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► **To cite this version:**

Francesco Gangi, Jérôme Méric, Rémi Jardat, Lucia Michela Daniele. Business for society. Routledge, pp.142, 2019, 978-0-367-34549-5. 10.4324/9780429326509 . hal-02382307

HAL Id: hal-02382307

<https://hal.science/hal-02382307>

Submitted on 12 Sep 2023

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Business for Society

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INTRODUCTION

Although not the case as recently as 150 years ago, business and management are unarguably intrinsic parts of our lives today, wherever we live or wherever we work. Over the last century, the interplay between business and society has progressively become evident for all to observe. Paradoxically, self-evident things are hard to explain, hard to make explicit even. Do critics in an anti-business position know precisely *why* business matters should not dominate and pervade society? Do proponents of a society that is entirely managed as a business know precisely *why* business relationships should be a model for social ones? It has to be admitted that the answer to both questions is no: most opinions regarding the role of business within society (and vice versa) ignore the possible dialectic relationships between business and society.

Interestingly, if we rewind to a time over five decades ago, the answers might have seemed obvious to both practitioners and theoreticians. Drucker (1954) would tell you that business is the activity of providing goods and services to people. Chandler (1962) would persuade you that the economic growth of the previous two centuries would not have been effective without the coordination of production processes provided by corporations and managers, as practical problem-solvers, to produce “the wealth of nations” (Fligstein, 2008). And Berle and Means (1932) were calling for new legal frameworks in order to fully recognize the role of managers as key players between suppliers (including ownership as pure suppliers of funds), workers and society (Segrestin, 2011).

In the 1970s and '80s there was a great shift in the social representation of the economy. Firstly, companies suddenly became central in social matters. Until this time, profit was generally seen as ensuring the sustainable contribution of company activities to society, but now financial objectives were becoming business's sole priority. The crisis of the 1970s is acknowledged to have caused the emergence of the shareholder value conception of the firm (Fligstein and Shin, 2004), according to which assets are to be selected and managed purely in order to return the highest possible profits for shareholders. Profit-making activities were progressively disconnected from trade and commodity production and moved to financial channels (Krippner, 2005). This phenomenon was reinforced by the ideological hijacking of all attempts to stand up against the reversal that had occurred. The shareholder value perspective now seemed to exclude all other constituencies (workers, unions, states, etc.) from consideration. Among other attempts to redress the balance, stakeholder theory (Freeman, 1984) was advanced to remind managers – and academia – that these constituencies needed to be taken into account. A few years later, this framework formed the basis of the “stakeholder management” toolbox: a series of “how to” exercises in identifying stakeholders, assessing their interest, communicating to them and influencing them. Unsurprisingly, academia has played a major role in the hijacking process by turning critical approaches into functionalist ones.

Research on “business and society” began by setting the two concepts apart from each other, as if the realities they described were independent from each other or differed in substance, and their interplay was the area of interest. This approach was basically a liberal one. The stakeholder view led to the emergence of a new research stream, “business *in* society”, mainly based on inclusiveness. In this, business was perceived as a part of, and playing a role within, society. Unfortunately, this functionalist approach is also subject to being hijacked. Stakeholder management theories belong within this research stream. The great transformation we are experiencing (Polanyi, 1944) seems to place business at the core of political and social spheres. There does not seem any way to escape

this hijacking process, unless we try to change our perspective and simply bear in mind that, ultimately, business should always be expected to act *for* society.

This book is designed to open the door for a series of contributions aimed at providing theoretical and practical answers to the following question: How, why and under what conditions can business act for society? We view it as essential that answers to this question are found if we are serious in our aim of restoring mutual confidence, respect and cooperation between companies and society. Business should without question act on behalf of society, and society should not be reduced to a mere lever of profit-making. It is high time we once again adopted this fundamental win–win and integrated approach. When we treat social responsibility as an external function of core business, we are exposing ourselves to the worst.

1.1. What does hijacking consist of in managerial studies?

Why is it so difficult to give voice to criticism of the capitalist system? Why has such critique weakened rather than strengthened as time goes on? Boltanski and Chiapello (1999) have introduced the hypothesis that critique is “recuperated” by the dominant ideology. We build on this assumption to propose that critique of management practices and discourse is hijacked by the mainstream.

1.1.1. The premises: recuperation of the critique of capitalism

Boltanski and Chiapello (1999) defend the idea that it is necessary to look for “ideological changes that have happened alongside recent transformations of capitalism” (p. 35). Critique often seems to be disarmed by the pleasant faces of capitalism, accompanied by subsequent or precedent moral justifications. Published at the end of the 1990s, Boltanski and Chiapello’s book describes how capitalism’s transformations played out in tandem with a weakening of critique. It goes on to introduce “new forms of critique”, which, when advanced twenty years ago, were supposed to be strong enough to resist the new spirit of capitalism of that time. Indeed, the “ideology that justifies our engagement with capitalism” (ibid.: 42) is so strong that critique, defined as a pragmatic stance based on resentment, has to develop patterns of resistance. Boltanski and Chiapello consider several forms of critique. First, the “artist” critique denounces “disenchantment”, “inauthenticity” and “domination” in capitalist systems. The “social” critique depicts capitalism as inducing “poverty” and “inequality” while fostering “opportunism” and “selfishness”. Thus, the spirit of capitalism responds by providing answers in terms of the “excitement” (for instance, entrepreneurial enthusiasm), “social welfare” (security) and “common good” (guarantee of justice) that capitalism provides.

Management language and literature are the most explicit expression of the spirit of capitalism. Guidelines or best practices for leaders and managers are framed in such a way that economic interest is bound up (or left apart) with moral engagement. Boltanski and Chiapello show how the new faces of capitalism have recuperated to some extent, the criticisms that had been expressed towards the “ancient world”. Long-range planning, hierarchy, formal authority and Taylorism have been replaced with personal relationships, empowerment, self-monitoring, participation, multidisciplinary approaches, network organizations, innovation and flexibility. These changes are the foundation stones for the “projective city”. They are interpreted as answers to the “artist” critique, which in any case all but vanished two decades ago. In fact, capitalism has actually fed on critique. It has absorbed opposition within its own metamorphosis. In doing so, it moved towards a model based on connectivity, autonomy and flexibility at the expense of a former value promoted by the spirit of capitalism: security. This ideological shift has been described by Pesqueux (2007) as the “liberal moment”: freedom becomes much more valuable than security, individual performance is preferred to collective effort, effectiveness overtakes political insight, charity supplements a declining welfare state, local approaches replace great universal stories. Of course, a new criticism emerges in such a context: in a world of connections, what happens to those who cannot connect? How can laws stabilize social relationships in the unsteady world of networks? In their postscriptum,

Boltanski and Chiapello make an attempt to moderate the fatalistic vision conjured within their work. However, overall, their research suggests that capitalism is more flexible than its critics and thus evades attack by evasion and shapeshifting. But what about the precise case of criticism of management practices and discourse?

1.1.2. Our position: critique of management is hijacked by dominant theories

Management knowledge is fundamentally pragmatic, according to Peirce's (1905) understanding. Practice is the very essence of management concepts; conversely, managerial ideologies are instantiated within practice. By nature, management theories are predominantly normative or in search of justification. This leaves little space for inconsistency between ideas and facts, representations and actions. Most of all, it opens avenues for one-track thinking. The ecology and the economy of management knowledge reinforce this phenomenon (see Chapter 3 for more details). Thus, it is unsurprising to find Boltanski and Chiapello describing management discourse as the flagship for the new spirit of capitalism. At the same time, any critical theories that emerge in the field of management knowledge are constrained by the pragmatic imperative as described above. To a certain extent, they are required to demonstrate consistency with extant practice; in, doing so, they necessarily adopt mainstream assumptions.

Critiques within the management knowledge field are never radical: they do not question the capitalist system's underlying premises. In considering the business-for-society project, neither do we. However, we aim to show that, when management knowledge is under consideration, critiques must be protected from the rapacity of dominant management or shareholder views: appetites that lead the mainstream to hijack critical theories. "Hijack", used literally, means to steal by means of stopping a vehicle, or to take control of an airplane by coercing the pilot at gunpoint. We use this word carefully, and assert that it is a more appropriate term than "recuperation" or "diversion" to describe what we observe. Academic definitions make a distinction between hijacking and diversion or recuperation, with hijacking combining three characteristics: it is violent, it is morally reprehensible, and it preserves the stolen object for further, diverted, use. When the purpose of a critique is to effect a change in business practice in the interest of society, it is an immoral act of violence to hinder it. Nonetheless, the core of the critique is retained by the hijacker and reflected in the shape of pledges of social or environmental commitment. The moral reprehensibility of the system is seen in the way the original message is twisted to amplify the apparent moral value of a practice that remains fundamentally unchanged. Violence is also evidenced by the pressures exerted by academic and professional institutions, wherein academics and other actors who desire to persist with the critique become progressively caught within the iron cage (Weber, 1934) – a cage created by the system in which management knowledge is created and preserved.

Why do no businesses try to instil in their top managers a higher sense of responsibility, but instead allow them to myopically run operations for the sake of the short term, with no concern for the company's future (Stein, 1989) – all the while giving pledges about responsible value creation? Probably because they have learned how to neutralize the shareholders – who should ordinarily be interested in the company's long-term performance. This is a direct consequence of the hijacking of Berle and Means's "Modern Corporation" by means of agency theory.

Why do no businesses seriously consider their impact on the environment instead of decoupling their assuaging speeches and reports from their increasingly polluting practices? Probably because they have learned how to neutralize those stakeholders who might denounce such attitudes. This is a direct consequence of the hijacking of stakeholder theory by the mainstream.

Let us present some details about the history of these hijacks, and how this process operates in the field of management knowledge.

1.2. How agency theory hijacked managerialism

In 1932 the economist Berle and the statistician Means (B&M) completed their research on modern American industry. They painted a picture of two interconnected socioeconomic phenomena: namely, the proliferation of the joint-stock company and the separation of ownership from control. In the first case, the reference is to a new legal vehicle which afforded many industrial companies significant growth. The second reference is to the phenomenon of proprietary dispersion which ushered in an era of control by managers. This analysis lays the foundations for many theoretical and practical implications, ranging from managerialism to its hijacking by agency theory, conceptions of the economic purpose of the firm, and the duties of those who control it.

1.2.1. Evolution towards the managerial theory of the firm

B&M found that the 200 largest companies in the US (other than banks) held nearly 59% of corporate wealth and controlled 22% of all the wealth of the country. Armed with these remarkable figures, the two authors were able to identify the new tendency of capitalism, which would subsequently be borne out in the ensuing years and up to the present: namely, a massive concentration of economic power in the hands of the giant corporations and exercised by the “new princes” of these “economic empires” (Berle and Means, 1932: 124), i.e. managers.

B&M’s analysis was timely. The financial magnitude of large companies has steadily increased over the years, as confirmed by data on public companies. For instance, in 2017, the total assets of S&P500 listed companies come to about twice USA’s GDP; total assets of FTSE100 listed companies are almost five times as high as the UK’s GDP; total assets of DAX listed companies are about twice Germany’s GDP (a similar situations obtains in Italy); and total assets of CAC40 listed companies equal around three times France’s GDP.

As argued by B&M, the increased power in the hands of managers is a consequence of the proprietary dispersion of the “quasi-public” corporation (Berle and Means, 1932: 5). Such an entity is characterized by the presence of owners without appreciable control and a control without appreciable ownership. This split between those that own the company and those that control it is, according to B&M, inherent to the corporate system, with firms under management control where no single individual is the holder of an important proportion of total ownership.¹ It is a new configuration of the firm, revolutionizing the classic business model with the co-existence of an entity with a predominantly financial purpose and a management to which the entrepreneurial role is delegated. Focusing on this role, Drucker (1985), a few decades later, would recognize in management the main “vector” that has favoured the development of the business economy. From

¹ B&M conventionally identify 20% as the threshold of ownership of social capital beyond which there is a connection between power and property. The companies with lower control quotas (between 5% and 20%) are defined by the authors as “management controlled” (Berle & Means, 1932: 5). “For practical purposes that control in the hands of the individual or group of directors, or by mobilizing the legal right to choose them” controlling “to majority of the directly or through some legal device – or by exerting pressure which influences their choice” (ibid.: 69). Since direction over the activities of a corporation is exercised through the board of directors, we may say for practical purposes that control lies in the hands of the individual or group who have the actual power to select the board of directors, (or its majority), either by mobilizing the legal right to choose them — “controlling” a majority of the votes directly or through some legal device - or by exerting pressure which influences their choice. (ibid.: 69).

this perspective, management becomes a *techne*, a technological innovation that has allowed people with different skills and knowledge to come together within the same organization and be productive (Drucker, 1985).

Indeed, the innovation that was managerial control, as described by B&M, has become so impactful over the years that it has significantly fuelled the debate on the broader theory of the firm, particularly with reference to decision-making and business aims. In relation to the first aspect, ownership, once separated from control, becomes exclusively the holder of a security that confers rights and obligations towards the company, and assumes a more passive than active role. As we will describe in the following sections, this aspect favours the conception of the firm as a legal fiction, according to the proponents of agency cost theory (Jensen and Meckling, 1976). The figure of the professional manager, who shares the same entrepreneurial spirit, is added to the heroic figure of the entrepreneur-owner described in the Schumpeterian model (1934) – someone with the ability to transform an invention into innovation and therefore into a business opportunity. Some years later, around the 1980s, scholars of managerial theory would introduce the new concept of widespread innovation which is rooted in the roles of top and middle management, and on inter-organizational links within company (Drucker, 1985; Imai et al., 1984). As Drucker argued, in that period experience taught us that the size of firms under management control does not impose a limit on innovation. On the contrary, the large companies are also the most innovative (Drucker, 1985). The limit is one of structural inertia, and an entrepreneurial management works against such an organizational bond. This new vision of the company and the innovative capability of the managerial system is widely reflected in the present day. For instance, a giant corporation like Google (around \$800 billion in capitalization in 2018) is identified not only with founders Larry Page and Sergej Brin but also with its CEO Sundar Pichai, who is among the world's most respected CEOs (Reputation Institute, 2018). The same can be said of Apple, which from founder Steve Jobs has passed into the hands of CEO Tim Cook, increasing its market value by 60% (estimated at around \$1 trillion in capitalization in 2018).

Thus, the biological metaphor of the company, for which the firm is identified with its founder, is overtaken by an evolution towards the managerial firm. The company is no longer just a reflection of the innovative entrepreneur's personal values and ideas, but now also of those of the managers who work in and for the company (Harris and Freeman, 2008). In order to understand the economic essence of the company, the role of equity must not be confused with the entrepreneurial function. The company's performance is continually assessed by external forces acting within the financial markets, institutions and society. The risk capital loses its uniqueness and becomes a resource like any other. The entrepreneurial spirit is no longer a meta-economic phenomenon, which classical economics struggled to identify, but can now, as part of the managerial firm, be integrated into theory (Drucker, 1985).

However, despite this evolution leading to the overlapping of the functions of manager and non-proprietary entrepreneur, the diversified body of managerial theories all converge on the possibility that managers could pursue objectives that do not coincide with profit maximization. Theoretically, profit maximization should be the main incentive stimulating innovation, the development of the firm – and of the whole capitalistic system – according to the classic entrepreneurial spirit of creative destruction (Schumpeter, 1947). This potential gap between managerial behaviour and business purpose, which should imply the adoption in any case of the option of maximizing profit, is what attracts the attention of agency theorists, who focus on the potential misalignment of the objectives of managers and shareholders. They draw attention to the costs of this gap, among which we find

the expenses of compliance with a presumed but at the same time not generally accepted social responsibility of the firm (Friedman, 1970; Jensen and Meckling, 1976). Rather than curbing the potential of such a vague concept, for example by maximizing the gap between revenues and costs or maximizing company value (equity), a theory that was complementary to managerial theory, like the agency framework, concentrated attention on the alleged divergence between managers' and shareholders' goals and on the incentives designed to close this gap. In doing so, they focused on one of the aspects identified by B&M in 1932 as a possible consequence of the separation of ownership and control, and ignored other factors such as community concerns and the role of managerial companies as social institutions.

Indeed, profit is a simple concept (the difference between revenues and costs), yet at the same time ambiguous when the business purpose is identified with its maximization. In other words, profit in itself is not under question (Sen, 1987), but rather its origin, and the choice about which type of profit should be maximized: short-term or long-term? With what degree of risk should it be pursued – not only financial risk but also social? For which principal, if the organization of the production factors no longer competes passive owners?

In general terms, the discussion about whether a lack of profit maximization misaligns managerial and proprietary objectives does not make sense, at least if the temporal preferences and conditions of uncertainty within which managers execute their actions are not defined. Outside of economic models based on principles of perfect efficiency and rationality, time orientation and risk cannot be generalized as they will vary from individual to individual and depend on the degree of uncertainty underlying the various decision-making alternatives.

Observing companies' actual behaviour, we see that decisions cannot always be explained in terms of profit. Based on these premises, historically, managerial theories have proposed different alternatives to pure profit maximization. Dimensional growth in terms of sales volumes (Baumol, 1959) increases the company's power, reduces risk and increases stability. In a corporate survival orientation (Marris, 1963), profit is not a goal to be maximized at any cost, but a means of strengthening the company's capital structure. "Maximum profit" can be replaced by "maximum safety". For Drucker (1954), the latter can be measured in terms of market position, innovation, attraction and retention of qualified human resources, availability of financial resources, and profitability. For Galbraith (1967), the first condition to be met in identifying an orientation that diverges from the monolithic and under-determined goal of maximum profit will concern the degree of decision autonomy of the corporate governance managerial structure (the essence of technostructure). Thus, in a managerial perspective, other decision logics come into play, in addition to profit, such as the need for security, containment of risks, prestige, creativity, image and business continuity. Must these goals be *a priori* in opposition to shareholders' interests? In increasing shareholder value, can we not also imagine management solutions that mitigate risks rather than excessively exposing the company to them? The prestige and the good reputation of management and of a company surely cannot be limiting factors for opportunistic behaviour? Such aspects are generally overlooked by agency theorists, who maintain a belief in the risks of excessive managerial discretion (Williamson, 1964). By adopting a pessimistic view of human nature (Ghoshal, 2005), agency theory sees the discretion of the manager as a source of opportunism and tantamount to a policy of maximizing manager usefulness at the expense of the owners' interests. An excessive level of discretionary spending, or investment in personally preferred projects, are assumptions about the outcomes of managerial discretion that do nothing to advance managerial theories beyond the potential conflict with the logic of pure profit or the failure to increase shareholder value. The

negative consequences of such a theoretical approach are inevitable if the financial market acts in myopic way or management focuses exclusively on maximizing shareholder value in the short term, ignoring other kinds of performance, such as corporate social performance and sustainable competitive advantage. With regard to the latter, the agency perspective adds nothing with regard to the conceptual gap in the managerial perspective that ought to be addressed, namely the need for an explicit reference to the expectations of the community. On the one hand, this gap is widened by identifying the nature of the company as a legal fiction that precludes any form of social responsibility (Jensen and Meckling, 1976); on the other hand, the alleged conflict between property and control contributes by further restraining the manager from playing a more positive role towards society (Ghoshal, 2005). The manager loses the opportunity to legitimately pursue goals other than value maximization. Even an agency theorist like Jensen recognizes that this aim harnesses managerial action and company function together. Thus, the hypothesized solution is an enlightened value maximization that takes into consideration a long time-horizon and stakeholder interests (Jensen, 2002).

The next section examines the constraints and distortions caused by the contractual nature of the firm emerging from agency theory. The impact that this approach has had – and still has – on managerial practice is detailed in the section 2.1 of Chapter 2 on the determinants and effects of the risks of the pretence of knowledge.

1.2.2. A separation of ownership and control does not mean disregarding corporate social responsibility

The agency model is theoretically applicable to different fields of economics and to different social phenomena (Ross, 1973; Mitnick, 1975). It is an approach that provides for the existence of a contractual relationship under which a party (principal) instructs another party (agent), who agrees to perform a service on behalf of and in the interest of the former, in exchange for compensation. To undertake the service, it is necessary that the agent has a broad degree of decision-making autonomy (Jensen and Meckling, 1976). In general, this conceptual framework is potentially applicable to all those cases of social interaction in which there is a bilateral relationship between principal and executor within a cooperative effort. Given its configuration, the agency model as applied to the field of business theory and managerialism is distorted by the potential divergence of interests between the manager (agent) and the property (principal), as described by B&M (1932). By identifying the manager's role as that of acting solely in the owner's interest, B&M implicitly allow the possibility that such an alignment may not always hold good, because a manager could act in pursuit of personal gain, which might often conflict with that of the property (Berle and Means, 1932). Agency scholars, in obsessing over this dilemma, transform a potential risk into a form of recurrent opportunism inherent in a manager's human nature, imagining solutions and penalties to contain the conflict of interest between principal and agent. In doing so, agency theorists, in their attempts to clarify what is the "black box" we call a firm, assume that it is a form of legal fiction having an essentially contractual nature. The company is a nexus of contracts (Fama and Jensen, 1983); it is not an individual – so it would be misleading to assume that a company has a social responsibility (Jensen and Meckling, 1976). Managerial actions will tend towards safeguarding personal reputations by making unjustified social investment at the expense of the property (Barnea and Rubin, 2010). In this trade-off hypothesis, effective governance mechanisms should limit managerial action to only those spending decisions that create shareholder value (Jo and Harjoto, 2012; Gangi et al., 2018a). This vision of the company and of the managerial function

takes with it a theoretical perspective that denies the practice of management any moral or ethical role.

As Ghoshal (2005) points out, no one has given a stronger voice to this denial than Milton Friedman (1970). In fact, the position of classical agency theorists Jensen and Meckling (1976) is clearly in line with Friedman's proposition whereby the company is an artificial person and only the physical persons have responsibilities. For Friedman, corporate social responsibility is basically an agency problem (McWilliams et al., 2006). The manager is an agent of those individuals who own the business (principals). Therefore, managers are responsible to ownership and this responsibility consists exclusively in making as much money as possible, in accordance with social rules as enshrined both in the law and in basic ethical norms. Although Carroll (1991) recognizes that, according to this last specification, what remains outside the boundaries of business, as far as the Friedman position is concerned, is the discretionary responsibility, it is nonetheless distorting to hypothesize that the only form of non-business social responsibility can be philanthropy. The Friedman school of thought leaves no space for the social function of the firm: something that goes far beyond compensating society for sustained profits or negative externalities. For agency theorists, since companies are not individuals, they have no moral obligations. This is a cornerstone of the agency framework as applied to business theory from a managerial perspective, and stands in contrast to the identification of potential purposes of the company other than profit maximization (Jensen and Meckling, 1976). The reference here is not only to classical managerial theories (Baumol, 1959; Marris, 1964) but also to the behavioural theory of the firm and the social limits to maximum profit (Simon, 1955; Cyert and March, 1963: 169-187). In particular, by ignoring alternatives to profit maximization, Jensen and Meckling (1976) see Simon's analysis (1955) misinterpreted, since satisfactory choices/behaviours imply a rejection of maximizing behaviour instead of maximization subject to the costs of information and decision-making.

Under the assumptions described above, agency theorists harness managerial action to a narrow purpose, and admit no legitimate role in pursuing the company's social responsibility, simply denying that this responsibility even exists. At the same time, paradoxically, agency theorists invoke "morality" in arguing that, should managers neglect their sole responsibility of making as much profit as possible, they are operating at the expense of employees' and consumers' interests. Everything is reduced to a calculation of economic convenience and prices which, in a perfect market, would express the perfect balance between cost and value of the services performed, or between use and exchange value. The free market is the most effective way of guaranteeing a convergence of interests between managers and shareholders. It is "sufficient" that the former maximizes the current value of expected cash flows given the opportunity cost known to the manager in the absence of information asymmetries and without limits to the capability of processing available data.

For agency theorists it would be immoral for a manager – in the absence of the necessary authority, i.e. not being an agent of an elected government – to pursue a goal other than company profit, because this would be equivalent to the imposition of improper taxation on the property (Friedman, 1970). If, in theoretical terms, any form of government must limit its action because the main form of personal protection is personal liberty (Friedman, 1962), then, *a fortiori*, the manager who holds the power of control has no authority to limit or make conditional the use of money by the property of the company. For Friedman (1962), the aim of a free capitalist system in which a firm operates is the freedom of individuals: there cannot be any coercion or deviation in the remuneration of the property as the residual claimant (Fama and Jensen, 1983). The enterprise must produce profit: this

is the only social responsibility in a model in which ownership is separated from control – and any managerial action that deviates from this path only serves to increase the divergence of interest from that of the owners. The consequent assumption is that ownership cannot be identified with the company: shareholders' personal values are not to be confused with business purpose. The dividend is a reward for the owner who will then, freely, decide what use to make of that money, which can include satisfying additional needs such as the interests of the community. However, so the argument goes, this must be a free choice not an imposition as a result of management action.

Indeed, the limits of the agency model as applied to firm theory can be identified by revisiting some of the fundamental statements contained in the B&M study (1932) – those that describe the social implications of a managerial firm. The failure to acknowledge these is what led to the hijacking of managerialism.

First of all, in the model of separation, control is not a matter of responsibility towards the shareholder alone. For B&M, the quasi-public corporation is an economic revolution and a social phenomenon that imposes new responsibilities on management with regard to other non-proprietary subjects, legally speaking, such as workers, consumers and the state. The quasi-public corporations as described by B&M have a social significance. These organizations have “passed far beyond the realm of private enterprise – they have become more nearly social institutions” (Berle and Means, 1932: 46).

