CHAPTER 3

SUSTAINABILITY WITHIN A CORPORATE ENVIRONMENT

"Sustainability is the primary moral and economic imperative of the 21st century."
– Mervyn E.King[1]

1 INTRODUCTION: FUNDAMENTAL SHIFT REQUIRED IN BUSINESS

The description of sustainability as the primary moral and economic imperative of the twenty-first century in King lll (2009:9) is based on the fact that it is regarded as one of the most important sources of both opportunities and risks for businesses today. As King (2009:9) notes: "Nature, society, and business are interconnected in complex ways that should be understood by decision-makers" (King, 2009:9). King further observes that the current incremental changes towards sustainability are insufficient, and he emphasises that a *fundamental* shift is required in the way organisations and directors act and organise themselves (King, 2009:9).

According to Porter and Kramer (2006:81), the principle of sustainability "… appeals to enlightened self-interest, often invoking the so-called triple bottom line of economic, social, and environmental performance". This study extends this view of corporate sustainability. Within the macro-theoretical framework of this study, namely systems theory and particularly the sociological systems theory, the concept of sustainability is held to be based on the quality of the relationships between the various components of the organisation as a system as well as its relationship with its environment. As a social system, a for-profit organisation is then dependent on the support of its stakeholders.

In today's world, an enduring and sustainable organisation is one where profit is no longer the sole end, but rather an end that operates in such a way that it ensures that returns will continue (Haque, 2010; Jones, 2007:197). "Great companies work to make money, of course, but in their choices of how to do so, they think about building enduring institutions. They invest in the future while being aware of the need to build people and society." (Moss Kanter, 2011:68).

[1] *Renowned South African expert on corporate governance and King Committee Chairman (King, 2009:12).*

Corporate sustainability then means an organisation should operate in ways that secure long-term economic performance by avoiding short-term behaviour that is socially detrimental or environmentally wasteful – it should balance public interest with financial returns (Moss Kanter, 2011:68; Porter & Kramer, 2006:81). It is held that the closer a social issue is tied to the business of an organisation, the greater the opportunity will be for it to leverage its resources and benefit society (Porter & Kramer, 2006:88).

This researcher acknowledges and agrees with the contention that capitalism in and of itself is an essential cornerstone of a healthy, free and sustainable society. As Palmer (2011:10) observes, the freedom to create wealth is the only means to the elimination of poverty: "Wealth has causes, but poverty does not; poverty is what results if wealth production does not take place, whereas wealth is not what results if poverty production does not take place." However, this view of capitalism is based on an understanding of capitalism as a system of cultural, spiritual and ethical values (Haque, 2010). In line with scholars such as David Schwab, Elinor Ostrom and John Mackey, this study accepts that, in order to remain sustainable, the free markets rest firmly on ethical norms and rules that are 'trust-enhancing' (Palmer, 2011:1-2).

With the focus globally being placed on the issue of sustainability, in particular on corporate ethics, responsible corporate citizenship and sustainable business practices (Haque, 2010; King, 2009:9; Marsden & Andriof, 1998:336; Mishra, 1996:282), there is an increasing need to understand trust in a corporate context, what it is, how it is developed and how it can be used to facilitate the fundamental shift that King lll is referring to. It is also important to note the impact when an organisation violates the trust of its stakeholders.

This view is in line with current literature on trust and reputation. Nooteboom (2002:4) highlights the importance of trust in a corporate context and describes trust as "… one of several means, but an indispensable one, for conducting economic relations". Casson and Della Giusta (2006:332) argue that trust does not only improve the general quality of life, it also improves productivity and economic performance. Jones (2007:15) takes this further, and notes that an organisation's ability to receive a positive evaluation from its stakeholders is important for the organisation's survival. Bandsuch *et al*. (2008:120) agree, but also expand on this view, when they note that trust is an invaluable asset that impacts and sustains not only an individual for-profit organisation, "… but arguably the entire free market system".

Economic success and sustainability is dependent on constructive interactions between people and organisations and typically requires the combined efforts and contributions of a wide range of groups and individuals, including shareholders, employees and managers (Haque, 2010; Jones, 2007:15; Marsden & Andriof, 1998:332; Stout & Blair, 2001:28).

Since human behaviour is often difficult to predict, relationships – also economic relationships – have to be built on trust (Palmer, 2011:1-2). In today's society, people expect organisations to behave in a socially responsible manner – they see organisations as being morally bound to behave in a way that is good for society and to do so in a sustainable way (Haque, 2010; Hosmer, 1995:394; King, 2009:9; Mishra, 1996:283; Nooteboom, 2002:6; Swift, 2001:20).

Indeed, Fukuyama (1995:150) argues that while modern organisations are a necessary condition for modern prosperity and the social well-being that is related to this, they are not a sufficient condition unless they are combined with certain traditional social and ethical habits in order to work properly.

Jones (2007:20) endorses this view when he notes that there is a clear link between ethics and organisational effectiveness, particularly when one keeps in mind that the environment in which an organisation operates is a principal source of uncertainty.

This has increased the need for board members and directors to understand what their legal, fiduciary and moral duties comprise. Failure to perform their legislative and fiduciary duties properly may render directors personally liable (Jones, 2007:36; Paine, 1994:106), but it is held that failure to perform their moral duties may put the sustainable future of the organisation at risk if stakeholders lose their trust in the organisation, similar to what happened at Enron, Arthur Andersen and WorldCom (Bakan, 2004:23,57-59; Jones, 2007:32).

Therefore it is held that a sound theoretical knowledge base of corporate trust, including how to operationalise, manage and measure it, should be readily available to assist directors in South Africa.

2 OUTLINE OF CHAPTER CONTENT

A working definition of corporate sustainability as conceptualised by this researcher for the purpose of this study is first provided. The discussion in the rest of the chapter aims to clarify the operationalisation of this concept in this study.

As a point of departure, an overview of King lll is undertaken in order to outline the underlying philosophy of this corporate governance framework, and position the role and importance of corporate trust – also in relation to corporate reputation – within the context of corporate sustainability in South Africa. A brief overview of responsible corporate citizenship and its relevance to corporate trust is then provided. This is followed by an overview of the development of the sustainability concept and the corporate sustainability construct, in order to demonstrate that this concept is increasingly being understood as a much broader concept than the more narrowly defined environmental view that is generally held.

In line with one of the secondary objectives of this study, namely to investigate the nature and meaning of the concept of sustainability in relation to corporate trust, this chapter then focuses on examining the different organisational approaches towards sustainability based on the governance framework and stakeholder focus. Based on this, a new framework of corporate sustainability, with ethics as its underlying rationality, is proposed. By conceptualising sustainability as a broader social principle, the concept of corporate trust is then firmly positioned within the corporate sustainability framework.

3 DEFINING CORPORATE SUSTAINABILITY

In order to provide a working definition of corporate sustainability for the purpose of this study, the definition of corporate sustainability, as posited by Bañon Gomis *et al*. (2011:175), has been freely adapted and added to.

This study defines corporate sustainability as *a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, viable and wholly morally justifiable, now and in the future, since it has adopted ethics as its core principle to guide conduct in the organisation.* Corporate sustainability is then related to an organisation's ability to conduct its present business operations in such a way that it does not put the likelihood of its own sustained existence and capacity to meet its future needs at risk (King, 2009; Moss Kanter, 2011).

This researcher holds that a for-profit organisation can do this by earning the trust and support of its stakeholders through its consistent ethical and trustworthy behaviour, founded on its value-based identity, as well as a reputation as a responsible corporate citizen (Bakan, 2004: 140-149; Bañon Gomis *et al*., 2011:173; Friedman & Miles, 2006:52-53; Linthicum *et al*., 2010:163; Mackey, 2009:103-110; Pirson & Malhotra, 2008:10).

Achieving corporate sustainability is seen to be dependent on a moral way of acting, and then in a consistent manner, in which the for-profit organisation is resolute to operate in an ethical and trustworthy manner and engage in a dialogical relationship with all of its stakeholders, in order to earn its stakeholders' trust to maximise opportunities for its own economic success and sustainability. Furthermore, the organisation will build its overall reputation as a responsible corporate citizen that fosters development and avoids causing any detrimental effects on its environmental, social and economic domains, since it accepts that the care and preservation of all three domains are conducive to a flourishing life for all (Bañon Gomis *et al*., 2011:175).

