiliative (stressing cooperation), pacesetting, democratic (participative), coercive (pushing and forcing) and authoritative. Their criterion is the impact of the leader on others. At once the Hay Group reveals its definition of leadership: a leader is someone who has impact on others.

Among others Remmerswaal (1975, 110-168; 1982, 19-21, 126, 149, 162-163, 166), Van Lente (1991, 56-98, 113-145), Stevens (1995, 135-158), Weiss (1994) and Jacobs (1995) all create their own continuum of leadership styles. Literature about group dynamics often introduces a continuum between two extreme types of leadership. Firstly, there is the dichotomy – autocratic versus laissez-faire (and in between the democratic style), and secondly, the dichotomy – directive versus non-directive. Both dichotomies are strongly linked and some authors even see them as synonymous. Thirdly, literature presents the dichotomy between task- versus relationship-orientation (Blake and Mouton (1978) called it 'concern for people' versus 'concern for production'). Thus, most of the time literature proposes the extremes of a participative versus an autocratic (authoritar-

ian) style of leadership. This classic dichotomy is reflected in the fact that most literature on leadership within group dynamics and techniques for excellent meetings pays attention to formal power and only exceptionally to natural authority. The most important criterion used in literature to make a distinction between different leadership styles is the way the leader is using his formal power.
However, we believe this conventional approach is not adequate for a full understanding of the reality of leadership, which is much more complex than the way formal power is used. Firstly, this dichotomy forgets to mention the inner attitude and intention of the leader. Some authors therefore introduce a third dichotomy: communication seeking versus communication avoiding. Secondly, the participative leadership style might not be an extreme. Therefore we propose an anarchistic style – as far as this is still a style of leadership, since anarchy doesn't exactly want to accept leadership – as the one extreme. On the other side of the continuum we see the same problem. The autocratic style is not the extreme, psychopathic leadership is. And somewhere in the middle of this continuum there are probably also some very important types of leadership to recognise.
Also within management literature, a lot of research has been published about leadership. As often is the case, this is much more an indication of serious problems and shortfalls than of success and great overall realisations. It seems that there is a crucial problem with business leadership today. Some of this literature is about the functional part – effective leadership – not about the philosophy of leadership. This way the quest of leadership is narrowed to the day-to-day functioning. It focuses on functional characteristics. The remaining literature is about the reverse: the need for spirituality and ethical anchorage among leaders.

In the management literature about leadership there is probably no greater contention than the one between to the pragmatic, even opportunistic approach of Machiavelli and the idea of servant-leadership by Greenleaf (1977 and 1991). Examining the differences between both concepts we have to conclude that they not only have a different agenda for the concept of the ideal leader, but first of all of a difference in the dimensions included in the concept. Whereas Machiavelli's concept only involves a technical approach (about power and how to stay in power), Greenleaf's concept also includes an ethical dimension about the intention (the quest for the objective of the use of power and the correct correspondence between the style of leadership and this objective). In this way Greenleaf introduced a clear (self) critical dimension into his concept. Although Machiavelli states that the good leader fundamentally must reign for the good of the state – let's call this the common good – he does not question or argue why this is a good objective (and the pursuit of private self-interest is not) and afterwards he accepts all means of staying in power to realise this objective.

If we consider Quinn and Spreitzer (2005), leadership can be retraced to two basic styles, each of which can be characterised by four key words: on the one hand comfort centred, externally directed, self-focused and internally closed versus, on the other hand, commitment, integrity, empathy and self-sacrifice and vulnerability as openness to the environment. Using the first set of key words the authors determine a leadership style based on their own convictions and interests, striving towards to comfort and control. The second set describes a leadership style interacting with the environment, in which the leader serves the general interests and needs of the organisation and the interests and needs of others, while being open to change. This second style is not oriented towards comfort and control, but towards the wellbeing of the organisation and its members. This style is rooted in the personal spirituality of the leader. Therefore, the essence of good leadership has to do with openness –– openness towards the environment of the organisation, towards change, towards the stakeholders. The essence has to do with responsibility and the most valuable competence is mental flexibility. Thus, a leader must ask himself what leadership style he is handling. This can be done, as Quinn and Spreitzer state, using four questions:

- What result do I want to create?
- Am I internally driven?
- Am I other-focused?
- Am I externally open?

Besides the search for the characteristics of effective leadership, regular management also deals with two crucial questions. Is leadership based on character (quality), skills, processes, a state of mind, or competences? Probably leadership is about all these aspects. On the one hand intrinsic aspects such as character, civility and community, hope, empathy and integrity could be called decisive character-

istics of good leadership. On the other hand good leadership is also based upon extrinsic aspects such as the situational contingency, combining personal aspects with the specific context and situation wherein the group or organisation is situated (situational leadership (Blanchard and Hersey,1988)). Good leadership requires the combination of the personality and style of a leader and the specificities of the situation. And: can leadership be taught? Both questions are interlinked. If leadership is primarily a matter of character it cannot be taught. A person who is introverted cannot become a genuinely extraverted person. If, however, leadership is a matter of competences, it can be taught.
Of course, business ethics too has paid a lot of attention to the issue of leadership. Often business ethics literature repeats the old, autocratic vision of leadership when it states that ethical leadership means that the leader has a clear view of ethics in his organisation (most of the time described as the values, virtues or principles, written down in an ethical code) and succeeds in the implementation of this view in the organisation. As is the case with leadership in general, also this approach to ethical leadership is a leader-centred approach. It is our opinion that leadership could also be defined as the competence to support individuals, groups (such as teams) and organisations in building their own individual opinions and collective views of the ethics of the organisation.

Among others, Edelmann (1994) has created a list of the characteristics of ethical leadership. This list includes behaviour such as informing co-workers, consulting co-workers about everything they are involved with, giving them support, giving advice (instead of orders), showing compassion in case of private problems, defending co-workers against outsiders, being honest when evaluating, respecting the privacy of the co-workers, not gossiping, controlling openly and being fair with compensation. Fabry (Daniëls and Fabry, 1995, 17) pleas for the empowerment of co-workers and that leaders should assume a coaching role. Robbins (1995) analyses power as being the central characteristic of the leadership function. He not only distinguishes different types of power, but also presents a stream diagram of questions to decide whether the use of power can be evaluated as ethical or not. The basic question is whether it respects the rights of all parties involved.
Still there is no definition of ethical leadership that has been agreed on. But it is clear that ethical (moral) authority differs fundamentally from formal authority (which will be called 'power' henceforth). Having a vision, even charisma, on its own is not enough to be(come) an ethical leader (cfr. a lot of examples from history). One ought to have a vision, but a vision that is able to stand up under ethical questioning, and so one that is sustainable in the long term. In general we could state that any ethical leader must have an ethical vision of his organisation and that he must have a clear opinion of how this vision can be realised in an ethical way. Still the question remains about what this ethical dimension means within such a description of leadership. From our research on the conceptual value of the actual existing ethical concepts (Siebens, 2005), we are convinced that the stakeholders-approach is the best ethical concept at hand at the moment. Therefore, and more than ever we plea to complete the ethical dimension of leadership by using the stakeholders imperative of paying attention to the needs and interests of all stakeholders.
It may be obvious that the quest for the 'Holy Grail' of leadership is still unfinished. There still is no unanimous definition (Haijtema, 2005). To conclude this review of literature we can formulate a/o the following essentials for leadership adapted to our times:

- any leadership definition, especially if it includes the ethical aspects of leadership, must be practical, meaning it must offer operational and practical applications for day-to-day management;
- leadership must be approached as a dynamic, situational phenomenon;
- leadership has greater inner strength the more it is open to change. So, change must be an intrinsic aspect of the concept;
- leadership has to do with power, even when it is about ethical leadership, but basically it must be based on authority;
- leadership is linked to organisational culture;
- leadership needs to be based on real communication and participation, and so cooperation (teamwork) is crucial;
- leadership must be ethical within a stakeholder-approach, meaning participative (at least for the co-workers).

However, one thing is sure: most of the concepts and theories about leadership start from the unspoken presupposition that every leader needs followers to be a true leader. A leader is responsible, but also dependent on the motivation and commitment of their co-workers to realise the objectives of the team or organisation (this is the reason why the management of the quality of work has such importance for any ethical leadership, management or organisation). But is this presupposition correct? Can we imagine an alternative vision of leadership, not built on this hierarchical presupposition? In this paper we dare to add yet another approach to sound leadership, which will help us to describe and define the notion of ethical leadership.

A New Definition of Leadership – 'Facilitating Leadership'

In this article we present a new framework for understanding the characteristics of sound, ethical leadership and formulating an answer to some of the questions and essentials above. First of all this concept is rooted in the discipline of group dynamics and techniques for excellent meetings. Within this new approach we want to rebut the crucial issues we detected in the actual leadership literature.

In contrast to the classic approach to the chairmanship of meetings and organisations, in which the agenda gets all the focus and stress, we have experienced and can define another type of chairmanship in which the focus is all on the process, being a combination of group dynamics and formal procedures. This implies that the chairman first of all pays attention to how things are discussed and decided, not so much on what is discussed and decided. This type of leader is focusing on the processes in the group (whether or not all participants have the opportunity to present their input), the procedures (whether or not a correct democratic way of decision-making is been followed), and the intentions (whether or not the group/meeting is paying full attention to the needs and interests of all stakeholders, whether or not they are participating at the meeting). The combination of these three dimensions is called the decision process.

The main concern for this type of leader is the way things are discussed and decided. His leadership is based on the conviction that the result will be qualitative insofar as the whole of the decision process is qualitative, avoiding poor decisions based on the wrong arguments or based on incomplete information. Therefore this type of leader does not spend energy in influencing the agenda of the discussion, but in guiding and controlling the decision process. The agenda of the decision itself is left to the responsibility of the group itself. The leader will define his own role in being supportive of the decision process, enabling the group to reach its final decision at the highest qualitative and ethical level that is possible. We may define his role as empowering his group; we can also define it as formal leadership based on power and filled with the characteristics and style of informal leadership and based on authority. This means that pedagogical intuition and the pedagogical 'ideology' of Freire both point to the core business of leadership. Within this leadership the leader will offer the vision of the leader and his arguments, free of obligations, but rather as a suggestion.

We can easily translate this type of chairmanship to leadership in general. Managing a team or an organisation does not mean making decisions, which must then be executed by the co-workers, but guiding the decision process of a team of co-workers or an organisation in reaching their own decision. As stated by Senge (1990; 1999, 14), leadership has to do with enabling people, groups and organisations to create their own future and the specific processes of change necessary to realise it. Guarding the context, the procedures, the group dynamics and the intentions within the decision process means enabling the group to realise a qualitative and ethical decision. This also includes the coaching of 'subordinates' to be facilitating leaders themselves for their co-workers. Therefore, we define this role as facilitating (including even the material side of the decision process): facilitating leadership. So this does not mean 'facilitating the leadership', as in 'facilitating leadership development' (as is almost always the case on the internet when one has searched for 'facilitating leadership').

It means that the group or organisation will build its own common vision, based on complete information and including the arguments and vision proposed by the leader. During his term, the leader will be responsible for the realisation of this vision and will stimulate and evaluate the co-workers within the framework of this vision. The facilitating leader is the one who guides the effective and efficient realisation of the vision of the group or organisation. This will be the basis of his (informal) authority, being the employees' acceptance of his (formal) power – becoming colleagues in the true meaning of the word . He is the 'primus inter pares' – the first-among-equals.

About the important leadership aspect of control we must conclude that the facilitating leader is not (so much) interested in controlling the agenda and the output of the decision-making process, but in controlling the decision-making process itself. Therefore, the autocratic and psychopathic leader is primarily focused on controlling the situation as a whole, hoping to stop or disable any change that could damage him, whereas the facilitating leader is trying to control the democratic, participative and hence the ethical quality of the process. Diversity, non-linearity and sudden changes are therefore less of a problem for the second type of leadership than for the first type. This also implies that we cannot accept the simple contradiction of managers as controllers and leaders as non-controllers, neither of autocratic and psychopathic leaders as controllers and facilitating leaders as non-controllers. This aspect is not the key point of difference between the different types of leadership. The key point is the direction of their control. However, this different direction of control realises a considerable difference in terms of the attitude aimed for among co-workers. Whereas the autocratic and psychopathic strongly request an attitude of obedience (and in this way often get a false impression of sympathy and enthusiasm), the facilitating leader aims for commitment. Therefore, the former use extrinsic instruments as rewards and punishments, whereas the facilitating leader aims for intrinsic conviction and motivation. In short, the facilitating leader is not interested in control, but wants to stimulate and support social control and, last but not least, self-control. In this way he is facilitating his co-workers to take the lead in the organisational decision-making processes themselves. Such a shift away from control towards social control and self-control is also a very important phenomenon for society, because it supports social cohesion and social capital.

We can also outline a second fundamental difference between the facilitating type of leadership and such types as autocratic or psychopathic leadership. The former has no fear of and is open to the idea of a team of leaders. He is a ‘network-leader’, according to Senge (1999, 502-503). The latter two, however, are not only afraid of change, but also of anyone who could be a competitor to their situation. Cooperation with other leaders is therefore difficult or even impossible. Needless to say that these more traditional formats of leadership have to manage without the opportunities of cooperation and joint forces.

So, contrary to the classical approach to leadership, that a leader has to lead, it is possible to define leadership in an alternative way. Our concept of facilitating leadership does not simply approve of the traditional definition of a leader given by Gardner and Fluker –– being the one who succeeds in affecting the thoughts, emotions and actions of a significant number of people in a significant way, meaning that he influences the ethos or character and shared meanings of the people. We agree that any true leader has to affect the thoughts, emotions, decisions and behaviour of other people, who could be called his followers; however, this does not concern the agenda, but the way he steers the processes within the agenda.

The facilitating leader is a leader who creates the necessary conditions and facilitates an excellent group dynamic, organisational context and processes for participative group discussion and decision-making. The first condition is to create a real team. The facilitating leader aims to shape team-spirit. This type of leadership is focused on empowering co-workers. Essentially, he is a coach, who supports the growth and development of the potential of all stakeholders, especially the co-workers, and so to enable them to improve their job (Covey, 1989). This type of leader is not so much involved in the agenda of the decision itself – except maybe to formulate suggestions as a kind of free help in the collective decision-making process – but is strongly involved in the participative quality of the group processes and discussions, and the determination of the norms of the decision-making process, such as the quota in case of decision-making by voting. In earlier publications (Siebens, 1999) we have already stressed the essential meaning and role of participation for sound, ethical leadership and management. Because this type of leader leaves the decision itself to the group, he aims to drive the leadership down the organisational chart (Bowie and Werhane, 2005, 149), emphasising individual and collective group responsibility and accountability (decentralisation).

The facilitating leader strives for shared decision-making by highly respecting the autonomy of the group of co-workers. This is also the case considering the organisational culture. It’s not up to the facilitating leader to decide in what direction the organisational culture has to evolve. If he himself evaluates the existing culture as being not entirely positive and needing change, he will pose the question of evaluating the organisational culture to his group or organisation and will strive towards a collective process or redefining and remodelling of the culture. The facilitating leader will not change the culture by commands, but by a process of awakening. And so, the facilitating leader primarily is process-oriented, not result-oriented (cfr. Freire (1970)). Research (e.g. by Likert and the Institute for Social Research) has proved that employee-centred managers have more productive teams than production-centred ones.

Besides the coaching and team-building aspects, the facilitating leader will pay attention to the procedures and processes by which individual members and groups build their opinion and decisions.

To realise all this, the facilitating leader also has to pay attention to the context in which this group process towards common decision-making takes place. This aspect also includes the material, practical and organisational context in which this process has to take place: the right environment, the right place (e.g. meeting room), the right moment, the necessary means (such as media), etc.

Does the fact that a facilitating leader is much more group- and process- than result-oriented mean that he is not interested at all in the agenda and result of decisions and acts? Of course, otherwise he would be neutral, including ethically neutral. So he does, for instance, in guiding and controlling the way the group handles available information, but he will not steer the group towards his own answers and solutions elaborated beforehand. At the most he will be a decision proposer, not a decision imposer (Bowie & Werhane, 2005, p. 147). Kouzes and Posner (1987) too identify five characteristics in true leadership stressing the facilitating approach and process-orientation: 1) challenging the processes, 2) inspiring a shared vision, 3) enabling others to act, 4) modelling the way (facilitating) and 5) encouraging the heart (motivation).

In some cases facilitating leadership is seen as synonymous with coaching. As is illustrated above we disagree with this point of view, because this implies a purely individual approach to leadership: leadership as a one-to-one-relationship with co-workers. In that case leading only implies the good guidance of all individual employees, aiming for their personal self-development — for example, via training and assessment centres. Of course, this is an important aspect of good management, but we are not convinced this is a decisive factor for good leadership. At most, it is just a part of it. It does explain, however, why most consulting firms actually offer programs for the individual coaching of employees.

This view of leadership differs, of course, radically from what most of the actual management gurus tell us about leadership. Although among others, Kotter, Charan and Mintzberg don't like to make a distinction between managers and leaders –– Charan even calls this the invention of one or another psychologist –– and although they all stress that leaders also must manage as managers must also lead, they still do make such a distinction stating that a leader specifically has to create, stimulate and communicate vision and strategy. As Gardner (1990) states, leadership is "the process of persuasion or example by which an individual (or leadership team) induces a group to pursue objectives held by the leader or shared by the leader and his or her followers". Parallel to this position, Tosi (1982) defines leadership as "an influence process". Therefore leadership becomes a synonym for change and transformation, whereas management simply is organising day-to-day things. And thus, leadership is not a particular position or function, whereas management is. Still however, leadership and management are based on the fact that this person does take the decisions for the group, whether it is about the mission and vision or whether it is about the day-to-day activities.

Our approach to leadership is much more in line with Savra's theory (1994) on facilitative leadership for local governments and civil services. Smith (2003) defines this style of leadership as "a people-centred, quality- and results-driven process of developing and supporting a culture in the workplace that facilitates goal achievement through effective relational processes". However, this author focuses facilitative leadership directly on a culture supporting the achievement of goals, whereas the notion of facilitating leadership focuses leadership on the empowerment of all co-workers. This means that facilitative leadership does not necessarily include the process through which the goals of the organisation are determined and decided, whereas facilitating leadership does in a very explicit way.

Though power within a facilitative leadership style often is seen as based on mutuality and synergy, supporting professional give-and-take in all directions of hierarchy, the notion of facilitative leadership does not necessarily include a participative method of decision-making. (This becomes clear where the literature about facilitative leadership still emphasizes that whoever normally has legal authority to take decisions continues to do so. It only demands acknowledgement of how input is considered and explanation of how decisions are made. Thus, after a participative phase of consultation with all people involved, a facilitative style of leadership still takes the decisions within the classical hierarchical levels of the organisation.) Facilitating leadership is, therefore, a wider concept, including the notion of facilitative leadership, but also applying the idea of facilitation to the content of the decisions itself (whereas the notion of facilitative leadership only applies to the process and the relations or emotions in the group involved). (In practice, people performing a facilitative leadership style will probably perform a participative style and so a facilitating style.) Rightly, Conley and Goldman (1994), and Hargreaves (1991) warn about pseudo-facilitative behaviour, where leaders use the language of facilitation while covertly trying to lead their employees to a preordained conclusion. It is precisely this intrinsic risk that facilitating leadership is dealing with. By including the crucial aspect of the decision making process into the definition of the leadership style we fundamentally change the focus and role of the leader in the group and organisation. However, we fully agree with the definition of facilitative leadership given by Schwarz (1996): "More recently, heroic leadership has found a following in many organisations. Heroic leaders paint a vivid and compelling picture of the organisation's mission and vision. Heroic leaders inspire and persuade others to help create the leader's vision. To be sure, this kind of leadership energises members and can accomplish a lot. But the strengths of heroic leadership are also its weaknesses. With heroic leadership, the source of wisdom, direction and inspiration is the leader.

Yet, to create the kind of fundamental changes that organisations are now seeking, they need a type of leadership, which, paradoxically, doesn't focus on the leader per se, but instead focuses on the leader helping the team become more effective. I call this facilitative leadership. Facilitative leadership is designed to create teams and organisations where people can talk openly and honestly about the difficult issues needing to be discussed. Facilitative leadership solves problems in a way that takes into account many people's interests, not just those of the leader. It replaces quick-fix solutions, which soon fall apart, with solutions that genuinely solve problems. As a result, facilitative leadership leads people to take responsibility and ownership for their actions. Finally, it enables teams to learn from their experiences." However, this far-reaching definition is not in the mainstream of the literature about facilitative leadership. In short, we can accept the facilitative concept of leadership as a synonym of the facilitating concept if (and only if) the facilitative style also includes the decision making process.

Both notions of leadership include the idea of transformational leadership, focusing on the ability to inspire employees to look beyond their self-interest and to focus on organisational goals. This is why Conley and Goldman (1994) define facilitative leadership as "the behaviour that enhances the collective ability of an organisation to adapt, solve problems and improve performance", with 'collective' as the strategic key word. Both notions also presuppose the same competences, such as understanding group dynamics, supporting participation in decision-making processes, encouraging self-critiques, competitive views and an endless learning process, caring for all stakeholders, building mutual trust and building teams. Schwarz (1996) also formulates some interesting ground rules, such as: relevant and complete information, specificity, inviting questions, discussing undiscussable issues, keeping discussions focused, decision making by consensus, allowing self-critiques and focusing on needs and interests instead of positions and power. Many of these competences and rules make the stakeholder approach operational, making the facilitative and facilitating styles of leadership ethical.

It may be clear that facilitating leadership focuses on constant change. Given the distinction between 'technical' and 'adaptive' change by Heifetz and Linsky (2002), facilitating leadership focuses more especially on the second type of change. This implies that people are confronted with the challenges and opportunities of the organisation, and that facilitating leadership aims to involve all co-workers with the policy making process. It also implies that people are asked to change, at least to adapt. Heifetz and Linsky make a distinction between technical challenges – that can be met with existing tools – and adaptive – that need the elaboration of a new approach. So, adaptive changes not only request a new tool (instrument, procedure, system or structure), but first of all a new mental (spiritual) and cultural framework to understand the situation and the problem. Whereas technical changes only challenge the technological experience and know-how of people, adaptive changes also require a deep personal change among the people involved. The latter are much more challenging and much more difficult to accept – people have to go through a period of painful adjustments – but are also of much greater importance for the future and sustainability of any organisation. So, there are essential differences between the technical and the adaptive change, in particular the latter demands a mental and cultural change and thus an intrinsic change process within the people involved and a long-term perspective.

According the authors, especially when leaders don't recognise the seriousness of a situation and deal with adaptive changes as if they are just technical challenges, they risk creating frustration and stress because the approach will not be sufficient to solve the problem. The authors state that this is the biggest reason for leadership failure. Given that any change, especially an adaptive change, includes a loss for people and challenges them to resist the change and thus to resist the leader, leading is about "disappointing people at a rate they can stand" (Heifetz and Linsky). A facilitating leadership style probably offers the best opportunity to involve people in the necessary process of analysis and searching for the best solution — something that is normally the exclusive competence and task of the leader. It offers the employees the opportunity to grow into the problematic character of the situation and into the absolutely unique solution.
The concept of facilitating leadership may also be categorised as the management of tensions, creating with some of the employees ambiguity, discomfort and even anxiety (at least in the initiating phase) and blurring accountability. But it may also create great excitement, extra energy and a feeling of the collective in others. Thus, the facilitating leader will have to find an equilibrium between the energised innovators and the fearful reactionaries.
What other, more concrete characteristics can help us to describe the specific type and style of the facilitating leader? We subscribe to the following:

- He subscribes to the new paradigm of economics and entrepreneurship, namely the system theory and network-approach;
- Because he looks at the organisation as an interactive network, he is strongly interested in group dynamics and techniques for excellent meetings, so that he is able to implement and apply this specific knowledge into his day-to-day management activities as a leader. It is, after all, the network that is creating new products, finding new strategies, creating solutions to problems. Leading means liberating the energy and knowledge that is shut up within the network;
- He strongly believes in his vision, though without becoming a narcissist, focused on his own vision and not willing to accept differing opinions or critics of others (though it's Kets de Vries' opinion that every leader is somewhat a narcissist). His vision is mainly his personal spirituality, not a diktat to the organisation. Preceding to and from his vision he oversees the integral whole of the organisation and the effects on the long term and will use this insight to help his team of co-workers to draw the right conclusions and take the right decisions;
- Together with the fact of building his own vision and insights on the future of the organisation, he is oriented towards the long term perspective;
- He is a humble person, who thinks of the organisation as something greater and of more importance than himself. He will not put his own private self-interests above the interests of the organisation (Collins, 2001). And, first of all, he listens. So, a leader must think as most owners of their own family business do. So, he is not primarily and directly occupied with his own job and future. On the contrary, he is working towards a situation wherein he himself will have become superfluous because the organisation can do without him;

In line with this humility he takes no credit when things go well, but accepts the responsibility when things are going badly (Collins, 2001);

- He stresses and supports complete information for all co-workers (because without information one can not be responsible) (transparency);
- He takes care of (the needs and interests of) other stakeholders, especially his co-workers' need to be involved in the decision-making process;

He therefore spends a lot of time discussing the actual discussion with all stakeholders, sharing information, gathering new information and inspiring people. Therefore, he is a very empathic person;

- He realises that he cannot lead alone, and so he needs teamwork. Haijtema (2005, 24) refers to this view of facilitating leadership: "There is no individual manager or administrator who has all the qualities in himself to lead his company successfully. Therefore, it is of great importance to stress teamwork at all levels, whereby the composition (of the team) must be complementary and diverse instead of homogeneous."

> Therefore, to develop the organisation, he needs to develop the others.

We must stress, however, the fact that most of the actual management gurus do not agree on whether or not teamwork is important and whether or not this is a fact in all businesses. But some of them, as Moss Kanter and the majority of management books, do appreciate and defend teamwork as a major aspect of good management;

- He accepts and supports diversity as an ideal aspect of learning and improvement;
- He accepts, even supports critical evaluation by all co-workers (and thus whistle-blowing, at least internal whistle-blowing). He does not accept business-as-usual and the status quo, but welcomes dynamic ideas such as the quality circle and the learning organisation. He stimulates his co-workers to question and reflect on their own assumptions and premises, challenging people to think and act in new ways. He is willing to accept, and even stimulates critical remarks about his own person and behaviour too;
- He strives for consensus, at least about the procedures for reaching a decision;
- He interprets change as an opportunity to perform better, in contrast to the autocratic and psychopathic leadership styles that do not want anything to change because of power and status, and so are not armed against continuous change. Basically, they fear change and distrust the future, others and themselves. Therefore the facilitating leader is a person with a large mental flexibility[3], inner rest and self-esteem, and trust;
- He is not afraid of the actual complexity and the collective and ethical panopticon, but interprets this situation as an opportunity. Therefore, he has the necessary competences to handle complexity, such as analytical and synthetic thinking, empathy, self-esteem and a self-critical attitude, a willingness for transparency and accountability, a willingness to change, an openness to deviating opinions and critics and strongly focused on quality.

Thus, we fully subscribe to the view put forth by Fabry (Daniëls and Fabry, 1995) on leadership: "Talk to people about their purposes and objectives. Help them to get insight in the situation in which they are situated and let them determine the targets and goals themselves. Then, give them the power over the processes in which they are involved, see to empowerment. And, as manager and coach, keep an eye on the process – review – without interfering in everything." We consider this quotation as a very good description of what we have defined as 'facilitating leadership'. As Gratton (2004) states, it is time organisations treated their employees as adults, no longer as children.

Are there yet any concrete performance indicators for facilitating leadership? We suggest, among others, the following indicators for measuring the facilitating degree of leadership:

- Facilitating leadership must be built on intense participation with all co-workers. So, the number of consultations and meetings at all levels of the organisation are a clear indicator;
- Facilitating leadership aims to engage as many people as possible in the decision-making processes. So, the number of actively engaged co-workers indicate the level of facilitation by the leader;
- To enable all co-workers to be engaged in the decision-making processes in an effective and efficient way, they have to be informed accurately. Therefore, the gathering and the internal dissemination of data is an indicator of facilitating leadership;
- This style of leadership accepts critics as an opportunity to learn. The number of and openness for internal and external critical remarks and discussions is an indicator of the level of facilitation of leadership;
- Though facilitating leadership is in itself a very good internal alternative for whistle-blowing, there should be the possibility, agreed norms and rules, and a clear and well-known structure for whistle-blowing;
- This style of leadership should increase autonomy and job satisfaction, and decrease stress levels;
- Innovation and change should increase within this style of leadership;
- Learning has to do with evaluating the actual situation and policy. Therefore, the presence or absence of periodical evaluation of actual situations and policies can indicate the level of facilitating leadership;
- Learning and self-development are of a big concern to a facilitating leader. Therefore, the numbers of education and training events indicate the growth of a learning organisation.

But we also subscribe to Tarr's (1995, 79-86) opinion about servant-leadership that it is not a very popular idea. People think it is a weak type of leadership and it is commonly thought that our time needs strong leadership. Others have the opinion that such a highly participative and collective type of leadership necessarily must end up in chaos. We, however, do not agree with this point of view, for (in contradiction with a situation in chaos) facilitating leadership does strive towards and provides structures and procedures for orderly decision-making processes. One of the most important rules of the game is exactly that decisions, norms and rules agreed on by the group or organisation must be followed by everyone until the group or organisation has decided democratically about changes. Besides, there is also a collective framework about the agenda. Thus, facilitating leadership is a type of democratic leadership, not of anarchistic 'leadership'. Besides these fundamental, even philosophical counter-arguments, this kind of leadership demands a high level of trust, cooperation and teamwork and so bears a lot of risks of failure. We can also detect more practical implications and limitations in facilitating leadership. Given the pivotal role of active participation of all co-workers, even all stakeholders, in the decision process, we must stress the possible impact of the practical problems and philosophical remarks about participation (Siebens, 1999, 69-96). Often there is a lack of motivation hindering the participants' engagement in a participative process of decision-making. Often participants don't (want to) understand that participation also includes the willingness to think out of the box, including thinking further and broader than their own personal needs and interests and a short term return. The explicit preference for a collective decision process, instead of an individual kind of decision-making, poses the same kind of problems.

Facilitating leadership, as the counterpart of participative management, must introduce with all participants a strong inner belief in the added-value of participation in their lives and their organisation. So, many problems in facilitating leadership are problems concerning cooperation and participation (Siebens, 1999, 69-96). Esteban and Collier (von Weltzien, 2002, 159-173) in their excellent article about the problems with the transition from a hierarchical to a participative leadership style also point at complexity and chaos following the decision and act of transition. New competences and skills are needed, priorities must be re-evaluated, in general the whole culture must change, people must become sensitive of their prejudices etc. According to the authors, this last aspect is especially the main cause of the failure to develop the moral attitudes and competence needed for genuine participation.

One of the main counter-arguments against any form of leadership clearly linked to participation – – and this is the case with facilitating leadership – – is the argument of idealism and naïveté, meaning that this style of leadership is unrealistic and cannot be maintained in all situations. This argument includes at once an ethical question: at what moment or in what situation may the facilitating leader (or even does s/he have to) ethically change his style into a more directive or authoritarian one? Strangely enough, leadership literature does not address or answer this crucial question. Though we do not yet have the final answer to this issue, we do already have some pieces of an answer. Firstly, this counter-argument reveals the fact that leadership style may be a personal and very conscious choice taken by a manager, but still it is never a constant and stable thing. The style of a leader does change, not only over time, but also from situation to situation. It is in fact a very unstable and dynamic thing. Secondly, this counter-argument addresses a very hard fact of life: participation may be based on very noble intentions from the side of the manager, but in many cases co-workers are not interested (for a variety of reasons). And thus any leader has to address the crucial question of in what circumstances he will change his style towards a style that is more appropriate to a situation where there is low or no interest from the side of the co-workers.

From our perspective, it is still an open question whether or not the answer is purely personal or situational, whether a more general answer is possible. At the moment it is our opinion that facilitating leadership, as with any type of participative leadership, has to be in communication with the opponent stakeholder: the co-worker. This is possible … by the grace of the co-workers. In other words, facilitating leadership needs the approval and cooperation of the co-workers. If they do not agree with this style of leadership, it is impossible. We believe people must be approached with the style they themselves choose (even if this style is not what the leader himself prefers). Besides, for some people there are also some situations in which the facilitating leader must let go his favourite style. More especially, when the group or organisation appears to be unable to reach a decision by consensus or even by majority, even after bringing in new information and arguments, breaks and new attempts by the leader, the leader may end up at a point of no return and will have to make the final decision himself. We believe all other situations, such as deficits of information, changes in the situations at stake, and conflicts, can and must be handled within the context of the facilitating leadership. For the particular situation mentioned, any group and organisation must develop their own agreements on when and how.

However, we are convinced that the question of the limits of a facilitating leadership in such a situation of indecisiveness can and may not be solved by leaning on the personal opinion of the leader, neither on the opinion of the most sympathetic or powerful member or part of the group or organisation, neither on the argument of the most effective and efficient (c.q. most profitable) solution for the organisation. The only correct way to take the final decision should not be based on utilitarianism, power or opportunism, but must be based on ethical grounds, by weighing all the needs and interests of all parties involved (Siebens, 1994). At the end of such a situation of indecisiveness the leader may not decide by falling back into a style of power, be it his own formal power, be it the power of one of the members or parts of the group or organisation. He has to repeat the exercise of the group and to weigh all 'stories' involved to find out what need/interest can be argued as being the primary one (Siebens, 1994). The most important argument for this ethical approach of solving the situation of indecisiveness is that of transparency and accountability: after his decision the facilitating leader will have to argue his final decision to all parties involved, definitely inside the group and maybe also outside (such as the board and shareholders, the media, and other external stakeholders).

This view of leadership turns the classic hierarchical approach of the relationship between leader and follower around, because the leader needs to become the biggest servant. Thus, we don't agree with Bennis (1987) that leadership essentially needs a leader, followers and an objective. That's just one format of leadership, namely the traditional format. Therefore, the original Latin meaning of 'minister' becomes reborn. And so the concept of facilitating leadership comes very near to Greenleaf's concept of servant-leadership. Turning around the traditional order between leader and servant, Greenleaf bases excellent leadership on some alternative values: strength (as "the ability to see enough choices of aims, to choose the right aim and to pursue that aim responsibly over a long period of time" (Greenleaf, 1959, 1), openness to knowledge, foresight, 'entheos' (meaning "the essence, the power actuating one who is inspired" (Greenleaf, 1959, 46), a sense of purpose and the ability to laugh. Collins (2001) too supports a type of leadership that is not ego-centred (leader-centred). The 'level 5' leader is focused on the larger goal of building an excellent ('great') company. He combines this drive and willpower to realise excellence with personal modesty. The 'level 5' leader has strong ambition, but not towards himself, but towards the future of his organisation. Therefore, he will be guarding the ethical quality of the decision-making process by guarding all participants to participate from common interest and not from self-oriented self-interests. This implies that the facilitating leader will urge for opinions and strive towards decisions based on arguments, not on formal or informal power. Facilitating leadership encompasses the Herrschaftsfreie Dialog of Habermas.

As a conclusion we could define facilitating leadership as a style of leadership oriented towards the competence and ability of a group or organisation to realise highly efficient and effective, qualitative, ethical decisions. The leader enables and supports the individuals and the group or organisation as a whole to build their opinion about the agenda and finally to reach a decision in consensus, by facilitating the right group dynamic and organisational context, procedures and processes. This way the facilitating leader changes his power of control into social control and self-control. The more he is not leading in the old meaning, but facilitating the self-leadership of his colleagues and organisation, he will truly determine whether his organisation will be successful or not.

The facilitating activities of such a leader encompass among others providing people with all necessary information, offering the opportunity of education and training in all competences needed in a participative decision-making process and participative management, a qualitative agenda and reporting of all meetings, and providing all necessary materials and practical means. Doppler and Lauterburg (1996, 61) define the role of the new type of leadership as "to create the general preconditions that make it possible for co-workers with a normal level of intelligence to perform their tasks autonomously and in an efficient way" and they connect it immediately with managing change. We fully subscribe to this definition of modern leadership.

This approach to leadership is the complete opposite of what Senge (2000, 362-363) tells us once happened in a meeting of school directors, starting from an article about leadership by Argyris. After the presentation of the 4 values mentioned by Argyris as the key values for leadership, one of the directors cried out they were also the four key values of a good school director. These values are: keeping control, winning all conflicts, no expression of negative feelings and rational behaviour. These values are exactly the opposite of what we define as facilitating leadership.

The Added-value of the Concept of Facilitating Leadership

In the first part we formulated some crucial remarks considering leadership concepts. Does the concept of 'facilitating leadership' provide us with a good, even better concept? We firstly need to prove this concept to be at least a good concept of leadership, and if possible to have added-value in comparison to other concepts.

What can we say about the ethical added-value of the concept of facilitating leadership in comparison to the other concepts of leadership? At the intuitive level the facilitating type of leadership can be argued to be ethical because among other things:

- It is oriented explicitly towards the dimension of intentions;
- It enhances the autonomy and at once the self-respect and self-esteem of the co-workers;
- Its choice in favour of partnership instead of autocratic, hierarchical leadership is an expression of trust, but first of all an expression of a belief in the fundamental equality of all human beings, whatever their degree or function;
- It increases the competence of the team and the organisation to understand and implement the needs and interests of other/all stakeholders, meaning it is increasing their empathic competence;
- It makes room for more and different views, enabling the group and organisation to grow;
- It offers people the opportunity to build a deeper vision of the purpose of the organisation and the individual job. It offers people an opportunity to create a spiritual meaning of life;
- By involving the co-workers in the decision-making processes the facilitating leader is adding value to the quality level and the change management of his organisation. He also contributes to the stress management of his organisation. (However, we must also point out the fact that participation can also be a source of stress, not only a medicine. (Siebens, 1999)).

This way facilitating leadership supports a society wherein individuals are able and are offered the opportunity of taking personal and collective responsibility for their own life and the lives of others (the stakeholders). We dare to state that only this type of leadership fully supports active and responsible citizenship, building social cohesion and capital in our society.

From a more academic point of view, we can argue facilitating leadership to be ethical as well from a Kantian point of view, a eudemonic point of view, the ethics of care as the stakeholders approach. Though we can not elaborate this aspect in depth within the scope of this article, we can point out the Kantian imperative to treat others as you would like to be treated yourself, meaning that the leader must treat his co-workers as if he himself was one of them. Within the philosophy and approach of facilitating leadership this is not just a rational exercise, but a real empathic feeling by the leader. His personal self-image is that he is just one of the members of the team, although with a specific assignment, yet trying to solve a common problem or trying to realise a common objective. According to the eudemonic point of view of ethics, the leader, like every citizen, has to cultivate some values and virtues, which will make him not just an effective, but an ethical leader. Although there is none too little difference between the ethical values and virtues for a particular person in general and the values and virtues for a leader, we believe we may state that the difference is a qualitative one, meaning that a leader even more than any person in general has to cultivate these values and virtues.