Secondly, the separation model makes clear reference to the relationship between management and stakeholders, particularly when B&M acknowledge that it is not only the stockholders that are interested in the business: the bondholders, the workers and consumers are also groups that have interests (ibid.: 120).

Thirdly, B&M showed how, in their words, “the economic power in the hands of the few persons who control a giant corporation is a tremendous force which can harm or benefit a multitude of individuals, affect whole districts, shift the currents of trade, bring ruin to one community and prosperity to another” (ibid.: 46). Management cannot ignore the social responsibility of an organization in which it holds the power of control.

Hence, for the community, and for the various interest groups generally, the risk posed by a large, concentrated economic power in the hands of a few is further amplified if the orientation of managerial action is towards profit maximization alone. In warning against the exclusive pursuit of profit, B&M caution that it can become an incentive to adulterate or otherwise lower the quality of products (ibid.: 45). This highlights the limits of agency theory: it fails to account for temporal considerations or risks in its legitimization of a profit maximization orientation. The manager who lowers product quality can achieve a higher profit in the short term with equal revenues, but will have to face the problems caused by consumers' reactions in the medium to long term. At that point, the pursuit of (maximum) profit will be conditioned by the potential lower demand connected to the loss of trust on the part of the customer. The higher short-term profit may reduce the long-term one.

Property, too, is not immune to the risks of a solely profit-oriented managerial behaviour. Friedman, it is true, draws the line at deception or fraud, but the question is whether an exclusive pursuit of profit actually encourages the managerial control to cross these lines. The defence of profit in the absence of social responsibility can be a very dangerous binomial. When Volkswagen finds itself paying over \$10 billion in damages to the US government and consumers because of the software

that falsified its CO₂ emissions tests (so-called “dieselgate”), and taking into account the reputational impact, the company brings evident and long-term economic damage on itself and on its property. The famous Ford Pinto case may seem remote now, but it is one more reminder of recurring evidence confirming the transgressions that may occur if managerial decision-making is based on economic calculations only at the expense of personal moral responsibility and corporate social responsibility. Conceptually, ethics and moral values pertain to people, and managers are people. Social responsibility pertains to organizations, and firms are organizations.

The separation model cannot be seen only as a prodrome of agency costs caused by the divergence of interests between ownership and control; rather, it is necessary to recognize the responsibility that both the manager and the owner have towards safeguarding the interests of the community. Compliance with this common responsibility is a further factor other than profit that narrows the divergence of interests. Shareholders, if passive, do not participate in corporate decisions, but can deny support by refusing to place their capital with socially irresponsible companies. In the words of B&M (1932: 356), “Neither the claims of ownership nor those of control can stand against the paramount interests of the community”. B&M raised the idea of establishing the legitimacy of managerial actions that conform with corporate social responsibility. They argued that, if the “corporate leaders should set forth a program comprising fair wages, security to employees, reasonable service to their public, and stabilization of business, all of which would divert a portion of the profits from the owners of passive property, and should the community generally accept such a scheme as a logical and human solution..., the interests of passive property owners would have to give away” (ibid.: 356). There is not even the scantest reference to such an idea in the classic agency literature.

The conceptual value and the relevance of these statements confirm the deviation of managerial aims and practice due to the agency model. The actual question not only concerns the alignment of managers’ and shareholders’ interests around pursuit of maximum profit but should also include a concern for wider social interests – and how this can be pursued through managerial action avoiding the preconception that this must conflict with the interests of ownership. Those who govern the firm must consider the rights, interests and expectations of all those who might be influenced by managerial action (Freeman, 1984). The agent’s mandate is multi-fiduciary, meaning the manager is the agent of many other stakeholders in addition to the shareholder (Hill and Jones, 1992). There is nothing special or extraordinary about the shareholder role compared to that of other stakeholders (Boatright, 1994). A company, even with a separation between ownership and control, is not merely a nexus of formal contracts between agent and principal: it has a social as well as an economic function. Encapsulating the social dimension of managerialism, Freeman and Auster (2011: 15) state that organizations “are pushed to enact new values, such as responsibility and sustainability and pay more attention to the effects of their actions on their stakeholders”. In the absence of this, it is difficult to imagine what business can do for society.

1.3. How does hijacking operate? The strengths of the dominant ideology and the weaknesses of representations of critical opposition in the field of science and society

Having delivered a conceptualization of what we call “hijacking”, we need now to provide at least one example of how a theory that was primarily devoted to renewing management perspectives by integrating new categories of actors turned into a utilitarian view on how to *manage* stakeholders (i.e. how to neutralize them). Part of the early-1980s Zeitgeist, and being a reaction against the

excesses of shareholder-based views on strategic management, caring about other societal constituencies nonetheless had to be supported by a solid description of which elements of these constituencies could be taken into consideration. Even now, stakeholder theory is a central discussion point in management science, and is seen as a major stepping stone in the development of corporate social responsibility: “The stakeholder approach indicates that organizations are not only accountable to their shareholders but should also balance a multiplicity of stakeholders’ interests that can affect or are affected by the achievement of an organization’s objectives” (Van Marrewijk, 2003). The success of the new concepts proposed by Freeman (1984) is fairly understandable for at least two reasons. Firstly, the concept of “stakeholder” is simple enough to engage most readers, and thus found acceptance in both academic and professional contexts. Secondly, the proponents of the shareholder view had by this time gone too far, and this theory perfectly answered the need to rebalance conceptions of the business.

From the mid-1980s to the present day, stakeholder theory has found expression in both theory and practice, for good reasons (the need for rebalancing) and for less satisfying ones (the apparent clarity and generalizability of the concept; see Antonacopoulou and Méric, 2005). In any case, this broad narrative about “any group or individual who can affect or be affected by the objectives of companies” (Freeman, 1984: 46) has had a major impact on management responsibility discourse. Managers were now deemed to be responsible only if they could anticipate the consequences of their actions on all of society (and on the environment). Reciprocally, any member of society could now legitimately interfere with organizational decisions.

1.3.1. Some critical theories in the management knowledge field show significant weaknesses, among them authors’ desires to produce something “compatible” with extant management theories

Critical theories often do not adopt a genuinely critical tone. As such, they are more easily soluble within the mainstream. According to Antonacopoulou and Méric (2005), the main weakness of stakeholder theory lies in what Popper (1963) calls “generalizability-by-absorption”. Instead of building on new concepts that would prevent the new corpus from being hijacked by mainstream ideas, this theory integrates previously formulated knowledge. As far as it tends to provide systematic explanations of observed phenomena, it does not really favour contradiction or debate. In a rich overview of stakeholder-based approaches, Damak-Ayadi and Pesqueux (2003) underline their “misleading obviousness”. Stakeholder theory seems at first glance descriptive and pragmatic, an appearance that conceals the militant discourse it fundamentally supports. To be more specific, stakeholder theory builds on psychological and sociological concerns, concepts and theories, but disposes of the categories of these disciplines in favour of those of management science. For instance, the “civic virtues” theory suggests that people are altruistic enough to transcend their conflicting interests, no matter what their roles within society. Paradoxically, the stakeholder view still describes categories of actors based on their roles, functions and behaviours consistent with the functionalist and systemic approaches of organizations (Katz and Kahn, 1966). This is probably the first reason why it is so easily hijackable by functionalist mainstream ideologies.

The second reason for its absorbability consists in its compatibility with theories of control. In fact, management theories of control presuppose an organization based on contractual relationships. Agency theory has provided, sometimes *ex post*, a justification for control systems, through the idea of information asymmetry between principals and agents. Let us remember that that an agency relationship is a contract under which one or more persons (the principal[s]) engage another person (the agent) to perform a service on their behalf which involves some decision-making authority on

the part of the agent (Jensen and Meckling, 1976: 308). From a chronological perspective, it is accepted that agency theory made possible the emergence of shareholder-based views by providing a conceptual framework within which to analyse both intra- and extra-organizational relationships in terms of “suspicion”. Whereas stakeholder theory aimed to counter the exclusively shareholder orientation, it did not dare discard the framework of agency relationships. On the contrary, it still builds on the key presuppositions of agency theory which therefore underlies subsequent management discourse. Whereas Carroll (1989) still splits stakeholders into “primary” (contractual) and “diffuse” (possibly influential), Freeman and Evan (1990) refer to Coase (1937) to assert that fair contracts are the main solution to problems raised by the interaction of stakeholders. Hill and Jones (1992) are more specific in proposing that managers should be the agents of the company’s stakeholders, the degree of formalization of contract depending on the nature of the stakeholder. Multiplying those relationships should lead to a balance of partly or completely diverging interests. The nexus of contracts that would emerge from this global compromise is supposed to solve the problem of diverging interests between parties. To sum up, stakeholder theory does not emerge as an abrupt change in management knowledge, but as a sort of synthesis, a meta-theory to make formerly diverging hypotheses compatible in a wider whole. In so doing, it cannot preserve a critical standpoint, and progressively becomes mainstream.

1.3.2. Critical theories are progressively distorted by their own supporters to meet the objectives of mainstream ones, no matter what fundamental contradictions such a process may engender

In as far as they do not preserve enough distance from the mainstream, especially in terms of vocabulary, approaches and key concepts, critical theories are progressively turned into sub-elements of the dominant ideology. It seems that the absorptive capacity of the mainstream has no limits, especially through its ability to nullify fundamental contradictions. Stakeholder theory and agency theory are both based on the key idea of legitimacy, but the legitimacy of principals and that of stakeholders are fundamentally different. In agency theory, a principal’s claims are legitimate because of a contract, whereas a stakeholder’s claims are legitimate because they originate from the consequences of organizational action (Donaldson and Preston, 1995). This contradiction is solved by using contracts as a metaphor. The supporters of stakeholder theory introduce contracts as the primary basis for analysing any relationship between companies and groups that can affect (or be affected by) the objectives of the organization. The responsibility of management towards society and environment is represented in terms of contracts, be they individualistic and economic (as represented in agency theory) or multilateral and non-economic (as necessary when considering relationships with stakeholders). As a result, critical analysts as Sutton and Arnold (1998) or Damak-Ayadi and Pesqueux (2003) denounce the confusion that such an approach induces between right and wrong. In any case, the “spring is wound up tight”, in the words of Anouilh (1946). The metaphor plays its role to perfection, to the extent that people confuse it with reality. For instance, by the late 2000s, you would struggle to find anyone in the field contradicting the idea that nature should be considered as a customer (Florida and Davison, 2001).

1.3.3. The constraints for management practice that could be induced by critical theories towards responsibility are neutralized, see turned into new assets for management discretion.

This is particularly the case for control and information disclosure. According to agency theory, the substance of control lies in its ability to reduce or counterbalance informational asymmetry. In the realm of contracts, information focuses on outcomes (and incidentally on methods), but it preserves

the autonomy of agents in the way they fulfil their assignment. Extending the contractual approach of information sharing towards “diffuse stakeholders” (Carroll, 1989) does not produce the same effects. Social actors are aware that control over companies’ potentially harmful activities cannot be established in exclusively informational terms. Nor is transparency in any way satisfactory, because it is referred to as a mantra in a decoupling situation (“I am not doing what I am saying”), or because “it installs [...] a graduation between whistleblowing, denunciation and, if carried to the extreme, informing” (Pesqueux, 2012: 109). Other pathways of control have been sought, such as becoming shareholders or lobbying top management, board members or governments. This is the reason why the use of information is “perverted” in order to neutralize potentially harmful stakeholders by seeking to persuade them, or at least avoid any kind of protest (McPhail, 2002). The reversal of the informational function is symptomatic of the ongoing hijacking process.

1.3.4. In the end, a few fundamental criteria torn from the critical theory are absorbed into the mainstream, completing the hijacking process and making it possible in theory as well as in practice

The underlying criterion for stakeholder theory is undoubtedly fairness. As “obligations of fairness arise when individuals and groups of individuals interact for mutual benefits” (Phillips, 1997: 52), it seems clear that therein lies the moral issue of stakeholder theory. In order to clarify this aspect, Phillips (1997: 57), apparently with the agreement of Freeman, proposed the following definition of fairness: “Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted”. In spite of this open view of fairness in the realm of stakeholder theory, the idea of cooperation did not see significant take-up, be it in theory or in practice – perhaps because “mutual benefits” might allude to trade whereas “common benefits” would not. The “fairness” of relationships between stakeholders and organizations was, and still is, understood mainly in contractual terms. From a legal point of view, a contract is said to be fair when it does not engender any prejudice to any of the parties. This is highly reductive when compared with a moral interpretation of the same word, and this reductiveness is exacerbated by the fact that management science adopts an economic approach towards contracts. In conventional representations of organizational control, efficient markets ensure fairness of contracts. As a result, the fairness of contracts is mainly appraised through economic measures. Whereas stakeholder theory would call for more diverse criteria to embrace issues of social and moral responsibility, fairness is still considered in terms of formal, transactional contracts. In stark contrast to the wide cooperative scheme, “fairness” is circumscribed to apply solely to an adequate level of compensation regarding the responsibilities of each party in all possible alternatives (Hirshleifer and Riley, 1979). The relationship system between companies and any social or economic actor then works as a market of decisions in which the choice is to enter or not to enter into contractual agreements (Boatright, 2002). In remaining consistent with such a view, stakeholder theory is therefore adapted in order to be reconciled with the nexus-of-contract firm (Boatright, 2002). Put another way, contractual theories ultimately absorbed that which was supposed to be challenging them. But, more than that, the contractualist view actually becomes strengthened – morally and empirically – by the wider scope provided by stakeholdership.

However, in practice, it is hard to define what is a fair contract with any category of stakeholder. For instance, how would one set up a contract with a consumer associations or another NGO? How would one define, in such a context, reciprocal obligations? How are we not jeopardizing the

independence of such associations by defining their duty towards a company? We may assume, together with Boatright (2002), that the protection of each party is guaranteed only in the context of relationships ruled by fair contracts, but what must the content of these contracts consist of? The answer to this practical issue is provided by the proponents of stakeholder theory, and it remains purely ideological. Donaldson and Preston (1995), referring to neoliberal views (Rawls, 2001), suggest that ownership rights should be shared among shareholders and other parties. The suggestion sounds simple in theory, but it is hard to put into practice. How would one attach an ownership right to a non-shareholder agent, and define it in terms of decision rights and interest? And therefore how would one establish standards for the content of such “extended” contracts? Antonacopoulou and Méric (2005) see the only model for such a contract to be that of a social contract, as defined by Rousseau (1762): that is, a global process in which each individual renounces his/her natural freedom in order to preserve his/her civil freedom. Such a conception would make sense if applied to legal entities. It would preserve society from companies’ attitudes that are often based on principles of “might is right”. Anyway, this approach does not really fit with the standard of transactional contracts as considered in liberal approaches. Fairness in a social contract is located somewhere else. It mostly depends on law and on social rules. Calls for legal foundations for stakeholder theory (Radin, 2002) do not seem to have led to major changes in the landscape of stakeholder-oriented regulation. This is probably because, again, the “legal imagination” envisioned by Radin remains embedded in representations based on contracts or property.

However, it is worthwhile remembering that the rot set in when stakeholder theorists began to emphasize “mutual benefits”. In so doing, they still looked at combining diverging interests and collaborative imperatives according to transactional patterns (Post et al., 2002a,b). Oppositional representations of the economy in distinction to society inevitably lead managers to look for ways to neutralize potentially harmful stakeholders. Stakeholders are a potential threat to the business, and there lies the blind spot of stakeholder management, the main avatar of stakeholder theory. In a context in which “mutual benefits” are confused with “common benefits” and “shared interests”, there is no room for cooperation. Business is placed on one side, society on the other. Or, even worse: society serves business.

1.4. Conclusion

To conclude this first chapter, it is important to remember that critical approaches to management practices and mainstream theories are hijacked because they are still built on a project of alienation. They are comparable with Man and God in Feuerbach’s anthropology. Humans ignore their own qualities in order to position themselves, beyond their own selves, in something (or somebody) that supposedly transcends them. Critical views on management still place the future of humankind in the hands of management rather than trying to understand what there is in management itself that may be the root of the problem.

“If we want things to stay as they are, things will have to change”
Giuseppe Tomasi di Lampedusa, *Il Gattopardo*

As mentioned in the previous chapter, the way that management knowledge is created, implemented and preserved has a major role to play in the hijacking of critique. If there is any hope of changing things, it is first necessary to decipher the processes that put knowledge creators and transmitters into the “iron cage”.

The first section of this chapter introduces the “pretence of management knowledge” (von Hayek, 1989; Ghoshal, 2005). The dominant ideology is limiting our capacity to set up organizational patterns that are compatible with human nature and society. The mixture of liberalism and scientism, which is what the paradigm of management knowledge turns out to be, is thus built on confusion. But, paradoxically, the justification of business practices is based on clear categorizations that isolate moral considerations from technical ones. This is the subject of Section 2.2. To better understand how such a normalization of management science operates, it is also necessary to analyse the ecology of management knowledge. Section 2.3 shows how academia, business schools and consulting companies constitute a single ecology of management knowledge, and interact with business in a way that facilitates the hijacking of critique. To finish, we focus on the economy of management knowledge. The valuation system of research leads academia and other transmitters to comply with a normal science based on metrics, rankings and short formats of knowledge delivery.

2.1. Management is at risk from pretence of knowledge

In the early 1990s, agency theory was a dominant paradigm in the financial literature. The main concern of this theory is the relationship between managers and shareholders. As Hill and Jones (1992) argued, in those years agency theory became mainstream even among managerial disciplines. What aroused interest among scholars was the possibility of using this theory to explore a less investigated area such as implicit and explicit contractual relationships between stakeholders.

Agency theory describes the firm as a legal fiction: a nexus of contracts between holders of resources (stakeholders) and management. In the foreground is the shareholder whose interest must be satisfied through as much profit as possible (Friedman, 1970). For agency theorists, the manager would fail to pursue this objective not as a result of the effect of social limits to maximum profit, but rather because of his/her inclination to pursue his/her own personal interest ahead of that of the shareholder. The manager’s behaviour is not to be relied on. Maximizing shareholder value therefore becomes an objective that can be achieved only through governance solutions that foster an alignment of interests between management and shareholders.

Following Ghoshal (2005), the agency paradigm is a form of “pretence of knowledge” (von Hayek, 1989), being based on partial analysis and on the exclusion of all human intentionality. As Harris and Freeman (2008) state, facts (managerial action) are not separable from (human) values, so the denial of any moral or ethical consideration in order to endow managerial studies with scientific

value is an extremely risky undertaking. As a consequence of this pretence of knowledge and a fundamentally pessimistic view of human nature, agency theory risks negatively affecting good managerial practices, favouring the conviction that opportunism is the prevailing behaviour in interaction between people, and therefore between managers and the company's stakeholders, including shareholders.

This section follows Ghoshal's (2005) approach along several lines of analysis. Firstly, the focus is on the actual relevance of Friedman's perspective in the business-and-society literature. Secondly, it analyses a conceptual bias in agency theory which engenders the pretence of knowledge and its consequent risks. The final section describes the financial crisis as a striking example of these risks and their effects.

2.1.1. The influence of Friedman's position on business-and-society studies

As Husted and Salazar (2006: 75) affirm, for many years Milton Friedman (1962, 1970) "has served as the villain of business and society literature". The famous proposition that a company's sole social responsibility is to maximize profit is based on a vision of the firm that contradicts the literature on the role of this institution towards society. At the same time, for agency theorists, pursuing corporate social performance is not compatible with profit maximization and shareholder value creation (Husted and Salazar, 2006). That is, even if under certain conditions an investment in CSR can assist in profit creation, profit would not in fact be maximized because of the additional costs that the company would have to bear.

The pervasiveness of Friedman's perspective is confirmed by a basic question that has dominated the business-and-society literature for some years: whether the social responsibility of a firm is complementary or in conflict with its economic objectives (Peloza, 2006). "Do firms do well by doing good?" (McWilliams et al., 2006: 16), or, "Does it pay to be good?" (Barnett and Salomon, 2012: 1304) are the persistent queries associated with the agency perspective. The common denominator is a comparison between a trade-off hypothesis and a win-win hypothesis (Wu and Shen, 2013), in order to establish which of the two theses can be considered more convincing in practice.

This section presents results of a literature review with the aim of analysing the business-and-society research areas that have adopted Friedman's perspective as an alternative framework to the social vision of the firm and a purpose of enhanced value creation. This literature review covers the period 1997–2017 and considers the following topics: (1) the relationship between social performance (SP) and financial performance (FP); (2) the relationship between corporate governance (CG) and corporate social responsibility (CSR); (3) the risk and cost of capital; and (4) socially responsible banking.

The first field of study is notoriously richer in contributions. Starting with Waddock and Graves (1997), Friedman's theses are used as a counterpart to the hypothesis of a positive relationship between SP and FP. The conflicts between manager and shareholder and agency costs are the main theoretical justifications for a negative relationship between SP and FP. The elementary assumption is that SP is a source of cost not necessarily borne by competitors (e.g. Barnett and Salomon, 2012). Furthermore, the production of positive financial returns will depend on effective stakeholder influence capacity (SIC) of firm (e.g. Barnett, 2007; Barnett and Salomon, 2012). Moreover, an exposure to excess costs, or to non-strategic costs motivated only by a manager's personal interest, can entail a loss of competitiveness for the company. This conforms to the agency model, according to which SP is inconsistent with the maximization of shareholder value (Orlitzky et al., 2003). In some

studies, the focus is on specific aspects, such as an analysis of the impact of environmental performance (e.g. Endrikat et al., 2014; Rivera et al., 2017) or the engagement strategy towards CSR (e.g. Tang et al., 2012). The common denominator of this large group of studies is an assessment of whether pursuit of SP limits company profit (e.g. Brammer and Millington, 2008). Agency theory injects the doubt.

The agency perspective also finds an elective space in studies on the relationship between CSR and CG. The former can be seen as a missing link between CG and FP (e.g. Jo and Harjoto, 2012); however, the identification of such a relationship follows from a comparison between an over-investment hypothesis and a conflict resolution hypothesis. This means comparing agency theory with stakeholder theory. The premise is how agency theory describes the relationship between shareholder (principal) and manager (agent). In particular, the latter would be motivated to invest in CSR for his/her own benefit and not in the interests of the company and its shareholders. The impetus would be one of improving image and personal prestige, with the manager over-indulging in socially responsible policies to portray him/herself as a good citizen (e.g. Barnea and Rubin, 2010). Therefore, the possibility of actions taken for personal gain and the incentive to over-invest in SP justify a positive identification of the relationship between CSR and CG. The latter, from an agency perspective, should work to limit CSR. Those governance mechanisms which, as highlighted by Ghoshal (2005), agency theory sees as indisputable predictors of efficiency (e.g. an increase in the number of directors, the separation of the roles of CEO and chairman of the board, the presence of independent directors, the risk of hostile takeovers) should serve to limit the level of engagement with CSR (e.g. Harjoto and Jo, 2011; Jo and Harjoto 2012; Hong et al., 2016; Jo et al. 2016). Therefore, the best CG practices will be those that are inversely correlated with compliance with social responsibility.

Economic value creation depends on risk and cost of capital. These factors have attracted specific interest from scholars engaged in the identification of the financial effects of socially responsible initiatives. Ascribing a negative impact to CSR is mainly a result of the neoclassical economics approach to CSR as a source of unnecessary costs that disadvantage the firm relative to its competitors (e.g. Cheng et al., 2014). Predominantly, from an agency perspective, the deployment of valuable firm resources in pursuit of CSR results in significant managerial benefits but no financial benefits to the firm's shareholders. This relationship has been analysed empirically by measuring the impact of CSR on the cost of funding (e.g. Cheng et al., 2014) and on the level of risk faced by companies operating in controversial sectors (e.g. Jo and Na, 2012).

Finally, the agency perspective has more recently thrown up studies on socially responsible banking (e.g. Simpson and Kohers, 2002; Wu and Shen, 2013; Esteban-Sanchez et al., 2017; Wu et al., 2017; de la Cuesta-Gonzalez et al., 2006; Soana, 2011; Gangi et al. 2018b, 2018c). The academic focus aligns with the dual social function of a bank: on the one hand it holds depositors' money and, on the other, finances businesses and families. As such, in this case, the impact of CSR from an agency perspective assumes a particular relevance. Indeed, the effect of CSR in the banking industry is a relatively less investigated topic, and even in this research field the perspective of Friedman and his colleagues is widely used to ascertain whether CSR weakens or strengthens a bank's competitiveness. A bank will take on an agent role with regard to depositors and that of a principal with regard to the companies financed. Given this operational context, the agency theme is commonly in evidence in assessments of whether CSR commitment can improve not only the image of management but also the reputation of the bank, especially in light of the increased reputational risk following the last financial crisis. As Barney argues (1999), reputation is a complex social

capability, and a fundamental asset for a bank (Wu and Shen, 2013; Esteban-Sanchez et al., 2017): a depositor's trust is based on his/her direct experience of a bank and on its reputation. To sum up, the dual agent/principal role and the recuperation of reputation are the main reasons for academic interest in the compatibility of banks' social responsibility with a modern vision of financial intermediaries.