4 AN OVERVIEW OF KING III

4.1 INTRODUCTION

The promulgation of the new Companies Act (No. 71 of 2008) in South Africa and the publication of King III in 2009 by the Institute of Directors in Southern Africa highlight the importance of directing and guiding the behaviour of for-profit organisations in order to ensure sustainable economic outcomes for all. This overview includes an introduction to the philosophy of King lll, followed by a discussion of corporate governance, the nature and meaning of fiduciary duty, the inclusive stakeholder approach, the requirement of an ethical approach in business and the need to earn a good reputation.

4.1.1 Philosophy of King lll

The philosophy of King lll centres on effective leadership and the key challenge to ensure the sustainability of their organisations through responsible corporate citizenship (King, 2009:10-11).

Sustainability considerations are embedded in the South African Constitution, which is the "… most basic social contract that South Africans have entered into" (King, 2009:11). As a juristic corporate citizen, a for-profit organisation in South Africa should therefore operate in a sustainable manner and fulfil its responsibilities, as imposed by the Constitution, for the realisation of the most fundamental rights. It is posited that, as a corporate citizen of the society in which it does business, an organisation has certain rights, but also legal and moral obligations in respect of its economic, social and natural environments (King, 2009:12,117).

King lll defines corporate governance as *the organisation's "… practical expression of ethical standards"* (King, 2009:21). The King lll governance framework is therefore based on an 'apply or explain' principle, which differs from the 'comply or else' governance framework used for example in the USA. The difference here lies in the outcome of non-compliance with or adherence to governance principles. In the latter framework, non-compliance leads to legal action. In the former (the King lll 'apply or explain' framework), voluntary compliance with the corporate governance framework is supported (since it is believed to be based on an ethical foundation), except in those instances where certain governance issues have been legislated (King, 2009:7).

Some of the criticisms directed at the 'comply or else' governance framework set by the Sarbanes-Oxley Act of 2002 in the USA relate to the excessive costs that this legislation is causing companies, with little demonstrable benefits, and to the fact that it "… has made management and boards averse to taking the kind of intelligent risks that are necessary to create value for shareholders" (Eccles *et al*., 2006:353).

Furthermore, it is held that, "… even in the best cases, legal compliance is unlikely to unleash much moral imagination or commitment" (Paine, 1994:108). As such, it is posited that a compliance framework does not offer opportunity to inspire excellence, distinction or exemplary behaviour. In this regard, Paine (1994:109) observes: "Those managers who define ethics as legal compliance are implicitly endorsing a code of moral mediocrity for their organizations."

Due to its voluntary nature, King lll is regarded to be a less cumbersome, more cost-effective and more beneficial governance framework. The philosophy underpinning this governance framework is that it allows the directors and leadership of an organisation the flexibility and scope to make decisions that they consider to be in the best interests of the organisation (King, 2009:9), using an ethical framework as a basis for their decision-making (King, 2009:21). In the instance that a decision is made not to apply a governance recommendation or principle, directors need to explain how and why it was not applied. The reasons given by the directors and the executive leadership for not applying a specific governance recommendation or principle then result in compliance, provided those reasons are accepted by the organisation's stakeholders.

4.1.2 Corporate governance

In general, corporate governance is defined as *the framework of rules and practices that are used to guide the manner in which a for-profit organisation is managed*. It therefore concerns the systems and processes of management which the board of directors uses to govern the organisation's behaviour and conduct, to ensure responsibility, accountability, fairness and transparency in the organisation's relationship with all its stakeholders (Bandsuch *et al*., 2008:101; Bucklund *et al*., 2012; King, 2009:10,13).

A corporate governance framework consists of explicit and implicit contracts between the organisation and its relevant stakeholders. These contracts encompass the distribution of responsibilities, rights and rewards; procedures for reconciling any conflicting interests of stakeholders which may arise, in accordance with their duties, privileges and roles; as well as procedures for proper supervision and control, for instance using the flow of information as a system of checks and balances (Luthra, 2012). The King lll definition of corporate governance as *the organisation's practical expression of ethical standards* (King, 2009:21) is used as the central point of departure to conceptualise corporate governance in this study.

It is then held in this study that a for-profit organisation that wants to ensure its own sustainability will base its corporate governance framework on an ethical foundation, and its leadership, characterised by ethical values and adherence to its moral duties (Bandsuch *et al*., 2008:100), will focus on directing the organisation's strategies and operations with a view to achieving sustainable economic, social and environmental performance to the benefit of multiple stakeholders (King, 2009:10).

As such, this study expands the perspective of corporate governance to include a view that relies on a proactive ethical stance model, which recognises an organisation's responsibility to multiple stakeholders, as well as its role as a shaper of society (Cartwright & Craig, 2006:743; Jones, 2007:197).

4.1.3 <u>The nature and meaning of fiduciary duty</u>

Since the philosophy of King lll centres on the central role of the leadership of a for-profit organisation and their key challenge to ensure the sustainability of their organisations through responsible corporate citizenship (King, 2009:10-11), it is prudent to delineate the leaders that King lll is referring to, and expand on their role, before the concept of responsible corporate citizenship is discussed.

A board of directors in a for-profit organisation fulfils an essential economic function of the public corporation, in that "… it provides a vehicle through which shareholders, executives, rank-and-file employees, and others who invest team specific resources can, for their own benefit, protect and promote such investments by jointly relinquishing control over those resources and their joint enterprise to a third party – a board of directors – charged with representing the team's interests and allocating rewards among team members" (Stout & Blair, 2001:30). The goal of having non-executive directors (or directors who are not part of the organisation's executive management) is to bring objectivity to an organisation's decision-making and balance the power of executive directors (Jones, 2007:36).

The board of directors are therefore solely accountable neither to shareholders nor to the CEO and the executive leadership of the organisation. Instead, directors as high-ranking leaders who are largely insulated from the direct command and control of either shareholders or other corporate stakeholders fulfil an important mediating role, since they "… enjoy a substantial range of legal discretion to use the firm's assets in ways neither shareholders nor managers would necessarily choose, were they in charge" (Stout & Blair, 2001:30-31).

Directors of a for-profit organisation therefore have an obligation to the organisation, its shareholders and society at large to fulfil their fiduciary duty and manage the business with the skill, diligence and care of a reasonably prudent person (Stout & Blair, 2001:71). Since the hallmark of a fiduciary relationship is the legal requirement that the fiduciary should act for the exclusive benefit of his beneficiary even when, and *especially* when, the beneficiary cannot monitor or control the fiduciary's behaviour, the keystone of the fiduciary relationship lies in the directors' commitment to abandon self-interest and promote the for-profit organisation's welfare instead of their own.

From a legal perspective it is held that a trustee bound by fiduciary ties, such as a director of a for-profit organisation, is held to something stricter than the morals of the market place. "Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior." (Stout & Blair, 2001:62-63).

Jones (2007:42) observes that a very important corporate governance mechanism, one that has become increasingly significant for a board of directors to emphasise after the recent spate of corporate scandals, is to insist that the executive management of an organisation follow ethical guidelines in their decision-making. Jones defines ethics here as *"… the inner-guiding moral principles, values and beliefs that people use to analyse or interpret a situation and then decide what is the 'right' or appropriate way to behave".*

At the same time, ethics also indicates what inappropriate behaviour is and how a person should behave to avoid harming another person.

Fiduciary duty then gains its momentum primarily at the level of norms rather than the level of rules (Stout & Blair, 2001:77). Mitchell (2001:125-126) agrees when he remarks: "Ideally, and in its original design, fiduciary obligation is self-enforcing. It is one of the few instances in our law where we levy a moral injunction against an aspirational standard of conduct that depends for its efficacy on the good faith of the actor."

It is within this framework that King lll declares the board and directors to be responsible for fostering and building trust in their organisation, as part of their fundamental responsibility to ensure the sustainability of the organisation (King, 2009:12). A fiduciary obligation is therefore about trust and trustworthiness (Friedman & Miles, 2006:1).

Mitchell (2001:125) asserts: "Fiduciary duty is, famously, about trust." He also observes that it is not possible to understand fiduciary duty without understanding trust, and that "… to be effective, fiduciary duty must rely on the willingness of business actors to trust and be trusted" (Mitchell, 2001:108).

This sets the stage for understanding the role and importance of trust in a for-profit organisation. The distinctiveness of trust suggests that the essence of a fiduciary relationship is the legal expectation that the directors as fiduciaries will adopt the preference to regard the interests of others, which is the hallmark of trustworthy behaviour. It is due to this reliance on the fiduciary's good faith and trustworthiness that King lll declares that the need to create a trustworthy organisation should start with the board of directors, as the leaders of a for-profit organisation, and in fulfilment of their fiduciary duty (King, 2009:10-11).