Facilitating leadership is very clearly rooted in socio-ethical values and virtues such as humility, empathy, cooperation, paying attention to society as a whole, to the environment and to future generations. Considering the ethics of care, everyone has the inalienable duty of taking care of anyone else. Among others this blunt ethical duty can be based on and argued by the direct, very personal experience of the Other[4] and the empathy that will follow out of such a deep existential experience. This is no less the truth for a leader, including the consequence that he has the duty to allow himself the opportunity to really meet his Others – co-workers. Facilitating leadership is based on the humble assumption that effective leadership is built on close teamwork. Herewith the facilitating leader is often confronted with his co-workers in a very direct way. He will even urge them and bring them together to ask them for their opinion.

Last but not least we could refer to the stakeholder approach. As is the case for everyone else in the organisation, the leader also has the ethical duty to take into consideration the needs and interests of all stakeholders. Although the facilitating leader has the right and balanced choice between all needs and interests at stake, if possible the combination of different needs and interests of different stakeholders will be the 'nec plus ultra' of a qualitative decision-making process.
Besides, facilitating leadership aims for an organisational culture of participation and a situation in which every individual co-worker can take a part in the decision processes. Herewith it is supportive of the ethical principle of subsidiarity. At the same time the stress on collective decision-making supports the supplementary principle of solidarity.

We can also situate the style of facilitating leadership, versus the traditional style of autocratic or psychopathic leadership, within the Kohlberg categorisation of ethics. It must be clear that the autocratic style is built on punishment and rewards and so must be situated on the pre-conventional ethical level. The facilitating level, however, is built on the personal, inner competence of individuals, groups and organisations for finding and defining their own ethical values, virtues and principles. Within the Kohlberg categorisation this is even more than the post-conventional level, which is built on social values and norms or universal ethical principles. Therefore, we at once (Siebens, 1999, 133) plead for a fourth level of, as we have called it, 'autonomous ethical evaluation'.[5] Facilitating leadership has to be situated at this fourth level of ethical behaviour. Insofar as the leader needs to bring in the existing ethical principles, such as the particular social or universal ethical principles, it is still situated at the third level of Kohlberg's categorisation. Herewith we dare to state that facilitating leadership is situated at a higher ethical level and, thus, is an ethical more qualitative or ethically higher performing type of leadership.
The different evaluation of facilitating leadership versus the traditional autocratic or even psychopathic leadership style is in line with the difference between these styles considering the difference between morals and ethics, meaning that the autocratic and psychopathic styles are linked to morals whereas facilitating leadership is linked to ethics (Siebens, 1994; 1996).[6] This also implies that facilitating leadership, as with any type of real leadership, dares to question and challenge a status quo on the level of vision, organisational culture and organisational ethics in order to replace outdated and unproductive norms, rules, systems and procedures. The same is the case with the distinction between management and leadership, meaning the former is linked to morals (for it maintains stability) and the latter to leadership (that creates change). Could this be the basic explanation why so many regular managers are applying an autocratic, even psychopathic leadership style, versus why real leaders are in favour of a participative, servant- or facilitating style of leadership?
Can we state that the concept of facilitating leadership has added-value for the overall performance of a group or organisation, given the fact that facilitating leadership is much more process-oriented than outcome-oriented? This is a fact considering specific topics such as internal communication, stress management, job satisfaction, quality care, participation etc. Especially its stress on autonomy, openness to critics, social dialogue and a serving attitude contributes to counter stress, mismanagement, minor product quality, social cohesion, teamspirit and flexibility. Facilitating leadership is in line with a long history of thinking (Spears, 99-112), among others Maslow's theory of human motivation, McGregor's 'theory X versus Y' or Peters' theory on spirituality at the workplace. Given the importance of trust within facilitating leadership, Beccera and Huemer (von Weltzien, 2002, 71-83) state that there is a positive factor for more communication openness, lower emotional conflict, faster decision-making and a greater willingness to take risks. Thus, in general we may assume that facilitating leadership has/gives clear added-value to the dimension of quality of work (Siebens, 2006).
Finally, does the concept of facilitating leadership add value to the ethical performance of a group or organisation?
Our intuitive arguments pro facilitating leadership also imply that this specific type of leadership also has added-value for the ethical performance of and within the group or organisation. As indirect influence we recall the link with the dominant organisational culture and thus with the dominant organisational ethics too. As we have already explained, by its influence this specific type of leadership stimulates the ethical level of the organisational culture from a pre-conventional level towards a post-conventional, even autonomous level. Is there also a direct influence on the ethical performance of the group or organisation? Precisely through the strong participation of all

stakeholders and the will to give room for critical remarks as a learning process and thanks to its process-orientation instead of agenda-orientation, facilitating leadership creates the opportunity for growth, also considering the ethics in the group or organisation. One of the main characteristics of an organisation led in a facilitating style is probably this competence to learn, willingness to be self-critical and to change, if necessary in a continuous manner. Not only do we consider such an attitude and thus such a leadership style to be ethical in an indirect way – as added-value towards the learning process within all other dimensions and topics of business – but we are also convinced that it is ethical in a direct way – as a learning process considering the responsibility of the organisation. We believe only the facilitating leadership style is capable of leading a true learning process that considers ethics.

Besides, the attitude of the facilitating leader is to be oriented not towards himself and his position, but towards the co-workers and the organisation and, in second order, all other stakeholders make him fit perfectly into the stakeholder approach of business and of corporate responsibility (Greenleaf, 1959). The two most dominant preconditions for facilitating leadership probably are ethical –– an openness to the general interests and empathy for the needs and interests of all stakeholders.

Moreover facilitating leadership functions strongly in line with some management instruments highly valued within business ethics such as stakeholder dialogue, ombudsperson/service/structure and whistle-blowing.

As a general conclusion we dare to state that the concept of facilitating leadership offers clear added-value 1. as a concept for leadership, 2. as an ethical concept, 3. for the overall performance of the group or organisation, and 4. specifically for the ethical performance of the group or organisation.

We even dare to state that this concept also offers added-value to society as a whole, more precisely considering individual citizenship and participation, social cohesion and solidarity, change, pluralism etc. Therefore we are convinced that this concept is not only useful for profit organisations such as companies, SME's etc., but also for specific organisations, especially those in which knowledge workers are important or those for which direct relations between people are core business, such as schools, hospitals, etc.

Annex: Some Opportunities for Further Research

The concept of facilitating leadership, as presented here, is still merely a general philosophy. We refer to several footnotes in which we had to state that the scope of this article left us no place to elaborate the different aspects of the concept of facilitating leadership in depth. So this article is only a preliminary presentation of this new approach to leadership.

And, of course, a lot of research has to be done. We suggest among others:

- on the philosophical level: research on possible roots within ancient philosophies and traditional philosophies and theories about leadership and further research on the similarities and differences to Greenleaf's concept of servant-leadership and Collinn's concept of 'level 5' management;
- practical research about the extent to which leaders actually behave in a facilitating way;
- research on the fundamental differences between management and leadership, especially considering the aspects of stability versus change and morals versus ethics;
- research on philosophical and practical problems and remarks, such as the question of the limits of facilitating leadership in day-to-day practice;
- research on the kind of organisational culture, the kind of co-worker and the kind of leadership development curricula corresponding to this type of leadership;
- research about ways leaders can be educated as a facilitating leader.

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Endnotes

1 Panopticon: At the end of the 18th century the Englishman Bentham created a completely new type of prison, where all the cells were situated around a central control tower. This way he realised an easy concept for total control: pan – opticon, meaning everything can be seen. Recently this term has become used again to express the reality of omnipresent media, including IT-media, that realise easy access to all kinds of information, even secret information.

2 In Flanders the awarding of Theo Dilissen, former CEO of Real Software and former top basketball player, as Manager of the Year 2001 was a clear boost to the literature and approach to business management on the basis of sports coaching.

3 The competence of mental flexibility could be defined as "the capacity to absorb change … to adapt successfully to the changing world" (Murray, 1997, 73). It is the capacity of individuals, groups and organisations to question opinions, philosophies, situations or structures, to let it go and to replace it with other, more appropriate visions, philosophies, situations or structures. It stands for openness to what is different or new. Therefore mental flexibility is also the competence of accepting the views and opinions of others and of paying attention to someone else's needs and interests. The latter includes empathy, as the competence of understanding from inside-out the needs, interests and feelings of someone else. Mental flexibility and empathy are close to each other (with the second being part of the first).

4 Cfr. the philosophy of the French philosopher E. Lévinas.

5 Within this fourth level of autonomous ethical evaluation we would suggest to distinguish, in line with Kohlberg's categorisation, two sublevels: 1) personal ethical principles and 2) empathy. The last, being the maximal ethical level, is linked to among others the ethics of care and the philosophy of Lévinas.

6 In earlier work (Siebens, 1994; Siebens, 1996) we already defined an essential difference between morals en ethics, based on the work of Ricoeur. These terms are now defined as follows:

- Morals (from the Latin word mos/mores, meaning a custom) imply a comparison with norms and rules (regulation such as laws). This is a deductive methodology, applying norms and rules to concrete situations, meaning that concrete situations are compared with what norms and rules are dictating. Therefore regulations get applied to all kinds of specific situations (particularism, casuistic). The core of morals is norms and rules. People's response to morals is an attitude of enforcement and compliance ('law and order'). Morals are rational, absolute, collective (for everyone the same) and static. Within Kohlberg's categorisation morals are about preconventional and conventional levels.
- Ethics (from the Greek word ethos, meaning character, the normal way of behaviour) compares actual behaviour with what is defined as the ideal way of behaving. This is an inductive approach, whereby situations are analysed. This analysis leads to norms and rules, applicable in that particular situation (often called the 'case'), but – maybe – not in other, new situations. This implies ethics leads to meta-principles, which are considered universal truths. By its inductive methodology ethics is first of all about questioning and evaluating the actual situation. The core of ethics is principles. This approach to responsible behaviour is much more intuitive, much more individual and relative, and dynamic. Within Kohlberg's categorisation, ethics is about the postconventional level. Given the meta-level on which ethics is operating, it does not prescribe rules, but procedural (or meta-) rules for defining and changing the rules. Ethics will not determine the regulation of the organisation, but will regulate the debate within the organisation, which will lead to the determination of regulation.

"Fair Play" or "Loyalty and Coherence" A Source of Performance and Value Creation through Business Ethics

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Abstract - Introduction

As with quality of products and services, business ethics and "fair play" can create a "climate of trust" deeper than that created by norms and labels. This condition lies in coherent collective and individual behaviours as proof of loyalty and a source of trustworthiness. Implementing such coherence requires a "methodology of coherence" inducing successively trustworthiness and trust.

Trust is a major strategic component of corporate performance as well as of the sustainability of the corporate social mission. The trust of stakeholders must be gained, built, preserved and increased through permanent efforts and consistent behaviour. It is therefore a matter of management and, as such, trust becomes an instrument requiring a suitable method – the "methodology of coherence".

As a form of "instrumentalisation", this can be seen as negative or questionable only when it is based on unfair manipulation and groundless trust. In such a case, it is even dangerous – the company risks the disclosure at any time of its ("bad") intent, breaking the "climate of trust" among stakeholders and loosing its "capital of trust" in the marketplace. The consequences are market penalties and a "sustainable" and unfavourable competitive position. Therefore, induced Ethics and trust can only be envisaged as effective strategic tools if the first establishes "fair play", which is a condition of the second.

When talking about sport, fair play is more than simply "respecting the rules of the game". It is a pro-active attitude undertaken constantly on the field and off by sportsmen as much as by teams, clubs and supporters. It results in behaviours respectful of the "spirit of the sport". It by no means prevents the presence of referees or the use of any culturally and humanly acceptable means in order to win both the match and a good reputation or image.

It happens in the same way when talking about business and management: companies, leaders, managers, employees and workers must practice fair play in all strategic and operational decisions, behaviours and communication. Beyond laws and rules, they must practice and "show" fair play: a life-long voluntary and pro-active attitude to creating respect ("climate of trust") and amassing corporate value ("capital of trust"). In this sense, business ethics and fair play are constitutive of assets much more than standards of quality, even if the latter can contribute.

As a matter of conclusion, trust comes from coherence between, on the one hand, a message made on the basis of motives, values, reports of acts, and results, identified and shared among the company and the shareholders, and, on the other hand, consistent behaviours observable in the market on a daily basis. One can speak about evidence and proof of loyalty or "trustworthiness".

Our paper will focus on these propositions across five chapters dealing, firstly, with the conditions and mechanisms of fair play and induced trust. The concept, rationality and assumptions of trust will then be discussed in order to propose a list of items applicable to trust building. Afterwards, the transition from fair play to trust will be handled through the methodology of coherence along with a discussion of the strengths and weaknesses of the association "fair play + trust" in terms of corporate performance. Finally, we shall conclude with the practical perspectives of applying these propositions.

Conditions and Mechanisms of "Fair Play" and Trust

It is commonly accepted today that a balance could exist between profit and social and environmental issues. If we forget the Judeo-Christian concepts that prevent us from combining the good and the profit, we can accept that corporations may "do well" and obtain a profit from that. Of course there is a limit: one does not "make ethics" in order to make a profit, but one can make profit because one "does ethics" [1]. When doing well, there is no evil in taking the advantage since, in view of their sustainability and one of their functions in society, companies may only behave realistically, not idealistically! If ethics is only "cosmethics" (Smets, 2002) and does not rely on coherent and honest behaviour, the resulting profit will not be sustainable and the breach of trust will be penalized.

This is the foundation of the "theory of Triple P and Fair Play": a motivation towards coherence, where performance depends on suitable management tools and methods founded on a cultural basis and consistent ethical behaviour throughout the company in particular and society in general.

Supposing such a foundation is accepted, the theory aims at optimizing a corporate economic function, which is no longer f(Profit) but becomes f(Profit, People, Planet). This raises the question of the relative weight of each 'P' in the corporate objective. From a mathematical point of view we face an equation with three unknown factors under a system of constraints – that is, a system of corporate values, of standards in the company and in society, and of balances between forces in the company, between itself and society, and throughout society. All these determine priorities, thresholds, ratios and parameters of optimization. Briefly, it is a question of finding a balance between objectives and constraints coming from economic, social and environmental fields.

Supposing that such system of internal and external ethical values exists, four principles exist as a foundation for the theory.

The principle of exchange: The company may expect a supplement of value (profit) as long as it engages in fair play –– that is, the reality and effectiveness of its 3P policy gives a supplement of wellbeing and utility to society which, in turn, gives a positive result to the company. It acts as an exchange of "civilities". Society in this case is made up of "Responsible Citizens – Consumers – Workers" (RCCWs), being themselves coherent and acting in accordance with their own values.

The principle of permanence: Society awaits permanent satisfaction of its expectations. On the one hand, the satisfied ones must remain satisfied while, on the other hand, new comers must also be considered. Therefore, the company must develop a permanent policy for the satisfaction of wellbeing and utility in society –– that is, continue current efforts and commence new ones through a permanent updating of the "exchange of civilities" as a factor of value and profit.

The principle of sustainable legibility, visibility and trustworthiness: Fair play must be a permanent behaviour of the company. If it is not, it will never be accepted as credible in society. It must also be readable and understandable by the RCCW. It must finally be visible and even highlighted. Without sustainable legibility, visibility and trustworthiness in the company's message and behaviour, society will not be ready to give a positive response to the company.

Visibility through communication: Visibility occurs through communication and marketing. The challenge is to make the contribution of the company to the Community's wellbeing known, while being conscious that the components (market segments) of the latter often have contradictory priorities, opposing interests, mitigated attention or insufficient competence. The aim is not necessarily to listen to the message or be able to understand or interpret it. Accordingly, values and efforts must be shown or even highlighted and explained to make a profitable difference to the image in the marketplace.

[1] About « instrumentalisation »: Ethics is a useful instrument for companies only if a "demand" for ethics exists in society. In other words, ethics is a useless instrument if society is not concerned with it. Consequently, one can say that, before the company can use ethics as an instrument to convince society and markets, the latter must use profit as an instrument to require ethics from companies. Profit instrumentalisation by people comes first, ethics instrumentalisation by companies comes second.

Trustworthiness through coherent behaviour: Trustworthiness rests on coherent behaviour: if an RCCW does not observe the realization of actual values in actual facts, s/he cannot believe in fair play. A fortiori, if s/he observes the opposite. It is therefore necessary to educate and train people throughout the organization to "live ethics" in the daily decisions and actions, thus ensuring coherence between values, behaviour and hopefully, results.

Legibility of communication: The RCCW is not professional: even if receptive, his/her task is not to make steps of understanding. S/he must dispose of immediately comprehensible messages. However, on the one hand, labels and reporting constitute a labyrinth for the RCCW. The first are numerous or, when aggregated, they mean little. The second are much too technical for an easy interpretation. On the other hand, explaining a choice, its difficulties, alternatives and reasons, requires much more consistent communication than a simple commercial slogan. Communication about Sustainable Development and Business Ethics is at the opposite end of the advertising "star system". Communicating in these fields is a real challenge. In both cases, simplification, standardisation, harmonisation and synthesis come before any efficient communication. Nevertheless, while change must happen in communication, it can only be in the sense of popularisation. This is contradictory and here lies the real challenge! This is the reason why sincerity and coherence between messages emitted and actions observed is the key to ethical communication. The way of communicating and the way of acting reveal the way of thinking**.**

Sustainability through permanence: Sustainability lies in the permanence of legibility, visibility and trustworthiness. These have to be maintained at all time without failure: any interruption, especially of trustworthiness, is likely to annihilate previous efforts for a long time. People do not like to feel misled.

The principle of economic rationality: Economic efficiency, sustainability and rationality require prioritising the actions that most conform with normal investment and management conditions – – the most "profitable" in terms of an answer from the society, and the most efficient in terms of the means affected by the company –– must be chosen according to the principle of rare resources.
This theory can be represented as a continuous optimisation process generated by a company policy of continuous fair play, continuously creating value[2] for the stakeholders, which, in return or as an answer, continuously bring value (profit) to the company.
Precaution: According to the principle of legibility, visibility and trustworthiness, communication plays a major role and constitutes a vital stake in the theory's application. The first stake rests in the creation and continuity of an exchange of "civilities". The second stake lies in the response from the market and stakeholders. If these are not conscious that the company "does well" and from what it does well, how can they address an answer, either positive or negative? The third stake consists in the quality and the effectiveness of the communication – that is, correct evaluation of the target, good definition of message content, the choice of the right communication vector and mode of communication…as many elements which are not specific to ethical communication. Even communicating about intangible values is not new as, for some time, these have been commonly advertised as prestige, image, mode, etc.
What is specific here is the target, known as stakeholders and specifically RCCW. One RCCW is a single person playing three different roles and having three different kinds of expectations. First, the citizen expects some respect of social values. Second, the consumer wants top quality and low prices. Third, the worker requires good salaries, security, training…, which one must be targeted with a specific message without disappointing the other? How can you tell contradictory things to the same person if s/he has contradictory identities? How can you be coherent facing non-coherent people? We shall come back to this problem of conflicting values and interests in the market later.
Creating the said exchange and appealing to the market for a response is primarily a question of trustworthiness: the messages and the image must both be credible as a precondition to any response, and in order to be credible, they must correspond to what the market observes in reality. Therefore, decisions and behaviour must be coherent with the values espoused.

Coherence creates trustworthiness, which in turn creates trust. In this sense, the company's way of "living" its values is even more crucial as a vector of trust than the values themselves.

[2] "Value" is not understood as a financial value, even if it can be. Its content is rather of an immaterial nature, which we call in an extensive sense, "utility", including material and "intangible" well-being, and physical or moral satisfaction.

From a methodological point of view, one should approach trust and trustworthiness in various spheres and fields of application:
In the internal sphere of the organisation it is a matter of communication in terms of values and motivation, while distinguishing various fields – those of leaders, executives and operational personnel – and, for each one of them, their trades, activities, nationalities or localizations... This means at least nine different fields.
In the external sphere of the organization: It is a question of communicating in terms of image and reputation and of distinguishing two fields – the B-to-B and the B-to-C markets, which have different mechanisms of relationship and interaction; and then three other fields – stakeholders, the State and the press, which we describe as intermediate because they intervene like relays of communication with their own mechanisms towards the two markets. This means at least five fields which also include different fields within, such as, according to each case, suppliers, subcontractors, customers, distribution networks, civil society... for which it is also necessary to distinguish, as above, the trades, activities, nationalities, localizations, etc.

One can easily understand the impossibility of approaching all these specific cases of trustworthiness and trust building in this paper. Furthermore, considering that the internal sphere is the source of the coherent behaviour that must be perceived in the external one, we thus limit ourselves to a general approach, not distinguishing the spheres and fields. We also consider that, whatever they are, spheres and fields are made of individuals who, whatever their function in the system, are stakeholders receiving messages from the company and observing its behaviour. In the same way, we regard the company as made of individuals forming an organized whole. We will thus primarily consider individual relations and interactions between company individuals and stakeholders, whose common characteristic is to be "Responsible Citizens – Consumers – Workers" (RCCWs).

Rationalities and Assumptions of Trust
In the first instance, let us consider trustworthiness as instantaneous: one believes in the sincerity of a message on receiving it according to antecedents which make it credible and convincing, or one believes in the truthfulness of behaviours when observing them, within an historical context which makes them credible and convincing.

In the second instance, trust settles and develops over time via the accumulation of "moments of trustworthiness" (constitutive of the above antecedents and historical context) addressed to the market by the company. In this sense, trustworthiness results from "communicative action" (Habermas, 1997). We propose to study this complex problem in this section and with the help of various authors. It seems however neither possible nor necessary to define trust in an exhaustive manner as the problem is vast and the approaches different and alternative if not contradictory.
We only wish to identify, for each approach, the useful elements in the framework of this study: primarily the goals and roles of trust within the company's market relationships, as well as the bases, forms, characteristics and means of trust. This will help to determine, under point 2.6, the synthesis of the objectives for "using" trust and of the methods for creating, developing and maintaining it. Such objectives and methods will be presented under a list of practical items gathered under four topics: (1) the content and formalisation of the company ethics, (2) the formalisation of ethics in the company through change and culture management, (3) internal behaviours to be induced by change and culture management, (4) communication from the company to the markets.

The Approach Proposed by G. G. Brenkert
The goal of trust is not a business morality, but the assurance of a consistent communication base. According to Brenkert (1998, 303-305), trust refers to three particular **contexts and forms**:

Basic trust is a kind of "precondition of social life" (Sabel, 1993), a "minimum level of trust... [without which] business transactions would prove impossible" (DeGeorge, 1993, 21). It relates to "impersonal and systematic relations… [supposing] recognized and generally accepted rules, uses and standards" and it differs from a "goodwill trust hold between specific individuals... expected to take initiatives while refraining from unfair advantage taking" (Sako, 1991, 452-453).

Guarded trust "makes contracts possible" between agents "to protect their vulnerabilities". It dictates "contractual governance devices".

Extended trust goes beyond the preceding varieties, giving "greater flexibility and freedom in their relations", especially "when contracts, and monitoring devices are not in place or have been significantly reduced… [This allows for] greater exposure of… vulnerabilities to the other… so as to create a relation which is mutually desired". This also allows a longer duration of the relationship. It is a kind of informal part of the contract and "this relation may exist not only between firms, but also between firms and their stakeholders".

In short, basic trust is a necessary background, guarded trust constitutes a governance context, and extended trust corresponds to a higher level of morality, bringing efficiency in collaboration and possible partnership.

Basic trust rests on two **conditions** (Brenkert, 306-307):

"The *commonality of motives* associated with mutual acceptance of common basic norms, values and customs… Individuals tend to trust each other the greater the similarity and mutuality of their motives, values and ends. Accordingly, basic trust rests on several assumptions: that others do not have motives to harm them; that if they do have such motives, they have other overriding motives which keep the former in check; or, finally, that if they have motives which may lead to their harm, these motives are exercised within certain widely recognized and accepted forms of behaviour such that they may be anticipated or avoided".

"The *consistency of behaviour* of those acting on these motives" which is, by nature, uncertain. Here "reputation" appears as an element of trustworthiness.

Guarded trust supposes an additional third condition:

The "*knowledge of the competence* of the other party i.e. that the other party is capable of carrying out the contract. Such competence (Gabarro, 1978, 309) can be functional [technical, specialised] and interpersonal" (relational, putting the former one at work).

Extended trust implies an additional fourth condition:

"*Openness*" to exchanging information, "levelling with another as well as not creating or permitting misleading expectations to be generated in the other".

In the international context, these conditions of trust create four **problems** (Brenkert, 308)

Difference of values and motives, which can be known or identified,

"*Ethnocentric and egocentric tendencies*...[which] will be particularly acute internationally, where people look, talk, and behave differently",

Heritage from the past, inducing differences in conceptions about many things (performance…) and stressing the trust relation (history, ideology, culture…),

Cultural context jeopardising the capacity for openness within and between societies when one "can never know what the others are thinking".

Brenkert (295-296) defines three **understandings or types** of trust:

The Attitudinal understanding: "an attitude, disposition, or inclination to act in certain ways in light of various beliefs one has both about oneself and others. Typically, these beliefs concern one's own vulnerability and… [the others determination] not to take advantage of that vulnerability".

The Predictability view: "the extent to which one person can expect predictability in the other's behaviour in terms of what is 'normally' expected of a person acting in good faith" (Gabarro, 1998, 295) independently of his own vulnerability. It supposes a level of uncertainty and a reason to trust, which are important in the mechanisms of trust.

The Voluntarist sense: when trusting, one voluntary makes oneself vulnerable to the other's discretionary power (Baier, 1995, 105), "so investing them with a charge or a responsibility" (Thomas, 1987, 91).

In conclusion, trust can be a disposition (catalysing relation), a faculty of prediction (reducing risk) and a form of action (binding parties).

From the **characteristics** of trust identified by Brenkert (298-303), we retain the following:

"Trust involves a *commonality* of values or aims (real or perceived)… upon which the trust relationship is built. This commonality needs not be complete or even extensive". It determines "a strong sense of mutual sympathy". Different values and aims do not prevent trust, but the higher the communality is, the greater the trust can be.

Trust includes a *judgement* about the other's trustworthiness and discretionary power. The first is crucial to initiate trust relations. The second supposes each party's intent and goodwill in view of the other's wellbeing.

"Trust must be distinguished from *trustworthiness",* it "tends to concern longer-term relationships" and depends on "factors including the mutuality of interests… the degree and kind of trust, the non-violation of vulnerabilities, and the continuous fulfilment of the conditions of trust". Trustworthiness "is not an attitude, but the evalua-

tive appraisal that an individual is worthy of trust". It supposes a certain knowledge of the person, the organisation and the circumstances in which trust is envisaged (in opposition to "blind trust").

Relations exist between trust and values:

Trust is about individuals from everywhere, with different cultures and values, but it "may constitute a common value".

Trust "is not an unconditional value" (it can be immoral). It is therefore not a sufficient condition of morality, but a necessary one appealing for a "relation to morality and ethics" even "if it does not guarantee moral action".

Trust plays a different role in ordinary life and in business where "individuals do not have an obligation to trust the businesses or corporations they deal with in the market in order to give them moral support. And corporations do not have an obligation to trust unspecified others as a means whereby to support them".

Trust goes beyond interested behaviours. Each party having morality, not simply guided by interest, but pre-existing and creating interest, not to make business, but to make it because of a shared morality calling for common interests. Such morale and mutual trust offers advantages:

- Calling for mutual communication, comprehension and knowledge,
- Leading to sharing vulnerabilities instead of profiting from them and being exposed to the same. A mutual dependence is so created in view of common wellbeing and expectations for the future,
- Reducing inclinations of manipulation and unfounded reciprocal expectations,
- Promoting autonomy and self-determination, and shortening the "test" period for building trust.

The Approach Proposed by F. Flores and R. Solomon

Trust in the first instance is a "**set of social practices**, defined by our choices" (Flores and Solomon, 1998, 205) of transferring to the other a share of power and to accept oneself as vulnerable and dependent. The problem is thus "the other", which supposes "a kind of knowledge, the recognition (which may be, of course, fallible) that someone is trustworthy" (207). However, trust is not a "phenomenon of conviction, although it includes convictions", or a base for justification, although believing can suppose obviousness. Trust seldom makes sense apart from a broader context including/understanding the history and the nature of the relationship. Trust is thus "distinctive" and utilitarian insofar as "it opens up possibilities of relationship which would be impossible without it" (209). Trust is a virtue "when it is pursued for its own sake, even if there is benefit or advantage in view" (208).

The **basis of trust** lies in a dynamic relation made of will and emotion. Will is present because, independently of favourable circumstances, one can act so as to modify those and our state of mind vis-à-vis our personal and relational "history", and because, as a precondition of trust, believing in human commitment is necessary to become trustworthy. Emotion is present in "the bonds we create through such emotions" (213). These are part of a process or state – "our being tuned to the world" (Martin Heidegger in Flores and Solomon, 213), hence the importance of understanding emotions. Trust is finally a continual and mutual dynamic whose importance relates to the systematic vulnerability of ego in relationships – the memory and the veil of residual doubts and mistrust remain, trust is never taken for granted, even when becoming a "second nature" (218) of the relationship and no longer a current concern.

The **significance** of trust is related to the level of the vulnerability of the ego for which trust must enter the game according to the personal implication of the actor. Flores and Solomon distinguish "between exchanges, transactions and interactions that only minimally involve the self and, consequently, require minimal trust, and those that involve something more, in which the self and its vulnerabilities enter in necessarily" (220), using not only words but the whole of body language. This emphasizes the importance of speeches AND (pre- and nonverbal) behaviours AND their context AND circumstances (221). "Small but indicative acts" are always significant because they are interpreted, being present or absent, usual or not, calling for trust or suspicion depending on the state of mind and the experience (baggage) of the interlocutor. Every sign thus has the value of a "test" for greater engagements in trust (222).

Flores and Solomon identify five **forms or degrees** of trust (213-214):

- simple trust: naïve, unchallenged, unquestioned (that of the child);
- blind trust: obstinate, even self-deluding;

- basic trust: a kind of physical and emotional safety, often taken for granted but often violated;
- authentic trust: reflected upon, understanding the risks and vulnerabilities, accepting distrust as an alternative but willing to transcend it;
- articulate trust: authentic trust articulated as belief after a sound analysis of all the possibilities. It precedes agreement, at least in the absence of imposition mechanisms.

These forms are not exclusive because trust covers a "family of phenomena" including/understanding at the same time optimism, sincerity and vulnerability. Thus, one can be at the same time trustful and suspicious, having "mixed feelings" but, finally, authentic trust dominates over distrust.

The **methodology** of trust consists of a careful choice between distrust and authentic – articulate trust. It thus does not precede the relation but "is created (and damaged) through dialogue, in conversation, by way of promises, commitments, offers, demands, expectations, explicit or tacit understandings" (218), dependences… whose instruments are language "but also a variety of pre- and nonverbal behaviours" (221) as well as unilateral discourse, like publicity.
Trust is a matter of language, emotional attitude, atmosphere and "physical presence to one another in gestures, looks, smiles, handshakes and touches" (219). "Trust(ing) is thus an existential concern… for which we (individually and collectively) have a personal responsibility" (212). If the one trusts and the other does not, it falls to the first to "win the trust" (222) of the second by identifying and evaluating the problem and being aware that the relation proceeds by trial and error, that the explanation is seldom sufficient and that teleological concepts and shared values are often second when reported to the importance of working together. One needs firstly comprehension and mutual acceptance of the problem and the explanation. It is then necessary to correct, to commit oneself and to act, in other words, to prove intent with coherence and duration through signs related to conscious practices in connection with the major elements of trust.
As for the contents of trust in business, it "is always specified: we trust a person or a corporation to do X at or by time T.... but virtually no list…could include all the possibilities such trust encompasses... its viability depends on the character of both" actors (210-211). As for the training, trusting makes trust advisable: it is a social competence, an existential phenomenon and, therefore, a matter of personal responsibility, individually and collectively. When trust is not wanted, it can be restored by selective attention to the reasons for trust, in the absence of the reasons for distrust. Lastly, as for trustworthiness, it implies that the promises (implicit or explicit) are kept, but the focus must be on the achievement of the promise, not the promise itself.

The Approach Proposed by E. Soulé

Soule (1998, 249-250 and 261-272) is concerned with the internal process of management responsibility. He comments on five definitions of trust before concluding with the personal responsibility of management vis-à-vis the workers and the broader responsibility for general governance of the firm, which should influence strategic decisions through a moral obligation to consider strategic alternatives from the workers' point of view and in their interests. The author does not see a contradiction between such responsibilities and strategy taking into account the workers interests. This concept of governance is interesting insofar as we could apply it to other stakeholders concerned with the trust relationship.
This analysis helps us understand certain components and mechanisms of trust: expectations induce an acceptance of vulnerabilities, which in return, induces risk and dependence. Risk must be controlled in order to reduce dependence, in particular by looking for influence in order to balance the trust relationship. Good or bad will (or the absence of the first) relates to our capacity to worry or harm and is formed from belief, a kind of intuitive knowledge or faith based on convictions. When the rights and interests of others are concerned, duty is seen as an alternative higher than good will.

Expectations imply stakes. Baier (1994, 101, 108) defines stakes when trying to understand why we become dependent on somebody else — we do not have another choice because we depend on the other for creating, safeguarding and taking care of things we most value. These things are precisely constitutive of our expectations because we give value to things we cannot create or maintain ourselves – – we must allow other people to be in the position, if they choose to, to injure us for the things we most value since, in this position, they can help us. This implies a responsibility for the other, which is specific and limited to what we value and depends on him/her. The nature and the limit of this responsibility must be determined, because the expectations were imprecise and discretionary, like the resulting responsibility. The person we trust can exceed or fail to respect his/her responsibility, doing too much or not enough. It is thus advisable to determine, in an asymmetrical relation, a relation where the balance of forces is unfavourable, like in management process (Soulé, 264), not only the nature of the expectation, but also the "due care" (Soulé, 265) of it (the right measure lies at the intersection between interest and trust).

A negative constraint of management (not to harm) is not enough to ensure «due care» because s/he cannot guarantee anything, and is de facto incapable of keeping his/her promises. Soulé sees the solution in a «positive moral responsibility» (Soulé, 249) and quotes Hosmer (1995, 379-405): «These voluntarily accepted duties clearly go beyond a negative promise not to harm... they seem to provide a positive guarantee that the rights and interests of the other party will be included in the final account… (This) is, of course, directly contrary to neoclassical economic theory, yet this belief in consideration, kindness, or even compassion is present in all the approaches [to trust] explored. Finally, Soulé (268) defines «due care» as "a function of the valued good entrusted and the realistic capabilities of the trustee…So there may be occasions where negative constraints are ineffective and there is no means of satisfying the duty of due care".
If we replace the worker by our RCCW, we could follow the same logic and extend the concepts of positive moral responsibility and due care to the firm facing its stakeholders.

The Approach Proposed by D. Gambetta

Gambetta (1988, 213-238) looks at trust in the context of co-operation – that is, a specific context in the field of B-to-B. But, as trust is related to personal relations and as ethical relations between the market and firms can be seen as a kind of co-operation, one can, mutadis mutandis, extrapolate an analysis of trust for other situations.
"Trust (or, symmetrically, distrust) is a particular level of subjective probability" (from distrust (probability of trust = 0) till blind trust (probability = 1), around a level of uncertainty (probability = 0,5) estimated by an agent and related to the execution of an action by another agent, "both before he can monitor such action (or independently of his capacity even to be able to monitor it) and in a context in which it affects his own action" (Gambetta, 1988, 217).
This is "particularly relevant in conditions of ignorance or uncertainty with respect to the unknown and unknowable actions of the other… related to the limits of our capacity ever to achieve a full knowledge of others, their motives, their responses… [and related] to the fact that agents have a degree of freedom to disappoint our expectations" (218) and "to avoid a risky relationship, and constrained enough to consider that relationship an attractive option" (219).
"Prima facie, trust would seem to be one of those states that cannot be induced at will, with respect either to one's self or to others" [3]. It should be considered like "a by-product of familiarity and friendship, both of which imply that those involved have some knowledge of each other and some respect for each other's welfare. Similarly, trust may emerge as a by-product of moral and religious values" (Gambetta, 230). "Personal bonds and moral values can only function as encouragements to action and cooperation" (231) and "motives and convictions".

In any case, the person and her passions and feelings are committed to creating personal bonds within the limits of her character and competences. But, being a matter of feelings, these sources cannot create trust "at will", neither can they handle it, simply because it is useful and, "moreover, personal bonds and values cannot be trusted as the foundation of co-operation in complex societies" (231). Trust is no more a matter of obviousness, even if some is embodied. On the contrary, trust is the obviousness we look at: "a peculiar belief predicated not on the basis of evidence but on the lack of contrary evidence" (234). It is indeed more frequent to perceive the evidence of behaviours unworthy of trust than to prove behaviours worthy of trust. Trust open to evidence is thus only an expectation of convictions founded on new information.
"Trust does not become scarce in the sense of a resource that is depleted through use" (225): on the contrary, it is depleted when it is not used, trust brings trust and distrust brings distrust. Even if misplaced, trust can never do worse than distrust, it raises the sense of responsibility and hope: when the risk of misplacing it is high, trust "is enough… to motivate the search for social arrangements that may provide incentives for people to take risks" (235) but "if we are not prepared to bank on trust, then the alternatives in many cases will be so drastic, painful, and possibly immoral that they can never be lightly entertained" (235). Nevertheless,

3 Williams, B A O,1973, "Deciding to believe", Problems of the Self, Cambridge Univ. Press, Cambridge, in D. Gambetta, 230

trust can be destroyed by our capacity for illusion (believing ourselves or making the other believe). Accordingly, some rationality must be present, but this may not be confused with trust itself, as the latter is not a scarce resource: one must take adequate account of "our ability to act, simulate, try out, learn, apply and codify signals and practices which may initially be predicated on unintentional states, but which can be duplicated in the *as if* behaviour form" (232).

As an optimal threshold of probability, trust varies subjectively according to our personal inclinations toward risk and our tolerance of disappointment, and objectively according to circumstances making our action independent of trust. This is the case of blind trust related to the lack of valid alternatives involving a tension between the intensity of our interest and the probability: a case of hope more than of trust when we are unaware of cognitive discordances and incapable of a rearrangement of convictions. This is thus a question of trust intensity: the force of the mechanisms controlling our decision and of the social contexts in which it is taken. This intensity can be modified by commitment, contract, promises, constraints... and it can be enforced by (personal) information, trustworthiness, reputation, commitment, increased interest… generating a pressure towards honesty, even if this can be difficult and "expensive", or simply impossible.