The literature review confirms the salience of a Friedman perspective in studies of CSR impact. The results these studies offer are not always convergent but, as a whole, the empirical evidence contradicts the social responsibility of firm as an agency problem.. This supports the thesis that a theoretical and operational bias exists within that paradigm. It is therefore in the interest of academia to provide alternative research frameworks and training courses that focus on business ethics and CSR as not optional

The problem with the mainstreaming of agency theory is that all the teaching and scientific research that has been exclusively oriented in this direction has taken our potential future managers down a path where a unilateral conception of the company's relationships promotes a privilege of the interests of stockholders over those of all other stakeholders. Prior studies show that European universities offering teaching courses on CSR comprise a minority (25%) (Matten and Moon, 2004). The highest frequency can be found among three-year and postgraduate courses, either stand-alone or included in other training courses such as finance, marketing, HR management and strategy. These results are corroborated when considering the example of Italy (the second-largest European industrial economy), a context in which CSR has increasingly become of interest, manifested via the introduction of new schemes such as the legality rating of firms and the legal recognition of the social firm. Nonetheless, here too universities offering courses on ethics and CSR are in a minority (27%). The majority of these courses are located in the north, both in terms of number of universities (53%) and number of courses (52%), with the latter mainly included in masters' degree programmes (77%). Furthermore, consistent with the prior analysis by Matten and Moon (2004), there is some variation in how CSR education is labelled, with some courses referring explicitly just to CSR (26%), others to both CSR and ethics (10%), many being labelled as business ethics courses (39%), and a few included in other teaching programmes such as corporate governance (13%) or accounting (13%).

To sum up, there is still a teaching gap to be filled in advanced Western contexts. As Ghoshal's (2005) metaphor would have it, if someone teaches that the sun goes around the earth no rational person will give it credence; yet a managerial theory notwithstanding its divergence from reality, will, if it gains sufficient consent, influence managers' behaviour. It is clear that the availability of academic courses on ethics and social responsibility is not enough to prevent the prevalence of theories that guide behaviour on the basis of distorted assumptions of reality. Abend (2013) notes that some of the most prestigious American universities (University of California, Yale, Chicago and Northwestern University) were among the first to offer graduation courses on business ethics at the beginning of the last century. But this did not prevent agency theory becoming mainstream in managerial studies, first in the United States and then in many other parts of the world. Nonetheless, although these teaching courses comprise a minority among all the training on offer, in presenting different perspectives to the managers of the future they can be an important factor in mitigating risks of the pretence of knowledge.

2.1.2. The bias of the agency model as mainstream

As noted by Ghoshal (2005), the theoretical perspective of Friedman and his followers is based on some specific elements. On the one hand is the ideology of economic liberalism for the welfare of society; on the other the negative conception of bureaucratic institutions and a pessimistic view of human nature which is ineluctably oriented towards opportunism. This “gloomy vision” (Hirschman, 1970; Ghoshal, 2005), and the consequent interpretation of the theory as a problem-solver, oriented studies and managerial praxis towards an analysis that was either based on partially realistic assumptions or on entirely unrealistic ones. Both factors characterize the pretence-of-knowledge phenomenon and its manifestation in training the managers of the future.

According to Friedman (1970), in implementing socially responsible projects a manager imposes an improper form of taxation on the shareholder and violates the relationship of trust with his employer and with other stakeholders such as consumers and employees. This statement is a pillar of Friedman’s position, which aligns with liberalism. Should this pillar fall, an important part of agency’s theoretical construct enters into crisis (Mulligan, 1986). Firstly, an expense or a social investment cannot be compared to a tax, which is a cost incurred regardless of actual willingness to pay. The manager, according to Mulligan’s (1986: 266) metaphor, does not act like the “Lone Ranger”, always deciding on his/her own what are the right actions. There is a board of directors, there are control committees, there is an assembly of shareholders that interact with the manager and his/her decisions. Moreover, the latter is not imposing any “taxation” if he/she is acting in the interests of the employer, aware of the social role of the company, and they are cooperating to fulfil that role. The company is a collaborative system and not a battlefield for different stakeholders. A company will have numerous checks and balances, formal and informal. A manager that implements socially responsible policies ought to be aware that he/she is entitled to do so, and should not be under the illusion that he/she is imposing improper taxes. As such, he/she does not violate trust and runs no specific risk of losing the support of the stakeholders. Therefore, the characterization of socially responsible policies as illegitimate taxation is a bias that, *a priori*, may negatively affecting managerial action towards society.

In contrast to Scharding’s (2015) exhortations to evaluate the consequences of choices outside the company’s boundaries, the agency model considers it futile to anticipate the future social implications of current actions simply because the future is unforeseeable (Mulligan, 1986). Indeed, managerial studies have long faced the difficulty that environmental complexity causes for forecasting and planning. There is awareness that the increasing amount of variables in the field can limit the time horizons of more reliable assessments. In addition to deliberate strategies, theory recognizes emerging strategies (Mintzberg, 1985), but this does not mean renouncing the ethical value of sustainable risk, the prefiguration of possible scenarios, or the analysis of alternative consequences before deciding. Socially responsible actions can also be decided by adopting a business-case approach under conditions of uncertainty (Nijhof et al., 2007; Kurucz et al., 2008).

In the theory of the firm, the concept of business as a nexus of contracts may be consistent with denial of ethical responsibility if we assume that the latter is essentially applicable only to individuals (Sciarelli, 2002). However, this does not mean that the company as an organization has no social responsibility. This syllogism does not hold true. The notion of social contracts (Donaldson and Dunfee, 1994) can be extended to the company as an institution. For instance, according to Kim et al. (2010), we can refer to the concept of corporate citizenship (Peterson, 2004). Initiatives considered by the literature as key elements of good corporate citizenship (Epstein, 1989) include: community contributions, the way an organization interacts with the physical environment and the

ethical approach of management towards external stakeholders. Maignan et al. (1999) define citizenship performance as the activities and output of a company to meet social demands responsibly. As argued by Brammer et al. (2007), CSR refers to aspects primarily concerned with an organization's image and reputation. After all, Friedman's (1970) position is contradictory if, as he claims, a company's responsibility to maximize profit must conform to social rules embedded in ethical values. If the firm is a mere legal fiction, how can it conform to these (or any) values? Furthermore, if it is more true to say that the behaviour of the manager complies with society's fundamental rules, why is compliance with social issues an agency problem? If we accept that managerial action must comply with social rules, there is no agency problem to the extent that we recognize that maximum profit is conditioned by adherence to those rules. Profit must not be maximized in an absolute sense, but rather sustainable with respect to the social rules embodied in legality and morality.

For agency theorists, opportunism is a *condicio sine qua non* of human action. The Friedman followers assume that behind the managerial behaviour hides an innate propensity to moral hazard. Control is therefore necessary, and the free market and free enterprise are considered to be essential conditions in implementing this control and mitigating against an excess of managerial discretion. For Ghoshal (2005), agency theory has at its heart a view of shareholders as principal and the manager as a self-centred agent using the company's resources for his/her own benefit. This is a neat construction, also in terms of mathematical models, with which to solve the complex problem of the mix of economic, social and moral issues. Efficient governance implies only one way to address this problem: limit the manager's discretion with regard to socially responsible policies. Shareholders run the greatest risk, so their interest has to be maximized (Friedman, 1970; Jensen and Meckling, 1976; Fama and Jensen, 1983). This, they argue, is a moral solution. However, the question remains open for several reasons. In the first place, as stated by Donaldson and Davis (1990), it is debatable whether human nature tends always to personal interest and opportunism but, in terms of the economic model, such a view justifies short-term monetary rewards as the main form of explicit formal incentive. Motivational skills, implicit incentives, not strictly economic, and a less pessimistic view of the individual are not admitted.

Secondly, the agency perspective assumes an efficient company with optimal interactions in terms of the agent's incentive and results achieved. Absolute utilitarian rationality prevails. This approach, then, not only conflicts with a more realistic view of limited rationality (Simon, 1955), but, considering the company as a nexus of contracts, it excludes the bias of contractual incompleteness (Grossman and Hart, 1986; Hart and Moore, 1988). Unless all contracts describe all alternatives and possible consequences, how can the company be understood as a nexus of efficient contracts?

Thirdly, the rigidity of the principal-agent relationship is based on theoretically conflicting attitudes to risk, with the former less averse and the latter more averse. To begin with, this assumption is inconsistent with the financial theory of investor risk aversion; furthermore, no alternative scenarios are proposed of a non-risk-averse agent and a more risk-neutral shareholder.

Risk and mobility of resources are fundamental aspects that deserve further consideration. That is, the agency model sees shareholders as consistently deserving of the maximum economic outcome because they are exposed to the greatest risk. A shareholder's equity capital contribution is considered more important than the contribution of human capital. Also, the labour market is considered fully functional (Ghoshal, 2005), which would mean that human capital is always adequately remunerated at its actual value, and that employees can easily change workplace

without cost. Practical experience teaches that this is not true. The economic context makes the difference: knowledge specialization can reduce the possibility of relocation without loss of value, thus increasing the risk and weight of the stake (Hill and Jones, 1992). A shareholder can move financial capital more quickly and easily to address the risk–return trade-off. Thanks to digital technology, financial investors can enjoy very low transfer costs in moving from one stock market to another. This is an absolute advantage for the shareholder, especially if he/she is classifiable as a passive property (Berle and Means, 1932). The shareholder can diversify the non-systematic component of investment risk. The latter option is not available to the investor of human capital. Examining the labour and stock markets in different contexts after the 2008 crisis, the difference between the two is evident. If we assume the change in the number of employees as an indicator of labour market performance, while for the stock market we refer to capitalization, a descriptive comparison is possible (see Table 2.1). For instance, in Germany the number of employees increased by 8.4% (compound annual growth rate [CAGR] +0.9%) between 2017 and 2008, with a stock market growth of over 135% (CAGR +8.9%). In France, the labour market grew by over 6% (CAGR +0.7%), the stock market about 92% (CAGR +6.7%). In Italy, the labour market fell back (–0.3%, CAGR 0.0%), confirming the difficulties in the recovery of the real economy, while the stock market grew by 73% (5.6%). The UK and the US show a labour market growth of 8% (CAGR +0.9%) and 5.5% (CAGR +0.6%) respectively, while the stock market grew 116% (CAGR +8%) in the UK case and 217% in the US (CAGR +12.2%).

Table 2.1: A comparison between labour and equity markets

Country	Labour Market (employees 2017-2008)		Equity Market (capitalisation 2017-2008)	
	var. rate	CAGR	var. rate	CAGR
Germany	8,4%	0,9%	135,6%	8,9%
France	6,3%	0,7%	91,7%	6,7%
Italy	-0,3%	0,0%	73,1%	5,6%
UK	8,2%	0,9%	116,1%	8,0%
USA	5,5%	0,6%	216,9%	12,2%

These data confirm that the stock market is more fluid, dynamic and variable, offering opportunities for recovery and growth that are not comparable with those of the labour market, which is clearly more rigid and characterized by lower variance. Furthermore, in the wake of the 2008 financial crisis, workers lost many protections and unions lost power. Workers in their masses now have reduced power of influence at negotiating tables. Deep corporate restructuring and frequent use of temporary work have further contributed to the weakening of workers’ power in industrial relations (Amatori, 2018). As Ghoshal states (2005: 80), “Most shareholders can sell their stocks far more easily than most employees can find another job”. However, the contribution of employees in terms of skills, knowledge and entrepreneurship is more important than the share capital contribution of shareholders. Financial markets have turned firms and stocks into “commodities” (Quinn, 1992), and the liquidity from capital markets frequently exceeds demand from the real economy, so leading often to financialization of firm

In sum, in denying a firm’s social responsibility, agency theory’s assumptions can be fallacious, favouring the pretence of knowledge and diverting managerial attention from safeguarding the company’s role as a social institution. The hypothesis of a market that operates close to an efficient

equilibrium is not easily acceptable in practice. The contractual relationship between principal and agent cannot always be based on the application of the best solutions to emerging problems. Market forces that affect contracts are not always efficient. In the large space between assumptions and practice, different factors combine to undermine the justification of the agency model as the dominant paradigm.

As highlighted by Hill and Jones (1992), the focus could be more appropriately shifted from the conditions of efficiency to market processes. In reality, there are several frictions that limit the agency model. In real markets, there are barriers, both to mobility and entry, that prevent rapid and efficient adjustment processes. Management can raise artificial barriers through investments, agreements or the practice of extraordinary low prices. Larger companies and organizational populations are subject to structural inertia which limits the pursuit of efficient equilibrium (Hannan and Freeman, 1977; Crozier, 1989). If the residual rights are optimally allocated to the parties whose investment is most important in terms of value (Grossman and Hart, 1986), there is no reason to uphold the principle of maximizing shareholder value as the efficient condition to be satisfied through managerial action (Ghoshal, 2005). The financial scandals of the new millennium and the financial crisis of 2008 are indicative of a management class with no concern for the consequences of its decisions on the community, nor for safeguarding the moral values that might protect social issues and business continuity at the same time.

2.1.3. Lessons to be learned ten years down the line from the explosion of the financial crisis

When Ghoshal launched his warning about the pretence of knowledge in 2005, economic events at the time were only a foretaste of what would happen later on a large scale, making his analysis extremely timely. Ghoshal's (2005) point of reference is the Enron scandal of 2001: an example that became a case study about the risks of a scientific approach to management that excludes a moral component and the social consequences of individual decisions. In the early years of the new millennium, the Enron case felt like an extraordinary affair, but it was soon to be overshadowed by events seven years later. Enron, with over 21,000 employees and 60,000 shareholders, was a giant company, a quasi-public corporation which, according to B&M's (1932) perspective, represented a social institution (ranked seventh among US multinationals). Its failure, eradicating over \$60 billion in wealth, was striking not just for the scale of the calamity, but because it presented a concrete example for a new understanding of the cause of financial scandals: that is, the dangerous mix of individual, institutional and social ethical crises that would explode on an international scale in 2008 (Argandoña, 2011; Gangi and Trotta, 2015). The greed and folly of the executives centred exclusively around shareholder value, market myopia, the fallacy of "investment grade" rating one month from the default, the weakness of a social system without adequate moral barriers – a dangerous mix that precipitated Enron's collapse and anticipated the equally momentous fall of WorldCom (64,000 shareholders), Cirio (35,000 savers) and Parmalat (the biggest Italian food company and a world player).

The 2008 financial crisis has the same footprint as the defaults that were seen in the first years of the new millennium. The underlying infection was not only technical, but also moral and behavioural. An analysis by the American Inquiry Commission (Financial Crisis Inquiry Commission, 2011: xxii) on the causes of one of the most devastating events in the capitalist world is unequivocal, literally speaking of a "systemic breakdown in accountability and ethics". That is,

the integrity of our financial markets and the public's trust in those markets are essential to the economic well-being of our nation. The soundness and the sustained prosperity of the financial system and our economy rely on the notions of fair dealing, responsibility, and transparency. In our economy, we expect businesses and individuals to pursue profits, at the same time that they produce products and services of quality and conduct themselves well. Unfortunately – as has been the case in past speculative booms and busts – we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis.

In addition to technical and moral bias, the profit maximization model suffers the effects of behavioural traps. Overconfidence (Akerlof and Shiller, 2010) clearly permeates the words of Citigroup top managers who admitted to having devoted no more than 1% of their time to the problem of subprime securitization for over \$40 billion – an assertion that led the Inquiry Commission to say that in this case “too big to fail meant too big to manage” (ibid.: xix).

Therefore, if the case of Enron as cited by Ghoshal (2005) was symptomatic of the risk of the pretence of knowledge, this risk is seen to be even more concrete and devastating when we look at the causes and effects of the 2008 financial crisis, a crisis that has weakened entire economies, causing the loss of millions of jobs (over 4 million in the Eurozone alone between 2008 and 2010). These results confirm the separation fallacy inherent in the agency theory model (Freeman, 1994). The dehumanization of managerial practices accentuates the problem that agency theory seeks to contain: moral hazard of persons. Taking risks and creating value for shareholders is not immoral in itself but becomes so if the pursuit of this objective is decoupled from implications for the community in which the company operates, as well as for the community within the firm. A vision of the company as a mere legal fiction and the denial of its social responsibility are among the cognitive causes of this type of risk. Depriving studies and managerial practice of an ethical dimension impoverishes these economic disciplines (Sen, 1987). Ethics and social responsibility are in fact resources that enhance knowledge and managerial discretion, by enriching the set of values and principles on which to base cognitive processes and decision-making.

2.2. The structuration of management knowledge is based on categories and fuzzy integrative theories: an opportunity for hijacking

We have already explained that management knowledge is pragmatic by nature. Management practice and ideologies are tightly intertwined, so that theories are exclusively either normative or supportive. Thus, management science runs the risk (if it has not already come to pass) of pretence of knowledge. But therein lies one of the main paradoxes of management knowledge. Though delivering a gloomy mixture of scientism and ideology, it builds its own justification on the basis of categories. This simplification of social and economic phenomena offers an opportunity to clearly differentiate technique and ethics, so that management decisions can escape moral considerations. A sort of decoupling is operating in this construct of legitimating discourse. And it should be borne in mind that the emergence of integrative theories (Actor Network Theory, Structuration Theory, the practice turn) is contributing to the maintenance of global and conflict-free views on management practices.

2.2.1. Philosophical categories of knowledge are toxic to ethical management

A category, in the Kantian sense, is the general concept of an object, according to which the intuition of the object is submitted to the logical functions of judgement (Kant, 1781). The pure concepts are

the transcendental contents that help subdivide the diversity procured by intuition. They are applied to objects *ex ante*. As a result, there are as many pure concepts of understanding as there are logical functions in the table of all possible judgements. These categories are the prism through which we make sense of experience, in terms of quantity, quality, relation and modality. Categories, though pure concepts, help clarify situations in which exercising judgement then becomes possible.

Though not following the same purpose, the tenants of uninhibited capitalism build their arguments on the same basis. The French philosopher André Comte-Sponville exemplifies this trend. According to him (Comte-Sponville, 2004), the world slipped from a “political generation” to a “moral” one, the one that emerged in the 1980s around solidarity-related and humanitarian objectives. This social shift went along with the collapse of the Soviet bloc and the subsequent strengthening of the capitalist model. The philosopher stresses that, at the same time, “God died as a social link” in Western countries, hindering any form of “communion” in a society oriented towards individualism and protection. In this context, business ethics seems to meet the underlying expectations of a society that is devoid of transcendence. The managerial version of morality is, according to Comte-Sponville, both confusing and somewhat ridiculous. Indeed, the stance according to which “ethics pay” contributes to a dilution of their deep value. Comte-Sponville’s apparently protective discourse towards ethics also erects a shield around management practices. By revisiting Kant’s categories and referring to Pascal, he circumscribes four orders of judgement: the technical order, the political-legal order, the moral order, and the ethical order.

The technical order has to do with scientific knowledge and economic decisions. Within this domain, judgements belong to the Kantian categories of quality. It is possible to say if a knowledge is technically true or false. Technical and economic progress always pushes forward the limits of possibilities. Thus, legal frontiers have to be erected to stop potentially prejudicial evolutions.

Within the political-legal order, frontiers are actually defined between illegal and legal practices. But history has its share of legal atrocities. Thus, moral frontiers must be set up to hinder prejudicial consequences of “excesses of democracy”.

The moral order is also based on the Kantian categories of modality. It controls the frontiers of possibilities and those of legality, by defining what is good or bad, what ought to be and what is forbidden. Morality is ambiguous, because it is relative to culture while at the same time acting as an absolute imperative.

The question of duty is understood as what people do because of love. This is the ethical order. Based on the opposition between joy and sadness, it acts on individuals as a motivation factor. It orientates actions, but it does not drive them like the other orders.

Comte-Sponville conceives these orders as independent and interactive. None should dominate another. As a consequence, asking if capitalism is moral or not is pure nonsense. “Pretending – or even wishing – that capitalism be moral, would be the same as pretending that the technical order is intrinsically dominated by the moral one, which is impossible on account of their internal structuration”. For instance, would not it sound ridiculous to assert the immorality of price levels within any particular market, when the prices are just a function of supply and demand? There lies Comte-Sponville’s conclusion: capitalism has nothing to do with morality. It is amoral in the sense of being outside the moral domain. Starting from this assertion, trying to moralize a system is pointless. Individuals comprise the only level at which morality can be invoked.

In considering such an intellectual construct, we immediately turn to measuring the consequences of category-based representations on the hijacking of the critique. They arm the dominant ideology with arguments to defend current practice, and they allow management knowledge to digest criticism by discarding its ethical foundations and retaining its purely technical dimensions. More specifically, they sidestep the question of business ethics by asserting that it creates confusion between independent orders of human behaviour. Put another way, they do not allow any opportunity for discussion of what ethical management might be: there cannot be such a thing as ethical management: just managers who can be revealed to be either ethical or not. Despite criticizing the dominance of individualism in contemporary Western societies, these approaches take the phenomenon for granted by circumscribing moral responsibility to individuals. In so doing, they paradoxically validate the content of so many business ethics manuals. Moreover, they establish a climate of fatalism and cynicism that is not conducive to the emergence or to the adoption of critical stances.

2.2.2. Integrative management theories eliminate the very idea of conflict

The early 2000s saw the advent of structured thinking about paradoxes of management and organizations in the international literature. A special issue of the *Academy of Management Review* was coordinated by Eisenhardt, whose introduction mentions paradox as “the simultaneous existence of two inconsistent states, such as between innovation and efficiency, collaboration and competition, or new and old [...] This duality of coexisting tensions creates an edge for chaos, not a bland hallway point between one extreme and the other” (Eisenhardt, 2000: 703). Two years later, Clegg adopted a critical stance towards this trend in management knowledge. First, he explained that paradoxes can be reality or representations. If they are representations, they might just be part of the dominant ideology: “[...] the consequence was that management was weakened to the extent that it did not engage with paradox and incommensurability” (Clegg, 2002: 5). As a result, it was necessary to take these concepts on board to increase the legitimacy of management knowledge. If, on the contrary, paradoxes are real, as they might be in ethical conflicts, or in tensions between appearance and matters of fact (what Brunsson [2003] calls organizational hypocrisy), they probably need to be taken into account within management knowledge and practice.

Whether conveyed by experience or education, management paradoxes and organizational conflicts needed to be expressed, described and analysed in order to be met with proper theoretical and practical answers. Indeed, the progressive awareness of these questions required that we changed our conceptions of management, leaving aside “smooth rationality, linearity and planned change [in order to value] dialectics, discord and contradiction” (Clegg, 2002: 2).

Nevertheless, fifteen years after the “paradox turn”, it seems that dominant management knowledge has found new ways to neutralize the effects of conflicts and tensions at the same time as recognizing them as such. How? Thanks to integrative theories, the use of which has expanded concomitantly.

Propounded by Callon (1986) and Latour (2005), the Actor Network Theory (ANT) goes beyond the two tensions commonly seen as being inherent to projects, and especially to technological ones. The first tension exceeded by the ANT conceptualization is that between objects and actors. Instead of considering passive objects handled by active subjects, Callon and Latour borrow from narrative vocabulary the notion of actant to describe both humans and non-humans who are likely to have an impact or at least a weight in the course of an action. Scallops, for instance, may “want” something as much as scientists or fishermen. The second order of tension that ANT transgresses is

that of conflictual relations between actants. The concept of “translation” helps us to understand that a project may continue even if no party agrees with any other. A common interest in continuing is sufficient, if each piece of the network finds its own profit (that is, a coherence between their intentions and their representations) in the project. Latour shows, for instance, that the French Church of the end of the nineteenth century supported Pasteur against Pouchet on the nature of mould, not because Pasteur’s assumptions were scientifically proven, but because Pouchet’s presuppositions on the spontaneous generation of mushrooms were incompatible with the Catholic faith (Latour, 1993). In fact, translation is at the very core of ANT, and the phases of this process have progressively switched from a description to a model of how to run innovation or change processes. Thus, as a methodology, ANT helps neutralize conflicts by limiting them to the sphere of representations: no matter if people disagree as long as they go on working together.

Designed by Giddens (1984), structuration theory also goes beyond some of the tensions that are inherent to management knowledge. The most salient one is that of autonomy and determinism through duality of structure. Structures are the immanent rules and resources that articulate time and space in social systems. Agents, at the micro level, do not know that their acts are partly determined by macro structures; at the same time, these structures would not instantiate without the acts of the same agents. Structures belong to the world of ideas and acquire materiality only by virtue of the field of action. This view of society reconciles Durkheimian holistic representations with Weberian methodological individualism. Whether it emanates from one extreme or the other, potential critique is considerably weakened in this soothing integrative framework.

The “practice turn” (Whittington, 2006) probably offers the best example of smooth integration of management tensions and dichotomism such as strategy versus tactics or management science versus management practice. These views presuppose a clear separation of knowledge and action. Management itself probably stems from a distinction between the strategic top and the operational basis. Mintzberg (1973) thus suggested that strategies may emerge from everyday activity. The practice turn followed the same trend, by building on structuration theory and the philosophy of “praxis”. Jarzabkowski (2005) introduces practice as a medium between goal-oriented activities (strategy), communities and individuals. As an “object”, practice becomes a perfect object for translations. According to Bazin (2011), it is, at the same time, the locus of routines and improvisation, individual appropriation and collective sharing, explicitness and implicitness, institutions and micro-actions. As Méric and Grimand (2014) contend,

syncretism is much more appropriate to depict Strategy as Practice (SAP) than eclecticism or synthesis. It should be preferred to eclecticism because SAP does not “cut into pieces” other theoretical fields to set up new research streams, but it tries to preserve the total of contributing theoretical fields. It is more appropriate than synthesis, because it does not systematically try to “merge” incompatible views on a same phenomenon. On the other hand, it does not provide any boundary to “what can or cannot be observed as”, to “what matches the theory or not”, etc. Indeed, SAP research broadens the scopes of what can be labelled as “strategic”, since it can either refer to the political consequences of strategizing episodes, the effects of strategy tools or the involvement of particular types of practitioners in the strategic process. If no attempt is considered to set these boundaries, syncretism may lead to “confusionism”. As far as every human activity can be observed through practices, approaching strategy as practice may suggest every human activity is (at least potentially) strategic. Such a conceptual stance is hard to hold for a discipline that is committed to help organizations define or improve their strategy (Méric, Grimand, 2014: 3).