The principal function of this fiduciary concept is for the board of directors to trigger trusting behaviour in the for-profit organisation by signalling that the social context calls for trust. Moreover, the law encourages fiduciaries to do this not only or even primarily by threatening punishment, but "… by framing the relationship between the fiduciaries and their beneficiaries as one that calls for a psychological commitment to trustworthy, other-regarding behavior" (Stout & Blair, 2001:12-13).

The bottom line is that opportunistic behaviour of one kind or another is an unavoidable problem associated with doing business in the corporate form. Indeed, it is held to be the paramount problem, and the focus of the vast bulk of modern literature on corporate law and policy. That is why this study holds that for-profit organisations that promote trust in relationships among investors, employees and other stakeholders can reduce and in some cases avoid much of the cost associated with policing against opportunism (Mishra, 1996:282; Stout & Blair, 2001:32).

The consequence is that a for-profit organisation that successfully encourages trust among their stakeholders can enjoy an evolutionary advantage over organisations that do not. Stout and Blair (2001:32) note: "Economic analysis itself suggests that a corporate capacity to promote trust behavior may often be not just important to business success, but essential." This view of the fiduciary duty of the board of directors of a for-profit organisation also underlines the rationale and importance of the inclusive stakeholder approach, as advanced by King lll (2009:10,13,21,100,103), which will be discussed next.

4.1.4 <u>Inclusive stakeholder approach</u>

Building on the definition of stakeholders presented in the previous chapter, which describes a stakeholder as someone who can either assist or hinder an organisation, an overview of the inclusive stakeholder approach and its link with the sustainability of a for-profit organisation, as maintained by King lll and other literature, is presented.

- ***Organisational dependency on stakeholders' approval to operate***

According to King lll (2009:21), an organisation earns the necessary approval, "… its licence to operate", from its stakeholders. This is in line with the view held by the father of stakeholder theory, R. Edward Freeman, who notes that organisations operate via social contracts that guarantee certain rights to those who have an interest or a stake in their activities or outcomes (Hatch & Schultz, 2008:151; Swift, 2001:17). According to

Fombrun and Foss (2004:288), this social contract refers to the importance of the bond linking companies to their stakeholders – a bond that gives companies their 'licence to operate'.

This study subscribes to the standard perspectives on corporate governance as set out in the prescription of the Organisation for Economic Co-operation and Development (OECD), which deals with the responsible and fair treatment of stakeholders (Cartwright & Craig, 2006:742). However, this view is expanded to include an understanding that the phrases 'social contract' and 'licence to operate' are not "… simply regarded as descriptors of a positive social positioning, but are rather seen to be vital to long-term business sustainability" (Fombrun & Foss, 2004:288), since a for-profit organisation that violates its social contract, particularly in ethical respects, will lose the support and trust of its stakeholders, and therefore its licence to operate (Jones, 2007:52).

According to King lll (King, 2009:9), the ultimate compliance officer in an organisation is in reality the stakeholders of the organisation. This is because stakeholders can choose to withdraw their support and cooperation if they feel that a for-profit organisation has acted irresponsibly or unethically (Jones, 2007:20). This withdrawal of support can include actions such as talented employees leaving the organisation; customers switching to competitors; journalists focusing on negative media coverage; and shareholders changing their votes, selling their shares or suing for breach of fiduciary duty (Jones, 2007:28; Stout & Blair, 2001:83).

King lll accentuates that a board of directors that wants to ensure the long-term economic sustainability of its organisation should take the legitimate interests and expectations of *all* of the for-profit organisation's stakeholders into account (King, 2009:13) in every facet of conducting its business. Fombrun and Van Riel (2004:220-221) also highlight the danger of prioritising certain stakeholder groups. They hold that it creates an artificial sense of order and ignores the vital point that corporate reputations are vulnerable to attack from all stakeholder groups, whether individuals or groups.

Freeman's stakeholder theory, in its simplest form, states that organisations that attend to the demands of all stakeholders will outperform those organisations that focus only on certain of their key stakeholders, to the exclusion of the others (Hatch & Schultz, 2008:151; Jones, 2007:198). A for-profit organisation is therefore not just answerable or responsible to its shareholders (Bandsuch *et al*., 2008:102-103), but to its manifold stakeholders, particularly in ethical respects (Jones, 2007:52). Due to the organisation's dependency on multiple stakeholders' approval of the way it operates, King lll subscribes to the inclusive stakeholder governance approach, rather than to the enlightened shareholder approach (King, 2009:13), which is discussed next.

- ***Inclusive stakeholder approach versus enlightened shareholder approach***

While both the inclusive stakeholder and enlightened shareholder approaches acknowledge that an organisation has multiple stakeholders, the difference between the two approaches lies in the way in which the legitimate interests and expectations of all the stakeholders are handled (King, 2009:13).

With the enlightened shareholder approach, the legitimate interests and expectations of all stakeholders are only considered when it is regarded to be in the interests of the organisation's shareholders to do so, and the legitimate interests of all stakeholders are really only used as an instrument to serve the interests of the shareholders (King, 2009:13).

With the inclusive stakeholder approach, on the other hand, the legitimate interests of all stakeholders are considered since it is believed to be to the organisation's best advantage to do so, interpreted within the bounds of the organisation as a sustainable business and responsible corporate citizen (King, 2009:13). The inclusive stakeholder approach therefore recognises that multiple stakeholders can affect the organisation in the achievement of its long-term strategy and economic sustainability (King, 2009:100-101). The inclusive stakeholder approach essentially redefines economic success in that it focuses on producing lasting positive effects for all stakeholders.

4.1.5 <u>A good reputation needed to earn stakeholders' trust</u>

With the inclusive stakeholder approach, based on an ethical foundation, King lll places renewed focus on the importance of stakeholders and their perceptions and opinions of a for-profit organisation (King, 2009:13). This brings the significance of corporate reputation and the levels of trust that stakeholders have in the organisation to the fore.

King lll emphasises the key responsibilities of the Board to protect the organisation's corporate reputation, its identity and that which its stakeholders know it to stand for, and to foster and strengthen the levels of trust between the organisation and all of its internal and external stakeholders (King, 2009:21, Pirson & Malhotra, 2008:10). Directors are therefore required to ensure that the leaders of the organisation are sensitive to the impact their operations and decisions have on all their stakeholders. This means that directors should ensure that the executive leadership of the for-profit organisation give direct, not incidental, consideration to the interests and expectations of all their stakeholders.

This in turn also requires that the Board should appreciate how stakeholder perceptions affect the for-profit organisation's reputation (Jones, 2007:51). King (2009:100) notes that there is a growing awareness of just how important the contribution of corporate reputation is to the economic value of a for-profit organisation. This study presumes that stakeholders are able to infer the for-profit organisation's value-set from its actions and behaviour and are capable of acting detrimentally towards the organisation should they believe that ethical values or standards have been violated, that the organisation has behaved as an irresponsible corporate citizen.

The fundamental concept posited by this study is that it is in the economic and long-term interest of a for-profit organisation to intentionally foster and build stakeholder trust, by becoming an ethical, trustworthy organisation and establishing its reputation as a responsible corporate citizen on this basis (Pirson & Malhotra, 2008:10; Vanneste *et al*., 2011:23), in other words to become *worthy* of the trust its stakeholders place in it.

Stakeholders cannot trust an organisation that they do not know or are not familiar with. The role of corporate reputation is to make the organisation's identity and character known to its stakeholders, so that they are familiar with the organisation, who it is and what it stands for (Luhmann, 1979:19: Pirson, 2009:8; Vanneste *et al*., 2011:23).

An organisation that behaves in accordance with the values that it professes to uphold, that is who consistently acts in alignment with the image it presents to its stakeholders, will be regarded as a trustworthy organisation (Pirson & Malhotra, 2008:10). Based on their positive assessment of the organisation, stakeholders develop a positive expectation about the organisation. This development of their trust then influences their relationship and likelihood of future behaviour patterns regarding the organisation.

The presence or absence of trust changes the way people decide about important issues. Trust, defined as *an attitude that allows for risk-taking decisions* (Einwiller & Will, 2001:6; Luhmann, 2000:103) is therefore important in a for-profit organisation, if it wants its various stakeholders to decide to support the organisation, either directly (by investing in, working for, buying from) or indirectly (not acting against). This is in line with Luhmann's view that any system, be it economic, legal, or political, requires trust as an input condition: "Without trust it cannot stimulate supportive activities in situations of uncertainty or risk." (Luhmann, 2000:103).