"Pre-commitment, in its various unilateral and bilateral forms, is a device whereby we can impose some restraints on ourselves and thus restrict the extent to which others have to worry about our trustworthiness" (221). Pre-commitment can indeed help us gain trust, but it can be expensive and often only moves the problem towards other concerns of trust: "Contracts and promises represent weaker forms of pre-commitment… a contract shifts the focus of trust on the efficacy of sanctions… promises are interesting in that the sanctions they imply may themselves take the form of trust" (221). Constraint does not increase trust but can reduce it. It evacuates the preoccupation of trust by introducing frustrations into a harmful asymmetry in mutual trust and motivation. Moreover, it consumes resources, which are the cost of the exercise and control of the constraint.

Trust supposes the primacy of convictions over the motives of others and their effectiveness, and taking into account the objective of trust rather than trust itself – that is, to look at the right conditions for its realization, such as the interest or the constraint, in view of the objective, without accepting that its current level will be sufficient.

The Approach Taken by B. Noteboome

Trust supposes that one expects everything to run well or that one does not take care of the opposite likelihood (Nooteboom, 2002, 188-209). But there is never certainty because of the uncertainty of human behaviour and the uncertainty of preferences and choices. Of course, good reasons to trust may exist on the basis of evidence resulting from personal experience and that of others (reputation). If trust appears calculative, it is by rational evaluation of the evidence until evidence of the opposite becomes manifest. Thus limits exist, beyond which one cannot withstand an opportunity or the pressure of optimism. Trust can be based on personal interest, via opportunism or the lack of an alternative, but true altruistic trust goes beyond and comprises sincerity even if opportunism comes. However, trust cannot be unconditional. There are limits here again.

Trust can be based on routine if everything happens correctly on the basis of naivety or cognitive or psychological insufficiencies. Then it becomes subsidiary, carrying interest elsewhere only to return later with a high degree of priority, according to emotions or to levels of tolerance which express sensitivity to conditions and events outside the perceived or supposed limits of trustworthiness. Trust can also be based on values and norms of behaviour, or on feelings of empathy and friendship, which also influence the limits of trustworthiness. Trust is finally adjustable and prone to learning by experience. Behavioural trust also exists in organisations, it relates to competence, capacity of performance, goals, transparency, etc. Such trust is based on corporate image, reputation and on our own relationship with the organisation.

An organisation does not have intents, but interests in view of which it can monitor intents of employees. In short, trust in the individuals rests on trust in the organisation they belong to. Trust in the organization rests on trust in the individuals representing it. However, the relationship between the organisation and the individuals (their role, capacities, adhesion, competence...), being part of trust, must be carefully evaluated as well as the organisation's position in its general environment and the position of the individuals as persons, independently of the organization. In both cases one speaks about "reliance".

Expectations can be broken due to fault on the part of the actors in terms of motivation, objectives, commitment, information, behaviour or good will, or other causes in terms of means and external conditions, such as events, rules and procedures or cultural elements determining behaviours. Among the causes of failure, one can quote those which (1) affect trust itself, like an excess of trust (lack of criticism, feeling of omnipotence and abuse of power, taboos...) or lack of trust, (2) result from the organisation itself or from its methods (intrigues, abuses, misunderstandings, conflicts, lack of information and comprehension…) as sources of dependence or vulnerabilities, (3) emerge from the relationship process (perception of realities or interpretation of behaviours and messages…), and (4) come from the macroeconomic level (consensus that is too strong, resistance to change, lack of flexibility, distrust in the system itself…).

Trustworthiness combines two types of sources: either universal sources (related to the company's culture) or particular sources (related to a situation), both being also related to either interest or altruism. Each case within each type can combine at the price of tensions. Moreover, building trustworthiness generally includes several reasons or opportunities to believe or not believe, or of moving the limits of trust.

Interactions within the relationship constitute the process of trust building: when the result is favourable one concludes in favour of trustworthiness about the effectiveness of the organisation or of various types of personal characteristics, for example according to observed behaviours, but also according to the partner's conscious and voluntary attitudes and efforts, or according to their capacity to learn and to solve conflicts and tensions. Empathy, sincerity and equality of partners are crucial in this process. In the same way, there can be a process of trust destruction, resulting from doubts and suspicion about trustworthiness. This process is dynamic through the historical accumulation of antecedents, experiences, psychological compromises, social or economic conditions, and so on, which reinforce the reasons to trust or to distrust.

Noteboom introduces several interesting concepts as tools or methods for the governance of the relationship:

(a) a go-between as a third party facilitating the relationship, whose essential qualities lie in competence and intent,

(b) a "small steps" policy allowing progress in the relationship while limiting the risks and improving the reciprocal partner's knowledge for later higher stakes,

(c) the sharing of experience, knowledge, investment and of other things within a framework of mutual dependence, in fact a division of risks or interests,

(d) "cognitive distance": proximity facilitates comprehension, exchange and the relationship in general, but it can inversely reduce perspectives and broadmindedness by a kind of "myopia",

(e) the "social contract", which supposes to double the economic relationship (interest) via a kind of social relationship,

(f) the relative position of parties in a network of relationships, which can modify the balance of forces and vulnerabilities,

(g) the complementarity between contract and trust in terms of details, dependence, flexibility, costs, control, risks...,

(h) the institutional conditions of trust made of values and institutionalized or codified norms,

(i) the physical place of trust, which materially and physically facilitates the relationship, but can endanger the confidentiality and the protection of the parties‘ core competences.

Conclusions from the Different Approaches

Here we synthesise the practical conclusions from the different approaches above. We consolidate them under four topics presented like lists of items applicable in order to build and "use" trust in a relationship with, mutatis mutandis, any kind of stakeholder.

Topic 1: Content and Formalisation of the Ethics of the Organisation

- To identify, in concert with stakeholders, the broadest set of values, norms and common uses, as elements of conviction, shared interests and regulation of intent;
- To focus on the individual and collective care of stakeholders expectations and interests, like a positive and reciprocal moral responsibility aiming at an altruist trust and at the equality of the partners within the realistic and precise limits of "due care" for each one, in order to induce a possible, reciprocal, convenient and measured commitment, excluding constraints but with consideration for experience, know how and risk sharing;

- To identify vulnerabilities of stakeholders as potential harmful effects and discretionary power of the organisation, in order to avoid exploiting such vulnerabilities in the context of good governance, with the moral obligation to seek alternative strategies focusing on the duties, rights and mutual interests of the organisation and the stakeholders, all of them being seen as creators of value, the one for the other;
- To accept vulnerabilities, risks and dependencies (under control) for the organisation and its members – that is, to accept reducing them in a positive way without transferring them downstream, and to define the nature, the content and the limits of the trust relationship;
- To formalize, and to organise the diffusion of the rules of general governance and of charters or codes, internal and external, based on the preceding elements, in conformity with reality and the expectations about the image and the reputation of the organisation, as well as with the institutional conditions of trust.

Topic 2: The Formalisation of Ethics in the Organisation (Change and Culture Management)

To ensure permanent coherence of behaviour within the organisation concerning the four topics;

To explain, in-house, the individual and collective stakes in terms of responsibility and commitment of anybody in the internal and external process of trust and transparency, focusing on the need for training, learning and practice, explaining and convincing about the four topics, i.e. creating "spirit" and motivating each one, and giving the means to practice trust.

Topic 3: Internal Behaviours to be Promoted (Change and Culture Management)

- To apply the principles and methods of the four topics, at all levels;
- To create a favourable and durable background for trust relations, through learning and training, through individual and collective commitment and coherence of behaviours according to the organisation's will, values and responsibility, and through the elimination of the potential for residual doubts by evaluating all the possibilities, even possible accidents;
- To apply the individual and collective responsibility and commitment in the process of trust and transparency via training, learning and motivating;
- To accept vulnerabilities, risks and dependences, individually and collectively, within the framework of mechanisms to reduce them as part of the equality between partners;
- To create internal and external bonds through values and objectives and, therefore, to be transparent, explaining problems, solutions and results in view of reciprocal, internal and external comprehension, acceptance and responsibility;
- To ensure reputation through coherence and continuity, to avoid absolutely the contrary evidence through incoherence and to proscribe hypocrisy and illusion, internally and externally, as well as non founded promises;
- To rightly use the mechanisms of the decision making of the stakeholders through the interest and the increased respect that one does carry to them, through the exchange of experience, sharing of the risks, small steps policy, and through convenient, reciprocal and measured involvement, in the absence of constraint and in the presence of alternatives;
- To resort and pay attention to all the trust building communication techniques: empathy, language of words and body, pre- and nonverbal behaviours, routines of trust, dialogue, conversations, listening to expectations, comprehension, promises and commitments, offer and demand, insinuations, dependences, solution of conflicts, emotions, physical presence, gestures, glances, smiles, handshakes and touches, danger of hypocrisy, promises and illusions..., in short: the importance of "small things";
- To stress on the realisation of the promise more than on promise itself;
- To distinguish relationships according to the importance of the stakeholders ego involvement, to keep in mind their specificities, to determine their values and means, to foresee their behaviours and reactions via (market) studies in order to reduce the conditions of ignorance and uncertainty, according to the actual criteria emerging from the four topics.

Topic 4: Communication from the Organisation to the Markets

- To prepare charters and codes of ethical behaviour, including pertinent arguments to convince the stakeholders about the proximity or at least the sharing of common interests and values, without moralizing, but making them recognize the technical and relational skills of the organisation;

- To let the stakeholders know the organisation and its representatives via transparency, information and behaviour, and to share their vulnerabilities;
- To develop the capacity of the stakeholders' self-determination in the trust relationship and solving their dilemmas, in order to improve the potential for partnership;
- To convince the stakeholders, and show them, that they are worthy of trust, and to establish the nature of the trust relation by specifying its content, its historical context...;
- To highlight the favourable and durable background of the relationship by mentioning and eliminating the potential for residual doubts and even for accidents. And, if these occur, never to deny them but to highlight the positive attitude of the organisation (crisis communication);
- To also take up the relationship on an emotional level between the stakeholders and the organisation, while trying to give them physical and emotional security, in particular in connection with risks;
- To identify and explain problems, solutions and results in view of their comprehension, acceptance and even in view of stakeholder responsibility, through transparency and information, in order to put them in a state of being convinced by themselves when looking at the actions of the organisation;
- To emphasize practice and behaviour, to co-operate with stakeholders, even to involve them, in particular to “show” the acts and the results rather than to present principles and intents;
- To prove the collective will and commitment of the organisation and its individual members within the framework of the ethics of and in the company (cf. infra);
- To announce the nature, limits and due care of the trust relationship between the stakeholders and the organisation in a spirit of equality and co-operation;
- To announce the individual and collective concern about others as a positive and reciprocal moral responsibility within precise and realistic limits and to put the stakeholders in a state of intuitive knowledge and conviction about the organisation;
- To set up the reputation and the image of the organisation as evidence by demonstrating coherent behaviour to absolutely avoid evidence to the opposite, and to regularly feed the market with new trustworthy information without emphasis nor triumphalism but with modesty;
- To highlight the objectives, the content and the conditions of trust rather than trust itself and to deliberately use the stakeholders' mechanisms of decision-making through the interest and the increased concern that one carries for them, through communication of experience, and through convenient and measured commitment, without constraints.

Methodology of Coherence

After having analysed trust, let us come back to trustworthiness. This is instantaneous, remember: one believes in the sincerity of a message when one receives it and one believes in the value of behaviours when we observe them. In both cases, antecedents and history are the references to which the message and the behaviour are related in order to interpret and decide whether they are trustworthy or not, in other words, whether they are coherent or not. How can messages and behaviours be “managed” so as to assure their coherence? By change and culture management according to what we call: a methodology of coherence.

Identification of the Changes Necessary in an Organisation and in Society

In order to reach a true practice of management ethics and as preconditions of coherence, five changes must take place in an organisation and/or society:

<u>First type: Cultural and political change among (civil and economic) leaders</u>

This change is a cultural one. It aims at the deep conviction of the leaders in society and in the political, economic and social worlds that: (1) profit can no longer be the sole finality of organisations, (2) ethics is an essential element of strategy in a world questioning values, and (3) fair play and profit are not incompatible, the first not making the second unsuitable, and the second not excluding the first, on the contrary.

<u>Second type: Management change among the leaders and managers in organisations</u>

This change is a methodological one. It aims at reconsidering the management approach, and involves: (1) the steps and management tools that allow us to define, implement and evaluate an organisation’s ethical policy, and (2) the vision of an ethical organisation and the process of leadership and change to be followed in order to understand and satisfy the expectations of society and the new, emerging balance of powers. In the future, one will probably envisage a drastic revision of the "business model": how can we produce in another way, other products for another consumption?

<u>Third type: Behavioural change throughout the organisation</u>
This change is simultaneously a structural and an individual one, it aims at: (1) sensitising and educating the personnel at all levels about the concept and the practice of an ethical policy conforming to changes of the first type, (2) training the personnel in the methods and approaches introduced by the management change of the second type, and (3) assuring the coherence of the behaviours in accordance with the values selected by the organisation, in order to decide and act always and at all levels, not only in view of "Profit" and productivity, but also in view of the other finalities: "People and Planet".

<u>Fourth type: Change of reference points and values in capitalism and financial markets</u>
This change is an upstream external one, it depends on the attitudes within capitalism and the financial world which privilege, (1) on the one hand, profit to the detriment of humans and humankind, and (2) on the other hand, short-term results, in spite of the fact that the state of the world economy and of the financial markets indicate that organisations waste resources to ensure the next quarter's results instead of devoting them to long-term developments.

<u>Fifth change: Change of mentalities and behaviours among the RCCWs in society</u>
This change is a downstream external one, it aims at sensitising and mobilising society in general and the RCCWs in particular, in view of social and personal coherence – that is, in order to truly: (1) choose the values they consider as essential, (2) respect their own values in their own behaviours, and (3) ensure those respected by organisations – – favouring the "fair playing" organisations and penalising the others.

A Methodology of Cultural Ethics and Change inside the Organisation

The change to be affected in organisations is therefore of a cultural and organisational nature. It is composed of (1) ethics IN the organisation and (2) ethics OF the organisation, both combined in a dynamic model, itself being a source of change. The purpose is to establish and to integrate responsibility, cohesion, initiative, creativity, coherence and trust at all levels. The most important methodological items to reach this purpose are briefly described as follows.

Ethics of management falls under a process of change and cultural evolution targeting, at the same time, the internal entity consisting of the personnel ("recognizing himself" in the organisation and "live" its values) and the external entities consisting of stakeholders and RCCWs. Ethics is thus never fixed, it is "cultural" and, therefore, in permanent evolution. One also notes that ethics is not just a mode of management requiring change of behaviours, but that it is especially a mode of adaptation to social changes provoked by markets and a global organisation's business and social context. In this sense, ethics requires a method of listening to society and, it is a source and a mode of management of change. The principle of the process is thus: "Ethics by change (management) and change (management) by ethics.

Ethics of management is thus quite related to "change and culture management": Firstly, because effective practice of ethics implies major changes in mentalities and ways of thinking, deciding and acting, and thus changes in the organisation's culture and the people's behaviour. Secondly, because the ethics of the organisation must "coexist" with changing ethics and values in society –– that is, the prevailing culture. Even if values do not change in permanence, their translation and expression in everyday life and their behavioural weight on the actors and the markets evolve at any time according to the nature of the problems and social priorities.

This determines two types of ethics of management: (1) the <u>ethics OF the organisation</u>, defined as all of the principles and values governing relations inside and outside the organisation, between the organisation and society, the markets and the global environment. The ethics of the organisation determine (2) the <u>ethics IN the organisation</u>, which is defined as a means and a mode of management inducing responsible behaviours coherent with the ethics of the organisation. It includes special tools and methods of management and aims at organising responsibility and correlative coherence of everybody in the organisation, for each activity, at any place, any moment and any level. The final goal is to reflect, decide, act and control according to specific values preset by the ethics of the organisation.

One must thus distinguish two permanent and parallel steps of ethically oriented change management: (1) the implementation, integration and continuous (or at least regular) adjustment of ethical behaviours as part of the management process, this is ethics in the organisation, and (2) the choice and the regular re-evaluation of principles and values of the organisation as a principle of management, parallel to the ethical evolution of society, this is the ethics of the organisation.

By the way, we have identified two moments in the ethics of management: (1) the choice of the values of the organisation and the implementation of ethics in the organisation takes place today, and (2) the adjustment of ethics in the organisation and the evolution of the ethics of the organisation must take place tomorrow. One should however not forget yesterday as the moment when the cultural and organisational bases of the organisation have been built. We will come back to that later.

Ethics in the Organisation

The process of "change and culture management" consists of three phases. We call it the "3P Program for Corporate Sustainability":

Phase 1: Decision

Here the purpose is an ethical diagnosis to identify the fundamental ethics OF the organisation and the principles of a 3P strategy to be integrated into a global organisation's strategy. This phase is initiated by the impulse of the leader and closed by the final decision and approval of the board. In between a process of internal and external dialogue occurs aiming at a consensus among the stakeholders and the organisation on shared values. Moreover, in preparation for the later evaluation of ethics, the diagnosis may not only focus on the forces and weaknesses of the organisation's ethical issues, but it must also look at opportunities for "fair play" in the general running of the business. This makes the model pro-active.

Phase 2: Implementation

The purpose here is to make the 3P policy operational and to develop and implement the necessary plans, methods and management tools, especially in view of the future valuation of ethics. The purpose is also to instil, at all levels of the organisation, ethical and methodological know-how, including management of dilemmas and of the 3P topics and programs. The coherence observable from inside and outside the organisation depends on the success of this phase, which will determine, in the first instance, the coherence and trustworthiness of the organisation's image and, in the second instance, the response among personnel, the markets and society. This is a question of trust for later valuation.

Phase 3: Valuation

The purpose here is to collect and to exploit the fruits of the 3P policy and of the stakeholders' dialogue – that is, to realise the value created in phases 1 and 2. From the very beginning of the first phase, the whole of the project must be thought of as the future creation of value, which we have called "valuation". One gradually looks more for opportunities to be exploited than for threats to be eliminated.

These three phases constitute a traditional management cycle, which reproduces indefinitely: new diagnosis, updating of the strategy, improvement of the plans, corrective measures, new results, new diagnosis and so on, again and again.

Ethics of the Organisation

Dialogue facilitates the choice of values throughout phase 1 and suggests at the end, the elements of the "shared ethics" of the organisation that must be approved by the board as a kind of osmoses between the organisation, its personnel and society. This dialogue consists of identifying present and future social sensitivities and expectations, in material as well as in immaterial terms, a kind of broad and deep vision.

In opposition to ethics IN the organisation, which is, as we saw, a reproducible cyclic process, ethics OF the organisation is an evolutionary process. Being included in the decision phase of the cyclic process, it makes the whole process move ahead at each reproduction of the cycle. By combining both, the management of ethics becomes thus a dynamic evolutionary cyclic process guided by the organisation and influenced by society. So, the whole process is a virtuous spiral moving up an ethical axis and moving ahead towards the realisation of a permanently (or at least regularly) updated vision of the organisation responsibly interacting with society in order to produce value for both.

Some Important Aspects of the Methodology

I briefly wish to mention here some useful elements of this process.

The Role of Leadership

The role of the leader is important in four ways: (1) as an interface between the external world and the organisation, using his/her power to listen to and interpret the message and the emergent values in society, (2) by his/her own personality and his/her own values s/he directs the ethical dialogue and influences the system of values, (3) as a source of conviction and adhesion inside the organisation, by the exemplarity and ethical coherence of his/her own decisions and actions, and (4) as a vector of the trustworthiness of the messages addressed by the organisation to society. In short: ethical leadership strengthens ethics. But inversely, shared ethics strengthen leadership. One will also note the particular problem posed by industrial mergers and the frequent changes of leadership and the management team, especially in light of their varying cultural, social or professional origin.

Co-existence of Formal and Informal Cultures
Informal culture is made of values, beliefs, practices, methods... pre-existing in the organisation and accumulated from the past and till the present. It is carried by the leaders as well as by the personnel and it is anchored in the mentalities of all, especially at the bottom of the organisation. It is an implicit system of references and abstract pressures answering any type of question in any kind of situation arising. This is something that formal codes cannot do as they are too general or never exhaustive. Consequently, an organisation's informal culture is ineffaceable overnight, and no formal system can replace it or be imposed. Therefore, if the ethics of the organisation must be formalised in some way, it is necessary to ensure coherence between the pre-existing informal culture and the values and the new formal and evolutionist ethical ones. Such coherence must be assured "a priori" by dialogue throughout the organisation. Then one will be authorised to speak about shared cultural ethics.

The ethical walk cannot be limited to codes imposed from the top without being denatured and regarded as a manipulation or a means in view of an end. This is the problem of Anglo-Saxon ethics, which is normative. Suspicion appears and conflicts may be expected to arise when values and economic interest are contradictory. Ethics may be an instrument of management, not an instrument of manipulation or of direct profit. It is a simultaneously formal and informal process in which the particular function of dialogue is to transform, to some extent, informal aspects into formal ones. This is especially important when organisations merge or when different cultures coexist in multinational organisations.

Coherence as a Source of Trustworthiness and Trust
Trust is a major strategic element in view of performance. Trust of stakeholders and markets must be gained, built, preserved and increased in continuity. This requires a form of instrumentalisation which is questionable only if it is a form of the unfair manipulation of trust. Ethics and trust induced are good strategic tools only if the first determines loyalty and fair play, which create trustworthiness and consequently trust. The relationship between trustworthiness and trust is clear: one person or organisation can trust when another is worthy of trust. Accordingly, as a voluntary and proactive attitude, ethics can develop a "climate of trust" in which a "capital of trust" can be accumulated. But trustworthiness requires coherence between a message made of motives and values identified and shared between the organisation and the stakeholders, and behaviours and acts observable daily. Coherence may then be seen as a "proof of trust" or a "test of trust".

Summary of the Process of Coherence

Organisations are made of individuals concerned with change. Therefore, we would like to summarize the overall process of ethical change by focusing on five cumulative personal attitudes enabling individuals to integrate ethics and responsibility so as to assure coherence:

Duty to Do: Individuals are concerned with the finality of the organisation's project in the context of society. It is a question of conviction about values and of responsibility about stakes. The purpose of dialogue is precisely to search for a broad agreement on finalities and values contained in the final project and able to provoke individual conviction and endorsement of responsibility about this project.

Will to Do: Will is needed to pass from conviction to acts. This is a question of motivation for which the exemplarity, individual concern and involvement of leaders play a key role. This is relevant for management methods.

Possibility to Do: Will needs means. The question is to make action, initiative and responsibility possible. This supposes that the organization supports freedom of creativity and initiative and provides for the delegation of power. It also supposes that the organisation is trustworthy and that it provides the material means. In the particular context of ethics, it must be underlined that results come more often in the long run than in the short one, this also must be taken into account when establishing the plans and objectives of an ethical project.

Capability to Do: Will and responsibility are not just a matter of action. Action is worth thinking over. At that level, know-how lies in the internal and external dialogue that requires the faculties of listening and reciprocity as part of the communication process. This is a question of the capability to recognise others.

Capability to Be: Ethics of responsibility occurs in relationships with others and implies the respect of freedom: not only that of others but first of all that of oneself. But assuming one's own freedom is difficult without personal values and conviction. Therefore, the first capability we need is the capability to be free. This is a question of education, self-education and self-discipline.
These attitudes must be enlightened in the ethical project and be part of the organisation's culture, education and training of actors.

Strengths and Weaknesses of the Binome "Fair Play – Trust"

Ethics in the organisation, as a process of change, and ethics of the organisation, as a whole consisting of values, shared internally and (culturally) founded externally, are constitutive of a model of cultural ethics, a mode of management providing competitive advantages. This model is informal, consensual, mobilizing, made of loyalty and of individual responsibility. Within the framework of shared values it allows for more creativity and initiative.
The models mainly used until now, such as CSR (Corporate Social Responsibility), are based on pragmatism and utilitarianism. Their goal is not an ideal but an artificial image. Moreover, they are formal and normative: ethical charters are just imposed norms aiming at protecting the organisation against the illegal actions, disloyalty and opportunism of its members. They are neither cultural, mobilizing nor open-minded. They are unsatisfactory in the sense that they only focus on specific and mediative values (handicap, children at work…) and never on the true and deep practices of business. They suggest instrumentalisation of ethics, in the depreciatory sense of the word.
The proposed model, on the contrary, calls upon traditional values accumulated over centuries: respect, sincerity, reason, relativism, rights and justice, freedom, democracy etc, but also calling upon a taste for beautiful work, progress, tolerance, pluralism, solidarity, equality of chances, etc. And also, what comes out of the preceding, such as broadmindedness, a critical mind, social protection, etc. Evolution and globalisation would allow this model to improve the in depth dialogue with stakeholders and to better integrate, through broadmindedness and relativism, other ethical and cultural values met when making business with people in foreign regions.
Following us, such a model offers at least two advantages, being: (1) useful and pragmatic in view of management effectiveness in our knowledge society where change allots a preferential place to human capital, putting the Man at the centre of the organisation and entrusting him with additional responsibilities while assuming some others with regard to him, and (2) competitive within the industrial and commercial framework because of the answer it brings to the demands from the RCCWs, the stakeholders and society in general. Organisations must indeed answer to such demands, firstly, in view of marketing opportunities, secondly, because the content of such demands is part of the extended finalities attributed to organisations in our society.
We defend the thesis that such a model, in the changing, pluralist, complex, global and diversified world of the 21st century, will constitute, for those who will adopt it, a significant competitive advantage, simultaneously in terms of (1) productivity of internal, economic and organisational efficiency, of strategic coherence, and (2) the attractiveness, trust and partnership, in particular in international markets, and (3) initiative, creativity, flexibility, coherence, mobilization, broadmindedness, solidarity and individual blooming. In connection with this last element, one can suggest that the model could propel individuals at the top of Maslow's pyramid.

Conclusion: Perspectives of Applicability

The proposed model of Triple P and Fair Play does not only require the development and adaptation of management behaviours and methods (change & culture management), of which some elements already emerge in organisations without being applied as an integrated and coherent whole. CSR is an example of such non-integrated, non-coherent elements.
Among the five types of change mentioned above, the second and third affect top managers, managers and management methods. They must occur inside the organisations and they are probably not the most difficult to handle as they can be implemented by

change & culture management. The model's applicability is thus especially dependant on the three other changes. The first relates to the vision and convictions of our civil leaders (in politics, economics, social affairs, civil society, etc.), the fourth relates to the references and practices of financial markets in particular and capitalism in general, and the fifth relates to the mentalities and behaviours of the RCCWs who compose, at once, the society of citizens, the market of consumers and the workers in the labour market. These three changes must happen outside the organisations, but have a lot of influence on them.

The first change, the cultural one among civil leaders, undoubtedly goes in parallel with the fifth, the cultural change in society, because civil leaders and (civil) society in a democracy are closely related and influence themselves reciprocally. Now both seek "new" values: materialism shows limits, capitalism is challenged, sustainable development is gaining ground, the society of knowledge focuses on humans, issues like justice, education, unemployment, health, security, social protection, equality, human rights etc. are the focus of preoccupations and questions in society. All these questions abound in the sense of the model.
Such a model finds its justification in the excesses of capitalism. It is therefore no wonder that resistance should come from capitalism. We want to insist on the fact that our purpose here is certainly not to criticise capitalism, but its excesses. Capitalism has sufficiently proven its incomparable capacity to create progress, richness and welfare, and to allow people to pursue their own ends and values.
The values and behaviours of capitalism are thus at the heart of the "excess" issue. Perhaps the model's applicability lies in the acceptance of a "due care" of capitalism. This could occur in three ways.

First, it could happen that capitalism and the financial world be obliged to change by the force, we would say the counter-power, of politics, states and society – that is, by the force of civil leaders and of society. Here we return to the starting blocks: change, if any, must start from society. Humans have to know what they want: on the one hand, if they want justice and to be at the centre of the issues, they need the courage to initiate changes, however great the risk; on the other hand, if they prefer inequalities and comfort, without risk, no change is necessary and the excessive domination of capitalism will continue to have a nice future. But courage and comfort do not necessarily go hand in hand. This is the human dilemma.
Second, it could happen that capitalism and, especially, some of its visionary leaders, being challenged, would themselves initiate change after understanding and discovering their own interest in new opportunities since fair play and coherence can create value. CSR is a step in this direction, but CSR, as we observe today, is probably one step ahead to reduce the risk of opposition and conflict and to avoid having to do too many steps ahead in a direction which is, up to now, not perceived as the right one for capitalism. This is capitalism's dilemma.
Third, what Huntington called "the clash of civilisations" could occur. This could happen if no change occurs.

In conclusion, we see the only solution in the primary change of people within society. Do they want fair play and coherence? This is not certain because people are essentially incoherent in their daily choices. They require more consumption at a lower price while claiming higher salaries, they want environmental protection and at the same time pollute shamelessly, they seek human rights while profiting from goods imported at a low price from the South, and so on.
The world goes on, searching for a balance of powers. Humans go on, searching for a balance of their own values and expectations. Change goes on…going toward a balance?

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Freedom, Market Economies and Social Responsibility

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Introduction

This is a review of selected issues related to individual freedom of action, private property and public control. The emphasis is on economic performance and international development potential. Here we consider controversial arguments commonly heard both for and against further privatization and control of business in the Baltic states.

Beyond limited personal discussion with colleagues from the Baltics, and with minimal references to published theory, our outlook is based mostly on our own accumulated knowledge, experience, and research. In short, this is a lecture representing our personal reflections on the necessary balance between the role of markets and the scope of government. We do, however, provide international data showing the robust linkage between, freedom, ownership, and social responsibility.

We begin with a philosophical and ethical overview of how markets work, briefly exploring their historical development. Next we link the related concepts of freedom and property ownership, explaining why two-thirds of the variation in national income is statistically dependent on these two influences. Finally, we explore how such concepts have value to the continued development of the Baltics.

The Ownership Society

We initially provide our working definition of ownership. The expression "to own" implies "of or belonging to oneself," quite simply "that which belongs to one." For reasons of simplicity, one or two individuals can either own and/or responsibly manage something far more easily than dozens of people who may have collective ownership of it, but may have diametrically opposing views as to how it should be managed. In a more extreme case, consider the hundreds of thousands of anonymous private corporate stockholders who technically own the company, but cannot control it to any extent. Similar vexing problems of joint ownership also exist with public property, especially when environmental issues are considered. Critical items such as environmental quality cannot really be owned, but are clearly shared.

For clarity, we also need to define our fundamental behavioral precepts. Our basic proposition is that if you own something (property of any kind), you will use it differently than if you merely control it. Conversely, we contend that, "if it's free, it's abused." For example, over two millennia ago Aristotle wrote, "What belongs in common to the most people is accorded the least care: they take thought for their own things above all, and less about things common, or only so much as falls to each individually." That is why renters behave differently than property owners.

Economist Adam Smith also noted this same aspect of humanity, living at a time when market forces were beginning to erode the rigidities of the feudal system. Smith observed that at first, slaves had no motive to industry and that later tenants had no inducement to improve the land either – but only the owners did. He additionally stated, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." This combination of ownership and self-interest largely defines economics.

Both men realized the importance of ownership and that the real value of anything was the effort involved in acquiring it. They also instinctively knew that property, ownership, freedom, and responsibility were inextricably intertwined. Here we explore the essence of the ownership society.

The Nature of Markets

History suggests that the market place is the only mechanism ever discovered for achieving both democracy and prosperity; and, we deeply believe in the power of the individual. As economist Milton Friedman argued over forty years ago, "Capitalism is a necessary condition for political freedom." Freedom likely precedes ownership, but both are inseparable ingredients of prosperity and economic progress.

Ours is an attempt to describe how public policy is often set without regard to either human nature or common sense. We hold that people are much more likely to be responsible within a market environment with ownership and freedom than under the bonds of excessive control without incentive.

Are markets perfect? Obviously not! Both markets and governments display the common virtues and vices of human nature. We contend that economic self-interest on its own is not the problem, but when combined with a concentration of power it becomes a dark threat. Politicians and bureaucrats can be expected to act in their own self-interest, just like business owners. Their actions, however, are not as transparent as in the private sector. And while markets and government structures widely vary, human nature seems to be more constant, albeit complex, contradictory, and unpredictable.

Clearly, not all entrepreneurs are good nor are all bureaucrats bad, and vice versa. Rigid and inflexible consistency of thought and action seems unproductive. We do, however, believe that the same person might behave very differently within two different organizational structures, each with different rules and incentives. Similarly, even though there are no perfect markets nor governments, we suggest that both freedom and ownership do not just lead to much higher levels of prosperity, but potentially also to greater social responsibility. Our rationale follows.

The Nature of Mankind

One cannot realistically consider the nature of markets without simultaneously pondering the nature of its participants. Here we pose two interrelated questions. First, what are the fundamental attributes of human nature? Second, can behavior be shaped into any form?

We believe three premises seem necessary to address these questions. Our first is that individuals seek to control their own destiny – they need to be free and independent. Freedom is perhaps the most deeply embedded and resonant human desire. Our second premise is that individuals are acquisitive – they wish to be self-reliant owners and to care for what they have. Our third premise is that humans can also be aggressive and uncaring, hence possessing a darker desire for control that may lead to corruption. However, they also want to be secure and protected. This raises ethical issues related to the individual and public balance of freedom and power. These are the timeless constants of human nature, impervious to either political or theological manipulation. We contend that when the darker desire for control prevails and the first two needs become accordingly subservient, domination by a few and hopelessness for the remainder are the consequences. It is this third and often dangerous aspect of humanity that leads to tyrannical governments as well as irresponsible corporate behavior.

History Repeats Itself

These are hardly new findings. For example, Alexis de Tocqueville, an aristocratic Frenchman who came to the U.S. in 1831 when he was only 25 years old, wrote, "Democracy extends the sphere of individual freedom, socialism restricts it... Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number." This is not to say that government is not necessary. James Madison, an American president and one of the principal intellectuals behind the U.S. Constitution, once stated, "What is government itself but the greatest of all reflections on human nature? If men were angels, no government would be necessary."

In writing about the traits of human nature, economist F. A. Hayek in his sixty-year old classic "*The Road to Serfdom*" argued in favor of individualism stating, "It is desirable that men should develop their own individual gifts and bents." Similarly in 1939, Peter Drucker (one of the most distinguished management thinkers) said, "The complete collapse of the belief in the attainability of freedom and equality through Marxism has forced Russia to travel the same road toward a totalitarian, purely negative, non-economic society of un-freedom and inequality which Germany has been following."

For similar reasons, Nobel laureate and novelist V. S. Naipaul (1992) points out that "a million little mutinies" are necessary for an underdeveloped society to shake loose from its bureaucratic inertia and passivity. Decades earlier, Joseph Schumpeter similarly stressed the entrepreneurial flexibility necessary for stimulating innovation, causing "creative destruction" that made old ideas and old economies obsolete.

Any careful analysis of reforms in former Soviet Bloc countries clearly reveals the demoralizing effects of the interplay (one bureaucracy communicating with another) and mentality of bureaucracies, lack of associated courage within a command and control structure, and the elimination of individual profit-oriented motivation as an agent for efficiency, freedom, and responsibility.

Finding balance between the chaos of the marketplace and the inflexibility of control is a vexing problem. Ironically, too much of either results in alternatively disaster or stagnation. Moreover, when either economic or political power becomes overly concentrated, creativity is lost, not just for the individual but also for the whole society.

The Old Models Were Lacking Insight

By the time Adam Smith's small business owners had revealed their propensity to improve, barter, and exchange, Britain was already a great economic power. Smith's astute observations about individual behavior and the invisible hand of competition first led to the concept of absolute advantage, recognizing that a nation might pursue those industries in which it is relatively more productive. Later, theories of international trade and competition would expand on these early concepts, proposing that specialization in production would result in countries exporting their abundant goods in exchange for imported goods. Additional insights are found in business scholarship by James Collins, Peter Drucker, and Michael Porter.

Unfortunately, economic scholarship turned to arcane mathematical formulations devoid of human nature. From the 1960s through the 1980s, such models suggested that national growth requires increased savings to help in the accumulation of physical capital. Moreover, these models also erroneously suggested poor countries would grow faster than rich counties, an event not borne out by data.

Something very important was missing from the older equations. While physical capital, natural resources, and infrastructure are important, they do not even begin to explain statistically the variations in national prosperity. What is needed is a new paradigm recognizing differences in patterns of national freedom, ownership, and control.

The Need for Ownership

The seeds of the Industrial Revolution with its self-sustaining growth were very subtle, and according to historian David Landes (1999), include private property, liberty, rights of contract, and a stable, responsive, honest, and moderate government. He further points out that Britain was also largely free of the religious control and persecution that had fettered the Continent.

Had it not been for such broad cultural differences, Landes proposes that China might have rivaled, if not surpassed, Europe's success. Even with a long list of important technical innovations, China was severely hampered by the absence of a free market and its companion institution of private property. Possessing technology, but without either economic focus or entrepreneurial curiosity on a national scale, China never achieved European standards of prosperity or freedom. It allowed both bureaucracy and court intrigue, with their inherent complexity, to strangle initiative.

Richard Pipes (1999) makes the important historical connection between guarantees of ownership and liberty, suggesting that while property does not ensure liberty, freedom is not possible without property and ownership rights. He contends that property promotes stability by constraining the power of government, while maintaining personal initiative, economic efficiency, and self-esteem. The decentralization of property helps prevent the centralization of political and economic power among the elite. Pipes additionally states that "one of the constants of human nature, impervious to legislative and pedagogic manipulation, is acquisitiveness."

Also consider the link between ownership and responsibility in terms of the English "commons," as discussed by Garett Hardin (1968). Hardin argued that a commons as a publicly owned resource (pasture) will be mismanaged (overgrazed), and resolution of this mismanagement requires a change in moral values rather than a technical solution. Likewise, when commonly held resources are spent as if they are free, the general public good does not follow from everyone serving their own interest – in contrast to market forces promoting the public interest. Both knowing and caring about resource costs is key to their efficient use.

Bureaucracy - Bane of Incentive

Albert Einstein once quipped, "Bureaucracy is the death of all sound work." Although referring to the effects of socialism on countries, the same perniciousness also impacts all large organizations, corporate and public. This clearly explains why the largest ten percent of U.S. firms have rates of return which are half that of the smallest ten percent of firms. We also note that employee-owned firms have much higher levels of profitability than firms managed by detached private sector bureaucrats (see *Employee Ownership and Corporate Performance*, 2004, available at http://www.nceo.org/pubs/corporate_performance.html).

The largest firms are so complicated and bureaucratic that very little individual imagination is either allowed or encouraged. Within the U.S. at least, corporate complexity wreaks havoc on not just profits but also on the very survival of the firm.

Mathematically, as firms grow and mature their organizational structure changes from a wide and flat form to a serial structure (steep with many levels). This hierarchical metamorphosis rapidly leads to rising overheads, falling profitability, and an aversion to risk. Bureaucrats prefer inaction to more risky decision-making.