Once again, such a framework significantly constrains any opportunity for developing a valuable critique because it embraces most of the tensions that are consubstantial with management practice. Conflict is diluted into the “murmurs of the everyday” (de Certeau, 1980), which are preferred to intention and sudden changes.

Categories, together with soothing integrative theories clearly, then, present opportunities for the hijacking of critique.

2.3. The ecology and the economy of management knowledge as a support for hijacking

Management knowledge and management practice are by nature deeply intertwined. To understand how hijacking operates, it is also necessary to examine this interplay on social and economic grounds.

2.3.1. The ecology of management knowledge: digesting criticism to make it compatible with current practices

The history of management control (and accounting) as a discipline provides a fine illustration of how management knowledge has developed in academia. After repeated attempts to rationalize and innovate in management techniques over time (George, 1972), efforts were rewarded in the first half of the twentieth century, notably exemplified by General Motors in the 1920s (Chandler, 1962). Over the following decades, “managerial control” became a focal point for some communities of practice and finally entered academia thanks to R. N. Anthony in 1965. From hereon, business schools began to integrate management control into their programmes, as did consulting companies: in the 1980s, the big five would dominate the market. Adopting a new management control system (MCS) became a vector of prestige for both managers and consultants, a practice that still prevails to this day (Leiby, 2018).

Managerial knowledge often emerges from practice, academia formalizes it, and then educational institutions digest and disseminate it. Abrahamson (1996) recognizes the role of consulting companies, business mass media and management gurus as “fashion setters”, but does not recognize the “digestive” process of these actors – a process that consists of turning concepts into implementable patterns of action. Stakeholder theory has been one the most significant victims of this process in the last thirty years. A first observable category among “practical translations” of stakeholder theory consists of listing the imperatives of “stakeholder engagement”, such as: 1. Communicate; 2. Consult; 3. Behave with humans. 4. Plan your engagement; 5. Maintain relationships,² and the like. A second range of recommendations derives from normative research, such as those of Mitchell, Agle and Wood (1997). They can be found in “stakeholder mapping” methods, based on the idea of salience as a combination of power, legitimacy and urgency. Categorization of stakeholders will not always suffice. Some invent matrices, in which influence and interest intersect to reveal differentiated attitudes such as “keep satisfied” or “monitor closely”. As mentioned in Chapter 1, stakeholder management as a practice and a methodology is a result of the hijacking process. Habermas’s (1968) exploration of knowledge casts an interesting light on this phenomenon. Critical knowledge aims at emancipation. It is supposed to make the enlightenment project possible by developing social relations that are more rational. It reveals domination and

² Source: APM (Association for Project Management), apm.org.uk.

exploitation, to help change society and eliminate socially useless suffering. This line of enquiry seems inconceivable within the management sphere. Knowledge must be, at best, practical, more often technical. Facilitating understanding seems to be the best that a good management mass media or consulting company can offer. Of course, eliminating misunderstanding is a laudable undertaking, but normative stakeholder research and consulting slips into the domain of technicality. Stakeholders' characteristics become variables to be identified, and management attitudes become variables to be manipulated in order to see which ones can satisfy or neutralize shareholders.

The interplay of academia and consulting companies reveals performative relationship in the sense that critical ideas produced by academia (assuming that they are original and not directly inspired by some "best practice") are weak enough or weakened by other academics (see Chapter 1) to be hijacked and turned into some anodyne implementable device.

2.3.2. The economy of management knowledge: metrics and rankings to maintain an illusion of normal science

Management science, if it is a science, is part of the humanities. So why did it turn into an inhuman system based on pure metrics and academic speculation? Why did Paul Otlet's invention³ (1934) invade and permeate the scientific world? In any case, citation counters made hay with this project in the 1950s, and especially from 1961 with the development of the Scientific Citation Index. During the same decade, Kuhn (1962) would decipher the mechanisms underpinning normal science. The economy of scientific knowledge at that point began to rely on one specific resource: that is to say, publications. Publications suddenly acquired an economic value, a value based on the impact of knowledge and on the number of articles.

But value was also supposed to depend on the *quality* of publications and journals. The reason for this not always being the case is easy to find if we examine the approach of normal science, in which the number of cites is accepted as being a relevant criterion in appraising an article's quality. The more a piece of research is cited, the more opportunity it has to become a paradigm in the sense of an exemplary work: "They are the source of the methods, problem-field, and standards of solution accepted by any mature scientific community at any given time" (Kuhn, 1962: 103). Researchers, as the main operators of this knowledge production, will derive value from the number of cites they obtain. As a result, academic journals become the pillars of normal science, and acquire self-legitimation following the virtuous circle that goes "the more I am cited – the more I am attractive – the more I am selective".

The economy of publications has a direct impact on the way universities deal with academia. Firstly, university rankings follow the same trend as for journals. Motivated by a search for objectivity, Nian Cai Liu from Jiao Tong University proposed in 2003 a ranking based on observable and tangible data, mainly cites and referencing in bibliographical databases. The Shanghai ranking was born. The consistency of this system with the pre-existing economy of knowledge quickly made this method an absolute reference. From that time, universities stepped up their policy of recruiting pure authors.

Management science, though a human science, followed exactly the same trend as physics, biology or medicine. It forgot that most of the previous knowledge had been published in full books, with

³ Bibliometrics as a method.

room enough to develop ideas and theories. This mimicry went further with regard to preferred research methods. Quantitative research became the standard, and qualitative research, especially action research, fell away. Management science does not provide new ideas, but rather refinements of old ones which become paradigms to be followed. The illusion of renewal comes from fashion phenomena. A symptom of this exclusive search for refinement is the hyper-specialization in which management researchers find themselves trapped, the cost of which is that they provide information that, ultimately, means nothing to any manager (Mathé et al., 2016). To the extent that the publication paradigm is based around the production of marginal knowledge, there are fewer opportunities for global critical research to be scientifically recognized.

As a human science, management science is multi-paradigmatic. This aspect increasingly fails to be taken into account, because hyper-specialization avoids a confrontation of paradigms. With conflicting frameworks absent from short papers or chapters, paradigmatic conflicts seem to be no longer a question in management science. Some management theories may even mix incommensurable paradigms. This is the case with some “as practice” productions, which mix Bourdieusian determinist approaches with methodological individualism (Golsorkhi et al., 2015).

The present economy of knowledge is generating significant risks for its stakeholders. The first is that of hijacking, as the system becomes self-confirming and leaves increasingly less room for criticism. The second is that of a disconnection from the managerial world, with so much knowledge being generated from questionnaires and databases, in disregard of any tangible basis. The third concerns business schools, which now separate research from teaching, mostly financing the former, and thus eschewing their educational mission and weakening their business model.

2.4. Conclusion

As Clegg (2002) contends, management theory has reversed perspectives in the study of organizations, turning the discipline into a functionalist and positivist paradigm, which neglects issues relating to the nature of power, responsibility and the societal consequences of organizations. The mimetic quest of management disciplines to emulate normal science has reinforced the trend. Questions of conflict and responsibility have been marginalized to the realm of paradigms, and questions about paradigms have been rejected as being useless. Pretence of knowledge, together with a moral justification of categories, has eliminated any sort of conflict from managerial knowledge – as if it would never occur in the field. The current ecology and economy of management knowledge combine to reduce its value to a level of mere technicality or production metrics. The dominance of a technical-quantitative vision of managerial knowledge leaves room only for the production of marginal knowledge, incapable of calling into question in any way whatsoever practices and value systems.

Appendix 1 – The impact of Friedman position on business and society literature

Topic	Statement	References
SP & FP relationship	According to this line of thinking, which is fundamental to Friedman’s (1970) and other neoclassical economists’ arguments, there are few readily measurable economic benefits to socially responsible behavior while there are	Waddock S.A. and Graves S.B., 1997

numerous costs. The costs, by this argument, fall directly to the bottom line, reducing profits and thus shareholder wealth.

This meta-analysis both rejects and confirms notions developed by neoclassical economists. On the one hand, it rejects the idea that CSP is necessarily inconsistent with shareholder wealth maximization (Friedman 1970)... On the other hand, our findings also confirm the notions of libertarians such as Friedman that government regulation in the area of CSP may not be necessary.

This paper takes a slightly different tack from the traditional business and society approach by taking the argument of Friedman seriously and examining the conditions under which profit maximization and social performance are congruent.

Definition of the appropriate scope of corporate social obligation remains controversial. Friedman (1970) asserted that the exclusive responsibility of business is 'to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.

What does it mean to say that the corporate executive has a 'social responsibility' in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers—Friedman (1970 : 33).

The first is the agency perspective (Friedman 1962), in which managers engaging in CSR projects further their own agendas at the expense of those of shareholders... Examples of projects that involve extra cost to shareholders are promoting community development plans and investment in environmental protection technology. The agency perspective does not engage with the risk consequences of such decisions and concentrates solely on the return to shareholders.

Marc Orlitzky, Frank L. Schmidt, Sara L. Rynes, 2003.

Bryan W. Husted and José de Jesus Salazar, 2006.

Stephen Brammer and Andrew Millington, 2008.

P. C. Godfrey, C. B. Merrill, and J. M. Hansen, 2009.

A.Salama,K.Anderson and J.S.Toms, 2011

Topic	Statement	References
SP & FP relationship	Milton Friedman is the traditional straw man in the CSP-CFP literature. Friedman (1970) saw CSP as an agency problem whereby managers were misallocating shareholder wealth to pursue a social mission of their choosing... Since managers' pursuits of their desired social missions degrade firms' ability to maximize	M. L. Barnett and R. M. Salomon, 2012

shareholder wealth, CSP and CFP should thus be negatively related.

Some neoclassical economists argue that, constrained by complementary resources and capacity, CSR engagement can trigger disproportionately high cost, while stock market and product market returns are negligible (... Friedman, 1970).

According to Friedman (1970), only people have liabilities. A firm is an artificial person, so it has artificial concerns. This thought is called shareholder perspective, suggesting that the only duty of business managers is to serve the interests of shareholders by seeking more profit.

Traditional economic reasoning suggests a negative impact of CEP on CFP. Proponents of the trade-off theory, such as Levitt (1958) or Friedman (1970), argued that environmental activities withdraw financial resources from a firm and thus weaken its financial performance, as the financial benefits of environmental activities are deemed to be lower than their costs.

Another dominant critique of business social involvement originates from the principal-agent paradigm, which suggests that the purpose of the firm is primarily for the profit of the stockholders. Friedman (1970), the well-known critic of CSR, supposed that in responding to calls for socially responsible practices, executives take money and resources that otherwise go to stockholders and dedicate those resources to enhance their personal benefits.

Trade-off theory, negative impact of SP on FP (Friedman, 1970). Environmental protection activities consume financial resources and weaken FP, since the benefits obtained do not make up for their costs.

Zhi Tang, Clyde Eirikur Hull and Sandra Rothenberg, 2012.

Yavuz Agan, Cemil Kuzey, Mehmet Fatih Acar, Atif Açıkgöz, 2014.

Jan Endrikat, Edeltraud Guenther, Holger Hoppe, 2014.

Qian Wang, Junsheng Dou, and Shenghua Jia, 2016.

Juana M. Rivera, Maria J. Muñoz and Jose M. Moneva, 2017.

Topic	Statement	References
CSR & CG	<p>In essence, CSR can be viewed as an extension of firms' efforts to maximize shareholders' wealth but also conformed to the basic rules of society (Friedman, 1970).</p> <p>Friedman (1970) first defines CSR as follows: "Corporate social responsibility is to conduct the business in accordance with shareholders' desires, which generally will be to make as much money as possible while conforming to</p>	<p>Maretno A. Harjoto Hoje Jo, 2011.</p> <p>Hoje Jo, Maretno A. Harjoto, 2012</p>

CSR, firm risk and cost of capital	<p>the basic rules of society, both those embodied in law and those embodied in ethical custom.”</p> <p>In the debate among scholars about the effects of CSR on firm financial performance, one of the most prominent arguments against the financial benefits of CSR has been the agency cost prediction first made by Friedman (1970), who characterized CSR activities as self-interested behavior by individual managers at the expense of the firm’s shareholders.</p> <p>This stakeholder management approach is in sharp contrast to the shareholder wealth maximization goal (Friedman, 1962; Jensen, 2001).</p> <p>An alternative view draws on agency theory, arguing that CSR investments represent costly diversions of firm resources. The motivation for such diversions depends on the type of agency involved. In the first instance, the firm may act as a philanthropic agent, investing in CSR on behalf of shareholders. Friedman (1962) argues that such delegation is inefficient and best left in the hands of individual shareholders.</p> <p>There are those who view CSR practices as misappropriation and misallocation of valuable corporate resources which are detrimental to firm performance (Friedman, 1970).</p> <p>Research rooted in neoclassical economics argued that CSR unnecessarily raises a firm’s costs, putting the firm in a position of competitive disadvantage vis-à-vis its competitors (Friedman, 1970...). Predominantly based on agency theory, some studies have argued that employing valuable firm resources to engage in CSR results in significant managerial benefits rather than financial benefits to the firm’s shareholders.</p>	<p>Bryan Hong, Zhichuan Li, Dylan Minor, 2016.</p> <p>Hoje Jo, Moon H. Songa, and Albert Tsang, 2015.</p> <p>Allen Goss, Gordon S. Roberts, 2011.</p> <p>Ioannis Oikonomou, Chris Brooks, and Stephen Pavelin, 2012.</p> <p>B. Cheng, I. Ioannou, and G. Serafeim, 2014.</p>
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Topic	Statement	References
Socially responsible banking	<p>The conceptual development of CSP has migrated from a rather narrow classical economic viewpoint articulated by Friedman (1962), among others, to a much broader view</p> <p>Several studies argue that social responsibility detracts from a firm’s financial performance, because any discretionary expenditure on social betterment unnecessarily raises the costs of a firm, thereby putting it at an economic disadvantage in a competitive</p>	<p>W. Gary Simpson Theodor Kohers, 2002.</p> <p>Meng-Wen Wu, Chung-Hua Shen, 2013.</p>

market (Friedman, 1970; McWilliams and Siegel, 1997; Jensen, 2002).

The trade-off approach defends a negative effect of CSP on CFP, with CSR associated costs outweighing the benefits generated (Friedman, 1962, 1970; Aupperle et al., 1985)...Furthermore, it would be easier for managers to use philanthropy for their own interests (Friedman, 1970).

Friedman (1970) holds a different view and asserts that the social responsibility of firms aims to obtain maximum profits for shareholders.

Friedman argued that the only responsibility of a business is to its shareholders... Friedman and his followers argue that the main objective of business is to maximise profits for shareholders within the legal framework. In this context, a company has no obligation to carry out any type of action in society as this role is assigned to the state, and if society wishes, to organizations created to directly respond to social demand.

Friedman (1970) argues that corporate social responsibility (CSR) produces costs decidedly superior to profits and this lowers CFP. These costs derive from the constraints of geographic and business areas, the employment of additional human resources, the increase in expenses relating to activities or processes to satisfy stakeholder requirements.

Building on the seminal position of Friedman (1970), studies identify an agency problem in managers' decisions to involve the firm in CSR initiatives (e.g., Jensen, 2001; Barnea & Rubin, 2010). More specifically, the use of the company's resources for socially responsible actions is seen as detrimental to shareholders. Therefore, CG should either limit CSR efforts or prevent managers from overinvesting in CSR initiatives

Friedman (1970), while considering CSR engagement as an agency problem, recognized that CSR policies are effective to attract and retain more-skilled employees.

Pablo Esteban-Sanchez, Marta de la Cuesta-Gonzalez, Juan Diego Paredes-Gazquez, 2017.

Meng-Wen Wu, Chung-Hua Shen, Ting-Hsuan Chen, 2017.

Marta De la Cuesta-Gonzalez, María Jesús Muñoz-Torres, María Ángeles Fernández-Izquierdo, 2006.

Maria Gaia Soana, 2011.

Gangi et al. 2018b

Gangi et al., 2018c

3

The business for society project against hijacking:
A genetic analysis and sketch of a genetic draft
Rémi Jardat

3.1. Introduction

Global warming is accelerating, the middle classes are shrinking and, at the same time that their adherence to their governments' democracy is declining, the over-indebted

states are struggling to collect the tax necessary to finance development in the medium term: for health, education and research.

Not only is the contribution of companies to these scourges obvious, but the management sciences of which we are the producers is helping to justify this attitude of firms. Calculations of carbon price discourage virtuous production; theories of control of firms' managers justify their extravagant remunerations and golden parachutes; the focus on the New Public Management diverts attention from the lack of public resources and tax evasion. Bad theories lead to bad practices (Ghoshal, 2005). This is the responsibility that management scholars must now acknowledge.

Producing critical studies is not enough to make companies return to a role of serving society. Indeed, as the preceding chapters have shown, the hijacking of criticism usually results, in the space of a few years, in a critical theory being diverted from its initial objectives and put at the service of the business as a whole. No revolutionary new theory alone will reset these perverse dynamics.

This recurrent resistance by the problem to the remedies that we try to bring to it suggests a biomedical analogy: there is a disease of a major organ (of thought – about business in society) against which therapeutic attempts are failing, notably because resistance to the treatment invariably develops. The metaphor can be extended by imagining the diversion of criticism as the mutation by a virus of the physiology of the cells and the organism that they comprise. In *La Méthode*, Edgar Morin (1991) notably suggested that ideologies secretly inhabit and parasitize thought, like a retrovirus, rewriting the genetic code of the infected organism for its own purposes and causing it to produce pathological proteins. The appeal of this metaphor lies in its attention to the very genesis of ideas and concepts. We should not seek to change the theory of companies and management as regards their relationship with society: it is necessary to change the machine producing these theories, to be able to produce knowledge more resistant to ideological infections. How do we endow the ideas we produce with better immunity to hijacking, misappropriation and ideological intoxication?

There is something rotten in the production of managerial ideas. An observation of the rules of the scientific game of management, as well as an analysis of produced knowledge, suggests that a therapy should be applied simultaneously to the institutional machinery and to the intellectual engine of this production. In a first step, we will recall the main characteristics of this institutional machine, to which critical studies in fact make a contribution by feeding it, and make some common-sense proposals for repairing it. In a second step, we will propose an analysis of the intellectual machine with the help of examples drawn from our own research and try to imagine what a management knowledge genome would look like if it were more resistant to ideological diversions.

3.2. Repairing the institutional machine

One wonders if, under our institutional conditions, the work of Howard Bowen, Peter Drucker or Maurice Hauriou would be published today. Indeed, to be certain of a permanent position in a research institute, they would be advised to put their names to articles in the handful of academic journals that have a maximum rating. However, not only do most of these periodicals publish research based on quantitative data but the very evolution of evaluation and review rating processes tends to eliminate any originality in the content of the submitted work. Some “competitive formatting” of content is indeed maintained by what we will call here the “financialization” of knowledge.

Does competition between researchers harm the creation of knowledge appropriate for putting the company at the service of society? One might think that, in a competitive context, originality and the formulation of innovative proposals for the links between company and society would be exactly the kind of criterion that would distinguish submissions. But it turns out that, in a context of the massification of science, replica of the criteria of excellence from the natural sciences, and the intensification of competition, precisely the opposite occurs.

3.2.1. Competitive formatting of scientific content sterilizes management thought

We will start with the ongoing experience of the editorial committee members of “alpha” scientific journals. Today, the newly appointed editor of a leading management science journal has only one fear: to see the rating of his/her periodical fall during his/her term. This failure will be associated with him/her and will affect his/her professional standing, if not his/her career. The maintenance or improvement of this ranking is affected by the indicators that various academic or journalistic communities (ABS, Financial Times, national research organizations) use and/or the measures they aggregate. Our experience on the editorial board of a leading journal has taught us that two of these indicators play a vital role: the rejection rate of articles submitted and the citation count of journal articles by authors of other articles (the famous “impact factor”). These two indicators will drive an ultra-severe filtering of submitted papers, after which any form of original thinking is very unlikely to be retained.

First of all, the format of an article presents a certain number of double-binds that are not favourable for the rigorous and minute exposition of an original thought. The more original or disrupting an article is, the more it requires careful articulation of its reasoning (since the readership will not be familiar with the arguments put forward) and the more it requires comparisons with existing alternative proposals, since it must assert the advantages it offers in terms of practical and theoretical impact. As a matter of simple logic, more space is needed to expound and defend new ideas, yet editorial constraints limit this space while nonetheless requiring an abundant literature review.

The need to maintain a high rejection rate will exacerbate these constraints. The first filter will be that of the editorial committee whose primary mission is to reject papers, since we know that only 2%–5% of them will ultimately be accepted. A necessarily rapid reading of each of the many papers received penalizes those the content of which is not accessible at first glance. A second filter will be that of the evaluator, who, for a top-ranking journal will be one of several (maybe three or four) for any given paper, which will also have a multiplying effect on the number of rounds of evaluation. A reputable journal never accepts a paper without insisting on major revisions to the first version submitted or minor changes to the second. The more evaluators there are, the more objections will be raised, corresponding to the intellectual habits of each evaluator – and the greater the likelihood of contradictory requirements. In a non-unified and unstabilized human science such as management science, peer review is a kind of literary criticism that bears the imprint of the idiosyncratic preferences of the evaluator, so the likelihood of contradictions among reviewers is higher than in a mature discipline. Meeting the requirements of more than two reviewers becomes a double-bind regardless of the quality of the submitted paper. Many authors claim no longer to recognize their original intentions in the published article, so much was it progressively smoothed by the successive stages of evaluation. The papers that survive this process of ultra-selection are those that were able to avoid the double-binds, either by presenting at the outset the least irregularity of form, or by being part of an established stream of research, sufficiently embedded that the evaluators have developed sufficiently consistent points of view. The authors themselves know this double risk and anticipate it by writing the most uncontroversial texts possible or most in line with certain scientific fashions. The concept of authorship, however important in a discipline as engaged in social debates as management, diminishes when confronted with the risk of incurring displeasure (and therefore remaining unpublished). Hyper-competition leads to conformism and ultra-specialization. This effect is what a French researcher, who has seen this logic fall into place over the last thirty years, calls “competitive formatting”.⁴

A concern for maximizing the impact factor of journals and authors does nothing to correct these effects and only serves to reinforce them. Certainly, a book, which offers more space to unveil innovative ideas, often generates more impact factor for a researcher than an article. But the fact remains that such works are not themselves subject to a rating in the same way as journals and, in fact, count for little in academic careers, especially for beginners. In addition, the impact factor of articles only affects a published material, which has already been skimmed in the name of the rejection rate. The most highly rated academic journals also manage to skew their own impact factors by getting authors to cite previous articles from the self-same journal, thereby maximizing their own indicators.

⁴ Julienne Brabet, oral communication.

3.2.2. The financialization of science promotes “double blind” evaluation

The logic of scoring and ranking, inasmuch as it exacerbates competitive formatting, tends to make research assessment a process that, ironically, proves blind to the content of the researcher’s work. Since it is sufficient to list publications’ rankings and impact factors, reading the content, evaluating their richness, their originality, takes second place. By analogy with what is happening on the financial markets, and in particular the evaluation of bonds, we will use the label “financialization” to describe the process by which the quantified publication of certain metrics of human activity takes precedence over an analysis of its content, in order to allocate resources to the authors of such activity. Human and software evaluation agents generally perform this rating. The collection and the synthesis of the indicators is more or less “algorithmic”, depending on the case. Despite their imperfection and inadequacy, these ratings are turned to first of all by those who decide the fate of the “evaluated”, and then end up being interiorized by the evaluated themselves into their development and career strategies. In the end, despite the frustrations, the perverse effects, even the crises engendered by this process, all the actors, evaluated and evaluators alike, are condemned to follow it, in an increasingly intense and rigid way. No one can envisage an exit from the system thus created, because of the effects, reputation and marketability of which everyone now feels to be prisoner. Pace Hayek, financial markets or their analogues are also “roads to serfdom”.

3.2.3. Transferring criteria of excellence from “hard science” leads to the standardization of management science

In computational disciplines where each researcher produces dozens of articles each year, where the aligned figures and the iconic presentation of experimental results are the scientific proof par excellence, neither the sampling questions, the subjectivity of the questions, nor the language barrier (for non-native English speakers) present obstacles in communicating diverse points of view. This observation is only valid, however, because these disciplines have reached a very advanced stage of standardization (which Foucault [1969] himself called the “threshold of scientificization”). Due to this epistemological maturity, even incremental research ultimately brings about changes in society, through the ultra-robust and constantly maintained socio-technical networks that link the scientist’s microscope to the industrial value chain. In addition, the large amount of articles published by any single scholar ensures a level of significance in the bibliometric indicators.

Social science, including economics, the most lauded results of which derive from stylized facts far remote from refutable empirical realities, is nowhere near the epistemological maturity of physics or molecular biology. As a result, the criteria for scientificity do not enjoy the same unanimity, and social and cultural biases necessarily taint the evaluation of research papers. This is why an evaluation that is too selective, and undertaken by multiple evaluators, especially with regard to

qualitative papers, will only serve to multiply the social and cultural bias with which a paper will be judged.

It seems to us that the mistake originates in considering the social sciences, and especially management sciences, as a “normal science” in Kuhn’s sense (1962), where in reality there are multiple paradigms being perpetually challenged. Science’s standards of evaluation ultimately “normalize” the social sciences and, as a result, impoverish them.