While this study holds that the presence of trust is vital in any for-profit organisation, it is believed to be of particular importance to build trust in a for-profit *service* organisation. The nature of the service sector is unique, in that the services being offered are characterised by qualities such as intangibility, which prevents a client to precisely value the quality of the service before acquiring it; inseparability, which refers the fact that the services are produced and consumed at the time; and heterogeneity, meaning that the quality of the services is variable, since it depends on who provides the service, when and where (Flavián, Guinalíu & Torres, 2005:450). It is believed that the trust that a stakeholder has in, for example a financial service for-profit organisation, will play an even more significant role in order to overcome the challenges inherent in these changeable qualities of a service.

It is then envisaged that the perceptions of stakeholders regarding the behaviour of a for-profit organisation, as well as the levels of trust they have in the ethical conduct and trustworthiness of a for-profit organisation, should be measured. This forms the basis of the proposition in the study to develop a Corporate Trust Index measurement subsequent to this study.

5 CORPORATE CITIZENSHIP AND RESPONSIBILITY

5.1 CONCEPT OF A CORPORATE CITIZEN

The concept of corporate citizenship in this study emanates from the fact that an organisation is regarded as a person, as a social actor, in its own right (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Marsden & Andriof, 1998:336; Moon & Muthuri, 2008:4). It is implicit that a for-profit organisation as a corporate citizen is subject to the same laws and moral expectations that any other citizen in society is subject to, and essentially it can therefore be held accountable for its actions on a legal and moral basis (King & Whetten, 2008:198).

It is also believed that a for-profit organisation has the capacity for self-governance, since it can establish strategy, develop and observe policies and procedures and make decisions to achieve its intended goal. Due to these ‘agency’ characteristics it can therefore be said to be responsible for its actions (King *et al*., 2010:294).

A for-profit organisation is regarded as being a responsible corporate citizen when it accepts it has an ethical obligation and moral responsibility for its impact on society and the environment, and that it is responsible for more than just delivering increased profits to its shareholders (Bandsuch *et al*., 2008:102-103; Marsden & Andriof, 1998:336; Moss Kanter, 2011:68; Swift, 2001:19; Wood, 2002:62).

As a responsible corporate citizen, a for-profit organisation will adopt a holistic approach to economic, social and environmental issues as an integral part of its core business strategy (King, 2009:24) and it will consider the interests of multiple stakeholders in its actions (Cartwright & Craig, 2006:743; Jamali, 2006:810; Moon & Muthuri, 2008:62). It will also measure its performance in terms of the value it creates and the manner in which it “… sustains the conditions that allow it to flourish over time”, to build an enduring institution (Moss Kanter, 2011:68).

Responsible corporate citizenship in this study then refers to the ethical relationship of responsibility between the organisation, its stakeholders and the society in which it operates (Cartwright & Craig, 2006:743, Fombrun & Foss, 2004:288; King, 2009:20; Marsden & Andriof, 1998:338; Wood, 2002:62).

5.1.1 Corporate social responsibility (CSR)

In this study corporate social responsibility (CSR) is regarded as a key component of the broader notion of responsible corporate citizenship.

CSR is regarded as the responsibility of the organisation to manage the impact of its decisions and activities (such as products, services and processes) on society and the environment, through transparent and ethical behaviour that contributes to sustainable development.

A for-profit organisation does this by inter alia taking the legitimate interests and expectations of stakeholders into account, by complying with applicable laws and international norms of behaviour, by laying an ethical foundation in the organisation and by practising this in the relationships with all its stakeholders (Haque, 2010; King, 2009:20-21; Linthicum *et al*., 2010:161; Mackey, 2009:105; Moon & Muthuri, 2008:62).

CSR is seen in this study as a strategy supported by a comprehensive set of policies, practices and programmes that integrate the social, environmental and economic concerns throughout the for-profit organisation’s operations and decision-making processes, with the aim of enhancing corporate performance and sustainability (Haque, 2010; Marsden & Andriof, 1998:336-338; Moon & Muthuri, 2008:61) and ensuring that the organisation can operate in a manner that “… meets or exceeds the ethical, legal, commercial and public expectations that society has of business” (Jamali, 2006:843), and in so doing earning its stakeholders’ trust.

Responsible corporate citizenship, with its CSR component, is then regarded to enhance the “… moral character of firms while fostering the well-being of humanity” (Moon & Muthuri, 2008:22).

5.1.2 Corporate social investment (CSI)

Corporate social investment (CSI) is regarded in this study as just one way in which an organisation can express its corporate social responsibility, and therefore its responsible corporate citizenship. Societal pressures and shifts in stakeholder perceptions and expectations necessitate that for-profit organisations should ‘put something back’ into the community whose resources they utilise in business (Mackey, 2009:105; Moon & Muthuri, 2008:4,41).

CSI has developed and evolved to include much more than just financial assistance or donations that are made for altruistic purposes (Mackey, 2009:105; Marsden & Andriof, 1998:337; Moon & Muthuri, 2008:6), and is rather considered to include the investment (financial or otherwise, such as in-kind support and human resources) that a for-profit organisation makes as an *integral* component of its broader corporate sustainability strategy, which includes economic, social and environmental aspects (King, 2009:118; Marsden & Andriof, 1998:336; Moon & Muthuri, 2008:3).

By following an integrated approach, an organisation will realise a number of benefits, such as ensuring its sustainability; preserving its licence to operate; enhancing its social legitimacy; building its moral, social and reputational capital and establishing a competitive advantage based on stakeholders’ trust (Jones, 2007:198; Moon & Muthuri, 2008:41; Nooteboom, 2002:147; Stout & Blair, 2001:9).

Essentially, an organisation will then also not support issues or suppliers that might harm its corporate reputation or that will be incongruent with its core identity and ethical values (Moon & Muthuri, 2008:39; Moss Kanter, 2011:74; Pirson & Malhotra, 2008:10). As Barnett and Hoffman (2008:1) aptly put it: “The company you keep affects the company you keep.” An organisation’s reputation then depends upon more than just its own actions; it is also influenced by the ‘company’ it keeps.

CSI is seen to form part of a for-profit organisation’s strategic decision to extend its definition of performance from a short-term financial focus to include a focus on its longer-term environmental, social and economic impacts and value-add (Jamali, 2006:809; Moss Kanter, 2011:68), whilst pursuing its profitable core business in tandem, without tradeoffs (Bhattacharya, Korschun & Sen, 2011:2). Moss Kanter (2011:68) highlights that in many admired and high-performing organisations "… society and people are not afterthoughts or inputs to be discarded but are core to their purpose".

6 SUSTAINABILITY AND THE LINK TO CORPORATE TRUST

5.1 TRUST AN ESSENTIAL PREREQUISITE FOR SUSTAINABILITY

This study contends that corporate trust is an essential prerequisite for any for-profit organisation that wants to sustainably enable and safeguard its long-term economic and organisational performance in a competitive environment (Ingenhoff & Sommer, 2010:339).

The concept of sustainability is then regarded as core to the concept of corporate trust as presented by this study, and therefore a more detailed overview of the sustainability concept will be provided to contextualise the concept of corporate trust.

6.1.1 <u>The development of the sustainability construct</u>

It is thought that the concept of sustainability dates back more than 30 years, when the International Union for Conservation of Nature (ICUN) adopted a new mandate in 1969. The term was coined to suggest that it was possible to achieve economic growth and industrialisation without environmental damage (Adams, 2006:1).

Since then the definition of sustainable development has evolved. In 1987, the Brundtland Report for the World Commission on Environment and Development (WCED) defined it as *development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (Bansal, 2005:197; Baumgartner, 2009:103; King, 2009:61; Porter & Kramer, 2006:81). Adams (2006:1) contends that while this definition was vague, it "… cleverly captured two fundamental issues, the problem of the environmental degradation that so commonly accompanies economic growth and yet the need for such growth to alleviate poverty".