Managers (agents, not owners) control the firm but may not represent the interests of either the stockholders or the employees. Simply put, agents often behave differently because they are not owners, serving their own agenda through egregious pay and retirement benefits. Ironically, this agency problem – resulting from decoupling control from ownership of consequences – leads to the need for even more elaborate information systems to limit the actions of managers. Fortunately, the Internet is currently a growing factor in diffusing business information to buyers and sellers. Still, a nearly religious adherence to regulations and budget systems frequently becomes the organization's driving force, as opposed to a focus on customer service.

Taken together, these tendencies explain why nearly all economic growth emanates from smaller, less complex, more nimble organizations. Ownership, professional freedom, and small size are the keys to business success.

Bureaucratic Complexity and National Prosperity

If ownership and professional freedom are necessary for success at the firm level, it should be the same for countries. Something was missing in the old development models – principally the role of freedom, ownership, corruption, and complexity. Our thesis is that political economics and psychology of control are directly linked to the intrinsic human tensions of Ownership-Responsibility, Freedom-Actualization, and Control-Corruption – or a "Triad of Strains." The basic tenets of the triad are that: without ownership there can be no responsibility – freedom and responsibility go hand-in-hand, and unwise use of political control severely undermines economic development.

Our research employed a wide array of data. Ninety-seven countries comprising 90% of world population were ranked on the basis of the following indices: corruption (Transparency International), freedom (Freedom House), ownership (Heritage Foundation), culture (Geert Hofstede), and environmental sustainability (Yale University). Although these indices are naturally subjective and based on a wide range of inputs including extensive international survey data, these are all long-standing, well established metrics, showing no signs of political bias. The data is shown in Table 1, entitled Comparative Statistics. (See Appendix for additional details.)

Here is what we found. With few exceptions, the countries that have high individualism also have low corruption and high wealth. All the countries that have low individualism, high corruption, and low wealth are either current or former communist states or theocracies. These are large, old, and complex bureaucratic cultures. Conversely, the fully developed nations are comparatively younger, smaller, far more individualistic, and transparent in

Table 1
Comparative Statistics

	Corruption	Freedom	Ownership	Composite	Environment	Power Distance	Uncertainty Avoidance	Individualism Collectivism	GDP $ Per Capita	GDP Growth Rate
	Index I	Index II	Index III	Index IV	Index V	Index VI	Index VII	Index VIII	(95 - 00 Avg.)	(90 - 00 Avg.)
Tier 1	88.3	39.6	38.0	18.6	31.0	69.5	59.4	19.5	$ 892	
Tier 2	76.0	46.5	42.3	28.7	38.9	56.3	60.2	27.6	$ 2,032	
Tier 3	59.1	65.4	54.2	47.1	44.2	42.6	71.3	56.7	$ 4,596	
Tier 4	18.7	88.4	81.7	84.2	58.5	24.7	35.1	77.0	$ 24,127	

Source: See text and appendix for details. Economic data from *Human Development Report 2002*.

nature. The lack of bureaucratic complexity helps explain some aspects of their prosperity.
Specifically, the link between higher levels of individualism and lower levels of corruption is very strong. Most important, the high wealth and low corruption countries have independent cultures. Dependent cultures are found in low wealth nations with much corruption. Our contention is that both bureaucracies and theocracies have no incentive for efficiency, adding layers of complexity and often corruption.

To test this, countries were arrayed on the basis of corruption, in four ascending tiers of approximately equal numbers. The Tier 1 underdeveloped nations such as Uzbekistan, Indonesia, and Russia have a very high level of corruption and a low level of both freedom and ownership. Their income levels are additionally very low, as well as life expectancy and environmental sustainability. The Hofstede scales (VI-VIII) also indicate controlling, risk-averse, collective cultures.

Conversely, the Tier 4 developed nations (such as the UK, Australia, the US, and the Nordic countries) have a low level of corruption and a high level of both freedom and ownership. Their income levels are nearly thirty times higher than Tier 1 countries. Furthermore, environmental sustainability levels are higher, with very few developed nations on the low end of this scale. The wealthier nations are also healthier.

These Tier 4 countries have a disdain for power, control, big governments and bureaucracy, can accommodate risk, and are individualistic in nature. Importantly, not only is the income level much higher, but wealth is far more equally shared – a trait generally not attributed to capitalism. Moderate bureaucratic control implies prosperity, just like in the private sector.

When ranked in this manner, the Baltic states (See Table 1, Composite Index IV, i.e., the average of the freedom and ownership scales, less the corruption index) score fairly well, averaging 59.7 or well above the average of the Tier 3 countries. This is in comparison to Russia at 14.6, with Germany, the U.K., and the U.S. averaging approximately 84. Estonia's score, remarkably, is higher than that of France. We believe that freedom is a precondition to prosperity. High economic performance does not, however, instantly follow freedom. It takes both time and effort.

Relevance to the Baltics

The economic transition to a market economy in Russia, as well as in countries formerly under Soviet control, has changed a great deal over the past twenty years. According to Johannes Linn (2004), there was a triple transition – moving from centrally planned to market economies, from integrated to fragmented economic space, and from centralized planning and control to democracy. At first, there was a substantial decontrol in state-owned enterprises, the emergence of new types of private cooperatives, followed by substantial and very rapid privatization of public properties.
Privatization was advocated, among others, by then Harvard professor Jeffrey Sachs, who was inclined to prescribe "shock treatment" to the emergent market economies. He was initially impressed by the relatively quick recovery of Poland, including the limited role of foreign investors and international assistance. Lack of appropriate values and individual freedoms have delayed progress in Russia.

Many observers noted that the transfer of ownership and control from the public to the private sector was based on Western-style models. The transition made privatized enterprises more responsive to changing market conditions, but also clearly resulted in displacement of workers from previously subsidized industries. Such is the price of flexibility and ownership.
Individuals, as opposed to bureaucracies, will use resources differently if they own them than if they do not. Essentially, we believe that is why countries with high levels of both ownership and freedom are 1) less corrupt, 2) more competitive, 3) have much higher levels of material wealth, 4) have a more equal income distribution (lower Gini Coefficient), and 5) are also generally more environmentally sustainable.

Some Observations on Causality

Analysis of recent data across nearly one hundred nations found a very high correlation (averaging $R = .80$) between the indices of national ownership, freedom, competitiveness, and wealth. Not surprisingly, we also found a strong inverse relationship between the level of corruption and all other variables. In other words, a high level of ownership and freedom simultaneously reduce corruption and increase wealth. This data, for select countries, is presented in Table 2, entitled Indices of Development. The sources are the same as found in Table 1; however, the countries in Table 2 are more relevant for comparison with the Baltics.

Table 2
Indices of Development

Country	Corruption	Freedom	Ownership	Composite	Wealth-GDP
	Index I	Index II	Index III	Index IV	$ Per Capita
Estonia	48.2	88.8	89.7	69.8	$ 3,239
Latvia	70.6	87.5	67.2	50.5	$ 2,381
Lithuania	57.6	87.5	70.7	58.8	$ 2,526
Russia	82.4	27.5	24.1	14.6	$ 2,166
Poland	67.1	87.5	51.7	48.1	$ 3,827
Czech Rep.	70.6	81.3	65.5	48.2	$ 5,257
Germany	28.2	91.3	79.3	79.0	$ 26,583
Sweden	4.7	100.0	86.2	96.7	$ 27,358
Finland	0.0	97.5	86.2	98.7	$ 24,546
U.S.	23.5	88.8	89.7	83.8	$ 30,798

Source: See text and appendix for details. Per Capita GDP data (1995-2000) from *Human Development Report*, **2002.**

To this point, however, we have neither discussed what we believe to be the root causes of corruption nor fully explained its effects on development. All we know for certain is that corruption is inversely related to wealth and that this relationship is nonlinear as well as robust. Furthermore, various forms of corruption may range from complexity issues and associated inefficiency, to bribery and other forms of unethical expressions of power.

If one were to average the indices for ownership and freedom and treat the result as a composite variable, the coefficient of determination is strong ($R^2 = .73$) between this value and the resultant corruption index (Transparency International). Simply stated, lack of ownership and freedom result in corruption.

The freedom and ownership indices are averaged since they are so highly interrelated or, in effect, measuring the same phenomenon. In other words, no causality is implied between freedom and ownership. Moreover, we assume that both are mutually dependent and that one cannot meaningfully exist in the absence of the other. Importantly, when analyzing variations in national wealth, effectively two-thirds ($R^2 = .66$) of the variation in wealth between countries is explained by freedom and ownership alone. Regression parameters for both equations are significant at the .05 level.

Conclusion

Both corporate profitability and national prosperity are directly linked to freedom and ownership. Widely distributed ownership and the freedom to act on one's own behalf empower both companies and countries.

At the more important national level, central plans and theocratic mandates do not motivate, but merely lead to poverty, human rights abuse, and militarism. Control and authority become the overriding if not only motive, leading to spiraling levels of corruption.

Fortunately, electoral democracies now represent 120 of 192 existing countries, versus one hundred years ago when there were just a few democratic nations. Apparently, freedom and ownership – the bane of control and tyranny – are contagious.

Statistically, two-thirds of the variation in national income within our study is explained by ownership and freedom. This strongly suggests that all countries need to encourage both freedom and ownership, but simultaneously discourage bureaucracy.

In short, there are a few basic rules to economic success. The most crucial is to transcend ideology, stressing the practical and focusing on what works. This means, most importantly to promote the individual! Second, ironically, government(s) must also provide reasonable controls that prevent the individual from unduly controlling others. Finding balance without over controlling individuals is the key.

Adam Smith instinctively knew the importance of the individual and that widely distributed ownership and self-interest together form the bonding agent that keeps organizations from collapsing into bureaucratic malaise. In the world of Smith's shopkeepers, the market system was not just a means of exchange, but a flexible framework for efficiently sustaining and maintaining society. His was a moral, not just economic, argument. All nations must embrace ownership – becoming ownership societies to succeed.

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Appendix
Primary Data Sources

Index I: *Global Corruption Report 2003*, Transparency International. The first 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 – here defined as the misuse of public power for private gain or, in other words, 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. When reviewing the scores for the 97 countries in the Triad data base, values range from 1.2 (Bangladesh) to 9.7 (Finland).

Index II: *Freedom of the Press 2003*, Freedom House. The second index 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 III: *2003 Index of Economic Freedom,* The Heritage Foundation and *The Wall Street Journal.* The third 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, the high IEF score for ownership is 1.5 (Singapore) and the low score 4.4 (Zimbabwe).

Recalibrating Variables: As seen above, the ownership and freedom estimates score those countries with the highest ownership and freedom levels with the lowest scores, and vice versa. This is reversed with the corruption, democracy and competitiveness measures. Additionally, different scales are used which makes interpretation and comparison quite difficult. Consequently, this study transforms the values into more tractable metrics. In other words, the most corrupt country now receives 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 are given a 0 value.

Ethics, Business Education and the Role of Business Faculty Members

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Abstract
As a result of growing public scrutiny and media attention, business ethics has made it gradually to the top of the agenda in the business community and in the business school community. The adoption of codes of ethics is now frequent among organizations of all sizes and sectors, and ethics has been integrated into management discourse. In business education, courses and topics on business ethics have been adopted and students are increasingly exposed to the discussion of cases that depict ethical dilemmas. And yet, there is little evidence that the current process of the institutionalisation of ethics has raised ethical awareness and ethical behaviour among business students and business managers.
This paper reflects on the current status of ethics in business education and addresses a number of questions about the actual contribution of the business school system to improve standards in the business world. Particular attention is devoted to the role management educators play in that process. Are business academics ethically aware? And do they play a significant role in the process of raising ethical sensitivity and in the moral development of their students? What contribution can society expect business faculty to make towards the promotion of ethical behaviour among managers?

Introduction
On the aftermath of the big corporate scandals of the last decade, questions were raised about what went wrong in those organizations. Accounting and auditing practices, stock analysts and governance models took most of the (initial) blame. Close scrutiny of the business environment by the media, and the pressures from public opinion for increased accountability has contributed to the idea that something must be done about this problem (Farrell, Cobbin and Farrell, 2002), not least because unethical behaviour can cost money and have a negative impact on the performance of the business and the well being of employees (Sims and Brinkmann, 2003). It is not clear whether such an interest in business ethics does reflect an actual increase in organizational wrongdoing. But despite the lack of consistent evidence pointing towards the deterioration of ethical standards in the business community (Buckley, Harvey and Beu, 2000), the popular press became used to presenting the business world as intrinsically immoral (Smyth and Davis, 2004), thus contributing to the public perception that in the business barrel rotten apples are not the exception.

In this context, there is a growing concern over the preservation, or indeed enhancement, of transparency and fair competition as key ingredients of market economies. At the corporate level, ethics has gradually made its way into management discourse, and it is now currently mentioned in mission statements and organizational goals, often hand-in-hand with issues of social responsibility. A process of institutionalisation of ethics is taking place in the business environment, through the adoption of formal policies, codes of conduct and ethics statements in organizations of all sizes and sectors (Kitson and Campbell, 1996; Weaver, Treviño and Cochran, 1999; Kaptein, 2004). Interest in researching business ethics issues is also spreading and this is being translated into a growing number of studies and publications about the topic (Collins, 2000).
But the on-going debate appears to be moving in another direction – the role of management education. Sumantra Ghoshal, for instance, has acknowl-

edged that business schools should share the blame for cases such as Enron's (Ghoshal, 2003 and 2005). He has argued that business schools have been driven by the "pretence of knowledge", and claims that "the precondition for making business studies a science has been the denial of any moral or ethical considerations in our theories and, therefore, in our prescriptions for management practice (Ghoshal, 2005, 77).

Answers to the question as to whether ethical behaviour can be taught at school and the real impact of formal ethics education in raising the ethical standards of business students have been surrounded by controversy. But it is getting acceptance of the idea that if business managers show little concern for ethical issues, then perhaps business schools have not been up to the job of educating prospective managers to behave in a morally responsible way. The implication is clear: in the current state-of-affairs, management educators cannot simply wash their hands and walk away from this debate. Since business schools have an obvious influence on the training of business executives, they also have a moral duty to do the best they can to tackle the ethics problem (Gioia, 2002; Adler, 2002). Is the business school community doing their job on the ethics front?

This paper reflects on the current status of ethics in business education and raises a number of questions about the actual contribution of the business school system to improve standards in the business world. Particular attention is devoted to the role management educators play in that process. Are business academics ethically aware? And do they play a significant role in the process of raising ethical sensitivity and in the moral development of their students? Briefly, what contribution can society expect business faculty to make towards the promotion of ethical behaviour among managers?

Ethics and Business Education

Public demand for higher ethical standards has urged business schools to make a contribution to the current process of institutionalising ethics. The appeal has been listened to and business ethics courses have been adopted since the early 1990s in most graduate and undergraduate business curricula, including MBA programmes (Mahoney, 1990; Pizzolatto and Bevill, 1996; Baetz and Sharp, 2004). The assumption that ethical behaviour can be taught like any other management technique has been questioned. So has the effectiveness of formal training as a means to do it. It is perhaps early days to assess the impact of ethics education on managerial behaviour and whether the commitment to teaching business ethics is contributing to an increase in ethical standards in the business community and business school community. Whatever the case, the fact is that current business students are more likely to be exposed to discussions of ethical issues and cases that portray ethical dilemmas than ever before.

Is Ethics Taken Seriously in Business Education?

Integrating ethics courses into the curriculum and including ethics content in other courses in one thing. But genuinely taking ethics issues seriously is another matter. There is some evidence that ethics education is seen by the business school system as "some sort of trifling requirement that students should get out of the way quickly, so they can get on with other 'more important' things" (Gioia, 2002, 143). In other words, the inclusion of ethical issues in business curricula does not necessarily mean that the business school system recognises business ethics as a key aspect of business education. A certain degree of tokenism is sometimes apparent in that process.

Despite efforts to incorporate ethics content in the business curriculum, levels of ethical awareness and the ethical behaviour of business students remain unsatisfactory. Not every study agrees (Borkowski and Ugras, 1998), but comparative studies point out that, ethically speaking, business students tend to lag behind students of other subject areas. This is partly due to the fact that business schools appear to attract students of lower moral development (Bernardi, Metzger, Bruno, Hoogkamp, Reyes and Barnaby, 2004), who are driven by self-interest (Richards, Gilbert and Harris, 2002), and for whom "winning is everything" (Lane, Schaupp and Parsons, 1988).

During their business training and regardless of the attendance of ethics courses, students seem to prefer a *practical* approach to an *ethical* approach if forced to choose between the two (White and Dooley, 1993), possibly because they believe that unethical behaviour is required to be successful in business (Lawson, 2004). If anything, as they progress in their business education, students appear to strengthen the belief that maximizing shareholder value is the prime responsibility of the corporation, and they perceive customers and employees as less important stakeholders (Aspen Institute, 2001). In other words, the business school system seems primarily concerned about

teaching students how to be successful, even if that implies some level of ethical complacency (Stevens, Harris and Williamson, 1993). Competition between business schools and the side effects of school rankings and media attention that tend to ignore ethics education in their assessments, also contribute to a de-emphasizing of societal values and wider social responsibility issues in management education (Gioia and Corley, 2002).
Ethical standards among business students have generally been found to be rather questionable. Cheating, for instance, seems to be more prevalent among business school students than among students of other subject areas. McCabe, Dukerich and Dutton (1994) put it quite bluntly: “students planning careers in business consistently distinguished themselves as the most frequent cheaters” (p. 700).

It is admitted that cheating in exams is somewhat endemic in the college environment (Crown and Spiller, 1998), but the implications of such behaviour should not be underestimated. Cheating in exams has been found to have some predictive power over ethical attitudes in general (Coleman and Mahaffey, 2000), and “those who admit to dishonest academic acts when at university go on to engage in work-related dishonest activities”, according to some findings (Caruana, Ramaseshan and Ewing, 2000, 23). In general, the literature tends to agree that as students become managers no significant changes appear to take place in terms of their ethical sensitivity (Salter, Guffey and McMillan, 2001).

What is the Actual Impact of Ethics Education?

Everyone concerned with ethical issues likes to believe that ethics education matters. Formal education has been found to be strongly correlated with the development of moral judgment (Rest, 1986). But in the case of business education, the evidence is apparently very weak. The relationship between unethical behaviour at university and in the work place appears to occur regardless of ethics education. In the literature, several studies have examined the impact of management education and ethics instruction in particular, on students’ ethical awareness, attitudes and values, and their moral development. Luthar, DiBattista and Gautschi (1997), for instance, found that being exposed to ethics education has a positive influence on attitudes towards ethics, and the earlier ethical education starts, the more impact it may have. Davis and Welton (1991) found there is a tendency over time for students to positively change their attitudes about ethical issues, but this result was obtained regardless of the attendance of formal ethics training. In a more recent study, Peppas and Diskin (2001) found no difference in ethical values between students who had taken an ethics course and those who had not. But even when a positive impact is detected, it is not clear whether it can be attributed to ethics training, since ethics maturation can be attributed to the cognitive moral development that comes with age, and appears to take place regardless of the students’ exposure to ethics education (Davis and Welton, 1991; Ruegger and King, 1992; Allmon, Page and Roberts, 2000).

The picture does not look promising, and it can even get worse. A decline in ethics orientation among business students has also been reported after taking a course in business ethics (DuPont and Craig, 1996). Along the same lines, Williams, Barrett and Brabston (2000) found that the larger the number of top managers possessing an MBA, the stronger the link between firm size and corporate illegal activities. The simple thought that business school attendance may have a detrimental effect on the ethical standards of their members should give food for thought to everyone in the business school community.

In sum, empirical evidence of the impact of ethics training is inconsistent, leading some authors to question the relevance of ethics training as part of the business curriculum (Stark, 1993). In other words, a token business ethics course can do little to counterbalance an entire programme if this one promotes over pragmatic behaviours. As pointed out by Sumantra Ghoshal “business schools do not need to do a great deal more to help prevent future Enrons; they need only to stop doing a lot they currently do. They do not need to create new courses; they need to simply stop teaching some old ones” (2005, 75), pointing towards the need to rethink management education in general if one wants to reach better results on the ethics front.

Are Business Academics Ethically Aware?

Compared to business students, business faculty have attracted much less attention from ethics researchers. And regrettably so, bearing in mind the influence they may have on students’ awareness and behaviour. The few studies available reveal poor ethical standards among many faculty members, and few signs of what Merton called the "moral integrity and superiority" of scientists and academics. In 1957, Merton referred to the then common view of a "virtual absence of fraud in the annals of science" (Merton, 1957, 559). Scientists were then viewed as "recruited from the ranks of those who exhibit an unusual degree of moral integrity" (Merton, 1957, 559). In the last two decades, some widely reported cases of scientific fraud and academic misbehaviour have challenged this Mertonian view of the scientist as a professional asserting moral superiority (Grayson, 1995; Davis, 1999).

Apparently, no one dares to claim the moral superiority of business faculty. According to Conaway and Fernandez (2000), ethical standards among business faculty seem to fall behind those of management practitioners, which are already perceived as rather questionable according to public opinion. And even their own students do not seem impressed by the ethical standards of business faculty. David, Anderson and Lawrimore (1990), for instance, found that over one-quarter of their sampled business graduates failed to agree that their professors behaved ethically. And students only see the tip of the iceberg, since most cases of ethical misconduct are likely to occur in offices and board meetings (Cabral-Cardoso, 2004).

Similar to what was pointed out for the business community, there is no evidence that ethical standards are deteriorating in academia. And yet, admittedly increasing pressures, which might be exerted by the competition for the research grants and publications necessary for professional advancement, may lead to a growing number of cases of academic deception and misconduct. If the educational sector becomes a competitive and deregulated arena it is likely to adopt the virtues and vices of any other industrial sector. The "winning no matter what" attitude already found in many business circles is likely to be replicated in academia. In other words, rather than helping to change the prevailing business culture, business educators seem more likely to learn "the business game" and adopt the same ethical standards. The obvious question is, therefore: Does it matter? What difference does it make in this debate that business academics fail to lead by example?

Do Business Academics Act as Role Models?

Decisions based on unexamined premises such as questionable cause-effect relationships, insufficient or suppressed evidence and double standards are not uncommon in university settings (Acevedo, 2001, 159). But appeals for the creation of honourable business school communities (Treviño and McCabe, 1994) deserve further attention. The evidence suggests that students are likely to realize the institution "means it" when they perceive a commitment to ethics in current policies and procedures – from recruiting and compensating staff to administrative procedures and investment policies (Schwartz, Kassem and Ludwig, 1991; Sims and Sims, 1991). The same rationale applies to the individual level. There is little doubt that business faculty "can have a profound effect on the development of a sense of business ethics" among students (Sauser, 1990, 33). Faculty misbehaviour may have considerable implications, since it sends signals to their students that over pragmatism, expediency, relativism and the virtue of self-interest supersede the ethicality of business decisions (White and Dooley, 1993). If senior members of faculty appear to informally support and reward ethically irresponsible behaviour, they legitimise similar behaviour in students and provide little incentive for juniors to adopt a moral stand. How can ethics instruction be taken seriously when expediency and self-interest appear to overrule ethical considerations among faculty?

The literature provides some examples of expediency and self-interest among faculty members (e.g., Cabral-Cardoso, 2004) sending the wrong message to the student and academic communities. Cheating may then become socially acceptable behaviour, and thus legitimize similar behaviour in students and future managers. The rationale behind it is well known. As illustrated by List, Bailey, Euzent and Martin (2001): "Academic economists rationalize their own misbehaviour by believing that others are doing it, making it socially acceptable" (p. 168).

It is worth pointing out that ethics education is not confined to the formal teaching that takes place in the classroom. Other types of interaction between faculty and students, the so-called informal teaching, also has an influence on students' attitudes and behaviours. Faculty behaviour is sometimes rated as the most effective activity for imparting ethical values to students (David, Anderson and Lawrimore, 1990). As pointed out by Sauser (1990) "ethics is a matter of values – and values are often more evident in what we *do* than in what we *say*" (p. 33). In other words, what goes on in the classroom and the teacher's behaviour may have a decisive effect on the ethical behaviour of students (Crown and Spiller, 1997; Pulvers and Diekhoff, 1999). Any dissonance between what is said in ethics training and what instructors do is likely to undermine the impact of the training. Therefore, business schools should make an effort to set and keep high ethical standards within their ranks, and faculty members should establish ethical guidelines for their own professional practices. Teaching programmes certainly need to learn from the corporate scandals, but business faculty ought to reflect upon their personal agendas and the implications of acting as negative role models, thus helping to legitimise unethical behaviour among students and future managers.

Conclusions

Despite the current visibility of business ethics, "business" and "ethics" seem as hard to accommodate as ever. According to Lawson (2004), students still believe that unethical behaviour is required to be successful in business, implying that citing ethics may look nice in the company's mission statement but will not make good business. Changing this view remains the biggest challenge for responsible academics and practitioners.

Complacency with student cheating is a major strategic error. The evidence available shows a positive relationship between student cheating and dishonest behaviour in work-related activities. Commitment to the development of an ethical climate at school is perhaps the best contribution the business school system can make to business ethics and ultimately to fair competition and market transparency.

Attendance of ethics training does not, in itself, guarantee higher ethical standards. In fact, there is evidence it may even have a detrimental effect. And teaching is not confined to formal classes. Informal teaching is just as important. Credibility of the teachers' discourse is, of course, the main issue here. The "Do as I say, don't do as I do" stand will not promote responsible behaviour among students. Faculty members act as role models and may have a profound effect on the development of ethical sensitivity among students. Expediency, over-pragmatism and self-centred behaviours among faculty send the wrong signals to the students, helping to legitimise similar behaviour in students. However, further research is needed on the relationship between students' ethical awareness and faculty behaviour, and the role played by members of faculty in promoting integrity among students. With this in mind, Stevens, Harris and Williamson (1993) recommended, "to improve the ethical sensitivity of students (...) perhaps ethics education should begin with the faculty and not the students" (p. 618). Will students take ethics instruction seriously as long as they fail to see those nice principles translated into the actual behaviour of the business faculty? It is very unlikely.

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How Could it Happen? Enron and the Architecture of Wrongdoing

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Abstract

In the middle of 2004, 31 former leading managers of Enron were accused of deception and the falsification of their balance sheets. Although the results outlined by various committees of the US government analyzing this case disclosed a wealth of illegal practices and immoral behaviour among Enron managers, former CEO Kenneth Lay denied any guilt in this context. Indeed, the results presented by the committees of investigation also showed huge deficits and a fundamental lack in the organizational structures of even those authorities that should have regulated this behaviour. Thus, in order to analyze the rise and fall of Enron, the focus of an objective investigation should not be laid only on the individual wrongdoing of Enron managers exclusively but also on the inefficiencies of the governance structures that enabled Enron's managers to succeed in their dubious practices. Nevertheless, referring to the results disclosed in the case of Enron, the theses outlined in the following article is that governance structures as a tool to enforce managerial moral behaviour are too weak to suppress deviance.

Introduction

In December 2001, Enron, one of the largest energy providers worldwide, crashed. In the following months the circumstances of the collapse have been analyzed by the Permanent Subcommittee on Investigations, the Committee on Governmental Affairs and other boards of the US government. The results outlined by these committees disclose not only a wealth of illegal practices and immoral behaviour among Enron managers, but also fundamental shortfalls in the organizational structures of even the authorities that should have regulated this behaviour. The laws and regulations designed to ensure accurate and trustworthy practice in business, and the legal and organizational structures that have been established to enforce fiduciary responsibility of corporate directors had failed. According to this fact, Senator Carl Levin, Chairman of the Permanent Subcommittee of Investigations in the US Senate Committee on Governmental Affairs, remarked at the beginning of the first hearing: "We have laws and regulations designed to ensure that our publicly traded corporations are managed for the benefit of stockholders and employees. We require boards of directors to serve as a check on overreaching and bad judgment by corporate officers. We require outside auditors to make sure their accounting practices are accurate and trustworthy. We require transparent financial reporting so that investors can track their investments and decide when to buy or sell stock. We require of our public accountants and corporate directors a fiduciary responsibility to act in the best interest of the investing public and the corporations' stockholders, and not in their own financial interest" (Hearing, 2002a, 8).

But despite all these regulations obviously the governance structures had not been able to encourage moral behaviour among Enron's managers. Thus, an objective analysis of the rise and fall of Enron should not only focus on the individual wrongdoing of Enron managers but also investigate the organizational background that enabled individual misbehavior. It is not only greed and avarice among certain individuals that caused the Enron disaster. On the contrary, their organizational scope in particular enabled Enron managers to succeed in their dubious practices.

To understand the Enron disaster and to analyze the facts from an ethical point of view at least two questions have to be asked: (1) The first question concerns the interplay of the different actors in the Enron case. This consideration focuses on the formal perspective of the Enron case. (2) The second question refers to the reasons for wrongdoing and investigates the expectations, motives, norms and values of the involved parties. This perspective highlights the informal dimension.

Why the Watchdogs didn't Bark – the Interplay of the Different Actors

To clarify why the system of government regulation, market supervision, auditors and consultants and even Enron's own codes of conduct didn't succeed in establishing honorable business practices, it is necessary to analyze the cooperation of these different actors. Hereby I will focus my investigation on three important groups: the role of investment bankers and analysts, the role of accountants and consulting agencies and the role of the government supervisory authorities.

The Role of Investment Bankers and Analysts

One of the key players responsible for dubious transactions and misleading stock recommendations in the Enron game was the investment bankers and stock analysts involved. As a result of the reorganization of Enron from a classical energy producing company with pipelines and power plants to a global energy provider, the company's sales volume increased. Thus, Enron was ranked higher by investment banks, and its better performance with the credit raters allowed favourable conditions for refinancing; finally, the better conditions for refinancing strengthened analysts' confidence in Enron stock. Consequently, Enron became one of the best listed companies on the US stock market, but remained heavily dependent of the confidence of its raters and analysts. Instead of concentrating on the energy business, Enron's first priority now became keeping the stock price up.

Senator Joseph Lieberman highlighted the importance of these credit ratings in the hearing on the role of investment banks and analysts: "The credit raters really do hold the key to capital and liquidity, which, after all, are the lifeblood of corporate America and of our capitalist economy. The ratings they give affect a company's ability to borrow money. It affects whether a pension fund, for instance, or a money market fund can invest in a company's bonds, and it affects stock price. So the difference between a good rating and a poor rating can be the difference literally between success and failure, or more intensively stated, prosperity and poverty" (Hearing, 2002d, 2).

To keep its excellent rating Enron tried to smooth out its earnings and to document steadily growing profits. Therefore, it engaged in numerous transactions and finance constructions just to screen its real financial situation. Although most of such arrangements are legal, if done correctly, Enron used them systematically to make its financial situation look better than it was. Successively, Enron invested an increasing number of assets in such finance arrangements without any relation to real business transactions just to keep its financial situation looking good.

Based on so-called "structured finance transactions" Enron booked loans as prepays without booking them as a liability. With such transactions Enron received about eight billion USD in the last six years of its existence. In most cases Enron entered into a contract with a company – either established especially for this purpose by Enron or owned by one of the Enron related investment banks – to deliver oil or gas in the future for immediate payment. But in fact no delivery was ever intended. The prepaid-forward-contracts had been hedged by stock options, in many cases using Enron stocks (Hearing, 2002f, 4, 16; Hearing, 2002h, 2). As long as stock prices increased steadily, Enron could raise its cash flow without entering any debt in its balance sheet. But when the stock markets stagnated, the Enron system collapsed (Hearing, 2002e, 3).

Without assistance from investment banks and other financial institutions, Enron would not have been able to realize such transactions. JP Morgan Chase and Citigroup were two of the prestigious banks involved in these practices. Both companies helped to establish Enron's system of prepaid-forward-contracts using their own offshore companies especially designed for Enron. Also, Merrill Lynch was engaged in triangle businesses concerning sham sales of Enron assets (Hearing, 2002f, 161-167). As Senator Carl Levin pointed out, all these financial institutions knew about the true intentions of Enron and supported its activities: "In both hearings, substantial evidence showed that the financial institutions involved in the deals knew exactly what was going on. They structured the transactions, signed the paperwork, and supplied the funds, knowing that Enron was using the deal to report that the company was in better financial condition than it really was. In the case of Citigroup and Chase, the banks not only assisted Enron, they developed the deceptive prepays as a financial product and sold it to other companies as so-called balance sheet friendly financing, earning millions in fees for themselves in the process" (Hearing, 2002h, 2).

It is evident that most of the banks involved in Enron's business were highly interested in good credit ratings and the recommendation of Enron stocks. This explains why in spite of the dramatic collapse of Enron's stock prices in October and November 2001, none of the 16 leading analysts gave a sell recommendation (Hearing, 2002c, 5 f., ,24; Hearing, 2002d, 3, 12 f., 31 ff.). During the Permanent Subcommittee of Investigation hearing concerning the role of financial analysts, Carl Levin summarized: "The role of the financial analyst is an important piece of the Enron puzzle. We know how dependent Enron was on its stock price, and that it provided significant business to the investment banking firms on Wall Street, initiating dozens of investment banking deals every year. So it is not hard perhaps to understand why the financial analysts waited so long to issue a 'sell' recommendation when so much hung in the balance..." (Hearing, 2002c, 7).

The investigation of the role of banks and financial analysts highlight the importance of both parties in the Enron disaster. Two aspects in particular should be noted: On the one hand the way stocks have been assessed and the dependency of formal credit ratings forced Enron steadily to improve its creditworthiness. This was one of the most important reasons for Enron's dubious finance constructions and dummy transactions. All these activities had been set up just to simulate liquidity and increasing earnings. So, for example, in December 2000, Enron sold its pulp and paper business to a joint venture called "Fishtail". Just one week later Enron sold its "Fishtail" interests to a third company called "Bacchus" for 200 m USD. This amount was entered as revenue and led to a profit of 112 m USD in Enron's end of year financial statement and allowed Enron to fulfill Wall-Street expectations.

On the other hand, the collaboration between Enron and different investment banks led to a distortion concerning Enron's creditworthiness. Most of the financial institutions involved were not interested in a realistic assessment. Their first intention was to keep their most important client happy. And as long as a company is a client in an analyst's investment banking firm, the analyst has to be interested in a good assessment of the client's stock, especially if the analyst's compensation is based on the success of investment banking business (Hearing, 2002c, 6). Thus, it becomes quite clear, why most of the major analyst's could not give a sell recommendation, even if Enron's stock had dropped to "junk bond" status. In this context, Enron, in at least one case, used its leading position to pressurize one of the banks. In April 1998, Merrill Lynch was excluded from co-managing a large Enron stock offering. The reason for the decision was a critical assessment of Enron's stock by Merrill's analyst John Olson. Olson was removed and the new analyst set the recommendation from a neutral to a buy option (Hearing, 2002f, 164 ff., 206-209). On at least three occasions he sent the internal lists of buy and sell options directly to Enron CFO (Hearing, 2002f, 166). In the following years Merrill received over 40 m USD in fees from Enron (Hearing, 2002f, 164).

The Role of Accountants and Consulting Agencies

The involvement of Arthur Andersen in Enron's dubious business practices caused the collapse of this firm – one of the most respected accounting and consulting companies. Arthur Andersen served Enron as an auditor as well as a consultant. For two years Andersen additionally worked as internal auditor for Enron. During that time Andersen essentially reviewed his own work as internal auditor. Enron was Andersen's biggest client and in the year 2000 alone Andersen earned 52 m USD in fees for consulting and auditing. The interdependency of Andersen and Enron at that time is obvious: Andersen employees crossed over to Enron and vice versa. Critical consultants working at Andersen were removed from Enron and assigned to other projects. So, for example, Carl E. Bass, senior partner of Andersen, was removed from working on the Enron account in early 2001 after criticizing Enron's accounting practices. During the investigations he testified that documents proving that he was involved in certain transactions had been changed without his knowledge (Byrne, 2002, 4; Toffler and Reingold, 2003, 212).

Although Enron was ranked as a maximum risk candidate in Andersen's internal ranking, this estimation did not influence the cooperation between Andersen and Enron. On the contrary, Andersen assisted Enron by creating a lot of "creative accounting" tools and helping to establish numerous "special purpose entities". Barbara Toffler, former Andersen partner, described the relationship between Andersen and Enron as follows: "Enron was Arthur Andersen's dream client, the model for tomorrow. It was innovative, it was dynamic, it was one of the most successful stocks in the market, and best of all, it had a seemingly unquenchable thirst for both audit and consulting services from the firm" (Toffler and Reingold, 2003, 141).

In 2000, Andersen changed its strategy. It wanted "to be the partner of success in the New Economy". For this purpose Andersen sorted out all clients that had been suspected of being representatives of the Old Economy. These candidates were sent out or moved to other service delivery models within Andersen. Only the "Emerging 10" – fast growing entrepreneurial companies – were supposed to be part of Anderson's core business, and Enron was the biggest of them all (Toffler and Reingold, 2003, 142). With the help of Andersen, Enron successfully excluded about 50% of its assets selling them to numerous fictitious firms till its collapse. In this way, Enron was able to present steadily growing earnings in its financial statements every accounting date. Although from the abovementioned 52 m USD in fees that Andersen received from Enron in 2000, less than 50% was paid for accounting services. Andersen's CEO, Joseph Berardino, did not see any conflict of interest (Hearing, 2001, 48).

Most of the deals included a hidden guarantee that the entity buying assets or making a prepaid contract would not bear any commercial risk. Thus, Enron guaranteed to buy back the assets, hedged the prepaid contracts by stock options or offered a certain rate of return. Andersen had ample knowledge that all these accounting gimmicks were designed only to manipulate Enron's financial situation; nevertheless Andersen assisted Enron in numerous transactions. So, for example, in the abovementioned Fishtail/Bacchus deal another special purpose entity called Sundance was involved in that triangle business. In this case, Andersen demanded the 20% participation of an independent investor to approve off-balance sheet treatment for Sundance. Finally, Citigroup functioned as an external partner and helped to keep Sundance out of the books. But a risk for Citigroup never existed. By contract, Enron assured that Citigroup could dissolve the partnership anytime and the investment of about 188 m USD should be touched only in case Enron would loose its investment of about 750 m USD. In fact, Citigroup's investment was a loan to Enron. "On paper, Fishtail, Bacchus and Sundance seemed to bring new investment into Enron's pulp and paper business venture. In reality, these complex financial deals enabled Enron to use a $200 m Citigroup loan and a sham asset sale to boost its year-end cash flow and earnings and then quietly return the funds via Sundance" (Hearing, 2002h, 4).

All these constructions were known and supported by Andersen's consultants and accountants. Andersen no longer felt like a supervising authority or control entity, and its representatives didn't assume any accountability for assessing the internal balance sheet in a clear and perspicuous manner. Andersen, who should have been monitoring and supervising the financial activities and corporate behaviour of Enron on behalf of the public, had become a part of the "Enron system". It had become an integral part of Andersen's strategy to offer consulting and accounting services combined. Thus "Andersen advertised not only audits but also 'investigations for special purposes, such as to determine the advisability of investment in a new enterprise or the extension of an old business', and 'the designing and installing of new systems of financial and cost accounting and organization, or the modernizing of existing systems'" (Toffler and Reingold, 2003, 14). And that is what Andersen had done for Enron, without asking any critical questions.