3.2.4. De-financializing research to stem the conformism

As it operates today, the production of financialized knowledge generates conformism, whether within the mainstream or within the various “niches” that have become institutionalized on the “critical studies” market. The latter tends to a form of confinement (Spicer et al., 2009), where the figure of the “critter”, or critical researcher, does not generate any transformation in the practice of businesses and management. In his analysis of reality, the radical “critter” has in fact only vagueness and banality to offer practitioners, which are too far from the concrete world of compromises that occupies managers’ minds for there to be any hope of engagement with their practices. This confinement of criticism is maintained by the gradual ossification of so-called “critical” journals in a socio-scientific niche, the rules, tribalism and intolerance of which are no less sterilizing than the norms of the mainstream. Because critters’ careers are subject to the same pressure of hyper-competition, competitive formatting is acted out with the same intensity. We note in particular the critter’s intolerance towards the writings of European thinkers when such writings turn out to differ from the English translation with which he first became familiar...

Under the institutional conditions of a financialized evaluation of science, truly innovative critical research would be unlikely to emerge because it would be nipped in the bud by the ruthless intellectual filters applied by scholars themselves to their own discipline.

Therefore, a prerequisite for the constitution of a critical corpus immune to hijacking by business-as-usual is to change the institutional conditions of production, selection and attrition of research. Undoing the stranglehold of competitive formatting involves creating a space for recognition of innovative ideas, de-financializing the evaluation of research, and relaxing competition between researchers so that it is less sterilizing and thus opening up thought:

- i.* Creating sufficient space for argumentation of innovative ideas means more than just allowing real PhD dissertations instead of compilations of articles. It means recognizing the value of long texts, whether they are dissertations, books or even journal formats that accept very long submissions accompanied by a critical apparatus signed by peers. This seems technically feasible since electronic formats significantly reduce production costs per page.

- ii.* De-financializing the evaluation of research is essential in restoring the value of intellectual content and especially long formats. One should demand a reasoned evaluation based on the content produced by the researchers, whatever the medium, rather than counting “academic points”. This is already what some of the most prestigious universities do in the humanities. This assumes, of course, that peer evaluation is an activity the quality of which is guaranteed by sufficient recognition and time resource.
- iii.* De-escalating competition between researchers does not mean totally eliminating it. We intend a return to the kind of game in which one recognizes, as in any perennial game, the usefulness of losers and their capacity to re-enter subsequently. Indeed, the producers of new ideas, those who propose alternative paradigms, are never “winners” at their first attempt. This de-escalation could begin with a flattening of the hierarchy among media, in order to bring an end to the “winner-takes-all” dynamic, by which we refer to a tendency to focus attention and resources on a too small a number of scholars.

The financialization of research fulfils political and social functions: it helps keep a minority of researchers afloat in a context of chronic underinvestment for higher education, and makes “winners” of intellectual capitalists who are close to business capitalists in their psycho-social attitudes. It also favours, in the disciplines and countries in which the emolument of the titular scholars is very high, consensus with business-as-usual by aligning the material stakes of the scholars with those of financial rent and captains of industry. De-financializing management research will at best be a long-term battle, although it may be noted that in some places and in certain disciplines the path has already been traced: French sociologists have refused to rate journals, while historians in the same country continue to value books as much or even more than research articles.

If a process to achieve such conditions were to be set in motion, it would remain to be seen the extent to which the intellectual software of management researchers must also be transformed to be able to produce, prior to any disciplinary filtering, critical propositions immune to hijacking.

3.3. Repairing the intellectual machine

Stakeholder theory led to CSR marketing and the creation of dedicated departments attached to the communication departments of major groups. Finance and accounting standards are no longer geared towards financing the products and services desired by the corporate environment, but towards securing and maximizing shareholders’ wealth. “Fair value” is a risky model, which destabilizes the economy because of its pro-cyclical nature (proven during the 2008 crisis). The theory of psychological contracts has been reabsorbed into a deployment of quantitative metrics that evades the questionability of corporate purposes for employees. Lastly,

strategic management serves as an ex post justification for the choice of executives rather than fostering a form of collective intelligence. In fact, it has favoured the instrumentalization and the diversion of CSR issues ...

It is unsurprising to learn that theories of management conceal instrumentality to some extent. What poses a problem is the of instrumentality to ... the instrumentalization at the service of very specific stakeholders, at the expense of considerations about general interests and societal ones in particular. Yet these theories conceal, at the same time, a proportion of the critical payload, and the question that we want to address here concerns the inability of this critical dimension to substantially influence managerial choices. In each of the examples of instrumentalization recalled above, it turns out that pillars of support for the the hijacking of criticism pre-exist within the very theories formulated, without the probable knowledge of their authors. It is this design flaw that we want to challenge by asking ourselves what, in the intellectual machine for producing concepts and managerial theories, creates a potential for the misues of criticism.

To this end, we will take an example drawn from the field of strategic management, as studied by one of the present authors, which illustrates to what extent the producers and the diffusers of ideas are already trapped by an intellectual software before their theoretical elaborations even begin. The trap consists of the researcher making the general management (or other oligarchic stakeholders) the centre of the proposed concepts and theories, by a simple non-critical transfer of the founding hypotheses of the management. We therefore call for a refocusing on the system of individual–species–society–biosphere interdependencies. We will propose some examples of this refocusing applied to existing theoretical debates.

3.3.1. Some intellectual virus polarizes managerial concepts so as to make business ends prevail over social ends

By positioning stakeholders as entities that encircle the company, stakeholder theory bore in its very structure the instructions for its own hijacking for the benefit of the company director. In effect, this star-like schema immediately establishes the manager in the central position of decision-maker: arbitrator between the needs and requirements of shareholders, NGOs, employees, suppliers and nature. Although the figure of the shareholder was initially de-verticalized within this circle of stakeholders, this marginalization quickly found a moderator when researchers proposed, for example, to distinguish between primary and secondary stakeholders. A layers-of-the-onion pattern thus took shape, wherein the leader, closer to the shareholders than the biosphere, closer to his employees than those of his suppliers, occupied the centre, while the most important voices with a business-for-society (B4S) point of view were relegated to the periphery. The initial intention was to dethrone the shareholder, but the research community has, so to speak, served on a silver platter the mapping of CSR marketing to the CEO, of which he remained the undisputed

centre. The subversive power of stakeholder theory has been progressively drained of its substance by simply following the gradient drawn from the outset by the thought pattern of its designers and evangelizers. There is no reason to doubt the sincerity of criticism of Freeman and his colleagues; it is therefore likely that this structural vice is involuntary and has escaped their consciousness, as if their understanding, their software of thought, was pre-formed or pre-infected by some virus.

There is an epistemological trap in that the intellectual underpinning of any theorization is preconditioned to produce concepts and theories that place the business leader in his/her situation *hic et nunc*, as the unchallenged axis of the concerns of organizational life. Society-for-business is pre-inscribed in the genome of managerial thought to such a degree that it is very difficult to get rid of.

This is not entirely unexpected in fields of knowledge that do not emanate from researchers supposedly distanced from their subject of study. Built over the centuries by bankers and rulers, the accounting discipline unsurprisingly describes a similar pattern. From a semiotic point of view, it creates by dint of its structure a pattern of “tensiveness” (Greimas and Courtès, 1993; Zilberberg, 2006): for example, by staking the accounts of categories ordered according to the liquidity of the valued assets, it makes liquidity one of the lines of force in its cut of reality, “tense” with regard to availability of cash. Since each asset’s accounting pool can be divided into increasingly finer categories, or aggregated into ever larger masses, always respecting an orientation towards more liquidity, this tension is reinforced at all scales. Here any possible interpolation of intermediate categories between the major ones reinforces the same field of orientation, towards the immediacy of cash on one side (the asset side), and towards the investment of the shareholder on the other (capital, social, passive side).

This is more worrying in areas that have been largely initiated and developed by scholars, such as strategic management. One of the present authors has studied the academic and professional publications of a European country in the years 1945–75 in order to understand the genesis of this managerial knowledge in its historical and institutional context. This research (Jardat, 2007), which used Michel Foucault’s (1969) archaeological method to analyse a corpus of archives, adduces a tenseness similar to that of accounting. Those strategic concepts and theories that survive are all layers of the onion or parallel leaves oriented in the prevailing direction. We have shown subsequently that these structures persist over time and internationally (Jardat, 2017).

It is a discursive device allowing a strategy to be set down which describes a company as if in reality is striated in successive layers radiating from a central point. A stratified discourse is one in which statements follow one another according to a logic that goes from simple to complex, from the identical to the unfamiliar, from the general direction to the lower levels of the hierarchy, and so on. Stratification involves

the use of rewriting techniques such as flowcharts and matrices. Organigrams, by dint of their structure of vertical and horizontal alignments, naturally embody a semiotic hierarchical function of objectives and decisions: for example, strategic decision, current decision, administrative decision and logistical processes.

The strategic matrices are constructed so that they can be read according to this logic of distance from near to far, from the present to the future, from the existing to the possible. Indeed, the metrics of each of the two dimensions of the matrix result in a diagonal metric in which the upper left angle (more rarely the lower angle) represents the pole of the nearest and the opposite angle the pole of the farthest. The direction of reading, in the West, is from left to right and from top to bottom, with such figures easily conferring an implicit sense of a “slope” giving a natural progression to the concepts they represent.

In the matrix in Figure 3.1, Ansoff’s concept of “concentric diversification” is derived from a diagonal reading of the product–market matrix.

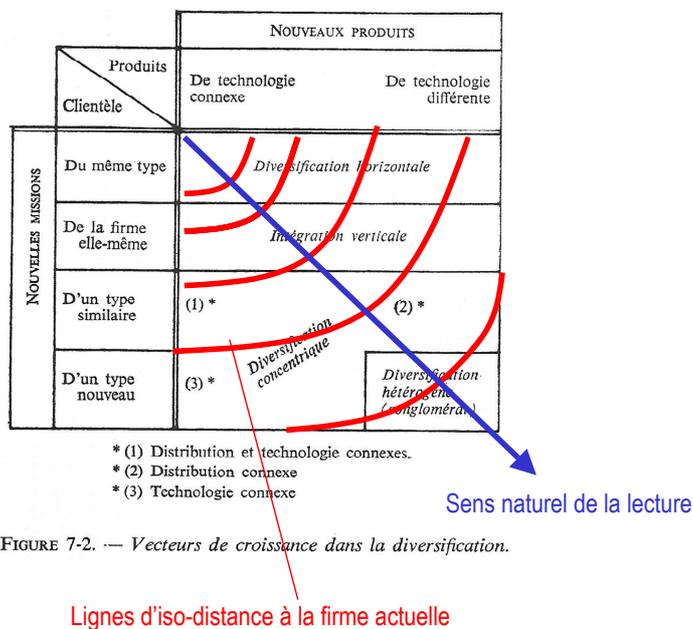


FIGURE 7-2. — Vecteurs de croissance dans la diversification.

Figure 3.1: Tensivity of Ansoff’s (1966) matrix

The text, or rather the texture of the knowledge created, implies, without saying it, that the general direction is at the centre of everything that happens to be important to the company. With stratification, the strategic discourse is focused closely on the governing body – so much so that all the concepts produced contribute by their mere existence, regardless of content, to the validation of the relevance and pre-eminence of this top executive management. Such validation is all the more powerful by operating implicitly in the intimate texture of the discourse, undetectable but omnipresent. Unaware, people generally feel that the ranks of engineers, sellers and producers contribute to the creation of wealth in a way that is not disproportionately inferior to that of the CEOs and staff of major groups. All the users of strategic

knowledge – consultants, managers, operators, journalists, teachers, shareholders – contribute every day to hiding this evidence, despite they themselves being prisoners to concepts designed to magnify the role of the general direction. The CEO benefits, thanks to the structure of a strategic discourse adopted by all, from a kind of self-promotion of which it does not even need to be the agent.

We have neither the space nor the time to explore all management knowledge here. These results nevertheless seem sufficient to show that the hijacking of criticism occurs not only at the scientific level of data, methods and theories, but also upstream, at the epistemological level of the intellectual “software” which prefigures them, and about which we must become sufficiently aware in order to distance ourselves from it in our future productions. This “software” constructs the CEO, its constraints and its goals; it posits the alpha and the omega of any management concept or theory, which will ultimately tend to make any stakeholder into an instrument for the CEO. This original tendency of management knowledge is sometimes exercised voluntarily, whenever minds are corrupted. It is all the more pernicious, however, being subject to a double inscription: in the structure of management statements and in scholars’ non-reflexive unconscious, however detached they imagine they are. A first step in healing consists of becoming aware of these traps. The next step is to try to imagine what free knowledge might look like.

3.4. Repairing management knowledge by making society the centre of our intellectual patterns

Through what productions of knowledge might the healing of management sciences become manifest? At this point we address an objection that goes: “if you turn your focus away from executives and middle managers, you are quitting the realm of management science and moving outside your competence. Leave that task to other scholars: sociologists, climatologists, etc.”. This objection might appear quite legitimate were we not able to position top management away from the centre without diminishing its responsibilities. This is the founding tension of any reform of our discipline for a sustainable reorientation in the “business for society” direction. The epistemological de-centring of management thought on top management does not mean forgetting the latter or even stopping talking to it. Nonetheless, it will be necessary to do this with structures and patterns of knowledge that reposition society at the centre of thought. Even more, it will require scholars to relentlessly hammer out academic statements that enact this new structure, so as to counterbalance the old centring that will tend to persist. As a structure does not exist without the performances that enact it in the real world, we propose to open up scholars’ imagination by taking up each of the examples of concepts and theories mentioned above.

Both strategy and accounting can be rewritten by re-affecting their thought-orientation force (semiotically, their “tensivity”). Imagine, for example, the strategic matrix and accounting that relates to a firm’s collaborator (whatever the status: employee, temp, provider, etc.). The power of accounting instruments could thus be diverted from shareholder-oriented accounting to employee-oriented accounting. That kind of accounting would take the balance sheet as being the profit and loss accumulation of the contributions made to the company and the fees (financial and non-financial) it receives. Some of the tables produced under the psychological contract theory framework (Rousseau, 1995; Rousseau et al., 2014) depict this reorientation, by exposing the terms of the employee’s mental contract (the column “what the company owes me” mirroring the column “what I owe to the company”). The liquidity/payability vectorization of the balance sheet could be replaced by a verticalization according to the due dates at which the fees and contributions are collected (see Figure 3.2).

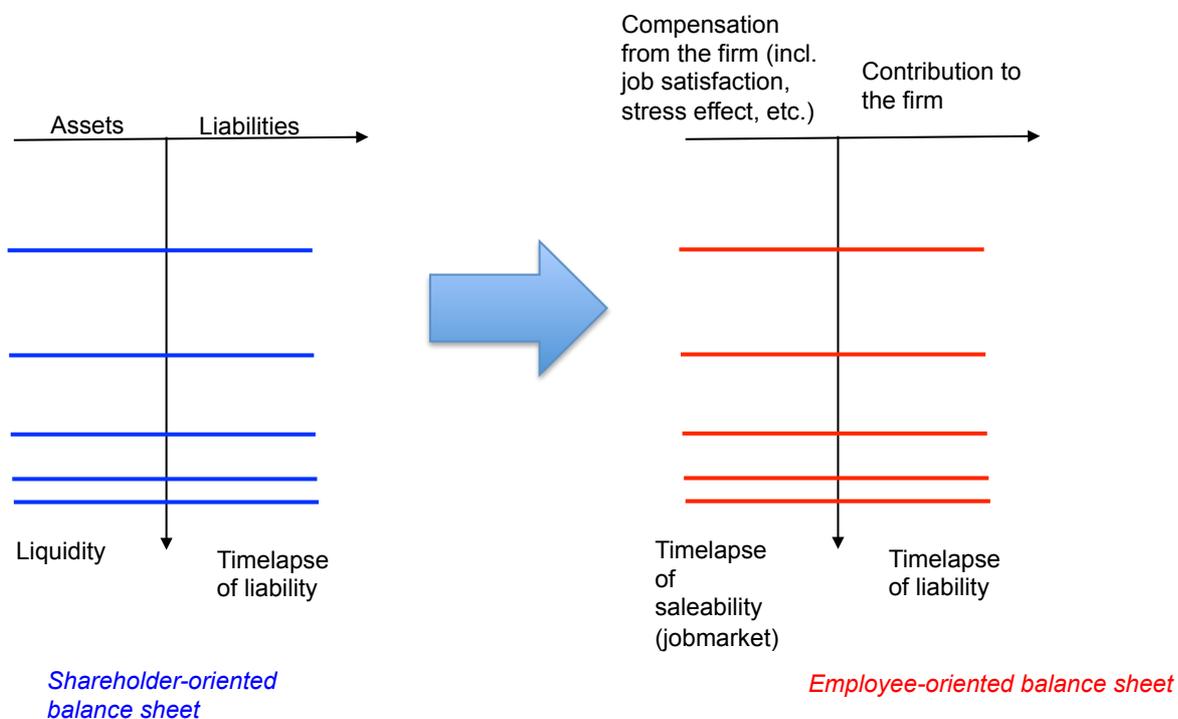


Figure 3.2: Pattern of an employee-oriented balance sheet

Similarly, product x market matrices and their derivatives (assets/attractions, growth: relative market share, etc.) could be substituted for employee-polarized matrices, such as a “skills/visibility” matrix. In his/her portfolio of professional activities in the broadest sense (including, for example, professional, civic and political associations), the employee acquires new skills, and these confer visibility on him/her with regard to various targets (internal/external labour markets, credibility/resources for more personal projects, etc.) (see Figure 3.3).

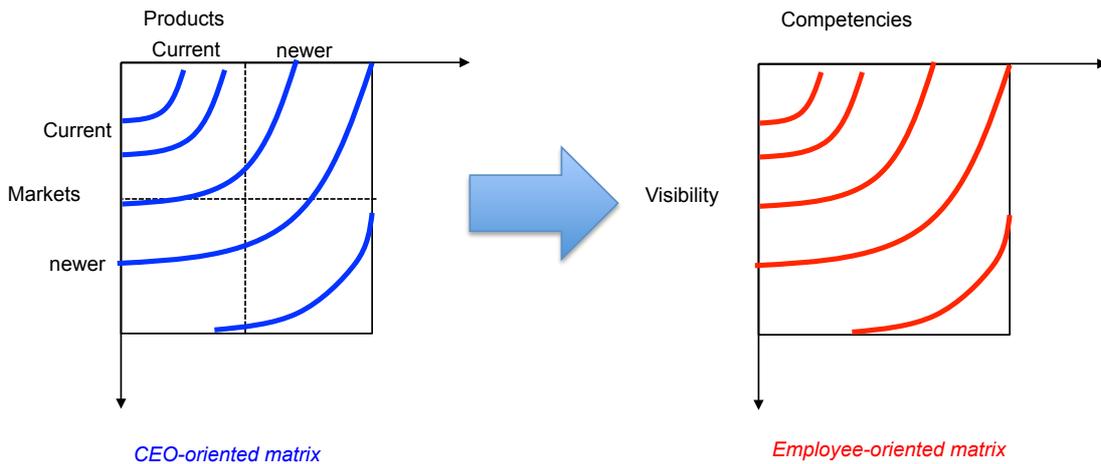


Figure 3.3: A competence/visibility strategic matrix

The use of such tools need not be reserved only for the employee, even if it is hoped that they will be able to appropriate it. It should be taken into account both by the HRD for career management, by top management, which is preparing to develop new strategic directions, by a non-financial ratings agency in charge of validating the fair treatment of employees, and so on. The bottom line is that a direction other than a purpose of shareholder profit has been added, in a similar way to a summation of vectors in mathematics, to the field of representation that backdrops strategic choices. Co-existing with the usual strategic matrices, matrices with alternative poles should serve to divert managers somewhat from the usual mental magnetic attraction towards reflections and argumentations on the strategy to follow, evaluate, calculate always in terms of gains and losses.

It goes without saying that the employee is not the only pole around which to reorient management concepts and tools along with their cherished field of concern. Scholars have a key responsibility for how they represent the field of stakeholders. Concurrently with existing patterns, contributions to stakeholder theory need to be more equitable with regard to societal entities. From a structural point of view, the subdivision of reality could, for example, re-use the prevalent star schemas, but this time establish society in the central position and situate companies and business at the periphery (see Figure 3.4). In contrast to a CSR business case, it now becomes necessary to establish a social case for the company.

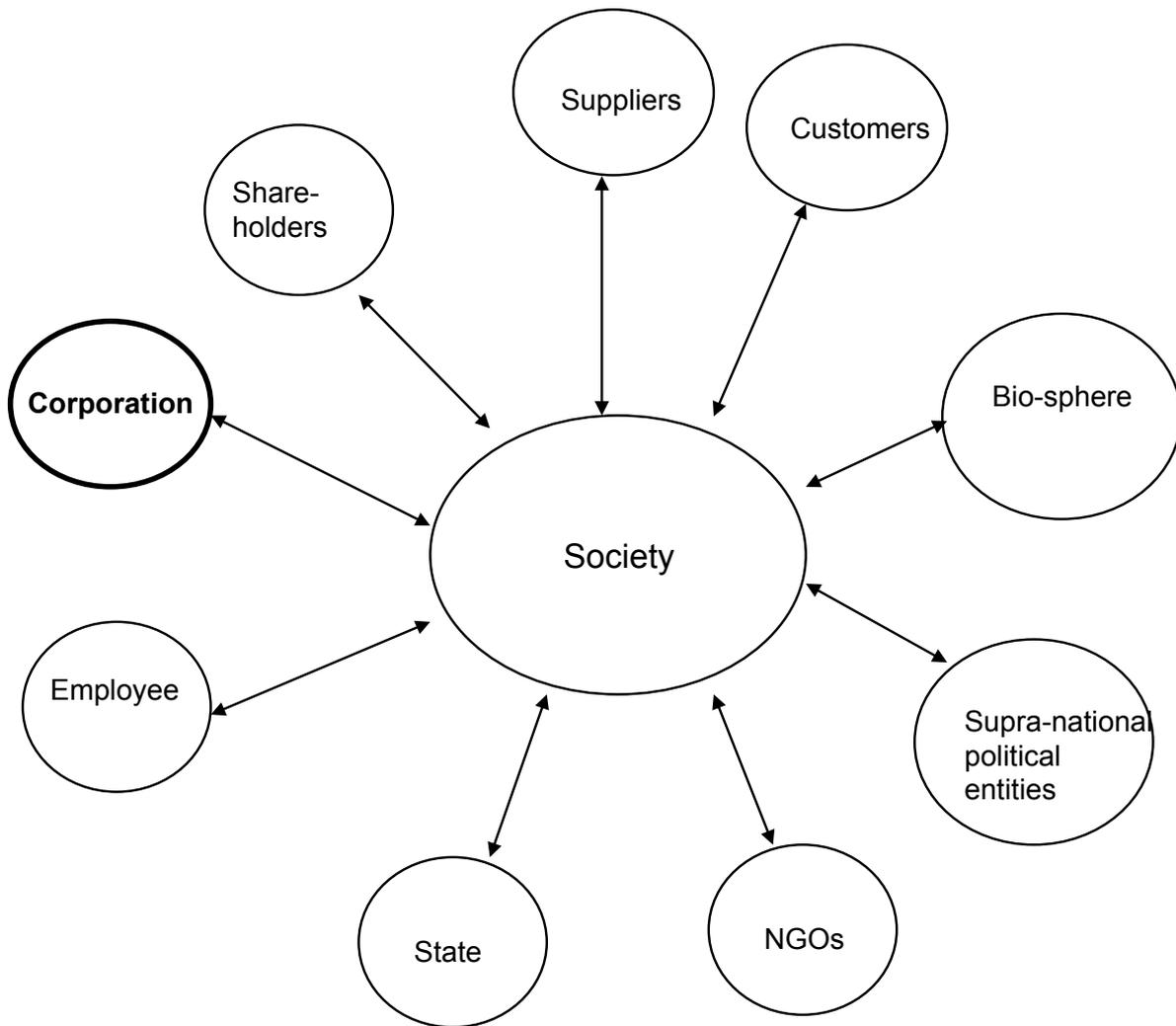


Figure 3.4: Reoriented stakeholder theory: example of a star-like pattern

In these examples, we have not fundamentally changed the topology of conceptual structures: these remain the same stratified, tensive diagrams, orienting statements towards an end. Everything is therefore played out in the polarity described by the concepts and theories being produced, and in the multiplicity and questionability of these orientations: the “vectorization” of the plans on which knowledge is inscribed – arrows of finality. In this first alternative structure the company goes from an implicit role of arbitrator to one of contributor.

Other structures could go further and challenge the topology of existing schemes, such as the stakeholder schema. The current scheme has the disadvantage of positioning on the same level all the relationships between entities, although they are not of the same nature. The relationships between the state and society are (theoretically) of the order of democracy. Those that bind the company to society are primarily market- and service-oriented. Relationships between the business world and the public authorities are of the order of rule and constraint. If our objective is to guide analyses towards a rebalancing of power between business, politics and society, these three entities could be the main categories used to subdivide reality. The

company would appear as a participating entity in only one of these three spheres. Figure 3.5 proposes a topology very different from the existing one. To begin with, the notion of centre and periphery disappears, so that the current pre-eminence of business appears more obviously as an anomaly. In addition, this more organic and multi-scale pattern reveals three types of interdependency: market relationships (sphere of business), relationships of sovereignty (sphere of politics) and solidarity relations (bio-social sphere). It also tends to make salient, even to expose as unnatural, any substitution of market relationships for one of the other two types of interdependency, a process commonly known as the “merchandization of the world”. The choice of subsidiary subdivisions to be made within each of the three spheres is of lesser importance.