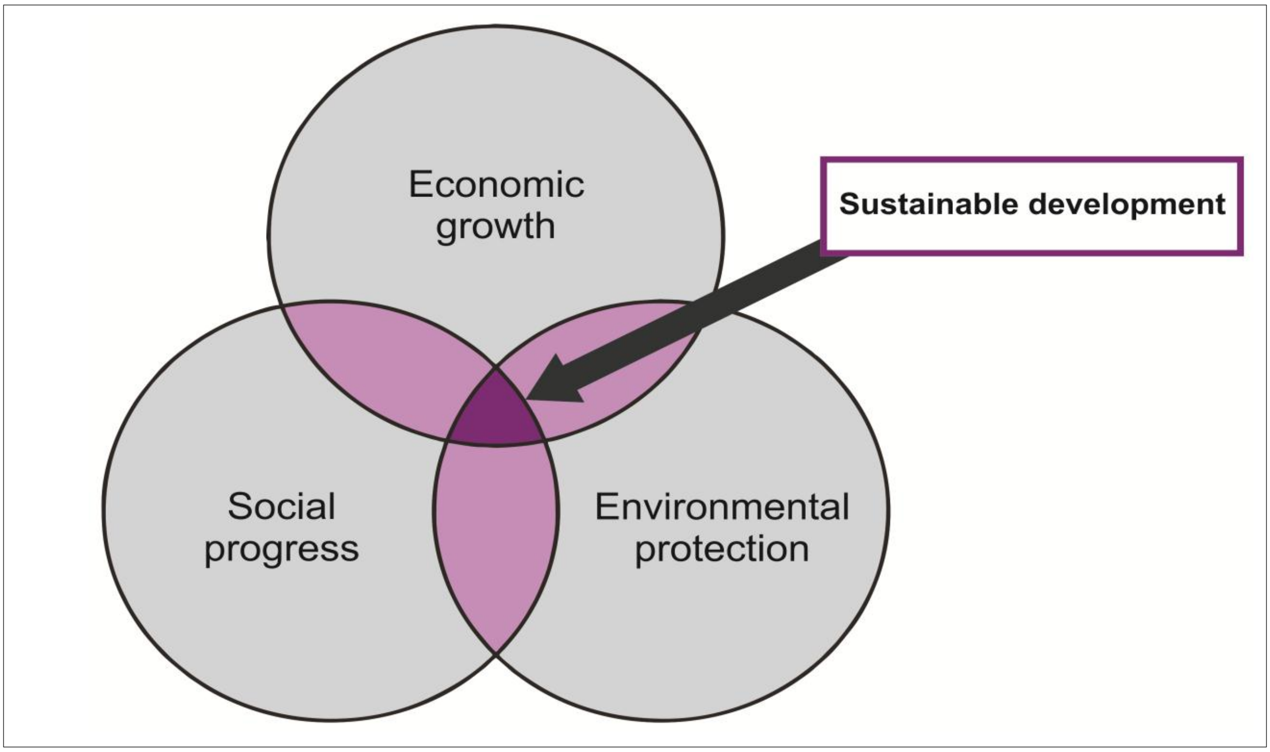
Basically, the primary focus of mainstream sustainability thinking then became the idea that there are three principles at the core of this sustainability construct, namely the protection of the natural environment, social progress and economic growth (Adams, 2006:2; Bañon Gomis *et al*., 2011:173; King, 2009:22). Sustainability was often interpreted as a condition that is supported on the three pillars of environment, society and economy (Figure 3) (Adams, 2006:2; Bañon Gomis *et al*., 2011:176-177).

Figure 3: The three pillars of sustainable development (Adams, 2006:2)

However, in the twenty-first century, this conventional understanding of sustainable development, based on these three pillars, is increasingly being questioned, particularly since "… it implies that trade-offs can always be made between environmental, social and economic dimensions of sustainability" (Adams, 2006:3).

As an alternative, the use of three interlocking circles to illustrate the concept of sustainable development was adopted in 2005 by the IUCN Programme 2005-8, to demonstrate that the three objectives need to be better integrated, with action to redress the balance between dimensions of sustainability (Figure 4) (Adams, 2006:2).

Figure 4: The interlocking circles approach to sustainable development (Adams, 2006:2)



6.1.2 Corporate sustainability: more than balancing the triple bottom line

This study accepts the hypothesis that the current level of global economic activity is placing such a burden on the natural environment and society that it reduces the level of economic activity that could be sustainable in future (Cartwright & Craig, 2004:714).

As a point of departure to develop a definition of corporate sustainability, it is practical to first explore the roots of the word. The word 'sustainability' is derived from the Latin 'sustinere', where 'tenere' means to hold, support or endure and 'sus' means up (Madsen, 2008; Oxford, 2010; Dictionary.com, 2012c). Corporate sustainability in this context therefore refers to a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, viable and wholly morally justifiable, now and in the future (Bañon Gomis *et al*., 2011:173).

Within the delineation as set out in Figure 4, it is presumed that corporate sustainable development necessitates the concurrent adoption of the principles of environmental integrity, social equity and economic prosperity (Adams, 2006:2; Bansal, 2005:197; Bañon Gomis *et al*., 2011:173; Haque, 2010; Porter & Kramer, 2006:8; Sarkis, Meade & Presley, 2006:751), since any one of these principles on its own does not embody a sufficient condition for sustainability (Bansal, 2005:198). As such, it is assumed that "… corporate sustainable development is achieved only at the intersection of the three principles" (Bansal, 2005:199).

Much of the existent literature has concluded that organisations should integrate sustainability principles into corporate strategic policies and business processes (King, 2009:12), since the successful integration of these sustainability principles affects the triple bottom line and long-term profitability of a business and should, therefore, be treated as one of the most valued strategic assets of an organisation (Gao & Zhang, 2006:722; Helm, 2007:238; Rangan, 2011:3; Wood, 2002:62).

"Sustainability has become a strategic weapon and an imperative for most businesses in the twenty-first century and has become a fundamental market force affecting long-term financial viability and success. Companies are pursuing sustainability because they are finding business value in it." (Sarkis *et al*., 2006:752).

Jones (2007:196-197) distinguishes between four possible stances that the leadership of an organisation can take towards sustainability, namely an obstructionist approach (by behaving unethically and illegally); a defensive approach (by adhering strictly and only to what the law requires); an accommodative approach (by acknowledging the need to support social sustainability and trying to balance conflicting interests); and a proactive approach (by actively embracing the need to behave in socially responsible ways, going out of its way to learn about the needs of different stakeholders and using organisational resources to promote the interests of its multiple stakeholders, not just its shareholders).

The latter stance is similar to what Baumgartner (2009:104) refers to as a visionary strategy towards sustainability, where sustainable development is incorporated in the organisation's vision and strategy, and where "… sustainable development is deeply seated in the normative level of the company".

Based on a growing body of evidence, an organisation that takes a more sustainable approach to its business will enjoy positive benefits such as improved operational efficiencies, preservation of its licence to operate, enhanced brand value and reputation, improved access to capital, customer and employee attraction and retention, and increased revenues (The Sigma Project, 2009:1).

In the light of this, the need for an organisation to manage its resources responsibly and to sincerely take up its stewardship role, with its environmental, economic and social dimensions (Jamali, 2006:812; Sarkis *et al*., 2006:752), is acknowledged and even incorporated into the meaning of corporate sustainability in this study, particularly in conceptualising an organisation that adheres to the principles of people, planet and profit inherent in the 'triple bottom line' definition as a responsible corporate citizen.

However, the concept of sustainability is expanded in this study to include more than just these three principles. While the appeal of the triple-bottom-line approach lies in its conceptualisation of the three responsibilities that for-profit organisations need to manage, balance and reconcile to get a more balanced view of overall corporate performance, the actual management of the interrelationships and potential conflicts between the three legs of sustainability remains a challenge (Haque, 2010; Jamali, 2006:812; Sarkis *et al*., 2006:752).

It is therefore held that if sustainability is found at the intersection of the principles of environment, society and economy, at the core of the three interlocking circles in Figure 4, it must ensue from "… an underlying rationality that is common to all three and more basic than that which is peculiar to each one individually" (Bañon Gomis *et al*., 2011:179). It is argued in this study that ethics can provide such a unifying and underlying rationality (Haque, 2010).

The concept of corporate sustainability is then expanded in this study to include the strategic adoption of a proactive ethical stance to assist a for-profit organisation to manage the potential conflicts, disputes and compromises between the three sustainability principles more effectively (Bañon Gomis *et al*., 2011:175; Haque, 2010).

Using the existing approaches as outlined by Jones (2007:196-197) as a point of departure, the *Ethical Capitalist* approach is proposed in this study. Apart from being based on a proactive stance towards sustainability – as posited by Jones (2007:196) and Bakan (2004:144) – the *Ethical Capitalist* approach adopts a proactive *ethical* stance towards doing business, as well as an inclusive stakeholder view, and a corporate governance framework that is based on a stance of commitment, rather than compliance.