The interlacing supply of accounting and consulting services corrupted Andersen's integrity. Although Andersen should have been keeping an eye on Enron's business and accounting practices it was more and more concerned with creating creative finance and accounting tools for their biggest client. But in addition, Andersen not only assisted Enron in creative financing, it also wanted to learn from the most admired company in the New Economy. Thus, Andersen's cooperation became an important factor in the rise and fall of Enron.

The Role of Government Supervisory Authorities

The Federal Energy Regulation Commission (FERC) was Enron's most important supervisory authority in the energy market. When in 1992, the Energy Policy Act was enacted by the Bush administration a new era for energy providers began. The law required utility providers to open up their power transmission systems and pipelines for other energy companies and allowed wholesale energy trading. This meant that energy producers in one state could deliver electricity or gas to any other state using the pipelines or power transmission systems in between. Although this service was not free of charge, the opportunity to deliver energy in dif-

ferent markets was an important step in American energy market liberalization. This liberalization enabled Enron to buy and sell energy on the free market and to deal all over America (Fox, 2003, 61 f.). Thus, Enron developed from a common energy producing company to one of the biggest American wholesale energy providers. In fact, Enron reduced step by step its own energy production and mainly bought and sold energy by forward contracts. This constitutes the background for the Californian energy crisis in 2001.
Although the FERC knew about the potential for large energy providers to manipulate energy prices, from November 2000 it needed more than one year to investigate the behaviour of particular companies (Hearing, 2002g, 3, 13-18). During that time Enron and others succeeded in creating a false energy crisis using simulated exports, round-trip-trading and artificial congestions on the power grid. The exports were organized as fictitious forward contracts. Energy marketers bought energy from Californian and other West Coast power plants and sold it to related companies. When an energy shortage caused rise in prices on the Californian energy market they bought back that energy they had sold to their own companies and delivered it to Californian households. In fact, Californian power plants produced the same energy as they did before and delivered directly to Californian customers.

But because of fictitious trading among energy marketers the prices had risen dramatically. When the energy shortage also affected the neighboring areas, Enron bought energy in California and sold it to the surrounding states. Enron simultaneously scheduled power transmissions at the ISO (independent system operator that regulated electricity transmission in California), but never intended to transmit energy. Thus, in some areas congestion was caused. Consequently, the ISO paid Enron fees for not sending energy that Enron never intended to send (Fox, 2003, 208 f.). Knowing that the California energy crises was also stimulated by its own business practices and fearing investigating by the FERC, Enron initiated an internal investigation of its own behavior in October 2000 and finally stopped its dubious business practices (Hearing, 2002g, 17). David M. Barick, member of the committee on governmental affairs, concluded: "After all, Enron was heavily invested in the success of the deregulation of energy markets because it represented opportunities for Enron's energy trading and energy services businesses, as well as new market opportunities in the United States and overseas. It was important to Enron, therefore, that the California crisis not be blamed on deregulation or on market systems or on individual market players, like Enron itself" (Hearing, 2002g, 10).
To create an Enron friendly environment in the energy market, Enron influenced the Bush administration in its efforts to deregulate. In response to the Californian energy crisis, Enron CEO Kenneth Lay suggested a complete deregulation of the energy market to Vice President Richard Cheney. In a memo addressed to the Vice President he demanded: "The Administration should reject any attempt to re-regulate wholesale power markets by adopting price caps or returning to archaic methods of determining the cost-base of wholesale power. Price caps, even if imposed on a temporary basis, will be detrimental to power markets and will discourage private investment by significantly raising political risk" (Fox, 2003, 218 f.). The memo highlights the influence Enron had in the White House.
Consequently, insufficient supervision on the part of the FERC led to an independent investigation by the Subcommittee on Oversight and Investigation from the Committee on Energy and Commerce. Referring to the results of this investigation, Joseph Lieberman criticized the lax supervision of the federal commission: "Again and again, FERC failed to ask critical questions about Enron's business practices. In the few cases when they did ask pertinent questions, the people at FERC settled for incomplete or incorrect answers" (Hearing, 2002g, 1). In his summary, he characterized the FERC's supervision as ranging from naïve at best to negligent at worst (Hearing, 2002g, 2).
Not only was the FERC's supervision lacking, but other government supervisory authorities also failed. In 2001, the US Security and Exchange Commission (SEC) only reviewed 17 percent of all annual reports from public companies. During the time from 2000 to 2002 only half of all reports were inspected. During the last years before its collapse, Enron's reports were not reviewed. Considering these facts, Joseph Lieberman remarked: "No matter how passionately we believe in competition and capitalism as the best system for economic growth and opportunity, the invisible hand cannot do it all. (...) The fact is that markets inherently have no conscience. To ensure the integrity of our markets, the invisible hand needs to be assisted by the fair hand of government oversight..." (Hearing, 2002g, 3).
As shown above, in the case of government supervision, the lack of control was not only a result of

individual failure but also of insufficient governance structures. The FERC and SEC were interested in building up the New Economy and Enron was the most impressive representative of this new era. To hinder Enron from applying for new strategies in order to successfully invest in new market ideas would have meant destroying the confidence of consumers and shareholders in the potential of the whole New Economy. Furthermore, Enron seemed to be successful; it was one of the leaders in that field and one of the fastest growing companies. It would have been quite unpopular to stop Enron. This might be one of the reasons why government authorities had too much confidence in the legality and integrity of Enron's behaviour. On the other hand, governmental supervision was also dazzled by the splendor of Enron's success. For them it seemed to be a good idea to follow Enron's policy, quite sure that Enron was doing things correctly. Concerning the FERC's behaviour, Senator Carl Lieberman mentioned: "the FERC often seemed to view itself not as a regulator but as a facilitator, not as a market cop but as a market cheerleader, and that left consumers with nothing to cheer about" (Hearing, 2002g, 3).

As a result, the criminal activities among Enron managers as well as the questionable practices among the different investment bankers, consultants and representatives of government authorities, were possible because of the specific structures of the energy market and the special rules of the New Economy. Despite all attempts to establish efficient supervision structures –– before and since the fall of Enron — an analysis of the cooperation between Enron and its supervisory authorities discloses the fact that Enron not only collaborated with all these authorities, but even went so far as to use their specific knowledge and competencies to develop and establish an "Enron-friendly" environment (Hearing, 2002g, 3). So for example, government authorities followed the Enron proposals of a deregulation in the energy market and Andersen consultants used their knowledge to develop special finance models and questionable accounting practices for Enron. None of the authorities involved were interested in an efficient system of supervision; although they should have worked as external auditors for the benefit of the society.

The Motivation for Wrongdoing

To analyze the motivation for wrongdoing it might be helpful to distinguish two perspectives. First, an analysis of the internal perspective explains the motivations, norms and values that moved Enron managers to engage in criminal activities. Second, an investigation of the external perspective shows what motives and expectations caused the assistance of supervising authorities and accounting and investment firms.

The Internal Perspective

As mentioned above, Enron was strongly oriented towards shareholder value. The maxim put forward by Enron CEO, Jeffrey Skilling – "the priority is to keep the stock price up" – was regarded as the iron law of Enron (Tonge et al. 2003, 6). Thus, positive credit ratings, good recommendations from Wall Street analysts and finance friendly statements became the *conditio sine qua non* of Enron's finance policy.

But despite these internal instructions, most of Enron's managers themselves had massive intrinsic motives and selfish interests in keeping the stock prices up. Enron's officials benefited from stock options worth millions of dollars. Thus, it might be understandable that Enron managers agreed to dubious practices and fraud in order to retain their bonuses (Hearing; 2002b, 22). At the hearing on 7 May 2002, in front of the Permanent Subcommittee of Investigations, Senator Peter Fitzgerald accused them of this misbehaviour: "But I have also felt that in the hands of management there was plenty of incentive to engage in this kind of pyramid scheme, to keep booking fictitious earnings, and that incentive was to keep the stock price up, and they wanted to do that because many of them had millions or tens of millions, and in some cases hundreds of millions of dollars worth of stock options in their hands. Now, many of the senior managers cashed in their stock options and got out of the company before it all spun out of control. There are many people who got out of the company, having successfully cashed in millions of dollars worth of stock options" (Hearing, 2002e, 43). Corrupted by steadily flowing bonuses, Enron's officials successively lost their independence and the moral integrity of their own behaviour. As Senator Carl Levin mentioned at the same hearing the "… decisions to engage in these accounting gimmicks and deceptive transactions were fueled by the very much human but unadmirable emotions of greed and arrogance" (Hearing, 2002e, 2).

Enron hired aggressive and ambitious managers and paid them enormously. An essential part of this culture was strong internal competition and a permanent search for innovative solutions in finance marketing. All Enron members agreed in their belief that the "Old Economy" had been discarded (Zellner, 2001, 1 ff). Jeffrey Skilling postulated that Enron was the leading company in the world (Hillenbrand, 2002, 2). He established the legend of a steadily growing firm and of the infallibility of Enron's policy. And this legend paid off for all members of the company. This might be one of the reasons why the board of directors felt in good hands and paid lax attention to the policy of their managers. Again and again the enormous amounts paid to the directors undermined their ability and their interest in supervision and vigilance. "...Enron's management handed out bonuses like candy at Halloween. Employees were given huge bonuses for closing deals, and many of these deals proved damaging to Enron" (Hearing, 2002e, 5). Only in the last three years before the company filed for bankruptcy, the top 29 executives cashed 1.1 billion dollars in stock options. Thus, Senator Fitzgerald came to the conclusion: "When you have executives who can make tens or hundreds of millions of dollars by keeping their stock price high by doing whatever possible to report higher per share earnings, at a certain point you have a powerful motivating force to bend the rules" (Hearing, 2002f, 57).

In this game fantastic bonuses were paid regardless of whether they were justified by business success or not. So Levin reported on a power plant project in India. While the project became a disaster, the executives that closed the deal got bonuses in the range of 50 m USD. In another case, an Enron division manager was shown the door. In the year he left Enron paid him a bonus of 250 m USD (Hearing, 2002e, 5). These examples highlight how the Enron system enforced the temptation of self-enrichment and the greed for extraordinary payment. Most of these arrangements have been tied to Enron stock and explain how dependent Enron was on the recommendations of analysts and credit raters. As a result, this system led to the point where Enron's representatives used every possible way first within and later outside the law to generate rising stock prices (Hearing, 2002h, 84). Therefore, they engaged in questionable finance practices, screened Enron's real financial situation, generated fictitious earnings and used dubious triangle businesses to generate a steadily growing cash flow by selling out Enron's assets. In all cases, they were motivated by two targets: first, a professional interest in attaining internal expectations –– this means maintaining the fiction that Enron was the world's leading company –– and second, to make as much private money as possible. No structures in Enron's organization hindered them from continuing with their behavior. Even Enron's code of ethics, which should have kept such managerial behavior under control, was overridden willingly and knowingly and with the acceptance of the board of directors just to enable criminal and dubious activities among some of the managers (Hearing, 2002e, 10).

Finally, everybody made money from Enron, and this is why red flags were ignored. When Sharon Watkins expressed her fear that Enron might "… implode in a wave of accounting scandals…" in a memorandum addressed to Kenneth Lay, this was held as unsubstantiated (Hearing, 2002a, 2 f.). The report from the Off Wall Street Consulting Group of 6 May 2001 declaring the dubious accounting practices of Enron was also not taken seriously (Hearing, 2002c, 3). Enron was the wonder child of the new economy and everybody believed in its success. Thus, overestimation of its abilities and a belief in its infallibility became characteristic of Enron's business culture, especially in the boardroom. Enron was seen as the leading company worldwide. Group thinking, the underestimation of market risks and ignorance against all forms of criticism prevented Enron managers from facing reality. Enron helped to create the legend of the new economy and at the end became a victim of the expectations and hopes it had raised.

The External Perspective

Enron was seen as the leading company in a new type of economy: online trading, Jeffrey Skilling's "asset light" policy, creative accounting and intelligent finance constructions became a brand of pioneering business policy. Enron successfully used the potential for deregulation and privatization in the energy market and became the 7th largest company worldwide. Together with other companies it profited from the so-called dot-com-boom and became a model that shows how effective the restructuring of a company can be.

All this effort that Enron made to look as much as possible like a modern, future oriented and high potential company with enormous perspectives in the future were honored by most of its outstanding stakeholders. Growing stocks and good credit ratings proved the correctness of Enron's policy and convinced even the last skeptics. Enron became one of the most admired companies. Whoever wanted to operate successfully on markets in the future should learn from Enron and its new strategies.

This belief in the "New Economy" and in Enron's leading position in that business is one of the most important factors in understanding the motivation and expectations of those who assisted Enron and helped the company to establish a system of dubious special purpose entities, fictitious contracts and round trade business. All external players in the Enron game were convinced that this should be the policy of success in the future market economy and that the American economy will be the guiding pioneer. Everybody, supervising authorities as well as consultants, accountants and shareholders were keenly interested that this experiment should not fail.

On the other hand, Enron never would have been successful for such a long time without the assistance of finance institutions and the help of government authorities. Finance institutions in particular played an important role as Senator Susan Collins in the hearing concerning the role of investment banks laid out: "In earlier testimony, the financial institutions have generally denied any responsibility, claiming that it is simply not their fault if their clients choose to account for these transactions improperly. But the troubling fact remains that Enron could not have gotten away with what it did for so long without the active participation of its financial institutions. Numerous documents examined by the subcommittee clearly demonstrate that the financial institutions that partnered with Enron knew of the company's intentions. In fact, in some cases, the financial institutions helped to design the transactions specifically so that Enron could cook its books" (Hearing, 2002h, 9).

But it would be a shortcoming of some seriousness to explain the involvement of so many external supervisory authorities as just being the selfish interests of some individuals expecting profits and personal advantage from their assistance. Also, in this respect two different motivations interchanged. On the one hand, most companies partnering with Enron were paid very well. But these fees might not have been the whole motivation. To cooperate with Enron opened a lot of other perspectives. It signalized competitiveness on new markets, creativity and a progressive corporate policy, and thus the splendor of Enron became a recommendation for all who collaborated with that firm. Even those who knew about the troubled waters Enron was in never expected the collapse of this company. Enron was held as a model of success everybody wanted to copy or to learn from. Also, government authorities had no doubt about the correctness of Enron's behavior. In principle, Enron used uncommon practices, but this might be the factor in its success in particular that made Enron better than other companies. And even the public benefited from Enron through steadily growing stock prices and the rising worth of their pension funds. So far as the Enron system worked all groups were in a "disastrous" win-win position that disabled all parts to have a critical view on that which was going on. All profited by Enron's policy and all had an interest that the Enron pyramid scheme would never collapse.

In principle, Enron worked like the famous South Sea Bubble – the success of Enron's policy and the false certainty of dealing on permanently growing markets tempted Enron managers to constantly find new methods and ways of generating permanently growing profits. The means they used became more and more dubious and finally illegal. Enron managers established a huge system of prepaid forward contracts and related swaps to report fictitious results, they used a wide system of dummy firms to give the impression of real business activities and established a culture of "friendly relations" with all supervising authorities just to screen that they had cooked their books. But regardless of the criminal energy of some individual managers that helped to realize these practices, all these activities followed the logic of the market structures Enron itself had helped to establish. In its own system, Enron was forced to fulfill the market expectations and to be ranked high by stock analysts. An obligation to succeed induced Enron managers to use more and more illegal practices in order to give the impression of an effective company.

Lessons from Enron

Although the case of Enron with all its different facets of personal greed, overestimation, lack of control from the different supervisory authorities and false incentives is far too complex for a simple conclusion, two lessons can be learned.

First, the formal analysis of the relationships and interdependencies shows that increasing influence undermines supervision and control. In all cases where supervision becomes a part of a system that should be controlled by governance structures, these governance structures must fail. As Herbert Marcuse in another context pointed out, in an advanced industrial society every opposition becomes part of the totalitarian system and looses its ability to control the system. "When this point is reached, domination (…) extends to all spheres of private and public existence, integrates all authentic opposition, absorbs all alternatives. Technological rationality reveals its political character as it becomes the great vehicle of better domination, creating a truly totalitarian universe..." (Marcuse, 1991, 18). This analysis might help us understand what had happened in the case of Enron. All the external corporations and authorities that had to supervise Enron – for example, accountants, credit raters, government authorities or regulatory commissions, successively had become a part of the Enron system. They less and less controlled but increasingly advised and assisted Enron. From their perspective this was neither a damage of authority nor a loss of power. On the contrary, they had directly been involved in strategic considerations for Enron. Enron did not develop strategies and structures to avoid control but developed its strategies in collaboration with these supervising authorities. Thus, the supervision instances became a part of the Enron system, and lost their ability to control the company. This was not caused just by a simple conflict of interests or a lack of independence on the part of some external directors as the case of Arthur Andersen, for example, shows that he worked simultaneously as accountant and as consulting agency for Enron. If Marcuse is right, and if an analogical reasoning is permitted, this is a tendency that is inherent to the accumulation process of the market system itself. But such a systematic weakness would require structures and instances that are able to prevent an increasing loss of control, and allow the supervision and judgment of the market system using social and moral criteria.

Second, the example of Enron shows that formal structures cannot work without a broad commitment from individual actors. Governance structures are unable to preview all possible alternatives that might be regulated. Thus, situations are likely to arise that are not regulated by governance structures, and that require individual decision-making. In addition, even the best structures are unable to prevent individual wrongdoing if it is motivated by criminal energy or false expectations. And finally, nobody can guarantee that the wrong incentives, conflicting interests or a misunderstanding of corporate values will lead to misbehaviour or fraud. In all these cases, individual integrity and value-based behaviour is the only factor that can prevent immoral behaviour. In his Nicomachean Ethics, Aristotle differentiates between justice and equity. In his opinion equity is preferable, because just behaviour is exclusively oriented in the enacted law. But an actor that acts in an equitable manner even in cases without regulations behaves correctly. He anticipates "…what the legislator himself would have said had he been present, and would have put into his law if he had known" (Aristotle, 2005, 62 [1137b]). Such behaviour relies on personal integrity and individual moral sensibility. In all cases where professional ethics become fragile and moral rules are manipulated for individual targets, governance structures must be an insufficient instrument for supervising moral behaviour. To reduce personal responsibility to a pure role responsibility means to misunderstand the function of morality in society. Morality is the expression of individual values and norms. Formal structures can improve or hinder individual moral behaviour but not compensate it. The Enron case demonstrates that incentives and governance structures cannot guarantee moral behavior.

The analysis of these two perspectives – the formal and the informal – has shown that formal structures of control are not able to effectively prevent immoral behavior. Permanent and successful growing companies are able to influence the supervisory structures and the supervisory authorities tend to cheer at all corporate activities that promise to be economically successful. In the long run, the regulations and reporting systems are adapted to the needs of the company. Without any feeling of personal responsibility, managers and CEOs as well as government representatives and external auditors are tempted to choose an autistic strategy with the purpose of ensuring what they consider economic success. The moral dimension of those activities is ignored in favour of the company's growth and the increase of personal influence and power.

Despite all difficulties in realizing such recommendations and gaining acceptance for them, two practical conclusions can be drawn.

First, the interdependencies between Enron and its supervising authorities show that an essential requirement for supervision must be the strengthening of the independence of external supervisory authorities. A lot of literature in business ethics focuses the independence and integrity of the supervising authorities. In this context, these authorities are considered representatives of the shareholders, and ought to observe their interests. The corollary being that supervisory authorities should neither be influenced by selfish nor other interests that might conflict with this responsibility.

To guarantee and to secure such an impartial position, auditors and accountants should be neither part of the government system – they must be impartial and independent from politics – nor part of the economic system – they must assess and report independently and objectively. To avoid interlaces with their clients that are too close and to prevent conflicts of interest, accountants and external auditors should not serve longer than five years for the same company. Although they should report to government authorities, these authorities must not be authorized to issue direct directives. On the other hand, a government inspection has to guarantee the trustworthiness and correctness of the accountants and the clearness and transparency of accounting standards and practices. The Sarbanes-Oxley Act of 2002 might be seen as a first important step in this direction. It requires standards for quality control and independence. For example sec. 201 explicitly points out that "… any non-audit service, including bookkeeping (…) financial information systems design (…) actuarial services (…) internal audit outsourcing services (…) management functions (…) investment banking services (…) and expert services unrelated to the audit, is impermissible" (Sarbanes-Oxley Act of 2002, H.R. 3763 – 27f.).

Despite the differences between the continental and Anglo-Saxon governance system the independence of control should be brought up for discussion in Europe, too. The common practice to elect the leaving chairman of the board for the supervisory board undermines the independence of this authority and causes conflicts of interest. Cases like Mannesmann-Vodafone and Pamalat show that the cooperation between the board and the supervisory instance in particular underpins the necessity of this discussion.

Second, many examples in the Enron case prove that the ownership of stock options directly influenced the management's behaviour. The management's obligation upon pure shareholder value combined with performance-based payment led to short-time orientation and a fixation on capital market figures and a lack of interest in prospective policy. As Robert von Heusinger points out, pure shareholder value orientation in management does not entirely comply with the shareholders' interests, but endangers the long-term strategies and development of a company (Heusinger, 2004, 35). Due to their profit-related payment – based on stock options in their own company – managers successively became more interested in the stock market than in future investment and product innovation. While benefiting from stock options managers oriented themselves primarily towards the financial performance figures of their company and followed the interest of professional fund managers not regarding the long-term development of their company. To avoid such behaviour in management von Heusinger demands a wedge be driven between the interests of commercial adventurers and managers. He requires a multiple voting right for stockowners that hold their stocks over longer periods of time (Heusinger, 2004, 35f.).

Despite the question of whether or not this might balance the interests of professional fund managers and small stockowners in an adequate manner, Heusinger's analysis refers to one of the major problems of pure shareholder value orientation. To avoid the wrong incentives, performance-oriented payments should not be connected with the performance of the stock market. To guarantee that managers decide with respect to the long-term interests of their company's owners, the shareholder value orientation must be considered the wrong way. If shareholder value remains the major orientation of a corporation, even the best corporate governance policy must fail. It leads to the wrong incentives and corrupts the integrity of management.

To foster managerial integrity, they should have no financial interests in the company – this includes extraordinarily high payments as well as stock options or donations (Crane and Matten 2004, 191). If the individual monetary interests of executives and managers are linked to one special group of stakeholders they are unable to decide impartially and in a professional manner.

The lesson learned from Enron is that obviously the governance structures in companies cannot prevent companies and their executives from amoral or illegal behaviour at all times. For instance, in the case of Enron numerous supervising authorities did exist: they had external directors to supervise the board decisions, they had external auditors to review the company's accounts, they (should) have been controlled through many government control agencies, etc. But nevertheless this did not hinder Enron's executives developing a criminal system of accounting practices, to disguise Enron's real financial situation and to get rich on the back of their shareholders.

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Perceptions of Corporate Social Responsibility among Estonian Business Organisations

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Business, whether we like it or not, has become the most powerful collective entity on the planet. Yet such a position of dominance in any society necessitates a level of responsibility for the whole. This is the new role for businesses, and it is gradually gaining more understanding and acceptance. Corporate social responsibility or CSR not only emphasises the importance of morality in business, but also the ethical, environmental and social issues that confront businesses on a daily basis.

With this paper we intend to present an overview of the perceptions of corporate social responsibility among business organisations in one of the new European Union member states, Estonia. It can be argued that CSR has already been developing in Estonia for some years – the topic has been under close public scrutiny, and the drive behind CSR is inevitable. However, the results of the latest research show that CSR in Estonia is still developing, and is seen as a rather confusing concept for most businesses. CSR is rarely an integrated part of a company's businesses strategy and there is much to learn from other countries as well as from company to company practices within Estonia.

Introduction

Ethical and corporate social responsibility issues have been the subject of numerous discussions in the world today. More and more attention and efforts are being directed to these matters, various research projects are being conducted, publications and articles issued, study programs elaborated and seminars organised in order to create an awareness of the problem in the minds of the people and change the pattern of unethical behaviour.

The area of corporate social responsibility has grown dramatically all over the world in the last 10 years. More businesses than ever before are involved in serious efforts to define and integrate CSR into all aspects of their business. They believe that CSR has a positive impact on economic performance (Freeman, 1984; O'Malley, 2003; Matten and Moon, 2004). New voluntary CSR standards and performance measurement tools continue to proliferate amidst the ongoing debate about whether and how to formalize legal CSR requirements for companies. Stakeholders – including shareholders, analysts, regulators, activists, trade unions, employees, community organizations, and the media – are asking companies to be accountable not only for their own performance, but for the performance of their entire supply chain, and to satisfy an ever-changing set of CSR issues (Clarkson, 1995; Harrison and Freeman, 1999). All of this is taking place against the backdrop of an ever more complex global economy with continuing economic, social and environmental inequities.

The last twenty years have also seen a radical change in the relationship between the business sector and the state and society. The relationship between companies and society has moved on from philanthropy and a willingness to do good deeds to a re-examination of the roles, rights and responsibilities of the business community (Davis, 1973; Carroll, 1991; 1999; Aupperle, et al, 1985; Elkington, 1999). The reasons for this change in the relationship between businesses and society are several (Raynard and Forstater, 2001, 4), but they all stem from globalisation and the associated growth in competition. They include:

- the increased size and influence of companies;
- the retrenching or repositioning of government and its roles;

- the battle for talent; companies competing for expertise;
- the growth in global civil activism;
- the increased importance of intangible assets.

These dynamics together with macro changes have led businesses to the issue of Corporate Social Responsibility (CSR). Companies have recognised that improving their own impact and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, companies all over the world are implementing CSR processes such as commitment to standards, community investments, continuous improvement, stakeholder engagement and corporate reporting on social and environmental performance.

CSR is now being discussed and debated in the public sector in developed and increasingly in developing countries. For example, the UK has a Minister for Corporate Social Responsibility (in the Department for Trade and Industry), the EU has recently published a Green Paper on the subject, 2005 was designated the European year of CSR and the UN Global Compact is bringing together companies and UN agencies to address Corporate Social Responsibility (Raynard and Forstater, 2001, 4) world wide.

Defining Corporate Social Responsibility

CSR has been variously defined as:

> "The continuing commitment by business to behave ethically and contribute to sustainable economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (World Business Council for Sustainable Development).
>
> "Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders" (The European Commission, 24).
>
> "Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business" (Business for Social Responsibility).

CSR can best be understood in terms of the changing relationship between business and society. Different approaches to and theories about CSR have been evolving for decades (Carroll, 1999), and it has long been debated whether it is possible to demand more from a corporation besides producing goods and services and making a profit. Many people believe it is no longer enough for a company to say that their only concern is to make a profit 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.

According to Frederick (1988) the concept of CSR has always been a very controversial one (Freeman and Liedkta, 1991; Crook, 2005, The case for … 2005), and the argument has always been about the proper role and function of a business in modern society.

There are a number of academic theories that attempt to capture and explain the numerous intricacies and meanings of corporate social and environmental responsibility. These theories often differ greatly from each other, and range from being purely economic in substance to being deeply altruistic.

Briefly, at the economic end of the spectrum is Milton Friedman's well-known mantra that "the social and environmental responsibility of business is to increase its profit" (Friedman, 1970 in Beauchamp and Bowie, 1997). He views executives who undertake actions of goodwill as essentially taxing shareholders by taking their invested money and moving it to social causes that are outside the company's business activities. Generally, the main interest of shareholders is profit rather than social welfare. "They are gamblers" (Pruzan, 2003). This argument says that governments should be the only ones responsible for social and environmental welfare, something that companies are neither supposed to nor capable of doing.

Yet, this provokes some fundamental questions: Is the production of financial wealth really the goal of business, as Friedman suggests, or is wealth a by-product, an incentive en route to other ends? When a corporate mission statement contains only one goal – to create shareholder value – has an essential ingredient been lost? Money should never be separated from mission. It is an instrument, not an end. Detached from values, it may be the root of all evil, but if linked effectively to social purpose, it can become a wellspring of opportunity (Kanter, 1991).

If we look now at the stakeholder model, this stipulates that company decisions and actions impact various stakeholders in society beyond just shareholders, including customers, employees, suppliers, local communities and so on (Donaldson and Preston, 1995; Freeman, 1993). In return, these stakeholders have an effect on the environment and the conditions in which the company operates. As such, a corporation is under a certain obligation to look beyond its profits to consider the consequences its actions will have on its stakeholders (Grolin, 1998). The stakeholder model is also useful for ethical analysis because it provides a framework for weighing obligations and gauging the impact of decisions on all relevant groups, not just the firm and its managers. Increasingly, more organisations are accepting the stakeholder concept in developing procedures for linking stakeholder concerns to the strategies that they conceive (Murphy, et al, 2005).

Finally, there is the political model. Like the stakeholder model, it presupposes a certain synergy between a corporation and its environment. However, while the stakeholder model suggests that the company's actions are guided by law and/or public demand, the political model implies that a company adopts "a clear set of moral and ethical values…which guide corporate actions" (Grolin, 1998), no matter what is required or demanded of it from outside influences. Thus, this model expects companies to take on a quasi-governmental role by voluntarily acting for the good of society and the environment, with profit being a more secondary consideration.

In order to understand the contemporary significance of CSR we need to explore the essence of business as we see it today. Organisations as such cannot behave independently of the human beings that form them.

Cole (1995) argues that organisations shouldn't be seen as separate entities, because they are composed of individuals whose physical, emotional and intellectual states can fluctuate from hour to hour. Corporations are often seen as moneymaking machines and sometimes it is forgotten that it is actually individuals who form a corporation.

As a corporation cannot exist without the individuals that run it, those same individuals have to make choices that are often related to morality and ethical conduct. Cole (1995) suggests that we look at an organization as a physical organism to help us describe the physical layout or mechanics of the entity. Therefore we can posit the argument that a corporation has responsibilities because it acts only if and when the individuals in it choose to do so. According to O'Malley (2003) business should be seen as a subset of society, which creates value not only for itself but for society as well. Society in turn is a subset of the environment and can therefore only prosper in the long term to the extent that the environment flourishes.

The idea of CSR originally began to emerge at the beginning of the twentieth century. According to Frederick (1988) this was a time when corporations in the US were growing too big, too fast, and maximizing profits was the only objective. At the same time corporations were strongly criticized for not caring enough about others and being too antisocial. Giving money away to those who needed it the most was actually the starting point for CSR. But, the criteria of CSR are difficult to define because, outside legal and other obligations, they are more or less subjective: what is responsible for one can be irresponsible for another. Absolute standards of corporate social responsibility do not exist, and they may change with each generation and in terms of cultures as well (Daugherty, 2001).

One of the founding definitions of the modern concept of social responsibility is the four-part model of CSR by Archie B. Carroll (1979). Carroll defines CSR as follows: "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time." According to the European Commission (2002), CSR is an integral part of the 'sustainable development' concept, and can be understood as the business contribution to sustainable development. Social and environmental responsibilities are not separate but two sides of the same coin – responsible business.

The authors believe that in today's business world, companies cannot manage to survive if the only driver of their actions is money and profit. To succeed and be more competitive businesses have to acknowledge actions besides making profit for shareholders and be willing to go beyond economic responsibilities. According to Mallen Baker (2004), CSR is about how companies manage the business processes to produce an overall positive impact on society. Figure 1 illustrates how a company is responsible for two aspects of its operations: the quality of their management, which includes both people and processes (the inner circle); and the nature of and extent of their impact on society in various areas.

The outer circle illustrates what a company has actually done, good or bad, in terms of its products and services, its impact on the environment and on local communities, and how it treats and develops its workforce.

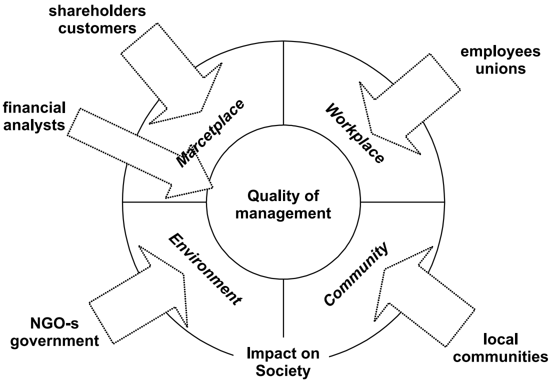


Figure 1. Business in society by Mallen Baker
Source: Mallen Baker Online http://www.mallenbaker.net/csr/

There are numerous different names and definitions given for the CSR concept, but they all mean roughly the same thing except that they are presented from a slightly different point of view. Therefore it can be confusing, especially for a newcomer to CSR, to reach the essence of the concept. There is no single, commonly accepted definition for the concept of CSR (Coelho, et al, 2003). CSR is generally perceived as a compromise between three elements: economic, environmental and social responsibility.
According to Lotila (2004), companies are required to meet the legal regulations, but in order to legitimize their business they need to meet the moral expectations as well. Philanthropic activities are desired of business and they often have a positive effect on how the company is perceived.

CSR can be defined as achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment. CSR means addressing the legal, ethical, commercial and other expectations that society has of business, and making decisions that fairly balance the claims of all key stakeholders. In its simplest terms it is: what you do, how you do it, and when and what you say (Business for Social Responsibility).
Companies who have successfully implemented CSR schemes in their companies' strategies and everyday business activities have indicated several advantages, and these can be seen as motives or drivers for socially responsible conduct:

- Operational cost saving
- Enhanced reputation
- Increased ability to recruit, develop and retain staff
- Better relationships with government
- Sharper anticipation and management risk
- Learning and innovation

Finally, terms such as corporate governance, corporate citizenship, corporate social performance, stakeholder management, corporate social responsiveness, corporate accountability, the triple bottom line or simply corporate responsibility are in the end all talking about the same subject, the responsibility of a corporation. These concepts are simply approaching the same thing from a slightly different perspective.

The Framework for CSR Activities in Estonia

Estonia has been considered something of a laboratory or incubator, where radical and even extreme changes can be made very quickly (Kooskora, 2004). It is a country where, under the guidance of young and ambitious leaders, not tainted by the previous occupation regime and less burdened by the pains of history, it was possible to embark upon the most radical version of "shock therapy" in all of Central and Eastern Europe.
Previous research has shown that despite the speed at which the Estonian business environment has developed during the last decade, the most crucial objective for the majority of Estonian businesses has been and still is gaining maximum profit. Moral values and ethical conduct have never been as important to Estonian managers as the aim of gaining as much money as possible. According to the common understanding, most businessmen prefer financial success over ethics, and CSR seems to be irrelevant and unimportant. Even if the businessmen are aware of the concept and find it important, they lack the knowledge to implement it in their own company (Kooskora, 2005).
We have seen several different initiatives from our government, the president, business leaders, environmentalists, social scientists and others. But failures of these initiatives unfortunately support the assumption that the Estonian people are too individualistic and ambitious, and so it is too difficult for them to find common ground and start working together to achieve these goals.
The government's recent initiative is a strategy for the sustainable development of Estonia for the next 30 years under the name, *Agenda 21* (Raagma, 2003). *Agenda 21* is an innovative development analysing and joining together three different development models (a sustainable scenario, conservative development and partnership development) that give us a

sense of direction for the future. Although this is not a miracle, bringing an immediate and complete solution, it does help bring clarity to daily decisions and presents them in the light of a vision of the future, and that is exactly what we need today.
The agenda highlights the need for emphasising such new concepts as a national state and the sustainability of the nation. These values should not be connected in any way to changes in the political parties that hold government they should be sustainable, comprehensible and given first priority as Estonia needs a new, ethical attitude towards its people.
This agenda stresses the need for broad-minded individuals with a good education, an ability to learn, and an interest in life-long learning, training and special educational programs. Only with these people who have sufficient knowledge and skills can we secure success in economic and social life. The ability to learn is the criterion for survival and sustainability in a post-information society. Favouring such self-development would create the preconditions for completing the catch-up process.

It is appropriate to state here that changes come slow and that new approaches are nearly always received with coolness and even hostility. Attacks tend to come particularly from those who worked fruitfully in the old times and are therefore emotionally and habitually attached to them. Change is especially difficult because practitioners of conventional business tend to demand quantitative proof in support of CSR. The numbers might not be there for those early practitioners, but they have to trust their intuition and heart. Moreover, it shouldn't be forgotten that the critical value for businesses is the pay-off that comes from being a pioneer. There is a substantial advantage that pioneers gain over their competition. The next chapters shed light on how Estonian businesses (business leaders) perceive these new paradigms of business.

A Survey of CSR among Estonian Businesses Conducted in March 2005

The corporate social responsibility survey among selected Estonian business organisations was carried out in Estonian Business School in March 2005. The aim of the survey was to explore the current situation in Estonia in order to find how Estonian business representatives perceive CSR, what motives and values drive them in regard to CSR, what the main barriers for conducting CSR activities are and whether they have any clear future perspectives in the area of CSR.

Our objective was to study succeeding Estonian business organisations, and to that end companies from Äripäev's "*TOP 100 Estonian's Leading Enterprises 2004"* and the businesses leaders from Äripäev's edition of *"Eesti Tippjuhid 2004"* were selected. The survey looked at companies from the private sector that varied in terms of size, field of operation, position of the respondents and origin. The questionnaires were sent out by e-mail to selected company leaders. The survey was carried out via the Internet, using an online questionnaire. The completed questionnaires where returned by 88 business representatives from different business organisations. Respondents included top managers (88%), middle managers (18%), entrepreneurs (6%) and specialists (10% of total 88).

Perceptions of CSR among Estonian Business Leaders

The results showed that the understanding of corporate social responsibility among these Estonian business organisations is still at a rather primitive level. For the majority of business representatives participating in this survey the meaning of CSR related mostly to providing work and good working conditions for their employees. For some, the existence of their company is already seen as sufficient social responsibility.
Several respondents said that by operating efficiently the company has already fulfilled all its corporate social responsibilities.
For example, a micro-size Estonian company active in the service sector with less than 10 workers saw CSR as the possibility to provide sustainability of work, adequate salary and working conditions and the assurance of social security.
However, the results show that it isn't only the small businesses that see being an employer as sufficient social responsibility. Views such as the following were mentioned more than once: *"CSR means giving the workers an opportunity to work and earn a salary. For us it means creating workplaces and paying all the required taxes".*
The second frequently mentioned area of CSR was obeying the laws and regulations required of companies. Many respondents feel that by developing their company and therefore paying taxes they are doing enough to support society. Surprisingly, some companies feel that paying taxes is the only responsibility of a firm. One top manager of a small company, active in the industrial sector even expressed the opinion that CSR can be seen as a direct correlation "employer = tax payer".

The third most emphasized area was charity and sponsoring different activities and events. Medium and large companies mostly saw sponsorship as a vital area of CSR. A middle manager from a medium sized company saw CSR as an objective, not only to gain as much profit a possible, but also to give something back to society through charities, sponsorship and other projects. Still the overall results indicate that for most companies, sponsorship is also seen more as a short-term activity, rather than a long-term commitment.