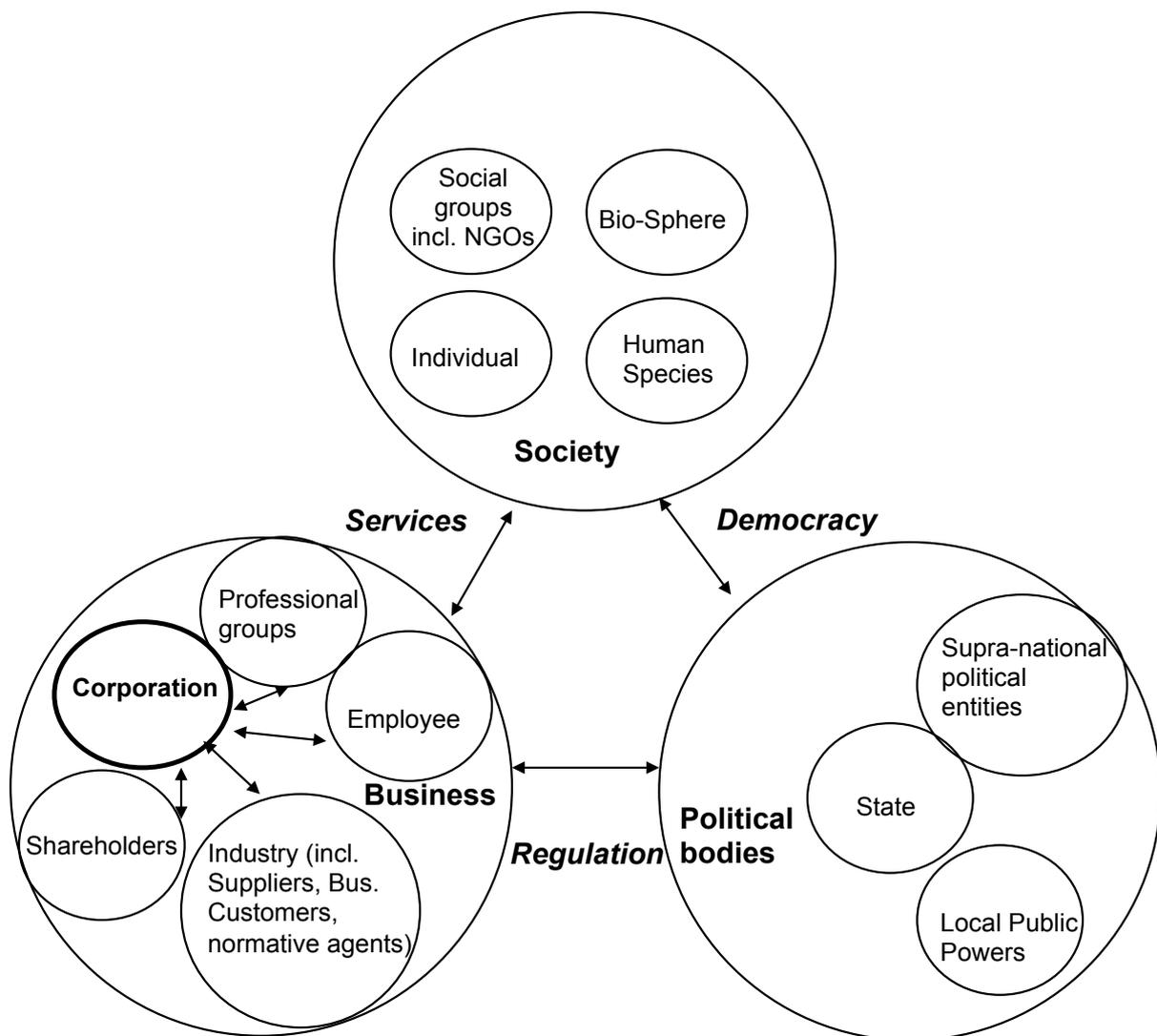


Figure 3.5: An organic pattern for the Business–Society–Politics triptych

None of these patterns is “neutral”. To which targets and for what purposes do these structures frame the choice of research questions and public debate? This is the question that must guide the scholar in making such a choice – which is of an epistemological order while retaining a political dimension. Making possible a reorientation towards other ends is precisely the level of ambition that the business-for-society movement must aim for. The instrumentation may persist, but it should free itself from the unidirectional funnel into which it is nowadays engaged.

3.5. Conclusion: when repairing means curing...

Reorienting management knowledge in a business-for-society direction is a more complicated task than a merely mechanical intervention. Indeed, the life of ideas offers its own resistance, its inertia, and a capacity for adaptation and notorious renewal of the vices that taint it. The level of difficulty, complexity and uncertainty to be faced is more akin to medicine than engineering. In the case of management knowledge, repairing means curing.

This deliverance from an intellectual retrovirus requires at least a bitherapy. On the one hand, management sciences’ intellectual DNA must lose its centring of top management and position society at large (including the biosphere on which it interdepends) in the foreground. In biology, genes can only be expressed if the environment (epigenetics) is favourable. The transplantation of a new intellectual genome will take place only if the institutional binds of research expression and evaluation are loosened. This is the second component of the bitherapy, in which rehabilitation of the book format is a key step.

We cannot expect the mutation, selection and attrition of management knowledge to undergo any sudden epistemological revolution. The mutability of capitalism, along with the immaturity of the management sciences, makes illusory the hope of a brutal and definitive reversal. It will at best be a patient therapy enabled by research institutions that allow, especially in their evaluation processes, the conduct of a patient science. Perhaps it will be necessary to learn, like Albert Camus, how “to see Sisyphus happy” to incessantly roll the stone to the summit of the mountain.

As we have already highlighted in the first part of this book, management is at ease with discourses developing with values that represent the exact opposite of current practice (Boltanski and Chiapello, 1999). It seems that a renewed interest in accountability, happening simultaneously in the spheres of accounting research and business reporting, is typical of this ability to decouple practice and discourse.

Accountability and accounting, etymologically speaking, share the same Latin root. For instance, in France or in Italy, they used to be rendered by the self-same word: *comptabilité* (French) or *contabilità* (Italian). We say “used to”, because a change occurred during the last two centuries, which has to do with the very substance of the corresponding practices. Before the eighteenth century, *comptabilité*, *contabilità*, or any word deriving from the same Latin source (*computare*) would denote account-giving in trade relations. It would include a relational dimension as well as a particular emphasis on the responsibility of agents towards their principals (see e.g. Lemarchand, 2014; Lemarchand and Parker, 2014). The English language has preserved a distinction between accountability (account-giving) and accounting (account-making), whereas most of the other languages have retained the same word (*comptabilité*, *contabilità*, etc.) to refer to accounting. This change is symptomatic of the semantic shift we are talking about. Whatever the linguistic context, the advent of management and the educational system that goes with it runs concomitantly with the decline of relational principles (accountability) to the benefit of technicality (accounting). It is therefore no surprise to see accountability back in the present managerial discourse. This technical bias seems to comprise the very essence of contemporary accounting, together with the pre-eminence of financial approaches within accounting standards. It is necessary to show how this has led to financializing practices and norms (Section 4.1). If accountants in the broadest sense (standard-setters, users, auditors, managers, etc.) want to regain some relevance towards society, multiple accounting standards could be a viable though difficult solution (Section 4.2). The case of social disclosure is therefore examined more deeply to examine how possible – and yet hazardous – it is to imagine society-oriented accounting (Section 4.3).

4.1. Context: the great transformation of accounting, from accountability to financialization

Western European countries adopted charts of accounts in the first half of the twentieth century, while the US and the UK preferred, later on, generally accepted principles or conventions, which are much less constraining. Without being too technical, the main difference between the European charts of accounts and the American or British standards lies in two main philosophical orientations. The first has to do with the role of standards. Charts of accounts reveal themselves to be extremely normative in order to provide comparable information among companies and periods, bearing the risk of moving away from practical matters. Generally accepted principles are agreements: their role is to set up limits to account-making. They are much more flexible in terms of interpretation and thus may adapt more easily to practice. At the same time, with much more space left for interpretation, fair comparisons can be hindered. The second difference in philosophical orientations is the approach to value in balance sheets. In a highly informative contribution to the analysis of the “fair value” phenomenon, Richard (2001) deciphers the historical debate around the

nature of value. This difference originates from the contrast between views on accounting as defended by Colbertist⁵ thinkers and those defended by the German Law School in the seventeenth century. Colbertists represented the entrepreneur's point of view by promoting measurement against historical cost (cost at time of purchase), the only approach to provide a computable value of assets over time, and thus ushering in the age of assets. The German Law School, on the contrary, defended the creditor's point of view. In order to provide creditors with relevant information about their ability to collect their claims, it was necessary to value assets as close as possible to their market value. That is what we call the "fair value principle". Three centuries later, while charts of accounts will mainly prefer historical cost and computed amortization over time, agreements on practices choose fair value.

4.1.1. Triggers and forms of the accounting revolution

The first great accounting transformation occurred at the end of the twentieth century, due to two main factors. The first was technological, the second political. On the technological side, the advent of relational databases facilitated a non-hierarchical access to data. Put more simply, it became possible to assign several attributes to a datum, whereas the hierarchical system required you to find the one single correct pathway to access the same datum. Based on this new technology, account-making is significantly facilitated, and the updating processes take much less time than before (Beaver, 1989).

On the political side, the International Accounting Standards were introduced in 1973 in order to set up a common accounting language across European countries. The demand for common standards was driven by the globalization of shareholding and financial markets. When the process was launched, everything still seemed possible, but a clear financial orientation was immediately imposed by the institutional context. When Henry Benson – historical associate of Coopers (later PricewaterhouseCoopers) – launched the process in 1966, the influences are clearly identifiable. Multinational companies were mostly based in the United States, and the first Secretary of the International Accounting Standards Committee (IASC) was Paul Rosenfeld, a representative of the AICPA (American Institute of Certified Public Accountants). Benson was replaced by the American Joseph Cummings in 1976. Though the Europeans tried to use these standards to resist the invasive influence of the US GAAP (generally accepted accounting principles), the IAS philosophy remained largely inspired by the American system. Consequently, the financial orientation of accounting, consistent with the fair value principle, continued to prevail as the universal pattern. The adoption of the IAS-IFRS for listed companies in the early 2000s, together with the convergence process adopted by many European countries, kickstarted the generalization process towards a single model of accounting, oriented towards a common objective: providing information on the financial value of businesses.

The philosophy of value was not the only aspect of accounting standards to be affected during these decades. The contents of financial reporting were also reconsidered in order to become consistent with investors' expectations. A study carried out between 1991 and 1994 by the Special Committee on Financial Reporting, formed under an initiative of AICPA, tried to make these expectations as explicit as possible in order to influence accounting standard-setting processes. The report, issued in 1994, took the name of the chairman of this committee, E. L. Jenkins, a partner of Arthur Andersen. For nearly three years, colossal investigation mechanisms (surveys, development of

⁵ Colbert (1619–1683) served as Minister of Finance for King Louis XIV of France. He is well known for founding Saint Gobain (Royal Manufacture of Glass and Mirrors, 1665) and for promoting entrepreneurship in France.

micro-economic models tested on the financial markets) had been mobilized to best meet the needs of investors, creditors and analysts. At the end of this period, an understanding of the trends identified by the study made it possible to set recommendations not only for companies but also for standard-setting bodies in the field (the FASB [Federal Accounting Standards Board] and the IASC). These recommendations (the direct answer to the original question) are based on the idea that purely financial and retrospective information is insufficient for making good decisions. In order for the financial market to no longer act by successive trial and error, it must be given as complete a data set as possible. The objective of this approach is to provide enough information for the analysts to be able to write direct recommendations, and for investors or creditors to be able to make decisions. The improvements outlined by the report are summarized in Table 4.1.

Action domains	General recommendation	Actions to be taken
Financial statements	Create synthetic financial statements by business segment.	Establish segmentation standards (industrial, geographical, strategic, etc.).
	Detail data on “innovative” (volatile) investments and financing means.	Identify and even assess the risks attached to each of them (particularly those related to securitization).
	Clearly separate core business issues from related activities.	Highlight the impact of exceptional or related transactions in the financial statements (income, cash flows, balance sheet, share value) and their evolution. Develop standards for identifying core trades.
	Increase reporting frequency.	Quarterly detailed reporting.
	Remove the least relevant information, in order to develop other information.	Reconsider certain standards. Implement techniques for assessing intangible assets. Develop prospective data (forecasts in volume, turnover, results, etc.).
Management	Provide information on the internal processes and relationships within the firm.	Develop standards for analysis and presentation.
General	Provide information on strategy.	Disclose key data from strategic plans and prospects.
	Depict the environment of the company.	Provide a detailed description of the company’s sector, its activities, its competitors. Compare the performance of the company to that of its main competitors. Analyse the problems in the sector and their impact on the company.

Table 4.1: Recommendations from the Jenkins Report: synthesis
Source: Méric and Sfez, 1999

Most of the recommendations regarding disclosure have been integrated within international standards, and quarterly reports have since become compulsory (although the regulation has been relaxed in some countries).

To sum up, the changes in accounting standards have confirmed the domination of the financial vision and supplemented it with requirements in management information. Therein lies the second factor in the accounting revolution.

4.1.2. Impacts of the accounting revolution: invasive reporting and the procyclicality of standards

The consequences of the accounting revolution are twofold. Firstly, it affected daily business in that reporting became invasive. For instance, periodic surveys by CIMA (Chartered Institute of Management Accountants) confirm that the function, even in smaller businesses, is overwhelmed by number-crunching and checking activities. Management accountants, in such structures, spend most of their time controlling the quality of accounting information and undertaking reports, when their position would ideally imply much more time devoted to supporting decision-making (CIMA, 2013). This is a quite unexpected consequence of what Beaver (1989) introduced as a unique opportunity to inform financial markets with semi-automatically produced data leaving more time for relevant and value-adding activities.

The second order of consequences can be perceived at the macro level. The subprime mortgage crisis exemplified the procyclicality of the fair-value-based valuation of assets together with the financial approach of balance sheets. Before October 2008, the IAS 39⁶ had required banks to value their financial assets at fair value. Due to the global depression of the market, banks were compelled to depreciate their assets by a significant margin. These depreciations considerably decreased their income and their shareholder equity. In fact, shareholder equity was supposed to reflect companies' value, which was very low at that time. In parallel with this phenomenon, prudential ratios from the "Basel II" bank regulation imposed a minimum level of equity-to-finance credits. As a result, some of them were on the verge of going bankrupt. At the very least, hardly any would continue to lend money to the real economy. Appraising the systemic risk that these international accounting standards posed in these particular circumstances, the IASB was enjoined by the G8 and the European Union to change its IAS 39 and IFRS 7⁷ standards. On 13 October 2008, it became possible to transfer available-for-sale assets and trading assets within the "originated loans and receivable" group, and thus to be valued at cost. This saved the global financial system. After this dramatic event, fair-value accounting should have been called into question. (Such a problem would not have appeared in the growth period that preceded the crisis: as Colasse [2011] contends, who would have complained about growing profits in listed companies, even if a part of these profits was exclusively due to the effects of accounting?) The IASB began work on a new standard, IFRS 9,⁸ just after this incident. Astonishingly, IFRS 9 does not restrict the application of fair value: on the contrary, it supports it and allows banks a choice of valuation method (fair value with impact on the income statement, fair value with impact on equity, updated cost at time of purchase) of the organization's business model. Needless to say, comparison between banks will no longer be as easy.

The obvious pitfalls of the "accounting revolution" that we depict above provoke a call for a renewal of accounting approaches. As suggested by deeper analyses of the 2008 accounting crisis, multiple accounting standards could help diversify views on companies' performance, and thus facilitate a holistic appraisal of their performance, instead of focusing on the single financial view.

4.1.3. A call for inventing or re-creating multiple accounting standards

Even a superficial reading of the IFRS conceptual framework, as well as the 1994 Jenkins Report, leaves no doubt about the orientation of these standards. Indeed, they are aimed at providing investors with relevant information regarding sell, hold or buy decisions. In this, the IASB follows in

⁶ International Accounting Standard on Financial Instruments: Recognition and Measurement.

⁷ International Financial Reporting Standard on Financial instruments: Disclosures.

⁸ International Financial Reporting Standard on Financial Instruments.

the footsteps of the FASB in complying with the shareholder view. Colasse (2011) reminds us that the shareholder approach is based on agency theory and on the theory of financial markets. Agency theory does not recognize any social consistency in a company: a firm is supposed to be a pure nexus of contracts, the central contract being between shareholders and top managers. The theory of financial markets complements agency theory with the idea that investors control managers via markets. Beaver (1989) explains that immediate reporting helps markets react quickly to a company's performance. Thus, financial information must be focused on a business's financial value and must be updated as frequently as possible. This view is obviously useful in the realm of stock exchanges, but it needs to be supplemented with other types of information in order not to weaken companies. Incidentally, in Colasse's words, "accounting information is a common good that contributes to the formation of organizational and social solidarity" (2011: 159, our translation). Recognizing other possible informational orientations – that is, towards stakeholders other than shareholders – should do much more to help prevent future crises than marginal improvements of pure shareholder-oriented accounting. The present conceptual framework of international standards does not take into account labour, human resources or the environment. Such a change implies reconsidering companies as social and economic units, with mid-term and long-term projects. As Colasse (2011) argues, this change is no longer a question of technicality but one that deserves political commitment.

How do we diversify accounting information as a common good? This is a real challenge that many contributors to accounting science have been facing for decades. The Chartered Institute of Personnel and Development (CIPD), together with Pensions & Investment Research Consultants Ltd (PIRC), for instance, claim to take into account in business reporting the competitive advantage created by human capital, although they do not include it in financial reporting documentation (Valuing Your Talent, 2015). In this we are dealing with a serious question. Should accounting remain purely financial, as part of a global reporting? Or should societal factors be included in financial reports? The Global Reporting Initiative (GRI) was founded in order to provide companies with a system of standards that were supposed to be as precise and controllable as the IAS-IFRS (Acquier and Aggeri, 2008). It seems that, twenty years later, this objective is still to be achieved. The GRI guidelines represent probably the most significant and visible corpus of standards, but they were the brainchild of a heterogeneous group of NGOs and companies, including major audit firms. It is no surprise, then, to find the direction taken by this project to be inspired by the financial model. Thus, the GRI conceptual framework incorporates the IASB's principles on quality of information: balance, comparability, accuracy, timeliness, reliability and clarity. Standards, in a way, are necessary to guarantee readable and interpretable data about sustainability policy. Nevertheless, two questions arise when normalization of such a topic is at stake. Firstly, who issues the standards? It seems that the legitimacy of the GRI is questionable because the board includes only private organizations, which may be suspected of being interested in auditing global reports, offering consultancy to ensure the compliance of those reports. Secondly, do such standards preserve the variety of the information? The GRI experiment suggests that transversal patterns of standardization may ultimately lead to alignment of information around a single model (the financial one in this specific case). That is why we would rather defend multiple systems of standards together with a meta-framework defining which standard systems are necessary to provide a *global* reporting, instead of a *globalized* one. This means that the object of accounting must go beyond a monetary expression of pure financial value.

With no ambition to be exhaustive, we present here some past and present attempts to diversify accounting. The first has to do with entrepreneurship. As we will describe in the following chapters,

the “accounting revolution” diverts top managers from entrepreneurial matters. Too many companies, having been purchased by investment funds, drastically reduced their investment plans and budgets. There is no doubt that managers of such firms implement short-term strategies inspired by, among other factors, accounting standards. A first way to diversify accounting approaches would be to restore entrepreneur-oriented standards, such as the French Charter of Accounts, as was proposed before the convergence process. Historical cost should again become central in these standards, so that managers can base their decisions on stable factors. The volatile value of markets needs to be corrected with additional information on stable value.

New methods have also been introduced to deal with an age-old problem about the value of human capital. Adam Smith, for instance, would consider the “general stock of the society” as a part of fixed assets. Using this term, he draws attention to the abilities of members of society (see Rambaud and Richard, 2016). Nevertheless, these initial views on human capital would be mainly based on costs, including acquisition and education. The first modern conceptions of human capital followed the same trend (see e.g. Schultz, 1961). From a cost perspective, it was easy to move forward to an investment perspective. Following the financial framework, costs have been replaced with discounted cash flows. As Rambaud and Richard (2016: 228) conclude, human capital “is fundamentally related to investments in and accumulation of human based characteristics which can secure future growth, at a social level, and future wages, at an individual level, through the increase of human productivity”. Their first issue with human capital as it has been conceptualized for decades is the confusion between capital and asset. In traditional accounting, capital is an amount of money that should be refunded when the business stops, whereas assets reflect the use of this money (for instance, the purchase of machinery). Capital has to be preserved, whereas assets have to be fully utilized. The confusion is maintained by economic views on capital,⁹ which represent capital as a bundle of potential future benefits. The societal consequence is obvious: “human beings are mere productive means [...] The shift to an ‘idealized’ asset viewpoint, corresponds to a shift from a worker-as-a-loss to a worker-as-a mean’ (Rambaud and Richard, 2016: 234). The originality of the triple depreciation line (TDL) is due to a commitment by its designers to maintain the traditional accounting conception of capital. As something to be preserved, it can be financial, but also and mostly human and natural. It materializes a liability towards nature and humans, be they part of personnel or of shareholdership. This provokes a call to revisit financial standards from the inside, instead of aligning non-financial standards around one single shareholder-oriented view of accounts.

The overall diversification of accounting systems, whether internal or external to these systems, is an extremely delicate matter. Current practice around disclosure of social information is particularly illustrative. It raises the question of who should implement it, how it is fed, and the relationship between the information contained in the reports and the societal performance of the companies.

4.2. Conceiving an efficient and impactful social disclosure mechanism: a task for the multiple accounting perspective?

With an increase in concern from the community and policy-makers about sustainability and corporate social responsibility, the demand for information transparency has also increased. Such concerns have become a part of managers’ decision-making processes and of reporting practices, with the aim being to integrate environmental and social information with business information

⁹ Rambaud and Richard claim that such views were disseminated by Irving Fisher.

(Gray, 2001 ,Herzig and Schaltegger, 2006). This goal is consistent with the definition of sustainability provided by the WCED (World Commission on Environment and Development), under which an economic activity is sustainable if it allows the present generation to meet their needs without compromising the ability of future generations to meet theirs. At the same time, the requirement for companies to integrate their information is consistent with the definition of CSR proposed by a 2001 EU Green Paper, according to which it consists of the voluntary integration of social and environmental aspects in the economic practices of companies and in their relationships with interested parties. Furthermore, confirming the growing interest shown by international institutions, in 2014 the EU adopted a directive for the mandatory disclosure of non-financial information as an instrument of transparency functional to the competitiveness and social responsibility of businesses (Directive 2014/95/EU). Article 1 of the directive states that non-financial reporting systems must contain at least environmental, social and personnel-related information, and refer to respect for human rights and the fight against active and passive corruption to the extent necessary for an understanding of the performance of the firm and the impact of its activity.

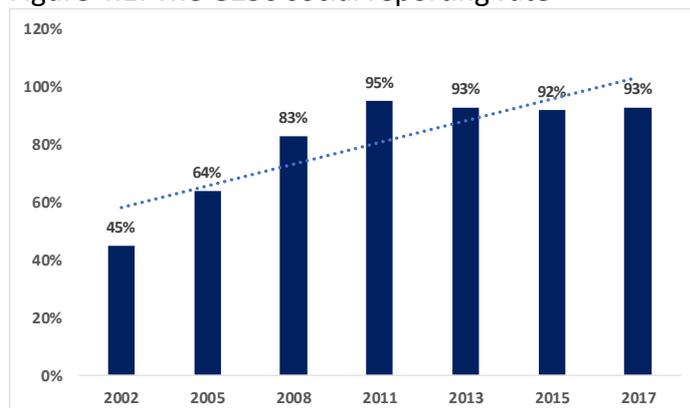
On a theoretical level, we are witnessing a process of convergence between the concepts of corporate sustainability (CS) and CSR, with repercussions for the evolution and goals of reporting systems. In fact, paradigmatically the two concepts have different origins. In the first case (CS), the social dimension has assumed increasing importance, expanding the concept of sustainability. In the second case (CSR), environmental issues have become an integral part of the broader social responsibility. Both perspectives tend to converge towards the balance between economic prosperity, social integrity and environmental responsibility (Montiel, 2008). This convergence has contributed to the interchangeability of the two concepts (CS and CSR), encouraging the expansion and dissemination of performance detection systems in the perspective of the triple bottom line (TBL) proposed by Elkington (1991). From this point of view, being socially responsible implies that companies operate in a transparent manner in order to allow third parties to know and evaluate a company's actual orientation towards social and environmental issues, and how this orientation is translated into strategies and organizational procedures, or reflected in the goods and services offered. Therefore, the search for a new language to enter into dialogue with a broader set of stakeholders has become a growing imperative (Elkington, 2006 which, if adequately met, can support multiple purposes, such as internal control, information management and protection of company reputation. Voluntary corporate social disclosure (CSD) is therefore an additional tool to combine all these goals. It is a communication system about the company's objectives around improving its social, environmental and economic performance, while strengthening its identity and public image (Lindblom, 1994; Gray et al., 1996). This new form of reporting and communication has been given different labels over the years, including social reporting and sustainability reporting. The reports are prepared autonomously or else integrate a wider disclosure system which includes official financial statements or other financial reporting documents.

The motives for companies to publish social reports range from ethical and social considerations to more strictly economic evaluations. All motives became more relevant after the scandals and financial crises of the new millennium, which highlighted the limitations of a narrow vision of corporate governance. At the same time, economic considerations are nonetheless linked to a need for enlarged value creation, increased business opportunities, innovation, reputation and the reduction of social and environmental risks (Clarke, 2007).