The concept of ethical capitalism is based on the Caux Principles for Business, which were promulgated in 1994. These principles were sponsored by the Caux Roundtable which was comprised of senior business leaders from Europe, Japan and North America (Gordon, 2001:9; Schwartz, 2005:34). The essence of this concept is an acceptance of doing business based on a common respect for the highest moral values, moving beyond the letter of law towards a spirit of trust (Friedman & Miles, 2006:276; Marsden & Andriof, 1998:333). The introduction to the principles states that the Caux Roundtable seeks to "… express a world value against which business behaviour can be measured" (Schwartz, 2005:34).

The Caux Roundtable believes that the world business community should play an important role in improving economic and social conditions, and holds that this can only be achieved with the adoption of a principled business leadership model, which at its core incorporates a worldwide vision for ethical and responsible corporate behaviour and serves as a foundation for action for leaders worldwide (Caux Roundtable: 2012).

This sentiment is subscribed to by a number of scholars, albeit under different labels. The term 'moral capitalism' is used by Stephen B. Young, Global Executive Director of the Caux Roundtable since 2000 and author of the book *Moral Capitalism* (Caux Roundtable: 2012); Charles Handy (1998:52-53) and Tom Palmer (2011:1-12). The term 'ethical capitalism' is used by Umair Haque (2010); John Douglas Bishop (2000:40-42) and Edwin Epstein (1999:255-266). John Mackey (Mackey, 2009:71-113) and Michael Strong (Strong, 2009:3-35) use the term 'conscious capitalism'. These terms are similar to the concept of stakeholder capitalism (Freeman & Phillips, 2002:339) that was discussed in Chapter 2. However, the term 'ethical capitalism' is preferred in this study.

Furthermore, and closely related to the proposed ethical framework, 'environment' in this study is taken to mean more than just the natural world or physical, external ecosystem, in that it also includes the 'experienced' or conceptual environment the organisation operates in. Corporate sustainability then does not apply to the physical world, but "… rather to our human relationship with the world" (Bañon Gomis *et al*., 2011:180).

6.2 ETHICS AS THE UNIFYING RATIONALITY OF CORPORATE SUSTAINABILITY

The view that ethics (Jones, 2007:198) can be used as the unifying and underlying rationality of corporate sustainability is based on the argument that sustainability is part of the ancient question of ethics: "How are we to live?" As such it is held that "… sustainability is a matter of ethics, and as with ethics generally, it applies to humans qua conscious beings and our relationship with the world, by which we mean the 'experienced world', understood in terms of three major domains: the environment, society, and the economy" (Bañon Gomis *et al*., 2011:180).

6.2.1 The concept of the 'experienced world'

The concept of an experienced world is grounded in the fact that a human being can only experience the world based on the way in which it is ordered through his human rationality. Rationality here refers to "… the loosely related principles, rules, interests and goals that are used to interpret, organize, and evaluate phenomena" (Bañon Gomis *et al*., 2011:178-179), through which an individual interprets his experiences and orders his world.

The use of the term 'experienced world' in reference to sustainability is meant to refer to the world as experienced by people through the intermediation of their rationalities specifically associated with their environmental, social and economic experiences (Bañon Gomis *et al*., 2011:180). Sustainability then applies to the organisation's (human) relationship with its environment and all in it, rather than the physical (natural) environment itself (Bañon Gomis *et al*., 2011:180).

6.2.2 Rational ordering of human experience through the lens of ethics

This implies that the way in which people and organisations approach sustainability will be influenced by their respective world views, which may lead to conflicting interests and priorities, as for example with a rationality of economics versus a rationality of social justice and equality.

Since different world views and rationalities would be appropriate under different circumstances, it is posited that ethics as an underlying rationality (which is both common to all three principles as well as more basic than that which is peculiar to each one individually) can be used to unify sustainability at the intersection of the economic, social and environmental domains (Bañon Gomis *et al*., 2011:179; Haque, 2010).

The lens of ethics is regarded as integral to the way in which humans rationally order their experience of the world (Bañon Gomis *et al*., 2011:179), which is why it is posited that ethics can provide the unifying and underlying rationality for corporate sustainability (Bañon Gomis *et al*., 2011:180; Jones, 2007:198; Wood, 2002:62).

An ethical framework can and should guide conduct in an organisation. Jones (2007:198) notes that some organisations, like Johnson & Johnson, "… view the company's code of ethics as the only policy to follow when an ethical dilemma is evident, and they allow this code to govern their choices".

When ethics is used like this – as a prescriptive rather than a descriptive term – it is regarded as the key by which disputes and conflicts among the economic, social and environmental domains can and ought to be resolved (Bañon Gomis *et al*., 2011:185).

It is further held that dialogue should be used to debate the conflicting interests that will arise between these domains. Furthermore, it is posited that dialogue, which is based on an ethical framework, one in which all three domains "… share in an ethic of sustainability", will assist to make real sustainability possible (Bañon Gomis *et al*., 2011:184). This point links with the argument of stakeholder-dependency that will be discussed next, following the overview of the Johnson & Johnson case study.

6.2.3 Case study: Johnson & Johnson and its ethical conduct framework

One example of a for-profit organisation that has successfully implemented the vision of using ethics as the unifying framework to guide its conduct to ensure its own sustainability is Johnson & Johnson, an American multi-national pharmaceutical, medical devices and consumer packaged goods manufacturer founded by three Johnson brothers in 1886 in New Brunswick, New Jersey, USA.

The Johnson & Johnson vision of *"Caring for the world, one person at a time"* is based on its credo that the organisation puts the needs and well-being of the people it serves first. The following extracts from its website highlight how the value-based philosophy of this organisation guided its management approach and decision-making, which has enabled it not just to survive, but to flourish in the 126 years since its inception:

"The overarching philosophy that guides our business is Our Credo, a deeply held set of values that have served as the strategic and moral compass for generations of Johnson & Johnson leaders and employees. Put simply, Our Credo challenges us to put the needs and well-being of the people we serve first. It also speaks to the responsibilities we have to our employees, to the communities in which we live and work and the world community, and to our shareholders.

We believe Our Credo is a blueprint for long-term growth and sustainability that's as relevant today as when it was written. Robert Wood Johnson, former chairman from 1932 to 1963 and a member of the Company's founding family, crafted Our Credo himself in 1943, just before Johnson & Johnson became a publicly traded company. This was long before anyone ever heard the term 'corporate social responsibility'. Our Credo is more than just a moral compass. We believe it's a recipe for business success. The fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change is proof of that." (Extracted from Johnson & Johnson's corporate website, 2012).

The example of Johnson & Johnson is used to substantiate the point raised in this study, namely that a for-profit organisation that is able to build a good reputation, based on a foundation of ethical and responsible corporate citizenship principles that are institutionalised and rooted in the organisation's culture and business operations, and has proven itself to be trustworthy, will ensure its own sustainability (Friedman & Miles, 2006:234-235; Jones, 2007:54; Marsden & Andriof, 1998:337).

The Tylenol crisis at Johnson & Johnson in 1982 can serve as a pragmatic example. In brief, at that time an unknown suspect/s tampered with the product by removing it from the shelves, infecting it with cyanide and returning it to the shelves. This led to the deaths of seven people. Once the connection between the Tylenol capsules and the reported deaths was made, Johnson & Johnson made public announcements warning people about the consumption of the product, halted all advertisements of the product and immediately recalled the product from the entire country, which amounted to about 31 million bottles and a loss of more than $150 million dollars.

Even though it was not directly responsible for the deaths, Johnson & Johnson acted ethically as a responsible corporate citizen and placed public safety above profit. When it later re-launched the product, the organisation introduced a triple-seal tamper-resistant packaging. It also took several other proactive steps to protect and educate its consumers and re-establish confidence in the product and trust in the organisation (Friedman & Miles, 2006:234-235; Jones, 2007:54; Zoulas, 2010).

Paine (1994:107) notes that the decision to recall the Tylenol capsules in order to avoid further loss of life from product tampering was "… in reality not one decision but thousands of decisions made by individuals at all levels of the organization". She further observes that this decision then "… is best understood not as an isolated incident, the achievement of a lone individual, but as the reflection of an organization's culture". It is held that a deeply ingrained set of shared ethical values and guiding principles (Jones, 2007:190) in the organisation led to Johnson & Johnson's "… rapid, cohesive and ethically sound response" (Paine, 1994:107).