> *The company needs to understand that it is part of a society and therefore should act on the principle – the more people that benefit from your company the better (for example sponsorship) for the company's employees and for the company itself because the employees are therefore happier. CSR for our company means sponsoring different sport activities, also sponsoring our employees at different important occasions and organizing different events for our clients (– a specialist from a large company active in the service sector).*

Many companies' managers also emphasized the importance of caring for society at large, but unfortunately weren't able to explain the essence of CSR for their own company. A number of definitions and explanations given by Estonian business representatives were too generalized and confusing if not even baffling. Generally, the feelings expressed were that a company is responsible for the development and sustainability of society, for its actions in society, should promote the country's economy, obey the law and preserve the environment. However most respondents could not or simply did not mention exactly how they were doing it or how it should be done. Therefore, answers that said that by CSR they meant apportioning some kind of value to humankind, the environment and our business branch doesn't really say much about the company's real understanding of CSR.

In the end it can be said economic and legal responsibilities are seen as far more important to studied Estonian business representatives than the other responsibilities. Other common areas of CSR such as engagement with local communities and neighbourhood and environment friendly activities are still an undiscovered area for these Estonian businesses. The results indicated that even if business leaders have some kind of an understanding or attitude towards CSR, mostly they could not connect this with their own company's activities or strategies. Also, CSR in Estonian businesses is rarely seen as a long-term and continuing activity, and for the majority of respondents CSR activities are not seen as a part of the company's annual plans or strategies. Therefore, it can be said that CSR in these successful Estonian business organisations does not go very deep and managers' understanding regarding the concept is more general than thorough.

Motives and Values Driving CSR

The biggest driver behind adopting socially responsible activities is gaining the trust of partners and also the interest of the company's management. According to the results, these Estonian business representatives value more those characteristics that reflect their company's external image and are seen by their partners and customers. Many respondents strongly agreed that CSR activities have a positive affect on the company's image and customers' expectations. The results showed that the majority of studied Estonian companies concentrate on the short-term advantages, because they are simply not capable of looking at CSR as a long-term commitment. Other advantages of CSR commonly emphasized elsewhere, such as long-term profitability and better relationships with different NGO'S and the local community, are rather under valued by these Estonian businesses. **See Figure 2**

The results indicate that these businesses have no clear understanding of what benefits can come from engaging in CSR activities, and this is mainly because there are very few practical examples of CSR among Estonian businesses, and also because CSR in most companies is seen more as a short-term opportunity rather than a continuous commitment.

More than half of the respondents are driven by the fact that CSR helps to improve their partners′ trust. So in other words many companies agree that acting socially responsibly will attract and retain new investors and business partners. Small companies paid the most attention to improving partners' trust. Most companies take up CSR activities only when the management or owners indicate a special interest. Micro companies are also driven by the fact that CSR helps to improve their company image. Large companies on the contrary gave a very little importance to this particular motivation. **See Figure 3**

Customer expectations comes as the third most important motivator, which stems from the fact that many companies feel that customers do not

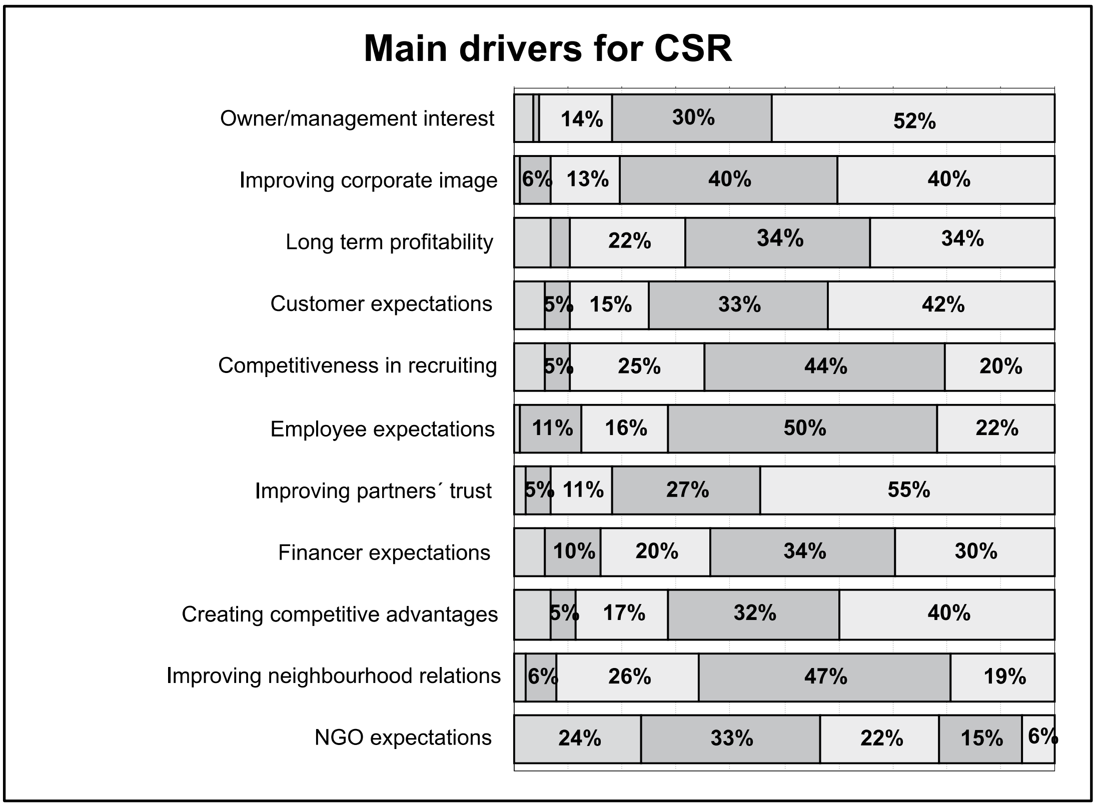


Figure 2

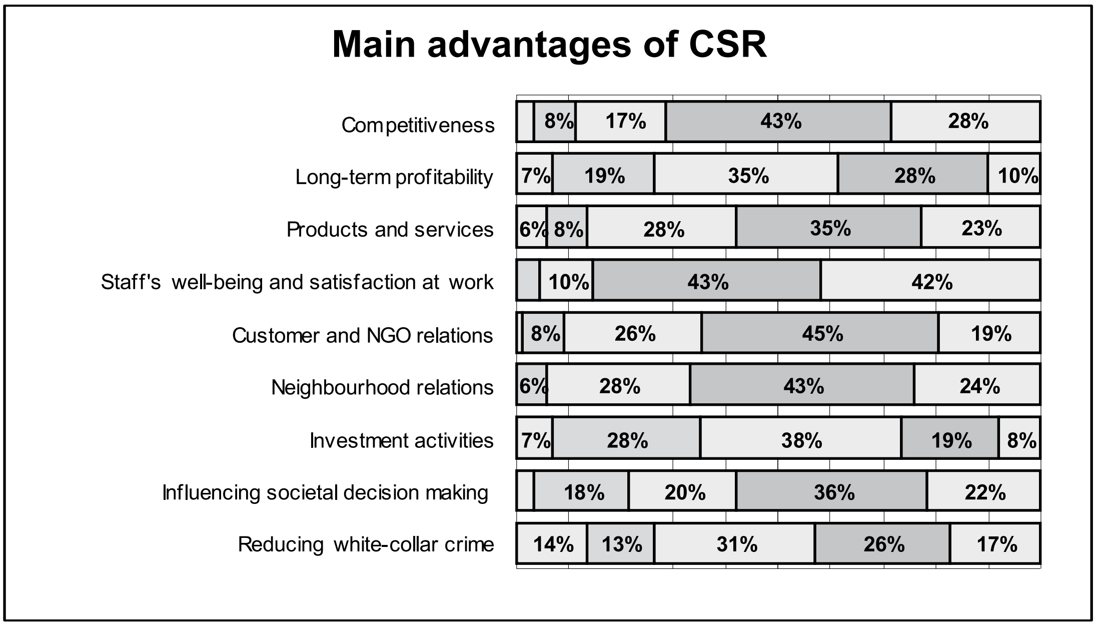


Figure 3

appreciate their efforts enough or they just aren't acknowledged enough. Micro-sized companies see customer expectations as a less important motivator. Surprisingly, companies did not see the possibility of creating competitive advantage as an important driver for socially responsible activities. According to the results CSR positively influences the well-being of employees and therefore causes them to feel more satisfied with their work and working conditions. From the Estonian business organisations perspective, CSR also has a slight but still very positive influence on a company's competitive advantage. However, benefits such as long-term profitability and the opportunity of taking up investment activities were not valued as highly as other benefits.

The Main Barriers to Conducting CSR Activities

According to the results, studied Estonian businesses mainly see the lack of government support as the biggest obstacle to implementing CSR strategies. The lack of government support was most highly valued by large companies. Small companies were the only ones that emphasized the lack of consumer awareness as a barrier to engaging in CSR activities. **See Figure 4**

Understandably, small companies felt that it is hard to take up CSR activities simply because they are not big enough. Many companies also mentioned the time barrier and lack of financial recourses.
No clear differences emerged when comparing the results of different branches of business. However, some differences were seen when comparing the results on the basis of the respondent's position in the company. Actually, all barriers suggested were highly valued by large companies and in turn less by entrepreneurs. The results also indicate that most respondents feel that their knowledge of CSR is adequate, because a lack of knowledge was not seen as an important barrier for conducting CSR activities. **See Figure 5**

The other very common barriers, such as the management having little interest, size issues or lack of connection with the company's operations were all valued as important but not distinctively so. Companies were also given the opportunity to add their own ideas about different obstacles that may prevent entrepreneurs from behaving more responsibly. Several companies marked down that they did not see any obstacles to implementing CSR activities.
One of the respondents even commented that nothing prevents a company from behaving responsibly if the CSR itself is not seen as a distinct objective. The government and partners may set certain indirect barriers, as they are often driven from slightly incorrect norms. And as Estonia is so small, connections are often more important than ethics. Another notable comment about barriers was that CSR is often falsely used — meaning that companies should not fulfil obligations that are assumed by the public sector. The most important contribution a company can make is to be professional, ethical and operate as a sustainable corporation. In other words, nothing prevents companies from behaving responsibly, besides the fact that this is not and should not be their main focus.

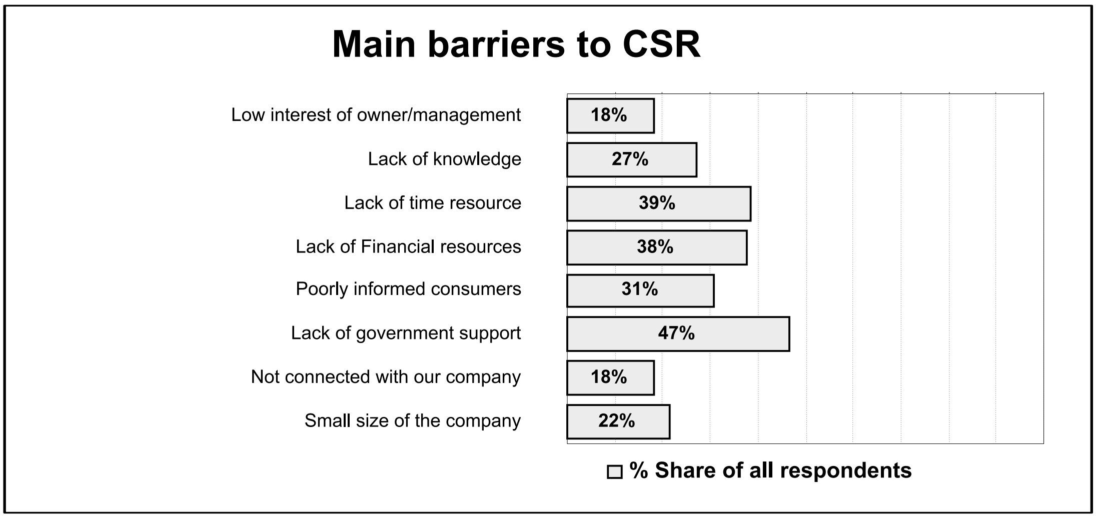
Future Perspectives in CSR for Estonian Businesses

Most businesses participating in this survey have no clear future plans in the area of CSR, and they also could not predict any. Those who are already practicing CSR indicated their plans to follow the same path in the future. However, we can say that attitudes among Estonian businesses towards CSR are still optimistic and positive. Even if at the present they cannot be certain about any future CSR activities in their company, they expressed their interest in obtaining more information about CSR in order to educate themselves in the future. Many companies also showed quite keen interest, and asked the authors to share a summary of the research results with them.

The survey results firstly indicated that generally in most of these Estonian businesses CSR is not a part of their annual plans (answering yes – 37%; no – 48% of respondents), only in some cases was it mentioned as being a part of the mother-company's annual plans (18% of the total). The only exception was in large companies, where 65% of these companies indicted that CSR is part of their annual plans.
The results also showed that the largest group of these Estonian businesses do not have any documented instructions or standard procedures concerning different areas of CSR (47% of respondents). However, those who had (36 % of respondents and 17% included in mother company's planning) were asked which are the most common areas in their company where documented instructions are used.

According to the results the most commonly documented areas are company values, employee training plans and wages and incentive systems. The expectations of neighbouring areas, charity schemes and environmental management, which are also very important elements of CSR, were less valued. **See Figure 6**

Most of the CSR related decision making in the respondents' companies is done by the board of directors. Only in a few cases were others besides



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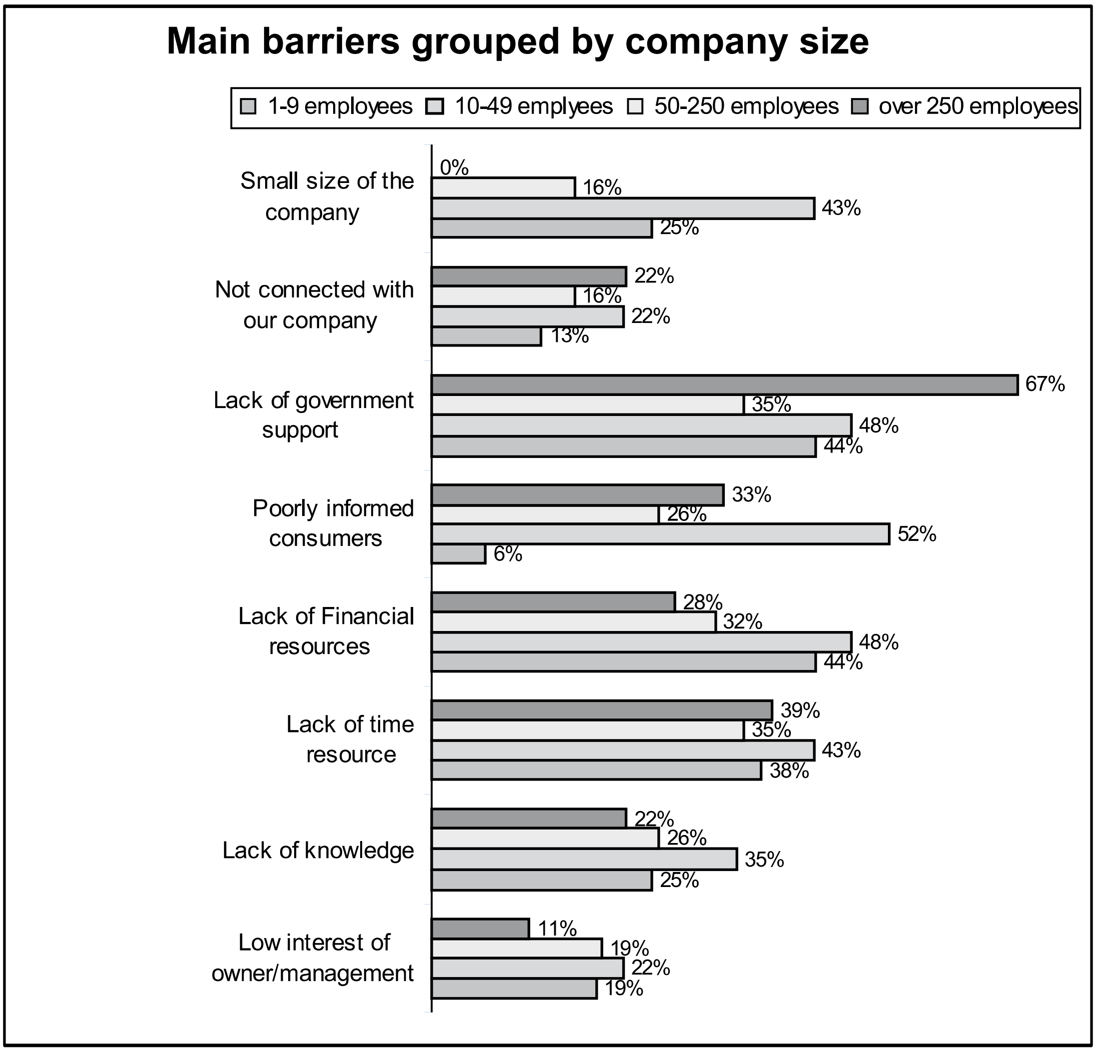

Figure 5

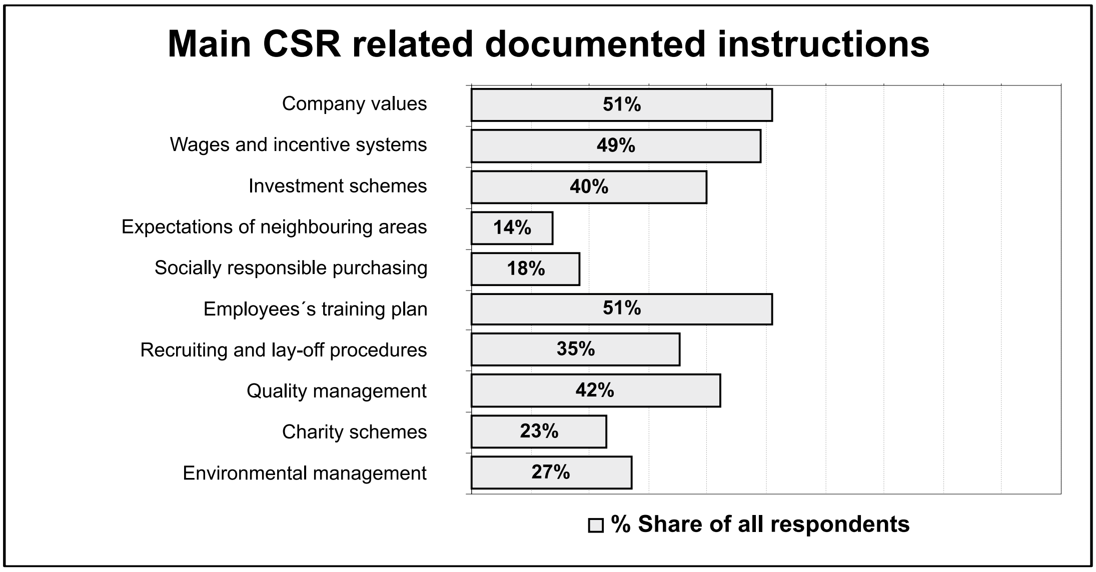

Figure 6

the board mentioned, for example the managing director, development manager or HR manager. None of the responding companies had specific workgroups or managers defined as being responsible for issues related to CSR. **See Figure 7**

Most businesses that could relate CSR with their company's activities or who are already practicing or active in the area of CSR, also said they would continue in the future. Many companies also indicated that they are interested in and open to new ideas and are looking at CSR as an important issue in their future plans. One company said: "*We try to be open to new ideas and help those who need it the most and increase the knowledge of CSR in our own company as well. However were not planning any specific activities or campaigns in this particular area at present."* The results showed that most Estonian businesses had no clear ideas or plans in the area of CSR. The most common answer to this particular question was that they would continue in the same manner as at the present moment, or start considering CSR in the future but not knowing exactly how.
A top manager of a middle-sized company said the following about the future:
"*With the development of our company, we are also developing the business branch we're operating and therefore fulfilling our company mission, which aims for long-term assurance and development for our clients, employees as well as shareholders.*"
However, some companies did give positive feedback, saying they wanted more information about CSR. In fact almost 70% of the respondents would like to receive more information, and they would mostly like to receive it in the form of learning materials on the Internet or by e-mail.

Discussion

Our findings about perceptions of CSR among Estonian business organisations indicate that CSR is mostly seen as being a good employer and providing work for people, following the laws and rules required and giving money away to charity or sponsoring different activities. The results show that Estonian managers still see the economic and legal responsibilities as the most important part of CSR. Therefore, existing as a business that is operating well and providing good working conditions seems to be enough for most businesses. These results prove the arguments presented by Kooskora (2005) that Estonian corporations still see their primary responsibility as economic and legal, and largely towards their owners and clients. And that by providing employment and obeying laws and regulations the company is already doing enough and CSR doesn't go any deeper than that.
According to Noorkõiv (2004) the main business benefits of CSR for Estonian companies are: the increased satisfaction of employees, better image, improved relationship with clients and also ethical outcomes.
However, the current study shows a slightly different result. The biggest driver for studied Estonian businesses is their partners' trust and owner's interest which again proves that Estonian businesses focus more on their external image than the internal. Improving a company's image was men-

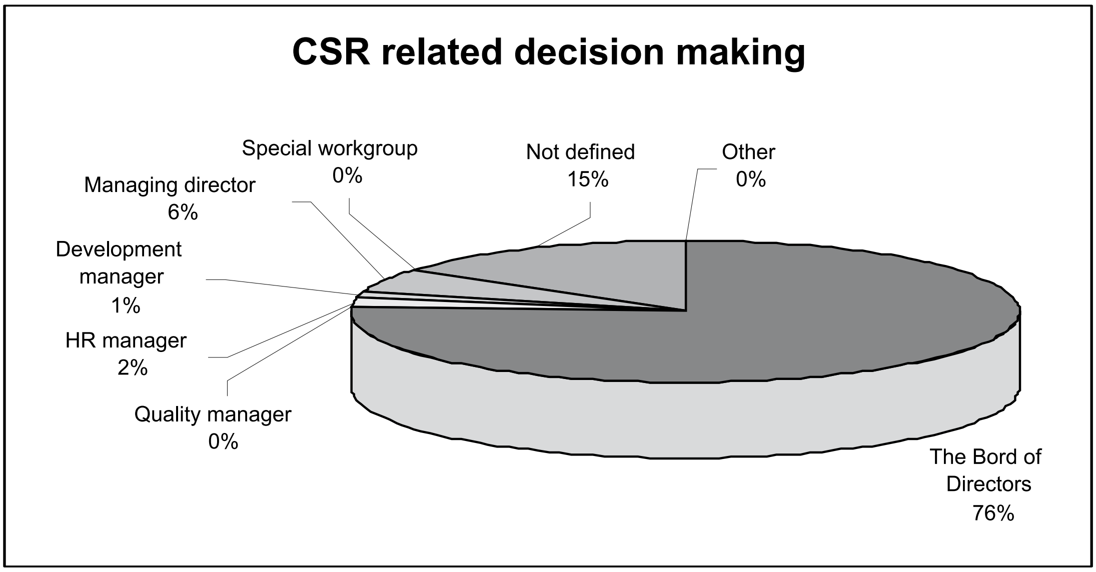

Figure 7

tioned, but not very highly valued. Also, employees and their expectations were left behind more than emphasised as being important drivers. Other common areas of CSR, such as NGO's and neighbourhood expectations, were not as highly valued as they could be. What was surprising however, was the finding that these Estonian businesses don't see any great competitive advantages coming from CSR activities and therefore don't have any real interest in engaging in CSR activities. In the authors' opinion businesses cannot see any real reason for engaging in CSR activities because CSR, for the majority of respondents, is not a part of their annual plans and business strategies.

According to the respondents, the biggest obstacle to engaging in CSR activities is lack of government support, but also lack of time and financial resources. Therefore, it is possible to say that many Estonian businesses feel it is also the government's job to support some activities or at least to help acknowledge their importance in society. This proves that there seems to be a common misunderstanding that CSR needs a lot of time and enormous amounts of money.

According to Noorkõiv (2004) the main barriers to engaging in CSR activities are a lack of financial resources, lack of time and lack of human resources, and also the understanding that it is not really a company's responsibility at all. So the barriers emphasized in the current paper are more or less the same as in the previous study conducted among Estonian businesses. Therefore, Elmik (2005) justly argues that Estonian companies only see the investment aspect of CSR and therefore do not see the more important real benefits of CSR.

The results show that Estonian business organisations see that they must be responsible for their products and services, and so for their customers, also in abiding by the laws and regulations and guaranteeing the well-being of their staff. If we look at the results from the World Bank study in Estonia (2004) a connection can be seen because in that study the main stakeholders of Estonian businesses were found to be the company's customers, employees and shareholders.

The findings of this study support the assumption that CSR among Estonian businesses is still at a very preliminary level and requires considerable attention and development. CSR is rarely a part of a company's annual development plans, and therefore is not connected with the company's strategy.

Conclusion

The authors would like to emphasize that CSR among Estonian business organisations is still developing and for most of them doesn't go further than providing workplaces, paying taxes and obeying the laws required of them. The future of CSR in Estonia mostly depends on the development and conceptualization of the concept. At the present time, the meaning of CSR still remains rather confusing to many, and therefore further investigation, research and conceptualization in this field should be warmly welcomed.

Also, Estonian businesses are in need of a more complex and compact definition and concept of CSR. It would be wise in the future to pay more attention to the "corporate responsibility" aspect of the concept rather than over emphasizing the social aspect. Also the need for government support should be emphasized once again, and hopefully in the future there will be sufficient change in this area.
The future development of CSR in Estonia mostly depends on it receiving more attention, and this attention should concentrate more on "best practices" because at present Estonian companies are in need of practical examples and experience from other companies.

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Corporate Social Responsibility and Socially Responsible Investments According to the Perceptions of Estonian Institutional Investors

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Introduction

While some people in the world live well, many more are just surviving in desperate conditions. Partly due to global contrasts and the so-called moral development of society, the corporate role and social responsibility are being discussed globally with growing intensity. Western discourse on *responsible entrepreneurship*[1] and *corporate social responsibility (CSR)* commenced in the 1950s, when Howard Bowen (1953) argued that a business should obey the objectives and values of society. One of the greatest opponents to such a view has been Milton Friedman (1962, 1970), who stated that the only social responsibility of an enterprise was to maximise its profit. These two approaches have remained dominating –– the first being called the stakeholder and the second the neoclassical model. The author shows that the CSR concept is based on the stakeholder model.

Obviously, owners of corporations have a strong influence on the behaviour and social responsibility of their organisations. As a result of social tensions and problems, the concept of a *socially responsible investment (SRI)* emerged in the 1960s, and considers both the positive and negative, social and environmental consequences of investments (Report on… 2003, 3). Such a mindset led to the creation of many mutual *Socially Responsible Investment Funds (SRI-Funds)* in the 1990s, which, while being referred to as *institutional investors*, are in fact the owners of corporations. The current article focuses on analysing the results of interviews with the representatives of Estonian institutional investors.

Since regaining independence, there has been some scientific research in the area of CSR in Estonia. However, socially responsible investments and Estonian institutional investors have not yet been studied. The author argues that considering the current situation of Estonian CSR research, a qualitative study into responsible entrepreneurship in Estonia would be able to provide more accurate results than a quantitative study.

The theoretical chapter of the article will discuss the background and definitions of the CSR and SRI concepts, with the latter being touched upon more specifically. Empirical analyses will present institutional investors' opinion of corporate objectives, CSR and SRI; and then the same concepts will be discussed from an Estonian context along with investors' personal investment strategies through the paradigm of SRI.

Theoretical Background of Socially Responsible Investments

Corporate Objectives and Social Responsibility in Society

From the beginning of research into the nature of the corporate world, various approaches towards corporate objectives have been observed. However, Merton (1976, 88) managed to summarise the major perpetual dilemma among researchers

[1] Responsible entrepreneurship – a term for socially concerned organisational activities in a wider sense; involves corporate social responsibility and socially responsible investment concepts.

and managers into a simple question: "Does the successful business try first to profit or to serve?" Both options have been explored by a myriad of authors. Moreover, the above-mentioned duality gives a key for categorising most of the theories on corporate objectives.

In the first case, with profit being considered the aim of the business, a company is reduced to the level of an input-output function with the objective of maximising the owners' wealth. Such an approach has been called "neoclassical theory", most widely "liberalism", but also "financial management", the "theoretical" and "shareholder approach" (Donaldson, Preston, 1995, 68-69; Friedman, 1962; Levitt, 1958, 49; Reiljan, 1997, 32-33; Sternberg, 1997, 9). "200 years worth of work in economics and finance indicates that social welfare is maximised when all firms care only about one thing [maximising owners' wealth]" (Jensen, 2002, 239) concludes the main arguments in favour of this approach. Here one deals with a single, and therefore easily comprehensible, setup of corporate objectives that "makes sense".

Socially sensitive scientists, aiming to break down the barriers of the 19th century (Preston, 1975, 434, 445) and reacting to Milton Friedman's (1962; 1970) liberal arguments, have been actively working on a new theory that would coherently bring together the company and society, providing an answer to the expectations of large counterparts in society (e.g., Carroll, 1979; Jones, 1982 in addition to stakeholder theory). Stakeholder theory, popularised by E. Freeman in his book from 1984, has found most use by practitioners and theorists in consolidating a company's internal and external factors of influence into a stakeholder-focused mindset (Freeman, 1984; Cornell, Shapiro 1987; Sundaram, Inkpen, 2004; Jones, 1995, 404). A stakeholder is any group or individual, who can influence or is influenced by the achievement of organisational objectives (Freeman, 1984, 46). Partly due to the need to compete with quantitatively proven neoclassical theory, a mathematically reasoned instrumental stakeholder theory was created at the beginning of the 1990s: a synthesis of economic theory, the cost-cutting approach, the stakeholder concept, behavioural sciences and ethics (Jones, 1995, 404; Freeman, 1999, 236).

Some theorists see that the neoclassical approach in economics, as a financial model, and the stakeholder approach, as a business model, confront one another (Eccles, *et al,* 2001, 27; Margolis, Walsh, 2003, 283), while others rather emphasise mutual completion (Orlitzky, *et al,* 2003: 424). It can be concluded that scientists have not come to an agreement on which theory is more accurate, practical or more widely used. The main difference between the models lies in the underlying values and attitudes; therefore it is difficult, if not unreasonable, to compare them. Stakeholder theory helps to explain why companies that behave irrationally survive and are often successful (Jones, 1995, 430-432). Probably firms often behave so, since "the most prominent alternative to the stakeholder theory (i.e., the "management serving the shareowners" theory) is morally untenable" (Donaldson, Preston, 1995, 88). The concept of corporate social responsibility, which is increasing in popularity, is based on the stakeholder approach.

In contemporary business theory, CSR was first defined by Howard Bowen (1953, 6, via Preston, 1975, 435), stating that corporate social responsibility lies in "the obligations of businessmen to pursue those policies, to make those decisions, and to follow those lines of action that are desirable in terms of the objectives and values of our society". In contrast to this, Milton Friedman states in his book "Capitalism and Freedom" in 1962 that a company holds only one social responsibility – to use its resources for maximising profits, while acting according to general norms and ethical principles (Friedman, 1962; 1970). Peter Drucker (1984, 62) integrated the above-mentioned antagonism into an elegant and logical statement: "The proper "social responsibility" of business is to tame the dragon; that is, to turn a social problem into an economic opportunity and an economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth".

The stakeholder concept was linked with definitions of CSR in the 1970s, motivated by the need for balancing the interests of various parties in a company and for integrating long-term objectives into corporate strategies (Noorkõiv, 2004, 9). Not-for-profit and super-national organisations base their contemporary CSR definitions on a so-called *triple-bottom-line* principle: CSR is adjusting corporate operations to societal values through integrating stakeholder interests into the firm's core strategies in social, environmental and financial areas with an aim to contribute to the positive development of society in addition to reaching the firm's individual goals (What is CSR, 2005; CSR main... 2004). Several sources additionally state that responsible activities should voluntarily exceed prescribed minimum standards (Green... 2001, 6; Nelson, 2004, 6). It is good to use the triple-bottom-line concept to facilitate the perception of CSR: setting objectives in economic, social and environmental areas; objective conflicts should be dealt with according to the principles of stakeholder theory.

Socially Responsible Investments

Socially responsible investment (SRI) involves the consideration of both the positive and negative social and environmental consequences of investing (Report on... 2003, 3), although some stress that SRI lies in investment decisions with socially responsible considerations (Sofres, 2003, 7). Socially responsible investing is mostly conducted by SRI-Funds.

The history of SRI stretches back several hundreds of years and is rooted in the traditions of various religions. Many religious investors have actively avoided investing in enterprises that profit from products designed to harm or kill fellow human beings, and in the alcohol, tobacco, and gambling industries (Report on… 2003, 5; Welcome... 2002, 2). The reasons for the emergence of contemporary SRI-funds in the 1960s derive from concerns about the Cold War and the first negative effects of globalisation. Several SRI Indexes that outperformed the global market in the 1990s gave additional impetus to the popularity of SRI funds. (Social ... 2000, 6-7).

Socially responsible investments and corporate social responsibility enhance one another. The more a company conducts socially responsible activities and publishes information on them, the more responsible investors allocate financial means to that company (Graves, Waddock, 1994, 1042). Simultaneously, investors are involved in corporate activities through SRI-strategies and therefore influence the firm's behaviour (Cowe, 2001, 13).

Investments in SRI-funds are conducted according to various methods. The two most frequently used socially responsible investment strategies are outlined below (Report on… 2003, 3; What is SRI, 2005; Sofres, 2003, 7).

First, ethical screening is the practice of including, excluding or evaluating publicly traded securities in private investment portfolios or mutual funds based on social and environmental criteria.

1. Positive ethical screening is a process of composing investment portfolios from companies that have been selected on the basis of their performance in social, environmental or ethical areas. For example, company shares are often included in a portfolio because of corporate environmental or human capital policies or an exemplary management system.
2. Negative ethical screening is the process of excluding certain companies or industry sectors from investment portfolios on the basis of measuring their profile against various social and environmental criteria. For example, investments in firearms and military, tobacco and nuclear energy industries are often excluded.

Secondly, shareholder advocacy or influence describes the actions that many socially and environmentally aware investors take in their role as responsible corporate owners.

1. Investors discuss issues of concern with corporate managers and get involved in the company's activities. For example, corporate environmental policy is often developed in cooperation between the firm's employees and owners.
2. Investors may vote at a general assembly, giving proxy resolutions to management on social and environmental matters. Proxy resolutions are generally aimed at influencing corporate behaviour towards a more responsible level of corporate actions.

The research conducted on SRI could be divided into two. Firstly, there have been numerous studies on the profitability, risk level and diversification of SRI-Funds. Results vary a lot: a) some claim that the profitability of SRI-Funds is the same as for similar regular investment funds (Statman, 2000, Guerard, 1997); b) others claim that profitability is higher (Bauer, *et al*, 2002; Russo, Fouts, 1997; Performance… 2003); c) or that risk is lower (Reyes, Grieb, 1998; Hickman, *et al,* 1999); d) and less often, that profitability is lower (Grossman, Sharpe 1986). There are studies suggesting that the relative success of SRI-Funds is dependent on the economic climate (Stone, *et al,* 2001) and on investors' behavioural expectations (Geczy, *et al,* 2003).

Secondly, there is a less coherent group of studies on management and the societal impact of SRI-Funds. Several institutions compile annual reviews of the development of the SRI-Funds industry in Europe (Bartolomeo, 2002; Performance… 2003; Welcome… 2002; Tagger, Clawson Rio, 2003), in Northern America (Report on… 2003), but also in Asia (Sheil, 2003, Socially… 2003). Kinder and Domini (1997) discussed developments and the impact of ethical screening, predicting that the range of screens would expand, that global issues and unpredictable events would be the main players in shaping the future of SRI, and that screening would become part of conventional securities analysis.

Institutional investors have a special role as decision makers in the development of SRI; however, there are not many sources directly exploring investors' opinions and role (Graves, Waddock, 1994; Sofres, 2003; Values… 2004). Sofres (2003) conducted a quantitative survey of European fund managers, financial analysts and investor relations officers on their opinion about investing in responsible businesses. His results will be compared with the present study in the discussion.

There are psychological and social barriers to focusing on external good and just concepts in contemporary financial practice; current practices and theories have created a form of economic "theology" (Social ... 2000, 20), and the mainstream paradigm presents the neoclassical model of thinking. However, many sources indicate a change in investors' attitudes. Of those interviewed, 79% of Western-European fund managers considered SRI to be more profitable in the long term than so-called regular investments; most of them also believed that SRI-criteria will become part of general investment policies in the near future, although SRI-funds with a so-called more rigorous screening policy will continue to be a niche product (Sofres, 2003, 3-5).

There is strong empirical evidence on the growth of SRI. The volume of SRI-funds in the USA grew 40% faster than the total professionally managed investment market in 1995-2003 (Report... 2003, i). SRI-funds grew two times in volume globally in 1997-1999, and growth later stabilised (*Ibid*.: 2). In the period 1.06.2002 – 31.12.2003, European SRI-funds grew by 12% (Bartolomeo, *et al*, 2003, 7).

Background and Description of the Empirical Study

According to Kooskora (2004, 202), the first scientific papers on CSR in Estonia were published in the Estonian Business School seven years ago. At Tartu University, the first studies directly discussing CSR were published in 2003-2004 in the Faculty of Economics and Business Administration (Noorkõiv, 2004, Gröön, 2004) and in the Faculty of Social Sciences (Rääsk, 2003, Vohu, 2004, Vahe, 2004). The Estonian Institute of Future Studies is organising an interview-based study in corporate governance in 2005 (Andresoo, Tafel, Terk, 2005; Kooskora, 2005). Although the first steps in CSR-research have been made, a quantitative measurement of corporate social responsibility has not yet been successful in Estonia, mainly due to the lack of comparable data (Lember 2005, 30).

Regarding the background of Estonian CSR-research, the current study focused on qualitative interviews with Estonian institutional investors. The study aimed to create the basis for further scientific research on responsible entrepreneurship by mapping out and discussing institutional investors' perceptions, attitudes and practical activities connected to the concepts of CSR and SRI. Sofres' (2003) study among European institutional investors[2] and Kooskora's (2005) study among Estonian corporate leaders[3] will be used as comparative data in the discussion.

The pool of interviewees was created according to the available public information on institutional investors in Estonia. The Estonian Financial Supervision Authority's lists of Fund Management Companies, Securities Market Participants, Investment Funds and Fund Managers were the main sources. The interviews were conducted according to the in-depth-interview methodology, recordings were transcribed, and the most represented themes were grouped into thematic clusters in which the text was compared and analysed. The content of the interviews and names of participants are confidential, therefore quotes are presented in quotation marks referring to the code of each interviewee (from v1 to v14).