As pointed out by Kim (2017), one of the main causes of CSR's ineffectiveness, in terms of enlarged value creation and building relationships of trust with the various interest groups, is a lack of public knowledge about the company's initiatives and about its limits with regard to disclosure of data and information about CSR activities. With CSD, the company should be able to improve the quality and usefulness of the information reported. Moreover, firms will be able to provide a more balanced and complete representation of their performance, encouraging the identification and comparability of the programmes that affect different stakeholders. By reflecting the TBL approach, the CSD should permit the detection of causes and effects of the integration of economic, environmental and social issues, and also provide the company with indications about how to take advantage of its relationships with stakeholders, how to share value created with customers and suppliers, respecting people and the environment and giving and obtaining resources to and from the community. This is consistent with a multi-level strategic approach, which for Morsing and Schultz (2006) includes a stakeholder information strategy, a stakeholder involvement strategy and a stakeholder response strategy. What these strategies have in common is an enlarged vision of social communication. According to this logic, before taking a decision on a relevant initiative in terms of CSR, management can deepen this action through dialogue, networking and partnerships with the various stakeholders, and then demonstrate a capability to integrate social concerns within the business model.

CSD is therefore a tool to broaden forms of internal control and to facilitate dialogue with the various stakeholders. A more participatory strategy can theoretically be more expensive, so the availability of a recurring and formal communication channel on social, environmental and governance issues can make this strategy more sustainable both in economic and social terms, thanks to a greater awareness of the company and of its stakeholders. The behaviour of companies, especially the larger ones, seems consistent with an appreciation of this opportunity. Indeed, among the world's 250 largest companies by revenue, based on the Fortune 500 ranking, the reporting rate has increased significantly over recent years (see Figure 4.1), especially since 2008. This confirms that CSD and social performance indicators are growing in momentum among firms as an additional tool to share information on aspects that are not strictly economic (Vormedal and Ruud, 2009).

Figure 4.1: The G250 social reporting rate



Source: KPMG 2017

4.3. Theoretical perspectives on CSD

The use of CSD as a tool for continuous dialogue with company stakeholders, both internal and external, has aroused great interest from within academia. As highlighted by Dienes et al. (2016), between 2000 and 2015 scientific research produced over 300 studies related to sustainability reporting. The growth rate is particularly significant between 2011 and 2014, i.e. after the explosion of the financial crisis in 2008. In fact, whereas the average number of publications on CSD was around ten per year between 2000 and 2010, from 2011 to 2014 it was 49 per year (+80%). There are several reasons for this growing interest spanning from complexity of data collection and processing to the lack of comparability of social information, including the proliferation of reporting standards of voluntary disclosure. Over the years, academic interest has been channelled through different analytical lenses, each of them enabling an understanding of different characteristics and functions of CSD. In light of this, the present study proposes a multi-perspective approach to analyse the drivers and effects of CSD.

4.3.1. The social legitimacy perspective

Historically, from a business-for-society perspective, the main framework of CSD is the theory of social legitimization (Guthrie and Parker, 1989; Owen, 2008). According to this perspective, CSD is a tool that companies can adopt to improve their response to the environment in which they operate, legitimize their existence and demonstrate a coherence between their values and those of the social context to which they belong (Lindblom, 1994). Such a consonance between the environment and the values that underlie the business model allow the company to acquire its citizenship, demonstrating care for the community's well-being and acting as a good citizen. As such, companies would be incentivized towards voluntary social disclosure in order to respond constructively to different social issues (Archel et al., 2009). This view is consistent with the stakeholder perspective (Freeman, 1984), under which good management is that which responds positively to pressures from different stakeholders. The relationship between CSD and stakeholder management must be interpreted in a dynamic sense, as strength and legitimacy, in addition to the topicality of interests, varies over time. For instance, in conjunction with a growing interest in climate change from the community and from policy-makers (e.g. the Paris conference on climate change in 2015), companies have progressively begun to give more space to social dissemination on the topic of environmental impact and related risks. Among the 250 largest companies according to the Fortune 500 ranking, almost 50% include in their social reports an assessment of financial risks related to climate change and new ecological scenarios such as the low-carbon economy. The latter is a theme strongly felt even among investors such as those investment funds that exclude from their portfolios economic sectors related to fossil fuel (Trinks and Scholtens, 2018), or in the banking industry. HSBC estimates that 40%–60% of the market capitalization of major European oil firms could be at risk in a low-emissions scenario. In the same way, large banks such as Citibank and Deutsche Bank are exploring the implications on value of companies whose revenues depend on fossil fuel reserves (UNEP F.I., 2013).

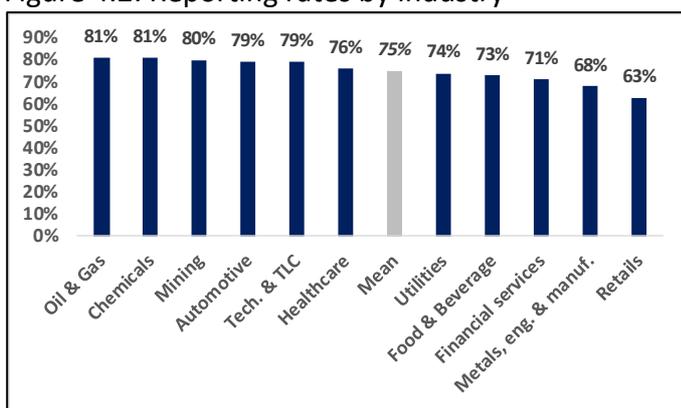
CSD can be interpreted as an instrument to gain the trust and support of the different parties involved in the process of enlarged value creation (Perrini, 2005; van der Laan Smith et al., 2005; Sweeney and Coughlan, 2008). With the stakeholder approach it is possible to give a face and a name to the different social categories (Carroll, 1991). This relationship involves firm-specific features that affect the company's social impact, such as the size of the firm and the industry's reputation. In relation to the first aspect, size has been positively associated with the quality of voluntary social disclosure in several studies (e.g. Gray, 2001; Khan, 2010; Gangi and Trotta, 2013;

Wang et al., 2016 Andrikopoulos et al., 2014). Larger companies may be more sensitive to CSR and disclosure because of the greater social impact. They employ more people, produce more goods, consume more resources and are more visible (Graafland et al., 2004). Furthermore, a larger company means more transactions and more relationships with internal and external stakeholders. This implies greater opportunities for the company, but also greater risks and social costs that can be mitigated by CSD. Moreover, a sector’s reputation can influence the propensity to subscribe to CSD (Boutin-Dufresne and Savaria, 2004). Several studies have analysed this aspect with controversial results. In fact, a first line of interpretation shows major environmental impact and bad reputation as drivers of social dissemination (e.g. Sweeney and Coughlan, 2008). Referring to the broader relationship between CSR and reputation (e.g. Yoon et al., 2006, De Castro, Lòpez, & Sàez, 2006; McWilliams and Siegel, 2011; Melo and Garrido-Morgado, 2012; Kim, 2017), CSD is considered particularly important for companies belonging to industries with a bad reputation, in order to improve their image and gain their right to citizenship (Matten and Crane, 2005). Traditionally, this motivation is mainly linked to more polluting sectors such as energy and oil industries. More recently, the reputational risk linked to the 2008 crisis has provided a further incentive towards CSR and social communication, this time for the financial industry (e.g. Wu and Shen, 2013; Revelli, 2017).

A second line of interpretation sees poor environmental performance as a negative driver of wider social disclosure because, in this case, companies would be inclined to give little space to environmental issues, shifting attention to other themes and thus narrowing the range of topics for disclosure (e.g. Mitnick, 2000). In such a case we are not seeing a lack of communication, but rather communication with less breadth relative to the various pillars of CSR. This could be interpreted as an attempt to distract rather than inform the company’s audience.

Indeed, recent analyses describe a propensity towards CSD that varies according to sector (KPMG, 2017). In particular, large companies with a higher-than-average reporting rate are especially found in those industries that traditionally have a greater environmental impact (see Figure 4.2).

Figure 4.2: Reporting rates by industry



Source: KPMG 2017

4.3.2. The perspective of asymmetric information

The separation of ownership and control, and the ownership structure, can affect the interpretation of the CSD function. In this case, the theory of information asymmetries (Akerlof, 1970) may be a useful analytical perspective. In particular, the size of a company and the complexity of its ownership structure both tend to increase monitoring requirements and costs. More complex corporate structures with the participation of institutional investors can create a nexus agency model (Gangi and Varrone, 2018), where an agent (the investment fund) controls another agent (the manager of the target company). This means a double information requirement. The first involves the investment fund and savers; the second concerns the investment fund and the target company. If there are socially responsible investors among the savers, the need to detect and communicate social performance can increase further. Fund managers must report their actions to the owners of the investment shares, ensuring that the management of the target company effectively meets the required social standards. Based on these factors, previous studies (e.g. Naser et al., 2006; Gangi and Trotta, 2013) have shown that CSD can be seen as a means of addressing the information gap between a company's "insiders" and "outsiders". The question is highly relevant from the point of view of relationships with the capital markets. The latter are efficient if all useful and verifiable information is available to all the actors involved. In the absence of such perfect efficiency, information asymmetry is the cause of problems of adverse selection and increased transaction costs. This may lead to the exclusion of less risky projects or the underestimation of the best companies, with a consequent increase in investment costs. However, the solution is not simple, as an optimal disclosure rate could in fact represent a trade-off. As Verrecchia (2001) points out, complete information may never be a fully achievable goal on account of the diversity of players in the market, and it can be very difficult or even impossible for disclosure to produce the same benefits for all. Furthermore, conflicting forces might be at work, such as the risk of revealing sensitive information to competitors. These aspects are more relevant when there is competition between companies for scarce resources, as in the case of capital constraints. In a situation of asymmetric information, companies can pay a premium to be more attractive to investors by incurring additional information costs. In this scenario, it may be useful for the company to integrate social reporting into a wider public disclosure framework, further demonstrating its ability to meet the expectations of a wider group of stakeholders and showing a lower risk of exposure to future social costs (e.g. Perrini et al., 2011; Vurro and Perrini, 2011; Di Giulio et al., 2011). From a perspective of accessing the capital market on less costly terms, and in an attempt to attract the interest of broader categories of investors, socially responsible companies can be incentivized to increase their commitment to voluntary social disclosure. There is some empirical evidence to confirm this effect of CSD (see Table 4.2), showing a favourable relationship between business communication efforts and the positive reactions of financial markets, which can be seen as a proxy for mitigation of information asymmetries.

Table 4.2: Impact of CSD on investors' behaviour

Authors	Results
Belkaoui ('76)	Positive reaction of financial markets to environmental information.
Belkaoui ('80)	Positive relationship between CSD and investment decisions.
Epstain, Freedman ('94)	Interest of investors in enviromental information especially among people more oriented by ethical reasons.
Deegan, Rankin ('97)	Managers of mainstream funds increase their interest towards ethical investments ("new approach to the City towards CSR").
Friedman, Miles ('01)	Positive relationship between CSD and investment depending on context effect.
van der Laan Smith et al. ('05)	Environmental information affects positively a firm's earnings valuation multiple in several countries.
Cormier and Magnan ('07)	Positive relationship between CSD and investment decisions by investors belonging to stakeholder-oriented contexts.
van der Laan Smith et al. ('010)	CSD positively impact on the investment decision of Socially Reponsible Funds.
Gangi ('015)	

Several studies in particular have highlighted the favourable effect of environmental information on investment decisions and financial markets since the second half of the 1970s, when the conscious use of CSD was far lower than it currently is (e.g. Belkaoui, 1976), and these effects are also confirmed in subsequent years (e.g. Epstein and Freedman, 1994, Deegan and Rankin, 1997; Cormier and Magnan, 2007). Other works further attest to the existence of a positive relationship between CSD and investor behaviour (e.g. Belkaoui, 1980; van der Laan Smith et al., 2005, 2010), and also with specific reference to socially responsible funds (Gangi, 2015). These findings support the usefulness of CSD in attracting different investor categories that are more sensitive to social and environmental issues, thus expanding the opportunities for leveraging capital markets in the service of company development programmes. It is a competitive advantage of the most attractive financial firms.

4.3.3. The institutional perspective

The institutional perspective (Di Maggio and Powell, 1983) offers an opportunity to expand the study of CSR drivers going beyond firm-specific factors and focusing on the context and role of institutions in the promotion of social communication standards. This helps to explain the differences between companies in terms of CSD.

Several studies have argued that the pressure exerted by stakeholders on CSD varies according to cultural and economic contexts and in relation to the firm's adherence to international initiatives

for the diffusion of policies that conform to CSR (Aguilera and Cuervo-Cazurra, 2004; Aguilera et al., 2006; van der Laan Smith et al., 2005; Chen and Bouvain, 2009).

A first level of analysis involves a comparison between stakeholder-oriented and shareholder-oriented contexts (van der Laan Smith et al., 2005, 2010). In institutional terms, this comparison dates back to studies on differences between capitalist models (Albert, 1990; Hall and Soskice, 2003). Notwithstanding their limits (Kang, 2006), these studies provide the elements needed for a comparative assessment between socioeconomic contexts. The main distinction is between Anglo-Saxon contexts, in which the role of financial markets is prevalent, and the German model (also called the Renan model), where an intertwining of banks, corporations, trade unions, managers and workers prevails – a nexus that tends to drive debate and a more open orientation towards the different stakeholders. Along the same lines, Hall and Soskice (2003) propose a broader interpretative model which distinguishes liberal market economies (LMEs) from coordinated market economies (CMEs). In the former, companies tend to coordinate their activities mainly through competitive market agreements, well described in the contributions of Williamson (1975). Companies and other economic actors tend towards adjustments based on neoclassical marginal calculations. Market institutions are considered an effective medium for coordinating the efforts of the different actors involved. These contexts largely overlap with the so-called Anglo-Saxon countries. Yet in the case of LMEs companies are more dependent on non-market relationships to coordinate their efforts with other social actors. These economic contexts rely more on relational approaches, rather than contractual ones in the strict sense. Monitoring in the networks depends on an exchange of information in addition to the use of cooperative relationships to build and consolidate firm skills. These socioeconomic systems include Japan and several continental European nations, such as Germany, Austria, Belgium and the Scandinavian countries. Finally, an intermediate position between the two economic models is occupied by more ambiguous systems that tend towards the CME approach. Here we are referring mainly to Mediterranean economies (e.g. Spain, France and Italy).

For Hall and Soskice (2003), institutions are a set of formal and informal rules to which economic actors refer for normative, cognitive or material reasons. Organizations, such as businesses, are durable entities the rules of which interact with institutions and economic policy. The interaction between these two dimensions helps to explain why the context in which companies operate can interact with their values and organizational culture. Therefore, the differences between these capitalist models involve social, economic and governance aspects which can help to explain the variance of CSD among companies (van der Laan Smith et al., 2005, 2010; Aguilera et al., 2006). In particular, in Anglo-Saxon contexts, which should be more liberal and coordinated by the market, the expectation is for a reporting system strongly oriented towards financial stakeholders. Conversely, for companies operating mainly in coordinated market economies the expectation is for a broader reporting system being oriented towards the various categories of stakeholders. Prior studies confirm these expectations (van der Laan Smith et al., 2005, Gangi and Trotta, 2013). Recent indicators from KPMG¹⁰ (2017) on CSD quality reward the large firms belonging to European countries (an average score of 68/100) and less so the largest companies from the Americas (an

¹⁰ KPMG's assessment of the quality of CSD (KPMG, 2017) is based on seven elements with a scoring base of 100, namely: (1) engagement with stakeholders; (2) materiality, understood as the demonstration of progress achieved; (3) environmental and social risks and opportunities; (4) results: objectives and metrics; (5) transparency and breadth of social reports; (6) the socially responsible value chain; (7) the governance modes of CSR.

average score of 50/100). At the same time, the latter show a preference for reporting social information within financial reports (KPMG, 2017).

From the institutional perspective, a second aspect is the growing adherence of companies to the various initiatives that aim to spread the culture of social responsibility and CSD on a global scale and homogenize standards. One of the most famous initiatives is the UNGC (United Nations Global Compact), a United Nations programme that supports member companies in the design, implementation and dissemination of environmental, social and governance policies. In particular, companies that join the UNGC share the same values in various sectors such as human rights, the quality of working standards, environmental protection and the combating of corruption. These ethical and social standards established by the UNGC can contribute to the mitigation of the differences between different industries and contexts. In 2018, companies that have joined the UNGC number almost 10,000, from 164 countries, and account for more than 56,000 public social reports. Previous studies have shown that institutional initiatives such as the UNGC have a positive effect on the quality and breadth of CSD (Chen and Bouvain, 2009; Gangi and Trotta, 2013).

4.4. Attempts to standardize CSD: the need for a common CSR “grammar”

The institutionalist perspective introduces a very important topic in relation to understanding the function and effectiveness of CSD: that is, the search for a common social “grammar” among companies and stakeholders. Achieving this can confer various benefits. Stakeholders can gain more awareness of a company’s efforts. Customers who are more sensitive to social and environmental issues can recognize added value in goods and services offered by a certified socially responsible company. The latter can find in CSD an additional lever of differentiation and a source of information for further environmental and social process innovations.

The availability of complete and comparable information resolves the information asymmetries between a company’s insiders and outsiders, and offers the various stakeholders greater freedom of choice. Moreover, through CSD a company has an opportunity to monitor the efficiency and effectiveness of its own CSR initiatives, which means potentially realizing more objectives, such as: communication of values to stakeholders; information on the effects of these values as applied to operating activities; the availability of additional control tools; the promotion of relationships of trust with stakeholders; and measurement of this enhanced value creation.

CSD allows the contents and purposes of company accounting to expand, with important operational and strategic consequences. However, this potential may be attenuated by the lack of a universally accepted reporting standard. Such a gap is partly due to the intrinsic voluntary nature of social reporting. In fact, even if the production of social reports is becoming mainstream among companies, especially the larger ones, CSD remains a non-binding reporting system in terms of content and methods. As mentioned in Section 4.2, the EU’s recently adopted directive (2014/95/EU) requires non-financial disclosure to contain “at least” environmental, social, personnel-related information, respect for human rights, and the fight against corruption, to the extent necessary for understanding the company’s progress, its results and the impact of its activity. The term “at least” reiterates the non-mandatory nature with regard to the specific content of the social reporting system. However, although limited to large companies (at least 500 employees), this directive demonstrates a growing institutional sensitivity to information on issues related to environmental and social impacts and to relationships with employees and other stakeholders. The rationale, therefore, is an increase in the diffusion and amplitude of non-financial reports within the

big European companies. From this point of view, a dimensional gap towards CSR and its reporting systems persists (Perrini and Minoja, 2008). The collecting and processing of extra-financial data is not always sustainable by SMEs in terms of costs and skills. Although CSD is increasingly based on international standards, there is no single format nor a universal language for a clear comparison of reporting systems (Vurro and Perrini, 2011). As such, research into and the sharing of a common language for CSR is a topical question which was already raised by Donaldson (1992) several years ago. As Painter-Morland (2006) states, the search for a common “grammar” of social reporting is fundamental for the creation of a framework and a shared language that allows the adoption and comparison of best practices for collecting and communicating firms’ social performance. The adoption of institutionalized and more standardized reporting practices is an additional form of legitimization of a company’s socially responsible behaviour (Brammer and Pavelin, 2008).

Institutional initiatives have increased in number over the years, also contributing to broad or sometimes dispersive frameworks. The purpose of these initiatives is to overcome the main limits attributed to corporate social reporting, such as the effect of company size, of its industry and of its country of origin, all of which impede comparisons of social benefits between companies. At the international level, the social reporting standard most accepted by companies is the Global Reporting Initiative (GRI), which since 1997 has provided the Sustainability Reporting Guidelines currently adopted by 75% of the world’s largest companies (KPMG, 2017). In 2012 the GRI introduced its fourth generation of guidelines (G4). As recognized by Brown et al. (2009), the GRI is the best-known example of a project to institutionalize a tool for sustainability, brand management and reputation by companies through social reporting. The GRI responds to the issue of a greater need for comparability and reduction of sustainability costs, favouring differentiation and better information for capital markets. However, the standardized approach of the GRI is also a target for criticism because social actions may require controversial and differentiated forms of knowledge. Furthermore, the GRI’s approach towards “standardized commodified information” will not have the visionary power to mobilize social actions (Brown et al., 2009: 579). However, the GRI’s success as the first important attempt at a common framework is also evidenced by its collaboration with the UNGC since 2006, with the “UNGC–GRI Value Platform”, the aim of which is to exploit the complementarity of the two institutional initiatives. Previous studies have confirmed that marrying these initiatives facilitates improvement of corporate image, expanding and strengthening relations with stakeholders (Cetindamar and Husoy, 2007).

The GRI tries to engage with two basic questions about CSD: *what* to include in the sustainability report and *how* to report data and information on corporate social performance. In recent years this dual requirement has been addressed by a further form of institutionalization of CSD, such as the integrated reporting system (<IR>) the guidelines for which were developed in 2013 by the International Integrated Reporting Council (IIRC). The aim is the valorization of different types of capital, including natural and social. The latter is identified by the literature as a form of company goodwill based on relationships of trust with its interlocutors (Putnam, 1993). It includes shared rules, behaviours and common values: the trust and commitment that an organization has developed and strives to build and protect for the benefit of its stakeholders. The possible repercussions for a company exploiting this form of capital can therefore be manifold, including brand recognition, reputation enhancement and an organization’s licence to operate in the social context. The valorization of natural capital includes all environmental and renewable and non-renewable processes and resources that support the production and supply of goods or services, and these include air, water, land and biodiversity, and the integrity of the ecosystem. For <IR>, a business model has to consider the allocation of social and natural capital, with the framework

based on an input–output logic. In the case of inputs, the reference is to all the key factors that materially affect the ability to create value. The output, on the other hand, concerns the organization’s key products and services, also including sub-products such as waste and emissions. <IR>, therefore, encourages the company to identify and describe the main impacts it generates, distinguishing between internal and external impacts and positive and negative impacts. Some examples of impacts intercept the strategic dimension of CSR, such as employee motivation, corporate image, customer satisfaction and brand loyalty. Positive impacts create value, producing a net increase in capital, whereas negative impacts reduce value, producing a net decrease in capital.

Finally, a further distinguishing feature of <IR> is that it forces the company to think in terms of a socially responsible value chain (Phillips and Caldwell, 2005; Porter and Kramer, 2011; Lee and Tang, 2017). Indeed, the analysis of impacts should not be limited just to those directly controlled by the organization: the effects on capitals, upstream and downstream of the value chain, such as carbon dioxide emissions, depend on suppliers’ products and operations. This extension of impact analysis is consistent with <IR>’s goal of facilitating a comprehensive assessment of the company’s risk profile. The goals underlying <IR> are therefore consistent with a broad and institutionalized vision of CSD. Confirming the interconnections between different analytical perspectives, previous literature has found that <IR> is consistent with a value-relevance approach, since the information disseminated through <IR> may be linked to the market value of the companies that adopt this framework. In other words, <IR> seems to reduce information asymmetries and costs of processing information (Lee and Yeo, 2016).

Recent analyses warn of a gap between the objectives of <IR> and its diffusion among companies. In particular, Pistoni et al. (2018) identify some limits to <IR> regarding the ways in which the guidelines are applied in practice. What emerges is a framework that is either not fully implemented or is applied with too much flexibility. Generally, too little information is disseminated about the forms of capital, the business model and the strategic priorities for the value creation process. Such evidence would seem to confirm the risk that, in adopting certain standards, companies may be more concerned with form than content (Pistoni et al., 2018). These misgivings serve to further confirm that the search for a common CSD standard is a constantly evolving process, just as the relationship between a company and its internal and external environment is dynamic. Nonetheless, an integrated social reporting standard remains an essential objective in order to measure and certify a company’s commitment to its social responsibility and to make stakeholders more readily aware of this commitment.¹¹

4.5. Social reporting and social performance: what is the relationship?

A particularly important aspect in ascertaining the characteristics, contents and effects of CSD is the relationship with social performance. Corporate social performance (CSP) is a measure of the operational dimension of CSR and a point of reference for the evaluation of the practices and effects

¹¹ Nowadays, companies may refer to one of numerous standards to certify and communicate their commitment to CSR, such as: SA8000 (Social Accountability 8000) promoted by the CEPAA (Council of Economic Priorities Accreditation Agency); ISO 14001 and ISO 26000 of the International Organization for Standardization; or AccountAbility 1000 of the ISA (Institute of Social and Ethical Accountability, now known as AccountAbility). The effect of this proliferation of standards is twofold. From one perspective, it extends a company’s possibilities in reporting on its performance; in addition, stakeholders can expect better information on company performance. However, there is a latent risk which is linked to the multiplication of CSD standards potentially exacerbating the problem of how to compare companies and their effects on society.

related to a company's commitment to its social responsibilities (van Beurden and Gössling, 2008). As with the lack of a universally accepted definition of CSR, a single definition of social performance is also still lacking in the literature. Consistent with Barnett (2007), in this study the terms "social performance" and "CSR performance" are interchangeable and reflect the extent to which a company engages with CSR issues. Specifically, according to Wood (1991), CSP can be defined as the process of CSR and the outcomes of corporate behaviour, including impacts, policies and programmes. Therefore, CSP includes both the initiatives undertaken and the results obtained by companies for society. With reference to the latter, social benefits refer to the extent to which an organization is able to meet the expectations of certain interest groups (Ulmann, 1985). The measurement of social performance has a double value. On the one hand, evaluation of CSP can be a valuable internal management tool; on the other hand, CSP measurement efforts are useful for more detailed and effective external communications. Through CSP, the company carries out a self-assessment of socially responsible commitment and can monitor the results achieved with respect to the objectives set and the resources used. In this perspective, CSP is fundamental in evaluating the efficiency and effectiveness of CSR actions and in verifying the satisfaction of various company stakeholders. Therefore, any profuse commitment towards CSR must necessarily be balanced by an equally high capacity for detection, measurement and communication of CSP. Without this commitment, in fact, further investment in CSR risks producing suboptimal effects, both due to lack of control and lack of communication.