6.3 SUSTAINABILITY: A SOCIAL, STAKEHOLDER-DEPENDENT CONTEXT

From a corporate sustainability perspective, a for-profit organisation as a social institution has responsibilities that extend far beyond the financial return on investment for its shareholders (Moss Kanter, 2011:68). The well-being of the planet, society, communities and individuals is under threat, which means that organisations and individuals cannot continue with their current behaviour and consumption levels. As noted in the sustainable development guidelines provided by The Sigma Project (1999:84), organisations "… have a key role to play – (either) as part of the problem or as part of the solution".

In an attempt to better balance social, environmental and economic needs, a for-profit organisation then needs to accept that it is also responsible to provide or contribute to providing a sustainable life to all stakeholders, which includes its shareholders as well as its employees, customers, suppliers, local communities and the society beyond the current generation (Gao & Zhang, 2006:724; Jones, 2007:28-31; Pirson, 2009:1; Stout & Blair, 2001:28). Pirson (2009:1) observes that "… doing well by doing good" seems a promising strategy with regard to managing stakeholder trust sustainably.

There is a growing body of evidence that indicates the increased self-awareness among organisations "… that they are no longer operating in a social vacuum" (Moon & Muthuri, 2008:18). The experienced environment within which a for-profit organisation operates encompasses all the stakeholders of the organisation, as well as the social norms and values that society prescribes to.

It is posited that a conceptualisation of corporate sustainability needs to include an acknowledgement of a for-profit organisation's dependency on its stakeholders, not just in terms of managing their expectations and opinions, but more importantly in regarding them as strategic partners that can effectively assist the organisation to achieve its sustainability goal. "Placing stakeholders at the heart of the corporate sustainability and inter alia, through them balancing the interests of [sic] among themselves to ensure balanced outcomes become essential to the methodological development of corporate sustainability." (Gao & Zhang, 2006:725).

Furthermore, it is believed that authentic stakeholder engagement can assist the for-profit organisation to anticipate and manage the spectrum of organisational risk more effectively, to enhance its reputation by making sure that its stakeholders know who the organisation is, what its core values are and so increase the levels of trust in the organisation (Luhmann, 1979:19; Moon & Muthuri, 2008:42,59). Swift (2001:23) notes that more transparency and increased corporate accountability through stakeholder engagement and dialogue give stakeholders a reason to trust organisations, "… based upon their engagement experiences and the dissemination of information to them via focus groups, interviews and corporate social reports".

A for-profit organisation that uses holistic corporate sustainability as a building ideology for rethinking its business strategy, will acknowledge that it would require systemic corporate cultural changes to achieve its goal. In effect it will admit that cultural change "… will involve investing in the long term, engaging all stakeholders and building a sustainable society as part of it, not just a sustainable business in financial terms" (Gao & Zhang, 2006:724).

By accepting this dependency and engaging with its stakeholders via a two-way dialogue process, where stakeholders are consulted, listened *and* responded to in order to earn its stakeholders' trust, a for-profit organisation can then realise the key benefits and opportunities inherent in such an approach (Bañon Gomis *et al*., 2011:184; Gao & Zhang, 2006:726; The Sigma Project,1999:14,31).

It is therefore posited that stakeholder trust and engagement "… establishes a more balanced conception of the organisation as a matrix of human relationships and competencies not necessarily limited to the borders of the organisation, and may offer the possibility to create a far wider and more dynamic concept of the sustainable organisation" (Gao & Zhang, 2006:724-725). The conceptualisation of sustainability as a broader social principle and reality, then positions the concept of corporate trust definitively within the sustainability framework.

6.4 CORPORATE SUSTAINABILITY: A PROACTIVE ETHICAL APPROACH

As outlined above, the corporate sustainability perspective includes a view of corporate governance that relies on the leadership of a for-profit organisation to adopt a *proactive ethical* stance, which recognises a for-profit organisation's responsibility to multiple stakeholders, as well as its role as a shaper of society (Cartwright & Craig, 2006:743; Haque, 2010; Jones, 2007:197) and which is founded on a commitment-based corporate governance framework.

Since the concept of an *Ethical Capitalist* has been introduced to typify a for-profit organisation that adopts this proactive ethical approach to conduct its business, a few key issues are highlighted to explain the role of leaders in making such an approach a reality in their organisations.

6.4.1 Primary role of the leadership of a for-profit organisation

King lll emphasises the need for the board of directors to provide effective leadership, based on an ethical foundation, as a primary responsibility to ensure the sustainability of the organisation (King, 2009:20). The view here is that sustainable management requires more than just ensuring that stakeholders' needs are addressed in the development and deployment of products and services (Bucklund *et al*., 2012). Rather, it is held that stakeholders' needs and expectations need to be addressed in every facet of the way the organisation does its business, particularly from an ethical perspective.

In line with the emphasis that King lll places on responsible leadership (King, 2009:9), the ability of leaders to commit to and implement a strategic change in direction is regarded as the primary and most effective pathway to create a sustainable and trustworthy for-profit organisation (McEvily *et al*., 2008:563; Jones, 2007:42,51; Paine, 1994:112). Kramer (2010:91) observes that "… if collective trust is grounded, in part, on a confluence of signals indicating the reasonableness of trust, then the signals that organizational leaders send constitute an especially potent source of trust". Since the leaders of an organisation tend to be focal points for organisational sense-making, it stands to reason that subordinates and stakeholders will pay a great deal of attention to what those at the top do, and what they do not do (Nooteboom, 2002:75).

In clarifying strategies for ethics management, Paine (1994:113) notes that commitment and self-governance according to chosen standards form the underlying ethos of such a strategy, and she emphasises that this should be driven by the leadership of the for-profit organisation. According to her, the hallmark of an effective ethics-management strategy is that the leaders of the organisation are "… personally committed, credible, and willing to take action on the values they espouse".

Similarly, Casson and Della Giusta (2006:349), who hold that the natural method to increase trust is to encourage people to make moral commitments, argue that, from an economic perspective, "… strengthening moral commitment is the primary role of moral leaders". Moss Kanter (2011:78) also notes a key characteristic of great organisations who build enduring institutions, namely that each consists of leaders who are focused on providing a coherent and holistic values framework for their business, one in which "… elements reinforce one another, are inextricably intertwined, and reflect a logic and a leadership style that permeate the corporation".

6.4.2 A proactive ethical stance required towards sustainability

It is then posited in this study that the leadership of a for-profit organisation should adopt a proactive ethical standpoint towards sustainability (King, 2009:9), one that needs to be based on their personal conviction that this is required to ensure a sustainable economic future for their organisation as well as a sustainable future for society (Cartwright & Craig, 2006:748). By adopting this stance, the leaders will not only be exercising their authority and role to ensure the effectiveness of their organisation's operations and ability to achieve its end-goal (Selznick, 1948:29), they will also be acknowledging that there can be no profit if there aren't any people, or there is no planet (King, 2009:12).

A for-profit organisation that is serious about its own sustainability, would then heed the advice of Fombrun and Foss (2004:288): "… but in all things, establish an ethical threshold – and do not cross it". From a corporate sustainability perspective, the consideration of corporate ethics will therefore lie at the core of an organisation's goals, decision-making and behaviour, as it adopts a proactive ethical stance (Cartwright & Craig, 2006:743; Ethics Resource Center, 2009; Jones, 2007:51,197; Swift, 2001:19).

An ethical stance is regarded as being proactive when leaders of a for-profit organisation change in the direction of sustainability, not because they are compliant or responsive, but because of their personal conviction that it is 'the right thing to do'

(Cartwright & Craig, 2006:748). A proactive ethical stance is regarded in this study to be more aligned with sustainability and the inevitable processes of change and adjustments that are required (Cartwright & Craig, 2006:743; Marsden & Andriof, 1998:338).

Such a stance will also realise many other benefits for the organisation. Existent literature indicates that a for-profit organisation that pursues a strategy aimed at adding value to society as a responsible corporate citizen will incur many benefits, such as an increased likelihood of limiting regulation, improving its character, enhancing its reputation, improving its employee recruitment and retention (Salzmann, Ionescu-Somers & Steger, 2005:27) and as posited in this study, also increasing its stakeholder support and creating trust. Furthermore, the presence of corporate trust, reputation and stakeholder relations can be regarded as "… hard-to-imitate, less tangible sources of competitive advantage" in any for-profit organisation (Moon & Muthuri, 2008:19).