Fourteen interviews were conducted with people from 12 organisations[4] over the period from the 11th of April to the 22nd of April 2005. Seven fund managers[5], five asset managers[6] and two area experts[7] were questioned. The average length of each interview was 45 minutes. Considering the fact that there were seven Fund Management Companies and seven Securities Market Participants in Estonia in May 2005, one should consider the sample as constituting a representative estimate of the characteristics of the institutional investors' population.

2 A quantitative study among 388 mainstream fund managers and financial analysts in nine European countries (Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom).

3 A qualitative study among 25 top Estonian managers and owners.

4 Representatives from 9 organisations agreed to publish the name of their institution: Baltcap Management Ltd; Cresco Ltd; EBS Executive Training Centre; Financial Supervision Authority; LFS Asset Management S.A.; Lõhmus, Haavel ja Viisemann Ltd; SEB Ühispanga Fondid Ltd; Seesam Varahalduse Ltd; Trigon Funds Ltd.

5 A person making direct investment decisions on the stock exchange.

6 A person making more generic asset allocation decisions.

7 A person not involved in daily decision-making.

Results of the Empirical Study

Investors' Opinions on Corporate Objectives, CSR and SRI

Firstly, we look at investors' opinions on corporate objectives. They are well summarised by the following statement: "the goal [of a company] is to provide shareholders, being one stakeholder group, with enough profit, while considering also other stakeholders, such as state, society, clients and partners" (v7). Respondents regarded active cooperation with employees and clients, and less frequently with the environment, as part of reasonable economic activity; however, in the end, only for the purpose of obtaining higher financial profits.

"At the end of the day, all this should end up in some bottom line [...], not in a virtual, but real bottom line." [A reference to the profit maximisation objective.] (v5)

"It is clear that the aim of a garbage dump is environmental protection, but for a company – for those who put money in there – the objective is still to generate profit" (v12)

Three investors presented the idea of a business operating in a constraint system: the objective of the owners' wealth maximisation has to be reached in a certain environment (in its broadest meaning), in which legal considerations, stakeholders' opinions and good business conduct are vital nowadays.

"For factories in 1850, nobody was interested in workers' salaries or living conditions. In 1950 it wasn't quite like that anymore and in 2005, probably not at all. [---] It is like an exercise of linear planning – if you have constraints, the outcome will change significantly." (v13)

In general, the corporate objective was perceived through a neoclassical paradigm; the CSR concept was a constraint and also a means for the process of profit maximisation. The opinions were reasoned using practical examples and personal experience in business. One could also notice the presence of a strong "theology" of a liberal economic mindset.

Secondly, we consider investors' opinions about the main idea of CSR and SRI, which was, rather controversially, evaluated as reasonable and increasingly relevant in the contemporary world. To be more exact, two groups could be distinguished among investors according to their attitudes towards CSR and SRI.

A greater group (10 respondents) considered CSR and SRI as the results of the natural development of society, which has not yet been reached in Estonia.

"I am principally positively minded [about CSR], because it is certainly a significantly more balanced model than pure profit orientation." (v7)

"[SRI is] very good thing in the right place. Certainly we should stop self-destruction. In general, I am very positive." (v13)

A smaller group (three respondents), considered CSR and SRI rather as unnatural constraints to the free market mechanism and looked at them negatively.

"Economics is a phenomenon that is based on the principles of natural sciences, [...] there are no independent socially responsible companies or activities; nature takes care that if one ignores fundamental principles, one disappears from the market. [---]Talks on social matters sound like violent rhetoric to me." (v10)

"Personally, I would of course not buy; I would rather avoid them, because they [SRI-funds] limit themselves in investments irrationally, I think" (v12).

"I don't believe that [this] branch of investment industry will be successful. As the profitability of [SRI-Funds] decreases, nobody really looks at them/ considers them." (v4)

Thirdly, Estonian investors consider the "real" social and environmental impact of CSR activities as low. However, they were more optimistic about it than towards the impact of SRI, because corporate activities influence "real" actions in the world more directly than investors' decisions. According to the respondents, the reasons for the marginality of *SRI* are as follows:

1. SRI is the result of the general development of society, rather than a stimulus for social change. There are clients in society who wish to buy SRI funds as a product.
2. The market share of SRI-funds is very small at present and has no social impact. Therefore SRI-funds are not able to influence people to perform change. (However, some of the interviewees thought that change can only start from small steps.)
3. SRI is a marketing strategy that does not aim for a so-called real change in society. Some respondents considered it generally negative, some positive.
4. The strategies of many SRI-funds are only based on excluding a few business sectors, influencing a remarkably small part of the whole economy.

Fourthly, investors evaluated the future prospects for CSR and SRI development in Estonian business practice. While looking at the changes in the Estonian corporate environment in the last ten years, respondents referred to typical characteristics of a transition society, with an emphasis on the relatively rapid economic development of Estonia. Ten people thought that employees and the environment are currently taken care of better than before: the constraint system of the profit maximisation exercise has changed and the so-called cowboy capitalism has been overcome. However, there were no deep positive changes predicted for CSR and SRI over the next 10-20 years in Estonia. According to institutional investors, the factors impeding the development of responsible entrepreneurship are as follows.

1. Practitioners are not interested in responsible entrepreneurship and the concept is yet unknown. Investors are not ready to pay more for presumably lower investment returns, as the markets would rather "punish" the behaviour of responsible investments. Developments in Estonia strongly depend on other Eastern-European markets in this respect.
   "Currently, CSR certainly does not work in Estonia – our society is not at such a level yet. And will not make it there in the nearest future [...] Estonia is in a phase where people care only for work and money. Because apparently we have had neither money nor materialistic well-being for fifty years." (v8)
   "The learning curve [of Estonian people] is on a somewhat low level" (v13).
   "Introduction of the SRI-concept [in Estonia] today would be like running your head against the wall" (v7).

2. The Estonian entrepreneurship environment, market and companies are small; it makes it difficult to implement responsible strategies. Additionally, there are very few companies on the Tallinn Stock Exchange and it is not possible to exclude any of them from the investment portfolio.
   "Corporate social responsibility could be an important factor in the case of considerably large companies; the concept is, however, of much less importance in small enterprises. We should note that the Estonian business environment could be considered as a small-business-environment." (v7)
   "We can't ignore any of them [companies on Tallinn Stock Exchange], even if some of them don't act […] correctly at all" (v13).
3. Concerning the development of SRI, the interviewees additionally emphasised that on the Russian and Eastern-European markets it is not possible or is very expensive to distinguish the responsible companies from the others; the current application of SRI strategies by institutional investors would also be unfair towards the primary owners of the money as the owners have not stated such allocation conditions for their finances.

On the other hand, the interviewees assumed that foreign owners and European Union regulations could bring some aspects of CSR and SRI to Estonia. Investors referred to the influence of corporate ownership on CSR using an example from their own company: some (foreign) owners have put investment limits on a few business sectors. Most of the respondents, when mentioning the European Union, deprecated constraining the liberal business environment, but considered such a process somewhat inevitable.

Are there any Socially Responsible Investments in Estonia?

Estonian investors intend to maximise their returns in the long-term when allocating their assets. Many respondents did not consider one-year profits very relevant; instead, even a 10- to 20-year growth perspective was mentioned. Competitive business ideas and corporate management were declared as crucial aspects in the maximisation of owners' wealth in the long run.

The current study reflects investors' opinions about the main SRI strategies in relation to Estonia: 1) positive and negative ethical screening, 2) shareholder advocacy (including dialogue with the corporate management and voting at the general assembly).

Firstly, while discussing ethical screening strategies, most investors referred to their regular personal investment criteria. For example, respondents prefer companies with high profitability at a certain risk level; hence, one automatically excludes non-competitive and mismanaged firms from the portfolio. The phrase "we don't directly rule out anything in particular, but certainly take great care with some companies" (v5) expresses the attitude of the majority.

Four investors mentioned being rather careful with, if not avoiding, publicly overregulated markets. Two asset managers preferred local markets as they possessed a much better knowledge of them. Three interviewees made reference to ethics: if a business idea or behaviour is unpleasant for the decision-maker, he or she would normally not invest in those.

Secondly, dialogue with the corporate management was mentioned as part of the shareholder advocacy strategy. A certain institutional difference appeared: open mutual funds operate within a framework of severe legal constraints –– for example, it is forbidden for a fund to possess more than 10% of total shares or voting rights in a company (Investeerimisfondide seadus 1997, § 105), and therefore they do not get involved in management.

"When possessing a small share in a big company, the investor has just handed over his money [with no control over the return]" (v12).

"If you do not own more than 10% [of total shares], you effectively have no rights" (v13)"

Asset managers involve themselves more in corporate management – when investors own more than 20% of the total shares, they also take part in the work of the supervisory council. In general, one stays at the so-called financial investment level, assisting in the attainment of targets that "are in our, i.e. money managers', competence area; for example, designing the corporate capital structure and financial strategy" (v4). Ten interviewees mentioned the importance of company visits for getting to know the managerial vision of the firms' future. However, the aim of the visit is purely to evaluate the company's potential for generating future profit without considering any other aspects.

Thirdly, using voting rights at the general assembly was touched upon as another aspect of the shareholder advocacy strategy. None of the investors considered it relevant. Nevertheless, some of the participants participate in general assemblies, especially at times when there is some threat of mistreatment of the interests of minor shareholders or there is something very important going on in the firm.

An open mutual fund manager: "It brings many additional duties, but adds no value to us as fund managers. It is not an important source of information" (v9).

An asset manager: "If the company is big, then our share in it is small and we do not participate. If the company is small, then our share is big. However, decisions in a small firm are consensus-based and the general assembly is not the place for decision-making." (v4)

In conclusion, the respondents do not practice socially responsible investment strategies. One can additionally note the following:

- In the case of ethical screening, there are a few exceptional foreign institutional investors who allocate their money through Estonian financial institutions.
- Investors perceive SRI mostly as a negative, and portfolio screening, positive screening and shareholder advocacy are not well known and almost not at all practiced.
- Although investors (being owners) actually influence corporate management, such activity is not motivated by responsibility concerns. Managers are met and sometimes general assemblies are visited to evaluate the company from the profit generation aspect.
- Open mutual fund managers cannot effectively use their ownership rights, as they have very small shares in companies.

Discussion and Conclusion

Due to global discussions and changes in the current situation in Estonia, intensive research into corporate social responsibility (CSR) and socially responsible investments (SRI) would prove useful in Estonia. The article has discussed the theoretical background and CSR and SRI in Estonia based on a qualitative study among Estonian institutional investors.

There are two contemporary approaches to corporate objectives –– the neoclassical and the stakeholder model — which are built on different grounds and are considered to both confront and supplement one another. The stakeholder model lays the basis for CSR and SRI definitions. Corporate social responsibility could be understood as adjusting corporate operations voluntarily to societal values through integrating stakeholder interests into a firm's core strategies in social, environmental and financial areas (triple bottom line) with an aim to contribute to the positive development of society, in addition to reaching the firms individual goals.

Socially responsible investment is a process in which both the positive and negative social and environmental consequences of investing are considered. The main SRI strategies are: 1) ethical screening – the practice of evaluating and including or excluding publicly traded securities in investment portfolios; and, 2) shareholder advocacy/influence – the actions, which socially and environmentally aware investors take in their role as responsible corporate owners. The notion that institutional investors have a special role as decision makers in the development of CSR and SRI serves as an impetus for the current study.

Empirical results indicate that Estonian investors have a dual attitude towards responsible entrepreneurship: the corporate objective is perceived as the maximisation of shareholders' wealth (neoclassical paradigm); nevertheless, at the conceptual level, CSR and SRI are considered to be appropriate responses to the needs of the contemporary world. A similar dual approach was noted among Estonian corporate owners by Kooskora (2005, 8, 13). Estonian institutional investors (in the current paper), owners and managers (Kooskora, 2005, 13) have all suggested that CSR is rather a means and a constraint for the profit maximisation goal than an objective in itself. However, the concepts of CSR and SRI touch people personally; there seems to be a shift between business practices and personal values. Should we ask how to touch people's feelings in order to move forward with CSR in practice?

The so-called real societal impact of responsible entrepreneurship, especially via SRI, was suggested to be marginal. Such an opinion reflects well the problems of socially responsible investments: 1) small market share of SRI-funds; 2) SRI-markets' and SRI-strategies' inability to influence the whole economy; 3) the inefficiency of ethical screens in use. Around 75% of European fund managers consider that SRI will remain a niche market for investors with specific values; however, the opposing view is emerging rapidly (Sofres, 2003: 13).
The investors were convinced that the topics of corporate social responsibility and socially responsible investments will not be relevant in Estonian society within the next ten years, the main reasons being 1) lack of public interest; 2) small size of Estonian market, which "makes responsibility expensive"; and, 3) strong connections between Estonia and so-called non-responsible Eastern European markets. The expectations of foreign owners and the policies of European Union were expected to contribute to a positive change in the situation in the short term. The increasing role of the state in corporate affairs was also pointed out by Estonian managers and owners (Kooskora, 2005, 11).

One can be quite confident about growing pressure from EU legislation and western companies in favour of CSR and SRI development as a great majority of European fund managers expect the level of public interest in SRI to grow. The market driver is mostly client demand and potential outperformance of SRI-Funds in comparison with the overall market (Sofres, 2003, 11). The client demand for CSR would, of course, support both companies implementing effective CSR strategies and using CSR as a public relations or a marketing tool.

The interviewees mostly do not implement SRI-strategies while making investment decisions. As for ethical screening, there are a few exceptional foreign institutional investors who allocate their money through Estonian financial institutions. With regards to shareholder advocacy, investors' influence in corporate management is not motivated by responsibility concerns; investors are rather interested in evaluating the potential for profit generation. The investors see SRI mainly as a negative and exclusive portfolio screening policy. European institutional investors, who use some SRI approaches, also rely mostly on screening strategies (approx 80%), with shareholder advocacy being used much less often (approx 45%) (Sofres, 2003, 12).

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"Dharma" in Corporate Governance: Transparency the Biggest Challenge in Asian Countries

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Abstract

Corporate governance (CG) is about ethical conduct in business; it is beyond the realm of law. It stems from the culture and mindset of management and cannot be regulated by legislation alone. Too many legal provisions and their intricacies would make the real objective worthless. Thus, CG has caught the imagination of all segments of the corporate world. Governance has enjoyed even more limelight as a result of the series of corporate failings, both in public and private sectors, following which markets, investors and society at large have begun to loose faith in the infallibility of these large systems. Recent corporate governance failures in the US and Europe remind us that such breakdowns can severely affect the lives of thousands — employees, retirees, savers, creditors, customers, suppliers — in countries where market economies are well developed. At this point in time the conduct of those who take care of public money is being questioned. They are being tested on the basis of minimal ethical standards.

The starting point for reform in Asia is very different from the starting point in Europe or North America. Asian governments, corporate leaders, investors, and regulators realize that corporate-governance practices will not change overnight, so patience is needed. Getting companies to comply with new rules is a daunting task requiring greater transparency and better enforcement, not to mention a cultural upheaval in the boardrooms. CG in Asia has improved, but implanting new forms of behaviour will take time. Full convergence with international accounting and audit standards, better protection of minority investors and stronger enforcement of existing laws and regulations are some of the recommendations to improve CG in Asian countries.

CG has been high on the agenda for Asian regulators in recent years with most markets having introduced comprehensive regulations. Yet, as a recent independent research study shows, much work remains to be done and despite compelling evidence of the financial benefits to companies of a good governance culture, the ethos of corporate governance has yet to sink in. Regulators, companies and investors all have a vital role to play. The result has been a slew of rule and law making that has rapidly improved the regulation of corporate governance in key Asian markets. With so much achieved in a relatively short period of time, regulators now appear to be succumbing to the understandable temptation to shift their focus from rule making to rule enforcement.

Introduction

'Governance' is derived from the word '*gubernare*', which means 'to rule' or 'steer'. Though originally meant to be a normative framework for the exercise of power and acceptance of accountability thereof in the running of kingdoms, regions and towns, over the years, it has found significant relevance in the corporate world. This is particularly so in the context of the growing size of the corporations, the widening base of their shareholders, increasing linkages with the physical environment and overall impact on the society's well-being. Corporate governance has caught the imagination of all segments of the corporate world. Governance has enjoyed even more limelight with the series of corporate failings, both in the public and private sectors, following which markets, investors and society at large have begun to lose faith in the infallibility of these large systems (Reddy, 1997). At this point in time, the conduct of those who take care of public money is being questioned. They are being tested on the basis of minimal ethical standards. And, why shouldn't they be questioned, as they are the agents of the stakeholders who have invested their money in such corporations.

The Watergate Scandal in the United States sowed the seeds of modern corporate governance. As a result of subsequent investigations, US regulatory and legislative bodies were able to highlight the control failures that had allowed several major corporations to make "illegal" political contributions and to "bribe" government officials. This led to the development of the "Foreign and Corrupt Practices Act of 1977" in the USA that contained specific provisions regarding the establishment, maintenance and review of systems of internal control. This was followed in 1979 by the Securities and Exchange Commission (SEC's) proposals for mandatory reporting on internal financial controls.

In 1985, following a series of high profile business failures in the USA, the most notable one being the Savings and Loan collapse, the Treadway Commission was formed. Its primary role was to identify the main causes of misrepresentation in financial reports and to recommend ways of reducing incidence thereof. The Treadway Report, published in 1987, highlighted the need for a proper control environment, independent audit committees and an objective internal audit function. It called for published reports on the effectiveness of internal control. It also requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their controls.

Accordingly, the Committee of Sponsoring Organizations was born. The report it produced in 1992 stipulated a control framework, which has been endorsed and refined in the four subsequent UK reports: Cadbury, Rutteman, Hampel and Turnbull. While developments in the USA stimulated a debate in the UK, a spate of scandals and collapses in that country in the late 1980s and early 1990's led the shareholders and banks to worry about their investments. These also led the government in the UK to recognize that the then existing legislation and self-regulation were not working.

The last two decades of corporate literature (Gupta, 2004) have made a significant contribution to corporate governance, starting from the report from Sir Adrian Cadbury's Committee and continuing with the reports from the Hampel Committee, the King committee, the Greenbury Committee, the Combined Code of the London Stock Exchange, the OECD 'Code on Corporate Governance', the Blue Ribbon Committee report, the CII guidelines in India and SEBI-appointed K.M Birla Committee recommendations.

All this literature emanated due to the identification of some specific problem areas in corporate management practices around the world, and attempts from various corners to solve these problems. The Enron debacle of 2001 involving the hand-in-glove relationship between auditor and corporate client, the scam involving the fall of corporate giants in the US (like WorldCom, Qwest, Global Crossing, Xerox) and the consequent enactment of the stringent Sarbanes-Oxley Act in the US were some important factors which led the Indian government to wake up, and the Naresh Chandra Committee was appointed in 2002 to examine and recommend drastic amendments to the law involving the auditor-client relationship and the role of independent directors. In 2002, SEBI analyzed the statistics regarding compliance with clause 49 of the listed companies and within a period of few months convened the Narayana Murthy Committee in 2003.

In practical terms, corporate governance has meant that at the board level there should be non-official directors who are professionals, have no conflicting interests and who can operate the two key committees (Ethics Committee and the Finance Committee) to see that there is greater transparency in the management of the enterprise. Corporate governance ultimately has to come to mean better transparency in operations without sacrificing business strategy or business secrets, which are necessary for success in the market place, and ethical behaviour that is absolute so that the conduct of the company will not only be legal but also ethical.

The Concept of Corporate Governance

To conceptualize corporate governance, we need to understand the term 'governance'. The term governance is not from business but political science, and is nowadays being hotly debated under public administration. Governance is the minimal framework of rules necessary to tackle problems guaranteed by a set of institutions. When applied to the context of a country, the characteristics (National Human Development Report 2001) of governance are:

1. The exercise of political, economic and administrative authority in the management of resources.
2. The capacity of governments to design, formulate and implement policies, and discharge functions.
3. Mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences.
4. Formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interests.

A corporation means "a legal entity that exists independently of the person or persons who have been granted the charter that establishes it and that is invested with many of the rights given to the individual." The corporate world consists of institutions, such as companies, firms, proprietorships, etc. Thus, if we apply the concept of governance in the corporate world, what we get is the term, 'corporate governance'. A country's system of corporate governance comprises formal and informal rules, along with accepted practices and enforcement mechanisms — private and public. Taken together, these govern the relationships between the people who effectively control corporations (corporate insiders) and those who invest in them.

Charles Oman (Oman and Blume, 2005) very strongly argues the case for governance: "Well-governed companies with actively traded shares should be able to raise funds from non-controlling investors at significantly lower cost than poorly governed companies because of the premium potential investors can be expected to demand for taking the risk to invest in less well-governed companies. Corporate governance continues to be seen by some as relatively unimportant in developing countries, in large part because of the small number of firms there with widely traded shares." The poor quality of local systems of corporate governance lies at the heart of one of the greatest challenges facing most countries in the developing world.

Corporate governance is defined as the distribution of rights and responsibilities among different participants in the organization — such as, the board, managers, shareholders and other stakeholders — and spells out the rules and procedures for making decisions on corporate affairs (Sheikh and Chaterjee, 2001). Corporate governance, therefore, is concerned with establishing a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs. It is founded on a system of accountability, primarily directed towards the shareholders, in addition to maximizing the shareholders welfare.

An effective corporate governance system provides mechanisms for regulating the director's duties in order to restrain them from abusing their powers and to ensure that they act in the best interest of the company in a broad sense (Rao, 2002). Corporate Governance is also concerned with wider accountability and the responsibility of the directors towards other stakeholders on the corporation. These stakeholders include the company's employees, consumers, suppliers, creditors and the wider community.

Sheridan and Kendall (Parekh, 2003) believe that good corporate governance consists of a system of structuring, operating and controlling a company in order to achieve the following objectives:

- To fulfil the long-term strategic goals of the owners, which may consist of building the shareholder value, or establishing a dominant market share, or maintaining a market lead in a chosen sphere;
- To consider and care for the interest of the employees, past, present and future, including planning future needs, recruitment, training and working environment, severance and retirement procedures right through to looking after pensioners;
- To maintain good relations with customers and suppliers, in matters, such as, quality of service, considerate ordering and account settlement procedures;
- To take account of the needs of the environment and local community, in terms of the physical effects of the company's operation on the surrounding area, and the economic and cultural interaction with the local population;
- To maintain proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities.

In 1992, the Cadbury Committee on the financial aspects of corporate governance considered the concept of corporate governance (Sheikh and Chaterjee, 2000). It defined the concept as the system by which companies are directed and controlled. The board of directors is responsible for the governance of companies. The shareholders' role in governance is to appoint the directors and auditors in order to satisfy themselves that an appropriate governance structure is in place.

Indian Philosophy and Ethics in Corporate Governance

Globalization has increased competition in the corporate world, therefore, it has become increasingly important for management to make corporate business more transparent and institutionally sound. A company has an adopted set of practices for achieving its objectives through the legal, regulatory and institutional environment. Further, that company intends to make business practices more and more transparent and accountable to the stakeholders. It can be said that the relationship with the stakeholders creates a social contract whereby the company is morally obliged to take account of the interests of these groups.

The recognition of issues related to corporate governance is at times appalling, when we come across so many instances of well-regarded corporations looting their shareholders for the personal gains of the managers or the owners. That brings us to the basic issue of what will the ethical issues be in corporate governance. Honesty is the best policy. This means that there has to be absolute integrity in all operations. Corporate governance and ethical behaviour have a number of advantages. Firstly, they help to build a 'good' brand image for the company. Once there is a brand image, there is greater loyalty, greater commitment to the employees, and the employees will become more creative. In the current competitive environment, creativity is vital in obtaining a competitive edge. Another area where corporate governance and ethical issues may arise is at the time of the annual report and particularly preparing the annual balance sheet.

There may always be a tendency to "window dress" and to show that the results are better than those projected. The time has come when it is better to be 'transparent' and not to do much financial engineering, but be straight because this may prove to be better in the long-term. Especially now, in the context of liberalization and the opening up of Indian companies to foreign competition, the issue of 'global' accounting practices will also be raised. Ethics has a major role to play in realizing the value of your efforts. But what are ethics? Without looking any further a field than the age-old Indian (Athreya, 2001), philosophical traditions, we can derive certain values that are also consistent with the value systems of other civilizations. They are:

- **Dharma** (*Righteousness*): the right path, which will uphold the family, the organization and the social fabric.
- **Loka Sangraha** (*Public Good*): work not just for private gain, but also for public good. Practice of *Swartha Prartha* (self plus others) seeking ones own gains and also catering to the welfare of others.
- **Kausalam** (*Efficacy*): optimum utilization of resources efficiently and productively. Judicious use of resources and preserving the resources for future generations.
- **Vividhta** (*Innovation*): Beyond survival, business has to be the 'engine' of innovation constantly seeking more effective solutions to meet economic and social expectations. Such innovation is required in processes, products, materials, machines, organization, strategies, systems and people.
- **Jigyasa** (*learning*): change and continuity will co-exist. So, the corporations have to keep learning from the feedback loop from society and through internal processes of questions, challenges, debates and training.

Dharma is the most difficult to define. Dharma has been explained as that which helps uplift living beings. Therefore, that which ensures 'welfare' is surely dharma. Its origins can be traced back to the solution to eternal problems confronting the human race originating from natural human instincts.

Manu says:
Akasmay Kriya Kaschdrishayate Neh Kahinchit,
Yadvati Kurute Kinchhit tattkamasse chestitam.
This means that there is no act of man, which is free from desire; whatever man does is the result of desire. The force behind every action of a human being is his desire, which is *kama*. There is a natural desire to have enjoyment and wealth – that is, material pleasure, which is *artha*. But *artha* and *kama* are, however, subject to *dharma*. The propounders of *dharma* appreciated that the fulfilment of the desires of human beings was an essential aspect of life, but were of the opinion that unless the desires were regulated by law, they are bound to give undesirable results. Therefore, all the propounders of *Dharma* were unanimous that to guarantee the existence of an orderly society, in this case an orderly market economy, the desire (*Kama*) for material enjoyment, and pleasures (*Artha*) should always conform to *Dharma*.

The Bhagwat Gita in 16-24:
Tsmachastrnm pramanam te karyakarvavyasthitao,
Gyatva shastravidhanoktam karm kurtumihahirsi.
Which means, let the *shastras* be your authority in deciding what you should do and what you should desist from doing. In this case, the *shastras* are nothing else but the 'Codes' of best practice developed by various institutions, however, what is needed here is 'uniformity' in those Codes. When we say that we should observe *Dharma* then it is necessary to cite *Manu* where he explains the necessity of the scrupulous practice of *Dharma.*

He says: Vlll-15
Dharma aev hato hanti Dharmo rakshati rakshita
Tasmadharmo na hantavyo ma na dharmo hatovidhit.
Dharma protects those who protect it. Those who destroy *dharma* get destroyed. Therefore, *dharma* should not be destroyed so that we may not be destroyed as a consequence thereof. The concept of *dharma sankata* is well-known in the *Hindu* religion. *Narova Kunjarova* (human or elephant) was the situation where *Yudhistra* in *Mahabharat* lied. For the sake of getting a short-term benefit, resorting to lies or straying from the straight and narrow path ultimately leads to a long-term failure. We would, therefore, suggest that even at the cost of sacrificing short-term benefits, it is better for an enterprise to adopt healthy practices.

The pillars of Indian philosophical tradition, which have explicitly provided for proper conduct in public and private life, need to be incorporated into our dealings with other people even though they be political or economic in nature. Governance can be ethical (Rao, 2002) only when it rests on the core values of Honesty, Integrity, Respect, Fairness, Purposefulness, Trust, Responsibility, Citizenship and Caring. These values are not to be lost sight of by anyone and under any circumstances, irrespective of the goals to be achieved. To achieve 'good' governance, the means are as important as the ends. There has been a lengthy debate over corporate ethics and their implication for corporate governance; safety and fair play is always ethical, so we believe that you should "not do something that you would be ashamed of, if it becomes public".
A natural question arises: what is actually 'good' corporate governance — is it more governance or less governance? The situation we face in Asia (of 'bad' governance) is not actually 'bad' governance, but in fact, a crisis of governability. The crisis we face now as a result of 'over' regulation and 'under' performance of both the public and private sectors of the economy over such a long period is a "crisis of governance." Short-term gains have taken over the long-term vision and goal. Corporations have tried to capitalize on such grounds, which are proper from one angle but unethical from another, and finally, land in *Dharma Sankata*. Governance is not merely about ownership; even an owner has to learn to govern. Corporate Governance is a way of life and not a set of rules. A way of life that necessitates taking into account the shareholders interests in every business decision.
A key element of good governance is "transparency," (projected through a code of good governance), which incorporates a system of checks and balances between key players — Board, Management, Auditors and Stakeholders. Transparency, in turn, requires the enforcement of the right to information and the nature, timeliness and integrity of the information produced at each level of interface. All of this can only succeed when the responsibilities of each entity and their interface is clearly defined and understood by all. Good governance, at any level, will crucially depend on greater simplicity in the process of governance combined with much stronger checks and balances, clarity of roles and the assignment of responsibilities and obligation, which will enhance accountability where it is due.

Transparency: The Biggest Challenge in Corporate Governance in Asian Countries

The financial crisis that overran much of Asia in the late 1990s prompted most of the affected countries to make improved corporate governance a priority. According to the Asian Corporate Governance Association's Survey, "Agreement is growing, at least in principle, on what good governance entails, and most countries in the region have adopted explicit governance codes" (see Table-1: Asian Governance Regimes for details). Laws governing securities and the listing requirements on stock exchanges have been strengthened, regulatory authorities have enhanced powers, and the media are becoming more inquisitive and probing. However, institutions that needed to ensure good governance — judicial systems, capital markets, long-term institutional investors that can push for better governance — continue to be underdeveloped in most of these countries.
Governments, corporate leaders, investors, and regulators in most of Asian countries do realize

that corporate governance practices would not change overnight, so patience is needed. Getting companies to comply with "new" corporate governance (CG) rules is a daunting task requiring greater transparency and better enforcement, not to mention a cultural upheaval in the boardrooms. But given the vast differences in ownership structures, business practices, and enforcement capabilities, merely adopting new requirements *en masse* from North America or Western Europe would be a mistake. Asian governments should, therefore, rank the reforms in order of priority and tailor them to the country's specific needs, from time to time.

Ensuring that local laws and CG codes are consistent with the OECD (Witherell, 2004) "Principles of Corporate Governance," promulgated by the Organisation for Economic Cooperation and Development, we personally feel would be a good starting point. The OECD has worked to promote use of the Principles since they were first adopted in 1999 to support good CG policy and practice both within OECD countries and beyond. Policy makers, investors, corporations and stakeholders, worldwide have used the principles to tackle a broad set of relevant issues common to all, such as the need for transparent reporting, informed shareholders and accountable boards. However, it is better to enforce basic reforms vigorously rather than to adopt requirements that would go totally unheeded.

Without greater transparency in corporate governance, new laws and governance codes will do little to build investor confidence. Notwithstanding recent reforms, accounting standards in many Asian countries remain weak. There are not enough trained professionals with an in-depth understanding of local/international accounting standards and accounting self-regulatory organizations are lax. However, disclosure requirements and auditing practices are improving slowly as national financial reporting standards are gradually being harmonized with international standards.

Although most countries are strengthening their accounting standards and adopting minimum CG rules, many are still lagging behind in its enforcement. Some regulators, however, lack strong investigative powers and political will. The Securities and Futures Commission of Hong Kong, for example, has been accused of failing to pursue cases involving large, influential companies. Similarly, Thailand has seen several high-profile cases of corporate misconduct in which the party under investigation, despite strong evidence of culpability, eluded prosecution because law-enforcement authorities failed to act (The Office of the Securities...). Often, regulators do not have sufficient enforcement staff or large enough budgets to conduct rigorous investigations. And with legal systems still underdeveloped, prosecuting cases is difficult. Most governments, however, are augmenting their resources to monitor companies and enhancing the authority of their regulators, some of which are now getting tougher. In 2002, South Korea's Securities and Futures Commission took the unprecedented step of punishing the local affiliate of a global accounting firm for negligence by reducing the number of companies it can serve as an external auditor. In Hong Kong (Wong and Soo 2005), regulators and the police are cooperating to combat financial crime. In China, the CSRC has shut down China Southern Securities, the country's fifth-largest brokerage firm, in a continuing effort to improve corporate governance and stamp out improprieties.

China, South Korea, Taiwan, and Thailand have introduced or are contemplating the introduction of class-action lawsuits or similar measures to empower investors — an important first step. But to achieve the intended objective of raising management's accountability, it must become easier to bring lawsuits. At the top of the list of impediments are court-filing fees (which must be paid in advance) that are based on the magnitude of the claims, a backlog of cases, "loser pays" rules, limited access to the defendant's records in non-criminal cases, and a shortage of judges with experience in business litigation. Some public companies are having difficulty attracting outside directors because good candidates now worry about their liability in lawsuits brought by shareholders.

In principle, both investors and creditors should pressurize companies to comply with new governance requirements. But unfortunately, in actual practice, most of the region's investors (domestic and foreign) are reluctant to get involved. They invest in a company if they believe that its growth prospects and risk premium outweigh all other factors and tend to sell their holdings (rather than challenge management) when governance problems arise (Institutional investors in companies based in emerging markets claim to be willing to pay as much as 30% more for shares that are well-governed see: A Premium for Good Governance…).

Improved financial reporting and broader disclosure will help to some extent. Finally, investors must become more vocal in support of reform and pressuring management to comply with the 'minimum' CG code. It would also be useful if reforms could make it easier for minority shareholders to vote by proxy, to nominate and elect directors, and to raise questions at annual meetings. In the hope of promoting participation by investors, China is thinking about allowing them to vote on-line on major proposals, like the issue of shares. Meanwhile, some investors are actually doing their bit to improve corporate governance. A number of local Thai funds, asset-management firms, and life insurance companies that collectively manage $23 billion in assets, for instance, have formed the Institutional Investor Alliance to promote better corporate governance in Thailand.

The Securities Investors Association of Singapore works with companies to nominate independent directors and hopes to collaborate with fund managers to improve corporate governance in the companies in which they invest. Creditors are playing a role: Kookmin Bank, in South Korea (Gibson, 2002), now rewards midsize corporate borrowers with lower interest rates for meeting specified governance standards. Moreover, the region's media are becoming noticeably more willing to probe suspicious management practices. In China, for instance, unprecedented exposés of corporate malfeasance in the financial magazine *Caijing* have earned it widespread praise. Malaysia's business weekly *The Edge* regularly features corporate-governance issues and warns its readers about questionable conduct in local companies Bekier, et al, 2004).

Embracing Change

Since CG is a new concept in most parts of Asia, raising awareness is vital to any reform efforts. Many directors, for example, are unaware of their fiduciary obligations and view their directorship as sinecures, without real responsibility. So, the Institutes of Directors in Hong Kong, Singapore, South Korea, and Thailand are now offering seminars and short-term training programs for directors and officers. Region-wide organizations, such as the Asian Corporate Governance Association, have been formed to promote understanding and reform. In addition, several regional groups, including CLSA (Formerly Crédit Lyonnais Securities Asia) Emerging Markets (a regional brokerage firm), Thai Rating and Information Services, and India's ICRA (Formerly the Investment Information and Credit Rating Agency), publicly rate the governance practices of listed companies. In addition, we have several international organizations (such as, World Council for Corporate Governance, Global Corporate Governance Forum, The World Bank's Corporate Governance, OECD's Corporate Governance, etc.) which are sharing their country-specific rich experiences, and providing guidance and impetus for improvements in the sphere of corporate governance.

India's main stock market regulatory authority, the Securities and Exchange Board of India (SEBI), continues to raise the bar for 'good' corporate governance. While in 2003, we witnessed a significant improvement in the CG Scores for most Indian companies, in 2004 the changes were relatively marginal. According to Rajesh Panjwani's report (Panjwani 2004), in CG Watch 2004, "the CG Score for India for 2004 is 6.2, or third in the region after Singapore and Hong Kong" (see Table-2 for details).

While India scores higher than most other Asian markets in terms of rules, regulations and enforcement, it scores lower than most on the adoption of international auditing standards." The top three markets in 2004 were Singapore, Hong Kong and India while the Philippines, China and Indonesia. were the bottom three markets. The top ten companies in Asia scored an average of 81%. They were: Infosys (India), CLP Holdings (Hong Kong), Esprit (Hong Kong), HSBC (Hong Kong), Wipro (India), Public Bank (Malaysia), Kookmin Bank (Korea), KT Corp (Korea), TSMC (Taiwan) and Siam Cement (Thailand). The highest score (87%) went to Infosys (Allen, 2004).

Infosys, consistently one of the highest CG companies in the region in our rankings, continues be the highest scorer in the Indian, and Asian Pacific CG matrix this year. The company has continued to stay a step ahead of prevailing CG norms and has implemented most of the reforms before they became mandatory. Even today its disclosure standards — detailed segmental data, presentation of accounts as per GAAP in eight countries, detailed breakdown of costs — are among the best in the industry. It also provides the most detailed manpower data (very important in its field) –– age profiles, experience, education levels and gender mix are all elaborated in detail.

Infosys is one of the very few companies in India to have a board with a majority of independent directors, as well as, wholly independent audit, nominations, and compensation committees. Where Infosys loses out is on the basis of stock options, high cash levels impacting return ratios and a relatively large board with about 15 board members. However, the company has already proactively stopped granting further ESOPs in the financial year 2004. Exemplary companies can also be found in other parts of Asia. CLP (Hong Kong), POSCO (South Korea), Public Bank (Malaysia), Siam Cement (Thailand), and Singapore Telecommunications (Singapore), to name a few, have been recognized by publications and organizations for their good corporate-governance practices.

A new research report from JP Morgan highlights just how varied Asian markets are in the timeliness of their financial reporting (Barton, et al, 2004). Published in August 2003, the report analyzed 172 large and liquid Asian companies in order to calculate the average number of days taken between the close of books and reporting a variety of data, including quarterly, semi-annual and consolidated annual results (see Table-3 for details). Surprisingly, Hong Kong companies faired worse than other Asian counterparts in the reporting of interim results — they took an average of 66 days between book closure and reporting. For consolidated annual reports, Hong Kong companies were fourth slowest with an average of 97 days (only Indonesian, Korean and Taiwanese firms performed worse).

While Hong Kong did score well in quarterly reporting, the sample size was extremely small (only 3 companies) because quarterly reporting is not mandatory. The good news is that some Asian companies compare well against international blue-chip companies in timeliness (as reflected in the reporting practices of eight multinational firms). Indian companies, in particular, stand out for being much faster at quarterly reporting (see Table-4 for details), while those in Taiwan and Thailand also do well.