A clearly committed ethical leadership will therefore significantly increase the likelihood of moving the organisation towards corporate sustainability. While legislation and market mechanisms can certainly be used to persuade for-profit organisations to shift towards sustainability, there are certain limits to that which can be achieved via these avenues, primarily because these methods rely on compliance, rather than on commitment, and because these are external stimuli, which largely ignore the internal motivation and peculiarities of the business for change (Gao & Zhang, 2006:729).

In addition, it is held that the leadership will accept their responsibility concomitant to the adoption of and commitment to such a stance. This responsibility includes the need for them to make certain strategic shifts in their organisation, including a shift to move from objects to relationships; from parts to the whole; from domination to partnerships; from structures to processes; from individualism to integration; and from a preoccupation with growth to a genuine desire for corporate sustainability (Gao & Zhang, 2006:728-729).

Most importantly, it will require the leadership of a for-profit organisation to move away from their traditional rational framework that is based on maximising short-term profits and delivering returns to shareholders (Moss Kanter, 2011:68; Nooteboom, 2002:11), and adopt an ethical framework as the guiding philosophy that will direct their decision-making, actions and business operations going forward (Bañon Gomis *et al*., 2011:185; Cartwright & Craig, 2006:743; Weaver, Treviño & Cochran, 1999:293-294; Wood, 2002:62). Such a longer-term focus will include an evaluation of the organisation's social, environmental and economic impacts and the value that it is adding to society through the way that it manages these responsibilities as a responsible corporate citizen (Jamali, 2006:809).

6.4.3 A strategic shift towards long-term corporate sustainability

As an early organisational theorist, Selznick (1948:29) already highlighted the importance of a strategy and policies to guide organisational behaviour and focus employees' attention and day-to-day actions. The ability to create a sustainable and trustworthy for-profit organisation then rests on the capacity of the leadership of that organisation to visibly shift its strategic priorities (Burke, 2011:152) from a short-term financial focus towards a strategic long-term corporate sustainability focus (King, 2009:13; Moss Kanter, 2011:68; Nooteboom, 2002:11).

Stakeholders do not focus on leaders' mental mindsets, but rather on their overt behaviour, which is why Burke (2011:152) emphasises the role of leadership behaviour when he notes that a culture change begins with "… a movement first particularly with managers 'walking' in a new direction". Leaders of a for-profit organisation who want to create a sustainable organisation then need to do more than just commit to sustainability, they need to act in a manner that will manifest their commitment by changing their corporate strategy, decisions, policies, procedures and actions in line with the desired new value-based identity, by basing these on moral principles, rather than exclusively on rational and financial standards and norms (Wood, 2002:69).

This means that the espoused identity and values of the organisation need to be integrated into the normal channels of management decision-making and must be reflected in the organisation's critical activities, such as its strategies, the allocation of resources, the gathering and communication of information, as well as the measurement and recognition of performance (Paine, 1994:113). This will also include revising the corporate communication policy and the symbolism that is used to present and communicate the organisation to its stakeholders. All of these needs to be done so that the organisation can begin to implement, exhibit and communicate the value that it is adding to society through the way that it manages these responsibilities as a responsible corporate citizen (Jamali, 2006:809).

For example, the for-profit organisation can add value through its economic activities by reducing costs and improving productivity through the more effective, systemic management of its resources and the implementation of rigorous integrity policies. It can also add value through its social activities by genuinely considering and balancing the diverse expectations and needs of its different stakeholders. Bhattacharya *et al*. (2011:3) note that an organisation that truly serves stakeholders' needs increases the likelihood that those stakeholders "… will interpret the corporate responsibility initiatives more accurately and therefore more positively".

Furthermore, it is held that a for-profit organisation can add value to its environmental responsibilities by doing more than just complying with laws and regulations and running socially correct initiatives such as recycling (Jamali, 2006:812). This can be done by rather taking a more comprehensive approach to its operations, products and facilities, which includes an assessment of its products, processes and services to eliminate waste and emissions; maximise the efficiency and productivity of all assets and resources; and minimise practices that might adversely affect the enjoyment of the planet's resources by future generations.

The move towards a long-term strategic focus is then a move "… towards a more holistic performance assessment model that encompasses measures related to both multiple stakeholders and responsibilities" (Jamali, 2006:812). It is therefore posited that any organisation that wants to remain viable, needs to be able to practise sustainable management, which is regarded as the ability to direct the course of the organisation in ways that will "… restore and enhance all forms of capital (human, natural, manufactured and financial) to generate stakeholder value and contribute to the well-being of current and future generations" (Bucklund *et al*., 2012).

It is therefore posited in this study that corporate sustainability can only be given real significance and achieved through a multi-stakeholder approach, with a proactive ethical stance as its foundation (Cartwright & Craig, 2006:742; Jones, 2007:51-52,197; Gao & Zhang, 2006:724). The underlying philosophy of King lll, as well as the acceptance of the viewpoint that stakeholders, as 'ultimate compliance officers', will punish an organisation that violates governance principles, especially in ethical respects, then places the concept of corporate trust firmly at the core of corporate sustainability.

7 CONCLUSION: TRUST PROPELS THE FUNDAMENTAL SHIFT

One of the key risks and challenges that face a for-profit organisation in the twenty-first century is to ensure its own economic sustainability. Based on the conceptualisation of corporate sustainability in this study, as a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, defensible, justifiable and viable, now and in the future (Bañon Gomis *et al*., 2011:173), its dependency on constructive relationships with all its internal and external stakeholders has been highlighted. As noted by King lll, a for-profit organisation cannot operate and ensure its own long-term economic sustainability without its stakeholders' support (King, 2009:10).

This has established the need for a for-profit organisation to earn its stakeholders' trust and support by establishing an identity and reputation as a responsible corporate citizen *and* by actually becoming one, worthy of the trust its stakeholders place in it. Mitchell (2001:128) acknowledges that "… the importance of being trusted is to instil and reinforce the character and virtue of the trusted party".

A key point that has been emphasised in this chapter is that it is therefore the for-profit organisation's consistent, trustworthy behaviour and actions, more than anything else, which shows that it bases its business operations on an ethical and value-driven foundation and has a serious regard for the impact of its business operation on the economic life of the community in which it operates (Rushton, 2002:139), which will enable it to earn the trust, and therefore the continued support, of its stakeholders.

Corporate sustainability is then related to the for-profit organisation's ability to conduct its operations, to *behave*, in such a manner that it meets its own existing needs without compromising the ability to meet its own future needs or the ability of future generations to meet their own needs. This study holds that a for-profit organisation's ability to ensure its long-term economic success in a sustainable manner is evidently linked to its ability to be trustworthy (Ingenhoff & Sommer, 2010:339; Porter & Kramer, 2006:81).

The issue of responsible leadership, which is characterised by a proactive ethical stance and the strategic intent to direct their organisation's strategies and operations with a view to achieving sustainable outcomes for all (King, 2009:9; Moss Kanter, 2011:68) is then regarded as central to the issue of sustainability and trust. It is held that the fundamental shift in the way organisations and directors act and organise themselves to address sustainability issues that King lll calls for, can only take place if an organisation adopts this view of corporate sustainability, and adopts a proactive ethical stance towards all its stakeholders; creates a trustworthy organisation and consistently acts in accordance with what it professes itself to be (King, 2009:9; Moss Kanter, 2011:78).

Since trust is seen as an outcome of the processes by which the various components of the for-profit organisation interact with each other and with its environment (Kramer, 1999:570), a for-profit organisation needs to appreciate the importance of acting in a way that will foster and build trust in the organisation and its leadership (King, 2009:10), and to do so consistently whilst delivering on its short-term needs for economic profit. This also requires the organisation not to engage in opportunistic behaviour, even in the face of short-term incentives to do so (Mackey, 2009:82-85; Nooteboom, 2002:11).

Although opportunistic behaviour might yield short-term benefits, these benefits may prove to be unsustainable over the long term (Mackey, 2009:83), and result in a long-term cost in the sense of a lack of trust that might inhibit future benefits. Hosmer (1995:386) holds that it is an economically rational decision for an organisation to do exactly what it has contracted or promised to do, since it would not want to suffer an eventual loss in reputation and hence, the support of its stakeholders.

Corporate reputation is therefore regarded to be the result of trustworthy ethical behaviour by the organisation (Hosmer, 1995:386), which results in stakeholders' trust.