But when it comes to consolidated annual reports, only one country, Australia, comes close to the international average of 59 days. Thai companies lead the Asian pack at just 71 days, while Singapore and Indian firms report after an average of 83 and 84 days, respectively. Indonesian companies give investors the longest wait — 132 days. JP Morgan singled out certain Asian companies for exceeding required regulatory standards and taking governance seriously, including Infosys Technologies and Hughes Software from India, TSMC from Taiwan, and ST Engineering from Singapore. Looking ahead, reporting deadlines are likely to shorten in Asia. Under the US Sarbanes-Oxley Act, 2002 the SEC will cut filing periods in phases over 2003-5. The deadline for annual reports, for example, will be cut from the original 90 days to just 60 days for fiscal years ending on or after December 15, 2005. These new requirements raise the bar on reporting standards and are also expected to pressure regulators in Asia to force improvements.

More common, however, are companies that have basic governance structures in place — such as boards of reasonable size with some independent directors — but lag behind in their actual board governance. Many boards that look good on paper follow the *letter* rather than the *spirit* of reform. They have yet to fully embrace such duties as looking after minority shareholders, providing rigorous management oversight, and holding a two-way dialogue with investors.

To move to the next level, these boards must behave very differently by asking management tough questions, actively helping to set corporate strategy, monitoring risk management, contributing to CEO succession plans, and ensuring that companies set and meet their financial and operating-performance targets (Leahy, 2004). The 'new' forms of behaviour will undoubtedly take considerable time to become ingrained. Some good companies, hoping to speed up the process, have recruited experienced foreign directors to help overhaul board practices.

CG has undoubtedly improved in the Asian region and some countries (Singapore in particular) have made significant progress. The next step is to encourage the new behaviour to take hold throughout the corporate world, and this will take considerable time. Many corporate leaders, investors, and regulators in Asia articulate the benefits of more effective corporate governance. But they understand that enduring reform would not be achieved overnight and that, in the short term, many practical impediments and disincentives block the necessary changes. Thus, to move ahead, both governments and companies in Asia must play their respective roles.

Governments should provide a strong legal and regulatory framework to underpin the reforms. Companies, on the other hand, should create stronger and more purposeful boards; enhance the scope, accuracy, and timeliness of financial reporting; and pay more regard to the rights and interests of minority shareholders (Allen, 2004a). While country-specific provisions will differ from one country to the next, any reform effort must include elements, such as, robust corporate and securities laws, tough accounting standards, strong regulators, efficient judicial systems, and determined efforts to clamp down on corruption. Without sustained progress in these foundations of corporate governance, any improvement in individual companies will fall far short of its potential.

Time for Re-thinking

We strongly believe that maintaining the momentum for CG reform in Asian countries will certainly require some re-thinking on basic questions. First, what major rule changes or changes to the legal-system are needed to allow market participants to fully engage in corporate governance reform and to complement the efforts of regulators? Secondly, do any existing procedural rules inhibit investors from exercising their most basic rights, such as, voting and participating in annual general meetings?

The answers in many parts of the region are amply clear, that they do. Thirdly, are any existing rules inherently self-defeating and incapable of producing the intended outcomes? Independent directors that are weak by definition is a good example. Stock exchange listing rules place so much supervisory responsibility on independent directors that to start from a position of weakness seems almost counterproductive. Fourth, are we creating potential conflicts or managerial inefficiencies within companies by grafting new global best practices onto traditional company law structures without reforming them? A good example here is the introduction of independent directors into the quasi two-tier or dual-board system of China, Indonesia, Japan and Taiwan (Allen, 2004). Sensibly, Japan is allowing companies to opt for single boards and Taiwan is allowing organizations to do away with their statutory auditors and supervisors.

Some of the questions enumerated above are illustrative, and in fact, several more questions could be easily added in every country. The point is not that successful reform depends only on the action of governments and regulators. Still, investors can achieve a great deal even if the odds are against them. Witness the case of Sovereign Asset Management and other foreign and local investors in the SK Corporation annual meeting in March 2004, and companies need not be held back by weak or poorly designed rules. They can always choose to aim higher, or may be forced to do so for competitive reasons. But rules do influence what is possible. They have a marked impact on the average level of corporate governance in any market (Oman and Blume, 2005), as well as the perception of that governance. They also affect the cost to investors of any level of activism, including the voting of shares.

Thus, we all know that weak CG can have a real impact on investors, savers, retirees, creditors, employees and consumers, as well as on entire economies. If we want robust and effective corporate governance, we need robust and well-crafted rules, and vigorously enforce them. This stems from the culture and mindset of management and cannot be regulated by legislation alone; too many legal provisions and their intricacies would make the real objective worthless. Still much work remains to be done and despite compelling evidence of the financial benefits to companies of a good governance culture, the ethos of corporate governance has yet to sink in. Full convergence with international accounting and audit standards, better protection of minority investors, stronger enforcement of existing laws and regulations, are some of the recommendations for improving CG in Asian countries. Regulators, corporate management and investors all have to play their vital roles in the near future.

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Table-2: Markets Ranked by Corporate Governance in Asia

Markets	2004 CG Total Score
Singapore	7.5
Hong Kong	6.7
India	6.2
Malaysia	6.0
Korea	5.8
Taiwan	5.5
Thailand	5.3
Philippines	5.0
China	4.8
Indonesia	4.0

Source: CLSA Asia-Pacific Markets, Asian Corporate Governance Association.

Table-3: Average Days Between Close of Books and Reporting

Country	Quarterly	Semi-annual	Annual report (consolidated)
Austrialia	20*	51	63
China	32*	60	90
Hong Kong	18*	66	97
India	25	25	84
Indonesia	48	58	132
Korea	37	37	100
Malaysia	57	57	87
Philippines	49*	49	86
Singapore	42	40	83
Taiwan	30	52	114
Thailand	31	31	71
International Average #	35	N/a	59

* Only 7 or fewer companies report quarterly in firms sampled.
# Comprises 8 selected US & European blue chips.
Source: JP Morgan estimates, as reported in News Briefs Q 3, 2003.

Table-4: Asia's Fastest Reporters

Company	Cou ntry	Annual Report	Quarterly Results
Infosys Technologies	India	10	10
Hughes Software Systems	India	15	15
SK Telecom	Korea	20	20
Satyam Computer Services	India	20	20
TSMC	Taiwan	30	30
Capital Land	Singapore	30	30
Astra International	Indonesia	30	30
Celcom (Malaysia)Bhd.	Malaysia	30	30
NC Soft	Korea	30	40
ST Engineering	Singapore	31	8

Source: JP Morgan estimates, as reported in News Briefs, Q3 2003.

Table-1: Asian Governance Regimes

CLSA/ACGA Country* Ranking Criteria	China	Hong Kong	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
RULES & REGULATIONS										
1.Most companies report their annual results within 2 months?	N	N	N	Y	N	Y	N	Y	N	Y
2.Have reporting deadlines been shortened in the past 3 years?	N	N	Y	Y	N	Y	N	Y	N	S
3. Is quartely reporting mandatory?	S	N	Y	Y	Y	Y	Y	Y	S	Y
4. Do securities laws requires disclosure of ownership stakes above 5% ?	Y	Y	Y	S	Y	Y	N	Y	N	Y
5. Do securities laws require prompt disclosure of share transactions by directors and controlling shareholders?	Y	Y	Y	N	Y	Y	Y	Y	S	Y
6. Are class-action lawsuits permitted?	S	N	N	N	Y	N	N	N	S	N
7. Is votting by poll mandatory for resolutions at AGMs?	N	S	N	N	N	N	N	N	S	N
8. Can shareholders easily remove a director who has been convicted of fraud or other serious corporate crimes?	S	S	N	S	N	S	S	Y	Y	N
9. Will shareoption expensing become mandatory over the next 10 month?	N	Y	S	S	N	N	Y	Y	S	N
ENFORCEMENT										
10. Is there an independent commission against corruption (or its equivalent) that is seen to be effective in taking public and private sector companies?	N	Y	S	N	S	S	N	Y	N	N
POLITICAL & REGULATORY ENVIRONMENT										
11. Is the statutory regulator (i.e, securities commission) autonomous of government (not part of the Finance Ministry)?	S	Y	S	N	S	S	S	S	S	S
ACCOUNTING & AUDITING										
12. Do the rules require disclosure of consolidated accounts?	Y	Y	Y	Y	Y	Y	Y	Y	S	Y
13. Do the rules require segment reporting?	Y	Y	Y	S	Y	Y	Y	Y	S	Y
14. Do the rules require disclosure of audit and non-audit fees paid to the external auditor?	Y	Y	Y	N	Y	Y	S	S	Y	S
15. Do the rules require disclosure of connected transactions?	Y	Y	Y	Y	Y	Y	S	Y	Y	Y
16. Does the government or the accounting regultor have a policy of following international standards on auditing?	Y	Y	S	S	S	Y	Y	Y	S	Y
INSTITUTIONAL MECHANISMS & CORPORATE CULTURE										
17. Are institutional investors engaged in promoting better corporate governance practices?	N	S	S	N	S	S	N	S	S	S
18. Are any retail investors engaged in promoting better corporate governance practices?	N	Y	S	N	Y	S	N	Y	N	N
19. Have retail investors formed their own shareholder activist organization?	N	N	Y	S	Y	S	N	Y	N	N
***Japan was not covered in this survey. Key: Y=Yes, N= No, S=Somewhat**										

Source: CLSA Asia-Pacific Markets: Asian Corporate Governance Association (www.acgs.asia.org)

Sharing Tacit Knowledge in Organisations
*- A Challenge in Managing Young and Ageing Employees **

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Abstract
This article focuses on different aspects relating to recognising and sharing tacit knowledge. The theoretical part of the article introduces briefly the whole theoretical framework, to be followed by a more detailed discussion of each segment. The empirical data was gathered in four large organisations, where semi-structured interviews were conducted among young and ageing employees and supervisors as well as HR specialists. The interviews were tentative and considered as a first step towards the actual ethnographic research. Outcomes confirm that the competencies of young and ageing employees are different and their competencies are used differently in the organisations.
For example, young employees have better IT skills and technical competencies. As regards ageing employees, experience emerged as their strength. Recognising and sharing tacit knowledge was the other focus of the study. Tacit knowledge was recognised mainly as an element in different kinds of processes. Employees, both young and ageing, suggested nearly the same procedures for sharing tacit knowledge. Working together was suggested as an important method of sharing tacit knowledge. The study is part of a larger project and, therefore, the data collected had to serve other aims as well. Sharing tacit knowledge will be one of the key issues to explore in the near future, and the forthcoming ethnographic studies will offer better possibilities to analyse the phenomenon more thoroughly. The study highlights the importance of sharing tacit knowledge especially between different age groups in order to prevent organisations losing core competencies.
Keywords: age*, competence, learning in organisations, tacit knowledge*

Introduction
All EU countries are facing new challenges because of the ageing workforce. Finland will confront the situation in the front line this decade, while the majority of EU countries will follow mainly in the next decade. A considerable part of Finland's population is ageing. The generation of baby-boomers will retire in massive numbers as of next year and this situation will cause an imbalance in the workforce. Older employees are needed in organisations until their proper retirement age because there are not enough young employees to replace them. Many organisations also have an imbalanced personnel structure with ageing employees as the largest personnel group and the youngest being the second largest. Some organisations have already recognised the situation and are preparing themselves for the transitional phase. Sharing the experience and skills of older employees with younger employees is one of the challenges to be faced this decade (Ilmarinen, 1999, 13, 17, 19).

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Age is one of the key concepts of this article. The discussion of age in the article is based on a chronological definition of age even though the concept is variable and has many facets. (Tepas and Barnes-Farrell, 2002) The article is concerned with the workforce in two age groups: young and ageing employees. In the literature "ageing employees" refers to employees who are 45-54 years old, and "aged employees" to those who are 55-64 years old (Kansallisen ikäohjelman loppuraportti, 2002, 132). This definition is also used in this article, with the exception that all employees over 45 are considered ageing employees. The choice was made because of the fact that employees aged 45-54 are in the target group for preventative actions. (Ilmarinen et al, 2003, 39)

The ageing workforce and the clear distinction between young and ageing employees emphasises the value of sharing experience-based knowledge. Sharing this tacit knowledge is important for both young and ageing employees in order to enhance their competencies and meet the expectations of a rapidly changing work life. (Ilmarinen et al., 2003, p. 31) The focus of this article is to shed light on the links between human resource development, knowledge management and age management through the lens of tacit knowledge and sharing tacit knowledge in organisations.

The aims of the research are to:

- explore how the competencies of young and ageing employees are seen in organisations, and to explore if these competencies are in full use.
- identify the basic conditions for recognizing tacit knowledge.
- examine existing methods for mutual learning and sharing tacit knowledge between young and ageing employees.

The theoretical part of the article briefly introduces the whole theoretical framework and continues with more detailed discussion of each segment – that is, HRD, knowledge management and age management. This is followed by examining the connection between these and sharing tacit knowledge between young and ageing employees.

Managing Tacit Knowledge Flows between Young and Ageing Employees

How tacit knowledge flows and is shared, particularly between young and ageing employees, rests on the theories of human resource development, knowledge management and age management. HRD in organisations focuses on developing employees and their competencies and providing the conditions for learning. The ever-changing environment pushes organisations to pay more attention to the development of human resources in order to survive the competition. Besides traditional learning methods, organisations are challenged to find new ways of enhancing competencies (Tikkanen, Valkeavaara and Lunde, 1996). Knowledge management is linked closely to this discussion, as learning includes knowledge and its different forms (Gourlay, 2001). The particular focus of this paper is on tacit knowledge. Learning that occurs between young and ageing employees increases competencies and releases individual tacit knowledge for the use of the whole organisation (Ilmarinen et al, 2003, 29-30; Tikkanen, Valkeavaara and Lunde, 1996).

The age aspect is relevant when examining the sharing of tacit knowledge. Changes in the age structure of the workforce in many countries have emerged as a new perspective in management discussions. Internationally, the issues of age management have been discussed throughout the 1990s, but the focus has been more on the obstacles that aged employees have met in their workplaces (see Walker, 1999), or on the means of developing the working conditions for older employees (see Griffiths, 1999).

Enhancing Competencies by Reciprocal Learning between Young and Ageing Employees

Recent discussion of human resource management seems to concentrate on development and learning. This kind of discussion is most valid because knowledge management and different learning methods and processes can be considered one of the most central means of human resource development. All those involved in the discussion are willing to praise the value of sharing knowledge as well as the processes of learning and development (Moilanen, 2001). Different development activities are the most frequently mentioned items when asked how learning occurs in organisations (Moilanen, 2001b). Learning has obviously become one of the key concepts of human resource development. The concluding remarks in McGoldrick, Steward and Watson's (2002, 396) recently published book confirms this: "It is evident from the chapters that HRD has a central focus on and concern with learning." The same sort of conclusion about learning and HRM was drawn in a discourse analysis reported in the Swedish journal, "Personal and Ledarskap" (Bäckström and Parding, 2003). For instance, Bratton and Gold (1999, 294) have presented some key concepts in human resource development: organisational learning, knowledge management, workplace learning, learning, the learning climate, the learning company or organisation, systematic training models and the transfer of learning. This view of HRD, presented in one of the textbooks, has been supported in various articles. Furthermore, Garavan, Gunnigle and Morley (2000, 67) state that, "Organisational learning, a concept defined in terms of promoting continuous adaptation and change, appears to have a significant priority within the current HRD research agenda". Statements like this are clear indications of the present emphasis of the field; learning is one of the most important concepts in today's discussion of HRD.

Organisations are meeting the challenge by engaging in new practices encouraging the learning of ageing employees and enabling learning between young and ageing employees. The significance of tacit knowledge in adult learning has increased but, still, overall respect for more competent employees has been decreasing in working life. Nevertheless, a wide range of competencies and life experiences among both young and ageing employees are needed. And yet, learning is important among ageing employees because knowledge based on experience alone is not enough to meet the present demands at work.

On the other hand, reciprocal learning in organisations enables younger employees to learn from the experience and professional skills of ageing employees and from their familiarity with working life situations, and in turn, ageing employees acquire new information which helps them adjust to a rapidly changing working life (Ilmarinen et al, 2003, 129-130; Tikkanen, 1998, 78-82). Mutual learning of tacit knowledge between young and ageing employees is a challenging task because tacit knowledge includes many forms of knowledge, skills and experience, which are highly difficult to share with others. Acquiring tacit knowledge requires appropriate forms of learning. Developing competencies places learning in the work process – that is, learning that occurs outside the formal classroom – in the foreground. (Kröll, 2003; Iles, 1994) In this article one type of learning, social learning, is examined as a form of acquiring tacit knowledge. Social learning facilitates learning between young and ageing employees by using observation and modelling as forms of learning.

Bandura's social learning theory has its roots in the 1970s, but it is still a valid theory and able to explicate the phenomenon regardless of changes in society. Bandura (1977) states that people can learn by observing other people's behaviour and its consequences for them. Learning by observation enables people to acquire integrated patterns of behaviour instead of learning from tedious trial and error. Learning through modelling spares people from needless errors and helps to form a guide for action. Modelling is a useful form of discovering knowledge-centred operations when rules, entities and routines are stable. It forms ideas of how new behaviours are performed by observing others. Learning through modelling helps people to form a certain rule of principles and to form new patterns. However, modelling does not reach exact understanding, it simply facilitates identifying the variables in the model. Social learning often occurs in everyday situations where people engage in casual or directed observation of behaviour as it is performed by others (Bandura, 1977; Davenport and Prusak, 1998, 80).

Knowledge is linked closely to learning and, therefore, there is also a link between knowledge management and HRD (Gourlay, 2001). The next section clarifies knowledge management and its role in the present study.

Tacit Knowledge as a Hidden Potential

Identifying knowledge management involves various aspects. The rallying point is to describe processes related to knowledge, learning and connections between people. Knowledge can be created, acquired, captured, collected, stored, processed and shared. It enhances learning and performance and requires a connection between people (Hedlund, 1994; Myers, 1996, 1-2). The essence of knowledge management is to value intangible assets, such as skills and competencies, capture them, enable the flow of information and its storage so that people can use it (Greengard, 1998).

Conventional knowledge management is focused on the ownership of knowledge. Its aim is to transform knowledge into capital and assets in order to make it explicit. In an explicit form, tacit knowledge is controllable and owned by the organisation. Tacit knowledge management introduces a new perspective to knowledge management. The aim of tacit knowledge management is to move away from ownership and control towards recognising the particular form of knowledge and its characteristics in management. As Kreiner states: "tacit knowledge needs to be managed in tacit ways" (Kreiner, 2002).

Knowledge management includes both technical and human aspects. It is often the case in both the literature and discussions that the emphasis is placed only on the technical aspects and not on those related to people management. A technology-centred approach ignores the role of HRD and social information systems in knowledge management. However, it is important to bear in mind that organisations cannot create knowledge, only individuals can. Knowledge itself cannot be managed because it cannot be separated from people, therefore people management plays a central role in knowledge management (Robertson and O'Malley Hammersley, 2000; Gourlay, 2001), and as van Krogh (1998, 133) states "success with managing knowledge will ultimately depend on a manager's sensitivity to people issues".

Knowledge is a complex and elusive concept that exists only in a highly abstract form within organisations. Clarke and Rollo (2001) define knowledge as information that is, for example, involved in some kind of dialogue. Knowledge can be increased through interacting with information provided by other people. One of the key concepts of this paper is competence. This is defined by Sveiby (1997, 35-38) as knowledge that exists in a business context and consists of explicit knowledge, skills, experience, value judgements and a social network. Highly skilled competence turns into expertise.

Knowledge includes both tacit and explicit knowledge. Polanyi (1966) argues that tacit knowing is very personal, unconscious and uncodified knowledge. Tacit knowledge is not easily visible or expressible. It is difficult to formalise and, therefore, difficult to share with others. Tacit knowledge is composed of two dimensions: technical and cognitive. The technical dimension can be described as know-how. It is informal knowledge "in the fingertips of professionals". The cognitive dimension, then, consists of schemata, mental models, beliefs and perceptions. Explicit knowledge is defined as formal and systematic knowledge that can be expressed in words or numbers. Unlike tacit knowledge, explicit knowledge can be easily shared in various kinds of forms (Nonaka and Takeuchi, 1995, 8).

Tacit knowledge and explicit knowledge can partly be connected to people of different ages. Tacit knowledge seems to be one of the strengths of aged people. They have the ability to interpret information that does not have any formal processing rules. (Huuhtanen et al, 1999, 35) A great deal of potential is in the form of tacit knowledge. Sharing tacit knowledge between young and ageing employees is one of the major challenges in management (see Juuti and Vuorela, 2002). But despite the importance of tacit knowledge, organisations do not often include tacit knowledge management in their management actions. The existence of tacit knowledge is recognized, but managers do not really understand its nature, its attributes or its consequences. They fear that it is impossible to influence tacit knowledge. Yet, tacit knowledge has a crucial role in shaping and influencing explicit knowledge (Fahey and Prusak, 1998) and also in sharing competencies.

Nonaka and Konno (1998) put forward Nishida's concept of 'ba' as a physical, virtual or mental space where knowledge can be created. Knowledge is embedded in ba and it is acquired through employees' own experiences or reflections on the experiences of others. Ba is the platform where knowledge from the area is collected and integrated. Creating platforms like ba is one of the management challenges for the future. Building cooperation between young and ageing employees is an important factor in enabling the sharing of tacit knowledge (Ilmarinen et al, 2003, 9). Encouraging senior members in organisations to teach and share their knowledge with young employees enables them to understand the link between action and outcome. For example, team-work and mentoring programmes can build the necessary platforms for sharing knowledge (Van Krogh, 1998; see also Nonaka and Takeuchi, 1995). The changes involved in building such cooperation and platforms may be quite radical because they not only focus on working methods but also on organisational culture. Organisational culture, thus, can create insurmountable barriers or facilitate knowledge flows between the members of an organization (McDermott and O'Dell, 2001).

Age Management – an Age-aware Approach to Management

Diversity in workplaces is a reality. Despite the fact that diversity is valued, most of the human resource systems are built to encourage and reinforce similarity and homogeneity. However, in a situation where the population of industrialized countries is rapidly ageing, organisations cannot afford to waste resources. By using the competencies and talents of the entire workforce, the organisations can achieve a competitive advantage (Ferris, Frink and Galang, 1993; Pfeffer, 1994). There are still many persistent myths about ageing found in organisations. Ageing employees are for instance considered to be unable to learn anything new or change. They are even considered unproductive (Thornton, 2002). Therefore, a change of paradigm is needed in organisations in order to recognise individuals as valuable assets despite their age (Fenstermacher and Kleiner, 1999).

Age management responds to the challenge of diversity in the workforce. It takes into account age and the entire lifespan of people in the management of an organisation (Juuti, 2002). The concept is still somewhat imprecise and there are several terms in use – for example, age management, age period management and age-aware management. Of these, age management is the most commonly used term and it is also used in this article. Age management is a new way of examining management issues and it has emerged from the changing structures of work forces. Age management is defined as taking employees' age and age related issues into consideration in everyday leadership, e.g. in work arrangements and in the working environment. The aim is to create an organisational culture where every employee can feel worthwhile. Age-aware leadership means profound changes in organisations. It focuses on the whole organisation by changing attitudes and HR practices (Ilmarinen et al, 2003, 8).

With age management, the employer supports the career of employees and pays attention to the control of the ageing (Ilmarinen, 1999, 250). With age management the experiences and resources of ageing employees can be mobilised for the use of the entire organisation and the potential threat of losing competence with retiring employees can be avoided (Ilmarinen et al, 2003, 31). When organisations recognise the value of their workforce as a strategic advantage – and not as a cost to be avoided – it is possible for them to achieve competitive success through people. Competitive success can be achieved through adequate skills, including enhancing the competencies of the workforce (Pfeffer, 1994). It is also important to influence attitudes towards age in such a way that the competence of ageing employees is appreciated (Tikkanen, 1998, 78) and sharing it is considered necessary. Attitudes in the organisation may change the situation of ageing employees. If the competencies of ageing employees are not used it may lead to the loss of their experience and skills (Kröll, 2003).

The importance of sharing tacit knowledge is emphasised in situations where most of the employees will retire in a short period of time. Finland's population is ageing rapidly and this fact gives us only a short time to adjust to the changes. Taking action to share tacit knowledge between young and ageing employees will make it easier for organisations to survive the retirement wave (Ilmarinen et al, 2003, 31). Organisations can enhance their employees' development by establishing favourable conditions for learning and developing competencies and also by promoting and utilising the current potential of employees (Kröll, 2003). Implementing age management in organisations facilitates the integration of age-related issues into everyday situations, including the sharing of tacit knowledge between young and ageing employees.

Research Methodology

The empirical study was conducted in four Finnish organisations. Keskimaa Osk and Kesko represent the trade sector, and UPM-Kymmene and Metso Paper the industry sector. These organisations have nearly 37 000 employees altogether. The organisations were selected on the basis of their professional fields where there is a growing need to deal with issues relating to ageing workers. The qualitative study, based on semi-structured interviews, was conducted between May and September 2003. In each company four people were interviewed: HR manager, supervisor and two employees (one young, 26-31 years old and one ageing, 51-57 years old). One exception was in UPM-Kymmene where two HR managers were interviewed. A total of 17 interviews were conducted.

These semi-structured interviews were tentative and the main purpose was to establish some starting points for further ethnographic research. The purpose was, thus, to understand and form a picture of the phenomenon, which is in accordance with the descriptive aim of ethnographic research in general. The tentative interviews were considered the first step towards this aim. Dividing the research process into tentative interviews and actual ethnographic research was also seen to comply with methodological triangulation (Eskola and Suoranta 1998, 70).

The interviews included themes related to the area of well-being at work. This study is part of a larger research project and, therefore, the interview included issues from all areas of the project. For this reason there should be some considerations about the generalisation of the outcomes.

The interview material was transcribed and saved, and then processed using the QSR N5 - program. In the program, the data was coded and then analysed in relation to the theoretical framework. A qualitative content analysis method was used to arrange the data into thematic groups. The data is therefore presented below in the form of quotations from actual interview transcriptions.

Findings

The empirical part of the article presents the main findings from the interviews according to the research questions. Firstly, comments made about the competencies of young and ageing employees and their complete use are discussed. The findings are presented partly together and partly according to the groupings, "young and ageing employees", "supervisors" and "HR managers". Secondly, the conditions for recognising tacit knowledge, learning and sharing tacit knowledge will be explored. The outcomes are presented partly together and partly divided into the groups, employees (young and ageing) and management (supervisors and HR managers) as these two groups had similar views.

The Competencies of Young and Ageing Employees and their Exploitation

The respondents regarded ageing employees as experienced. "Ageing employees indeed have this experience-based knowledge, which the years have brought and it cannot be read from any book, it has been experienced and seen and it can be just a little thing in that job, what you need to know, how some things are done…" (HR manager) Ageing employees were also seen as skilled, both in their tasks and in building social networks in the work community. "…They are socially skilled… They know how to synthesise information and how to concentrate on essential matters." (young employee) Ageing employees had skills to explain and to master whole entities. Their strength was also in knowledge sharing. On the other hand, ageing employees were lacking in foreign language skills and IT skills and were resistant to change.

Young employees were considered better educated and able to see things differently in the organisation. "Young employees are open-minded. Young employees do not have that 'we have always done it like this'… Those ideas can be rough and naïve but they may have a brand new perspective…" (young employee). Young employees were, for example, critical in a constructive way and had new points of view, even though the new ideas often needed to be developed. In addition, young employees were perceived to have better IT skills and technical competencies. They were more eager to get involved in new tasks, but at the same time they were rather unrealistic about their skills. "Young employees have such enthusiasm and will to learn and to do things and maybe at that point there is more enthusiasm than skill…" (young employee).

Supervisors also thought that young employees could be given routine tasks. "It is easier with young employees because there is enthusiasm and energy and therefore they may accept not so pleasant tasks more easily." (supervisor) Young employees were seen as confident in performing their tasks, but because of the lack of experience they had more trouble in strategic thinking and understanding certain particular situations. "… They are missing a certain game plan for example, in customer service, for instance, they do not notice to use polite forms of address…" (HR manager) The characteristics of young and ageing employees are summarised in table 1.

Both young and ageing employees agreed that employees of different ages give balance to the work community. Respect and full use of competencies was dependent on the organisations and not on the answers given by employees of different ages. In some organisations the situation was considered equal. In others, the young employees went through a process of improving their skills. "…There is a phase when they follow orders and then there is a participatory phase and then there is a phase when things are done more independently" (ageing employee). In some other organisations ageing employees were given less interesting tasks. "…they are moved onto tasks of secondary importance or less productive or less pleasant tasks." (young employee)

The supervisors made some distinction between the young and the ageing employees. They divided tasks according to employee age, for instance, lightened the work load of ageing employees – "… of course as supervisor, one must think because you can't give the same tasks to a 64-year-old that you can to an 18-year-old" (supervisor) – or treated part-time pensioners differently – "This one who is a part-time pensioner… We do check a little which projects can be given to him." (supervisor) Also, as was mentioned before, in one organisation the career plans of young employees were strictly determined at an early stage.

HR managers examined the question from a more general level, such as from the age discrimination point of view. According to them no age discrimination existed in organisations. Despite the fact that one manager stated that there were some prejudices about the learning capacity of the ageing. "Of course there are some prejudices, for example about this matter of learning new things, supervisors surely have…" (HR manager). Another manager said that the morale of ageing employees is higher "there is naturally a deeper respect towards ageing employees than young employees… ageing employees never need to be reminded about morale" (supervisor) and, therefore, they should be respected more in the work community. One manager also pointed out that managers and supervisors should understand the changes related to ageing.

Table 1. Positive, negative and work-related characteristics of young and ageing employees

	Young employees	Ageing employees
Positive characteristics	•enthusiastic •active •inquisitive •unprejudiced •open-minded •fast •critical •initiative •energetic •persistent •easily adapt to new ituations and change •eager to learn new things	•experienced •socially skilled •committed •considerate •responsible •determined •emotionally stable •correct •persistent •restful •perseverant •critical •diligent •farsighted •understand the whole
Negative characteristics	•restless •supercilious •know-it-all persons with unrealistic picture of their skills •have trouble in strategic thinking and understanding of particular situations	•slow pace •physically weaker •effects of aging
Work-related characteristics	•fresh knowledge from school •good IT skills •new ideas •accept routine tasks	•experience •professional skills and competence •positive influence on quality •tacit knowledge •lack of IT and language skills •lack of enthusiasm in developing things •resistant to change

Recognising, Learning and Sharing Tacit Knowledge

The conceptions the interviewees had of tacit knowledge and their thoughts about recognising it are presented first. Experience-based knowledge accumulated over long careers was considered a resource in organisations. Tacit knowledge was manifested in practice as professional skills, competencies, mastering little things, "tricks" and routines to cope with situations and to overcome problems at work. Social networks were also considered tacit knowledge. Life experience creates a basis for opinions and wisdom, and facilitates the facing of different situations.
Tacit knowledge was recognised mainly as something included in different kinds of processes. It was considered important in mastering processes, customer service situations, implementing projects and in negotiations. "In the workshop, there are older mates… They indeed know how to do things even though the drawing is somehow faulty or something, so they see immediately that it doesn't work like this, that it must in the end be done in another way after all in order to make it work alright." (young employee) Tacit knowledge maintains and improves quality because errors, even rare ones, are more easily recognised by experienced employees. Social networks, organisational culture and its history also include tacit knowledge. Interviewees did not mention any systematic way of recognising tacit knowledge. Identification mainly occurred as a side phenomenon while concentrating on other tasks or projects.

Secondly, some general comments on sharing tacit knowledge are introduced. The interviewees thought that ageing employees could make it easier for younger employees to adjust and learn about working life by sharing their tacit knowledge. Ageing employees are able to take care of daily routines and at the same time to prepare younger employees for future demands. "Yes, I feel that the significance of ageing employees is more to take care of today so that there won't be any disasters and also to raise the young employees' competence to take care of future business." (supervisor).

Ageing employees are pillars of practical operations in organisations and maintain the organisational memory. "Then to act as the memory of the organisation, there should actually be an obligation to share the knowledge." (ageing employee) They share knowledge, advice and explain how to cope in particular situations. Young employees can also teach something to their older employees. The interviewees thought that the competencies of young employees are manifested in IT skills and in technological knowledge. "…Young employees have the best knowledge about new technology and new programming methods and things like that." (supervisor) Young employees usually have a good education and they have valuable ideas. "Their education is very good and they have their own visions." (ageing employee) Employees of different ages have different kinds of competencies and, therefore, it is important that learning between them is reciprocal. Thus both parties benefit and enhance their competence.

The third point to discuss here is the means of sharing tacit knowledge from the point of view of the groups involved in the study. Working together, for example as pairs, was one method suggested for sharing tacit knowledge. "It doesn't transfer in any other way than by working together." (young employee) "One concrete method is, in my opinion, to work as pairs" (HR manager). Employees, both young and ageing, suggested nearly the same methods for sharing tacit knowledge. Young employees can learn from the ageing by observing how the tasks are carried out. "I have tried to observe how they work and to ask lots of questions, well, just asking and discussing" (young employee).

Asking for advice and asking questions about unclear matters was considered important in sharing tacit knowledge. Discussion between young and ageing employees was considered an effective way of transferring knowledge. Through discussions, for example during coffee and lunch breaks, experiences and opinions can be passed on to others. "When people sit on their coffee break for an hour or so… We mainly laugh about work stuff and experiences from here and there, how things have been taken care of" (young employee). Aged employees can, for instance describe how things have been done earlier, what experiments have been tried and what the outcomes were. Ageing employees can learn from young employees by observing and by listening to their ideas. "…just listening to those ideas and thoughts" (young employee).

However, ageing employees are often not ready to explore the ideas presented by young members of an organisation. "It is often so that ageing employees do not want to even try if some one gives a hint – you can't know, you are so young" (ageing employee). This would require an open attitude, flexibility, observing others and willingness to share knowledge. It was also suggested that the role of ageing employees could be developed so as to contain more social activities in the final stages of their careers in order to pass their knowledge forward.

HR managers and supervisors put forth nearly the same methods as employees but, in addition to this, they stressed some HRD practices. Interaction, which is essential in sharing tacit knowledge, can occur in work groups, meetings, training sessions or informal conversations. "Surely it transfers in natural dealings. In everyday jobs… Employees of different ages provide the possibility" (supervisor). Knowledge may be transferred in every day situations and during natural contact with others. Some practices were said to improve the sharing of tacit knowledge, i.e. mentoring, familiarisation and work rotation. "…We rotate these younger employees from one post to another…" (supervisor).

The interviewees thought that personal interaction between young and aged employees is essential in order to really share tacit knowledge. "Actually the only way is personal interaction between young and ageing employees" (HR manager). This is because tacit knowledge cannot be written down or reported but it must be learned from others. Also, communication between people depends on the personal chemistry between communicators.

The interviewees argued that extroverts should be selected for the sharing process if possible. Employees of different ages often form groups within their own age, because different age groups have their own matters of focus and, therefore, conversations between various age groups are usually not similar. "Well of course it can be noticed that people of different ages form groups within their own age group… It is of course understandable that it is easier to be on the same wavelength, the situation in life is similar and so on" (young employee). There might even be a different language between age groups. When building cooperation between different age groups, then, one should pay attention to these factors, since they may complicate communication across age groups and thus prevent effective knowledge sharing.

Conclusion and Discussion

The aim of the present study was to explore how employees of different ages and their competencies are seen, and to explore if their competencies are in full use in organisations. The second aim was to identify some basic conditions for recognising tacit knowledge, and the third to examine existing methods of mutual learning and sharing tacit knowledge between young and ageing employees.

The phenomenon of sharing tacit knowledge has been a very popular topic of discussion over the past years, but it still seems that it is quite difficult to study it. Although various aspects and viewpoints have been taken, the core of the concept has not yet been crystallised. The concept itself seems to be defined in various ways and there are various related concepts (see e.g. Nonaka and Takeuchi, 1995; Polanyi, 1966). The most difficult point in this concept is its very abstract nature, which also affects data collection. It was extremely hard to attempt to operationalise the contents of the concept, which of course also made it difficult to capture the core of the concept.

Despite these obvious difficulties, some main findings about the competencies of young and ageing employees and the use of their competencies, as well as the sharing of tacit knowledge are summarised below.

The competencies that the two groups identified in each other and in themselves are summarised first. Young employees were perceived to be better educated and to have better IT skills and technical competencies. They were also seen as lacking in experience and they were regarded as being unrealistic about their skills. Ageing employees, then, were considered very experienced and capable in their work processes and in building social networks. However, they were lacking in some important skills, such as IT and foreign languages, and they were also resistant to change and new opportunities. Griffiths (1999) presented similar research outcomes: young employees were task-focused while ageing employees revealed a wider knowledge of the organisation, its systems and procedures. Also Lyon and Pollard (1997) reported similar perceptions about positive and negative views presented by employees under 40 about ageing employees.

Full use of the competencies of young and ageing employees was dependent on organisations rather than on interviewee groups – in one organisation the younger felt that they do not have enough challenges or possibilities, whereas in another organisation the same was reported by ageing employees. From the young people's perspective one has to start with simple tasks and from the older people's perspective one is considered too old to start anything new. The situation was totally different for specialist tasks where ageing was seen as a big advantage.

Recognising tacit knowledge was not very easy in any of the organisations. The main point was that tacit knowledge was recognised in connection with other situations and processes. None of the respondents commented that they had discussed it or tried to analyse it more thoroughly.

Learning and sharing tacit knowledge was easier to understand. All felt that it is important and that various means should be used more often. The main point here was that all groups could define some means, but mostly this was only at the level of rhetoric, not in real practice. However, doing tasks together with the other person was emphasised as an important way of sharing tacit knowledge and learning. This refers back to our theoretical viewpoint; social learning is a very important means. Frappaolo and Wilson Todd (2000) reported similar difficulties in recognising and sharing tacit knowledge in their research. The results of the survey revealed that members of organisations needed new ways of revealing and disclosing tacit knowledge and sharing it more effectively.

Recognising and sharing tacit knowledge was discussed here more as an individual based phenomenon than an organisational one. This might be a perspective that should be taken into account more profoundly when analysing tacit knowledge of employees of different ages. If we just look at individuals, we forget the organisation as a whole, including several inherent factors. Therefore management should also understand the role of the whole system, such as organisational culture, values, attitudes, work processes, and other systems affecting work and social networks in the company.

This study was a preliminary one and as such it did not have the best possible empirical part. The study is part of a larger project and, therefore, the data collected had to serve other aims, too. This restriction has to be taken into account when analysing the findings of the study, but it does not discredit the value of the study, only places it in its right place as part of a larger process. The forthcoming studies in the process will offer better possibilities for analysing the phenomenon more thoroughly.

In any case, the issue of tacit knowledge sharing is very important and has to be analysed from various viewpoints to be able to handle the problem of the most experienced and wise employees walking out of our companies. We know that the concept is not the simplest one, but its importance should inspire us all to take the steps necessary towards understanding the differences between different age groups and the variety of ways they learn from one another.

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