The literature has offered different interpretations regarding the relationship between CSP and CSD. A consolidated vision considers the latter as a driver of the former (Gray et al., 1996; Deegan and Blomquist, 2006). In particular, according to this perspective, CSD represents an instrument to communicate the capability of firm in fulfilling its various responsibilities. Through its commitment to CSR and recognition by third parties, companies strengthen their right to citizenship (Maignan et al., 1999). This right is based on several dimensions of corporate responsibility (Carroll, 1991). In addition, a broader CSD can help reduce information barriers, thus lowering uncertainty and risk mitigation (Petersen and Plenborg, 2006). All these factors can impact on the value of the company, which provides an additional incentive to correlate improved social benefits with more comprehensive social disclosure.

Indeed, with respect to the linearity of the relationship between CSP and CSD, attention must be paid to the communication strategies adopted by management. That is, if managers try to manipulate stakeholder perceptions, then the relationship between CSP and CSD can also be negative. With poor social performance, a company can opt for a wider dissemination with the aim of creating "noise" rather than presenting precise and transparent information about its performance. This hypothesis is one under which a "greenwashing" approach towards CSR might be observed, in an attempt to distract public attention from negative performance (Dam et al., 2009). In such a case we cannot speak of a positive relationship between CSP and CSD because the social disclosure of the company is linked to poor, or even non-existent, social performance. Therefore, a company's approach to CSR can influence the expression of the relationship between CSP and CSD, which helps to explain why some studies show a positive association (Al-Tuwaijri et al., 2004; Clarkson et al., 2008; Gangi and Trotta, 2013) whereas others do not (Deegan et al., 2002). This induces us to evaluate other analysis trajectories as well.

A second perspective on the relationship between social performance and CSD is based on stakeholder theory, looking at the impact of CSD on social performance. According to this perspective, managers can leverage CSD to increase a company's social performance: CSD becomes

a tool for systematizing and analysing social benefits and the monitoring of past results provides a basis for improving future ones (Vurro and Perrini, 2011). Additionally, the more that companies disclose data and information about social benefits, the more they can enhance their relationships with their stakeholders. The greater strength exercised by the stakeholders can be related to greater social pressure towards the company, which can therefore lead to greater efforts to improve social benefits. In a context of scarce resources and growing pressure from different stakeholders, companies must manage their stakeholder relationships (Michelon et al., 2013). Stakeholders, being better informed, can take advantage of the lower information asymmetries resulting from wider social disclosure. Therefore, from the perspective of information asymmetries, the disclosure of social benefits improves opportunities for control among the different parties involved. On the corporate side, managers can uncover their company's CSR strengths and weaknesses; on the stakeholder side, voluntary disclosure of social benefits increases the information available for a more informed assessment among socially engaged companies and companies that have not adopted sustainable business models.

From an analysis of these two perspectives, two apparently opposing relationships emerge between CSD and CSP. The perspective of social legitimacy sees pressure for higher social performance as an incentive to communicate, in a broad, clear and complete way, the social benefits that contribute to a company's acquisition of right of citizenship. At the same time, the stakeholder perspective focuses on the greater power of influence of informed stakeholders on the company. In fact, the two perspectives allow us to grasp different aspects of the CSD–CSP relationship that are not necessarily antagonistic, but complementary (Gangi and D'Angelo, 2016). Assuming both perspectives to be valid, we need to identify the theoretical approaches that allow us to overcome a dichotomous view.

A first opportunity is offered by the theory of information asymmetries (Akerlof, 1970). That is, CSP is a positive driver of social disclosure. Without social performance, it is more difficult to imagine a higher quality of CSD. However, social disclosure can in turn contribute to the improvement of future social benefits thanks to both the effects of internal control and greater pressure from better-informed stakeholders. CSD becomes an informative tool that can contribute to an improved attitude around responding to requests from the various stakeholders, internal and external to the company. The corporate social disclosure is guided by CSP, which in turn becomes a driver of CSD.

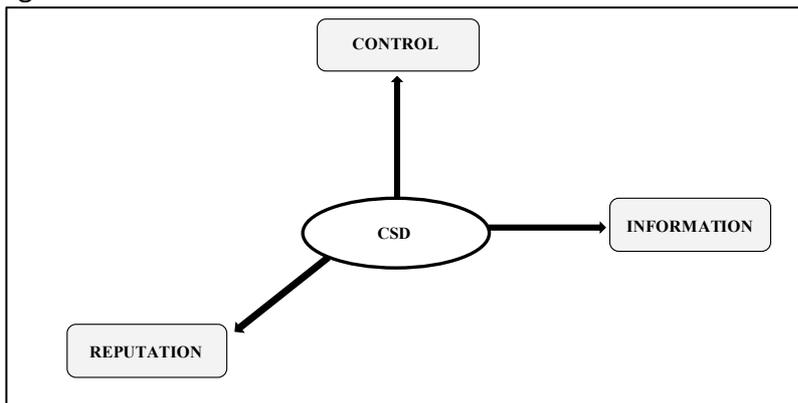
A second means of supporting the interactive relationship between CSP and CSD can be offered by the theory of knowledge absorption capacity (Cohen and Levinthal, 1990). That is, we must be aware that the bidirectional relationship between the two dimensions does not take place simultaneously. Exploiting information to improve future performance and evaluate company results are time-consuming activities in terms of learning. Therefore, the dual direction of the relationship between social performance and CSD implies a time lag between the generation of data (CSP), its detection and the consequent communication (CSD). Similarly, as regards the pressure to be exerted by stakeholders on the basis of the information acquired, the latter will take time to assimilate. For these reasons, the CSP–CSD relationship can be placed on a continuum and can be improved over time as analysis and management of information on CSR programmes improves with experience. The interaction between CSP and CSD therefore belongs to the broader intentional management of knowledge. In the case of CSD, the standards for the detection and communication of CSP allow the possibility of converting tacit knowledge into codified and transmissible knowledge inside and outside the organization. This process of socialization (Nonaka and Takeuchi, 1995: 304) is fundamental in generating useful new knowledge to increase both the level of engagement towards

the company's social responsibility and stakeholders' level of awareness about the efforts of the socially responsible company.

4.6. A synthesis: CSD as a multifunctional tool

For a summary of the functions and the effects expected from social disclosure it is possible to refer to three main dimensions that give potential added value to this specific communication tool with the company stakeholders (see Figure 4.3).

Figure 4.3: The CSD as multifunctional tool



Firstly, CSD performs an informative function, with the aim of making stakeholders more aware of the company's effort in fulfilling its social responsibility. This concerns both those stakeholders who interact with the company's mission, such as employees, customers, suppliers and financiers, and those stakeholders who must give their consent to the company's operations, such as authorities, institutions and the media.

Secondly, CSD performs a control function. Specifically, through appropriate integration with the management control system, CSD allows the monitoring of CSR initiatives, through which the company collects and systematizes informative feedback on the results achieved and on the effectiveness of its communication with stakeholders. The latter, then, will acquire a greater sensitivity and ability to understand the company's CSR policies – factors that will favour improved participation by the various interlocutors in the company's activities.

The synergistic combination of the two functions can then bring about an additional effect in terms of improved reputation management. Firstly, a climate of trust in the organization is an essential intangible asset in creating stable and lasting relationships with the stakeholders, reducing information barriers and encouraging a participatory and supportive approach. Trust is a strategic asset not only during a company's development phases but also during its crisis phases, functioning as a buffer against the greater uncertainty and volatility of the expected results. Secondly, trust promotes corporate reputation, which consists of the set of favourable opinions of the internal and external environment towards the company. A good reputation is a complex social capability, a strategic resource that is not easily imitable, the result of constant commitment over time. Reputation and trust are the two intangible assets that can be fed through an adequate CSD that decodes a company's actions and provides an additional bridge for connection with stakeholders.

Therefore, a unidirectional view of the CSP–CSD relationship is reductive at a cognitive level, limiting the perception of the strategic and operative connections between the two dimensions. A

bidirectional vision harmonizes and enhances the CSP–CSD relationship, with positive effects both for organizations and for stakeholders. The former can accumulate knowledge on methods of governance and communication of its CSR. Stakeholders will be able to exert their pressures with greater force, stimulating the company into continuous improvement of environmental and social standards. These conditions are essential in promoting the conception of the company not only as an institution that acts *in* society, but as an organization that works *for* society and which works better by virtue of its support.

4.7. Conclusion

This chapter introduces opportunities to change accounting systems in such a way that they contribute to welfare and social good. At least three conditions are necessary to make such changes possible in the future. Firstly, we should stop assuming that financial accounting should be aimed at delivering information exclusively oriented towards financial value assessment. Secondly – and a consequence of the first condition – accounting must diversify, externally, by juxtaposing *a priori* carefully selected standards, or internally by integrating human and natural parties as capital in the financial accounting standards. Thirdly, none of these conditions may have impact if stakeholders do not take part in, if not the production, at least the appraisal of this diversified information.

“And I sincerely believe with you, that banking establishments are more dangerous than standing armies; & that the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.”

Thomas Jefferson, letter to John Taylor, 1816

Finance, per se, is a fundamental activity within society. Nevertheless, it seems that the issue of interest has always been a matter of debate, and the words used to denote it have differed according to the civilization and the value systems prevailing therein. In ancient cultures, interest would be synonymous with birth (Greece and Egypt) or bite (Hebrews). Religions might proscribe it within a community or a caste (Hebrews and Hindus) or outright (Muslims and early Christians). In any event, if finance was pure evil, humankind would have found some way to rid itself of it in previous millennia. Lending, firstly on a non-monetary and later on a financial basis, has made many human projects possible, such as Marco Polo’s expeditions, the Suez Canal and the moon landings. On a smaller scale and level of ambition, it allows small businesses to emerge and maintain employment and local dynamics.

So why has finance been condemned as immoral so often in human history? Let us suppose that it is because of the excesses such an activity seems to provoke. And, without a doubt, the present period is characterized by overt excesses. Finance becomes invasive in management practice, to such an extent that top managers may forget their responsibility to the company’s future. Finance uses high-tech to create illusions of value. It has become so sophisticated and innovative that it is almost impossible to exert any kind of control over it. But, most of all, finance has become a model for governments who disintermediate their activities just as banks do. This is what we can describe as the “global financializing” of society. In order to restore a sound finance–society relationship, we need to revisit ethical finance, on the side of investors, and protect society from major economic crises on the side of companies and banks.

5.1. Context: the “global financializing” of society

Finance needs countervailing powers in society, so that it can play its role fully and smoothly. The last two centuries have proved that, absent these countervailing powers, it can become toxic. In any case, we are currently witnessing an unprecedented level of financialization of social affairs. Firstly, the management of businesses has been invaded by financial considerations, which distract management from its primary responsibilities. Value creation has been perverted by high-frequency trading (HFT). Innovation in instruments and everyday practice makes finance almost uncontrollable. But, above all, politics follows the pattern of finance by disintermediating its activities.

5.1.1. The financialization of business

As we explained in Chapter 4, accounting has been invaded by financial considerations to such an extent that shareholder equity has become a residual claim, and thus a residual value, instead of

something offered with the purpose of developing a business and which has to be preserved. The generalization of this view of accounting has fundamentally changed top managers' perspectives. Now their commitment is no longer oriented towards company sustainability but to a short-term maximization of its value.

Incidentally, the representation of managers' financial role within firms has changed significantly, no longer being a form of financialization. Until about thirty years ago, top finance textbooks (e.g. Brealey and Myers, 1998: Chs. 8, 11) and educational programmes promoted portfolio management as a model for business strategy. In order to limit risks, it appeared necessary to diversify activities, and to select them according to their financial efficiency. Under such conditions, managers were asked to behave like portfolio managers, working with the company's assets as if they were financial ones. The manager-as-portfolio-manager was thus inspired by the accounting system and the education he had received. Financialization would proceed from the inside. In recent years, these practices have changed significantly. Diversification within firms has been denounced as "conglomeratization". Managers-as-portfolio-managers have been gradually replaced with managers-as-assets (or asset leaders). Diversification, if needed, becomes a matter for the markets again. As such, it is unsurprising to observe a dialectical pendulum backswing, apparently restoring the authority of markets over management. The consequence of this recent shift can be measured with reference to the dismantling of former conglomerates seen as concealing sub-efficient activities. This is still the case with thyssenkrupp in Germany, for instance (see Kaeckenhoff et al., 2018), which has abandoned some of its historical activities to satisfy a need for "pure" players by which we mean shareholders and potential investors.

Incentives have also played a major role in the changing of managerial attitudes. Stock options, for instance, now represent an old practice (more than a hundred years old, in fact), which became prominent in the 1950s, its success varying according to the financial markets' dynamics (see Bachelder, 2014). In the beginning, stock options were used to create interest in a business's outcomes among professional (that is, non-owner) managers. Tax allowances (no tax was due on stock options as rewards, whereas payments with stock was taxable) played a big part in making this solution popular after World War II. However, tax and accounting rules aside – which could in any case could have an adverse effect on their popularity over time – stock options' success is due to their sensitivity to stock price. A slight growth in stock value can have a much more significant impact on the value of the option, which makes them attractive even in a sluggish period, making a stock-option portfolio a more attractive reward than a stock portfolio. Moreover, economic theories of the firm developed an ideological justification for such practices. Property rights theory (Alchian, 1969) introduces the manager as the residual claimant. This means that the executive is paid on the basis of the result and is, therefore, directly incentivized to achieve efficiency. The residual performance (which constitutes his/her remuneration) depends on a use of resources that has been decided by the manager. The classic capitalist firm is therefore the most efficient organizational form. It is a business in which the functions of manager and owner are held by the same people. But the most effective control is supposed to be represented by managerial firms. The role of company hierarchy, in terms of control and incentive, is central to property rights theory. Bonuses are designed to depend on performance and to encourage managers to exercise control over the quality of production, since their income depends on it. The separation of capital and labour is therefore an essential condition for the efficiency of the system. No systematic ownership together with interest: this is typical of stock options. Nevertheless, the high sensitivity of stock options to stock price may also produce undesirable effects. A well-advised manager may be incentivized to send micro-signals to markets so that the stock value increases slightly, creating a more significant effect

on the value of stock options. Short-termism together with an excessive focus on financial communication thus become a potential consequence of stock-option incentives. When markets interpret information about the business as being negative, the potential loss on stock-option portfolios can be dramatic. This may drive some top managers to indulge in insider trading. When the delivery of the first A380 Airbus was delayed in 2006, the CEO of EADS (European Aeronautic Defence and Space, Airbus's parent company) sold his stock options a few hours before the official announcement and the consequent 26% plunge in stock price. The lawsuits were finally dropped because of a procedural violation.

The limited duration of executive mandates does not help the situation. Stein (1989) sums up this phenomenon as follows:

Myopic corporate behavior can be viewed as the Nash equilibrium outcome of a noncooperative game between managers and the stock market. In an effort to fool the market into predicting higher future earnings, management undertakes a costly inflation of the current bottom line. In equilibrium the market is not fooled, but the myopic behavior persists nonetheless (Stein, 1989: 668).

Managers' quest for short-term shareholder value has multiple social consequences. As Osterman (1999) contends, workers are perceived as production costs, and technology appears as a leverage for downsizing. More generally, no constituency other than the shareholders matters in financialized strategies. Fligstein (2001) shows how the quest for shareholder value has led managers to undervalue their assets relative to stock price, in order to maximize returns. This phenomenon, especially in the 1990s, facilitated mergers.

5.1.2. The dematerialization of value

Arrighi (1994) defines financialization as an accumulation pattern based on profits made through financial techniques instead of trade and industry. Indeed, myopic managers do not run a business: they manage a portfolio. It is no surprise to witness financial businesses following the same trend by facilitating virtual value creation, something that has become observable via a recent fundamental change in trading activities. Speculation proved useful at a time when it was used to provide markets with liquidity. The leverage induced by derivatives (as in the aforementioned case of stock options) may have been a first step in the hijacking of speculation. Though economists disagree on whether speculation is toxic, they agree that leverage-based speculation can destabilize markets. High-frequency trading makes it possible to make a trade every nanosecond. Before technology could enable this kind of practice, arbitrage consisted of making a profit from differences in prices in different places. In this case, all trades would have been executed but, today, up to 90% of trades are cancelled before term, a practice known as "momentum ignition strategy" – a sort of provoked arbitrage. The gain is immediate. For instance, a BUY order induces an increase in price, and the order is cancelled the very moment before assets are delivered. Of course, such operations are much easier to run in very short time-frames, and thus technology has played a major role in their ascendancy. With this method becoming the accepted rule, we feel allowed to call it market manipulation, and no longer arbitrage. In 2016, HFT represented 55% of trading volume in the US and 40% in European markets. Where derivatives and especially futures are concerned, the percentage rises to 80%. Miller and Shorter, in a US congressional report, remind us that

aggressive [HFT] strategies include those known as order anticipation or momentum ignition strategies. Various observers, including SEC staff, have said that these aggressive strategies

should be a central focus of public policy concerns. This may be because such strategies can share some similarities to practices such as front-running and spoofing, which are generally illegal. In addition, regulators have expressed concern over whether certain aggressive HFT strategies may be associated with increased market fragility and volatility, such as that demonstrated in the “Flash Crash” of May 6, 2010; the October 15, 2014, extreme volatility in Treasury markets; and the August 24, 2015, market crash in which the Dow Jones Industrial Average fell by more than 1,000 points in early trading (Miller and Shorter, 2016: Summary).

There are policy concerns about aggressive HFT strategies. In its 2010 Concept Release,¹² the US Securities and Exchange Commission (SEC) described order anticipation as a “parasitic practice” and momentum ignition strategies as “potentially harmful” to the market structure (especially in less actively traded stocks).

If any more proof of the disconnection between financial markets and the real economy was needed, HFT provides it. Surprisingly, it involves the emergence of a new economy based on wireless towers, fibre-optic lines and submarine cables, as well as real-estate speculation regarding the proximity of trading centres. The Go West project to increase the speed of flows of futures-market data between Chicago and Tokyo, launched in 2018, is emblematic of this change. Another economy has emerged around the reliability of electronic orders. In 2012, Knight Capital lost US\$400 million because of a mistaken purchase and was taken over shortly thereafter.

5.1.3. Banks disintermediate their activities, so do the states

In order to reduce their credit risk and secure their income as commission instead of interest, banks began disintermediating their activities in the 1980s. Indeed, historically, the banks’ role has been one of raising funds on the financial markets or through individual or institutional deposits to finance credit. This practice made them accountable to their funders, and exposed to the risk of default by their clients. In addition, the solvency standards imposed by the Basel Committee have forced them to strengthen their own funds, and thereby reduce their ability to offer high returns. If we add to this the fact that these low interest margins (an average in recent years of 2% in France and 1.5% in the UK, for instance) can only be offset by an increase in the volume of credit, and therefore a potential acceleration of the default risk, the maturity transformation no longer seems so attractive to the banking sector. The aim of banking disintermediation is to ask companies to raise funds directly on markets, and to accompany them in this process – and to be remunerated in the form of commission. As far as larger companies are concerned, new flows of funds from financial markets are significant, reaching 75% in France, for instance.¹³

The trend for bigger businesses is nothing new, although it has taken on a whole new dimension today. Nevertheless, new forms of disintermediation have been developed involving smaller businesses and sometimes individuals. Crowdlending has emerged as an innovative way to invest in SMEs and the real economy via a digital platform. The new legal framework that ended the banking monopoly (in 2014 for France and the US) has enabled the creation of crowdfunding platforms, which have a licence allowing individuals to lend directly to selected SMEs. Technological developments related to digitalization enable secure and transparent exchanges, online accessibility to investment opportunities, at no cost to the customer and starting from a very small amount. A

¹² Securities and Exchange Commission, Concept Release on Equity Market Structure, 2010, RIN 3235-AK47.

¹³ Source: Banque de France, Direction générale des statistiques, *Situation Financière des Entreprises*, 2014.

form of peer-to-peer lending was in fact in evidence before other crowdfunding practices emerged, with Zopa and Funding Circle in the UK, Prosper in the US, WeLab in China and Lendix in France proposing loan solutions as early as the middle of the 2000s. In the middle of the 2010s regulators began to take a keener interest in the practices of such platforms. Some pitfalls due to high default risk (Quake in 2011 being a UK example) led to increased controls and the implementation by each platform of conventional methods for assessing credit risk. In a way, crowdlending has turned into institutional finance. Market authorities' control of such activities has increased, and the volumes financed have grown to an unprecedented scale, reaching \$86 billion worldwide in 2017 (with China, the US and the UK the biggest players) – a trajectory that suggests a total of \$1,000 billion by 2025.¹⁴ This activity is unquestionably a form of disintermediation: firstly because it is compensating for the fact that banks no longer finance (or have never financed); secondly because it is based on institutional rules that set it apart from microcredit; and finally because it is now being assimilated by banks and financial markets who are taking an interest following fears of competition from this emerging system. Zopa applied for a banking licence in 2017; the main shareholders of Funding Circle are investment managers; LPG Capital invested in Prosper; Credit Suisse is backing WeLab in its plan to issue an IPO (initial public offering) in 2017; CNP (Caisse Nationale de Prévoyance) and Matmut (both insurance companies) are shareholders of Lendix, and are expected to be followed by Allianz and Idinvest. In any case, this sort of disintermediation process is entirely novel, to the extent that it does not rely on financial markets but on individuals. But the ongoing institutionalization process is clearly observable, with important funds in the biggest crowdlending campaigns being backed by institutional lenders.

It seems that finance has become a model for other social actors who might be interested in outsourcing risks without securitizing them. States also have begun to disintermediate their support of culture or even their welfare activities. Crowdfunding campaigns, although much smaller than crowdlending campaigns, nowadays represent serious additions or alternatives to public funding (Moreau and Nicolas, 2018).

According to this perspective, crowdfunding provides a practice representative of present society where the Internet offers access to the masses as no other medium has ever done. A consensus is emerging on the idea that crowdfunding results from concomitant technological and economic contexts. Indeed, the phenomenon supplies individual or collective entrepreneurs with opportunities to escape from stalling social elevators (Piketty, 2014). Large scale charity and micro-financial operations allow a group of proletarianized individuals to help some members of their category escape from their social condition (Méric, 2016).

As a final point, the “global financializing” of society is based on the predominance of financial schemes in the management of companies, the dematerialization (or disembodiment) of wealth creation, and the incursion of the logics of finance at the level of public action. To restore a constructive role to finance, it has never been more urgent to revisit financial ethics (and particularly ethical finance) and make banks more accountable for global and social balance.

¹⁴ Source: Statista Fintech Report 2017.

5.2. On the investor side: revisiting finance through ethical and socially responsible principles

The financial crises at the beginning of the new millennium revitalized the interest of academics, professionals and policy-makers who are addressing new questions on how to understand and manage finance. The goal is a perspective that is complementary both to the classic risk–return trade-off and to the perfect portfolio diversification model (Markowitz, 1952). These two pillars of finance have a series of corollaries. In particular, in a perfect and efficient market economy, investment choices are fundamentally driven by the temporal preference of individuals. The option between investing or consuming has a neutral weight due to the efficient functioning of financial intermediaries. In the presence of uncertainty, non-systematic risk must be managed through the logic of diversifying investment opportunities. On the capital budgeting side, a manager must choose from alternative options the projects that generate a higher net present value discounted for the opportunity cost of capital. From these basic rules it is evident that in conventional finance there is theoretically no space for the formalization of other variables in the perspective of maximization of profit. That is, given the satisfaction of individual expectations depending on the marginal utility of wealth and the propensity to risk, the social sustainability of financial choices is not contemplated or adequately modelled. However, the financial crises have shown all too clearly the limitations of these approaches. The examples are different but they all serve to distance us from the theory of perfect general equilibrium. Behind finance are people, with all their behavioural limitations. The overestimation of the underlying assets of financial investments, the indiscriminate use of leverage, excess confidence in multiples technicality and self-regulation of markets are all factors that have exacerbated the level of risk and have undermined the foundations of the entire financial systems upon which companies and economic well-being depend. The progressive separation of finance from the real economy causes one to reflect on the morality of finance and investment choices (Scharding, 2015). Today, many of these risks persist within our economies, constituting a latent threat not always fully perceived. One of the most significant indicators of this phenomenon is derivative finance which, in the EU, for example, has reached €453 trillion (ESMA, 2017), representing almost thirty times the entire GDP of the Union. The risk to society is very high and increases due to the frequency of financial crises, the uncertainty underlying the socioeconomic and geopolitical contexts and, finally, due to the disconnect between the economy and business ethics.

Such a scenario makes it imperative to find new ways of understanding finance. The crises of recent years are interconnected phenomena which, in addition to the severity of their economic effects, also offer an opportunity to seriously reflect on alternative forms of finance that can contribute to the evolution of current capitalist models (Freeman and Auster, 2011). So-called ethical and socially responsible finance might represent one of the answers to focus on in our attempt to identify financial models that better support society's needs, albeit with caveats.

In theory, ethical and socially responsible finance aims to integrate the principles of traditional finance with ethical, social and environmental criteria within the investment decision-making process (Cowton, 1999; Michelson et al., 2004). The phenomenon, which institutionally dates back to the beginning of the last century, has seen significant growth in recent years, evidenced by the assets under management (AUM) figures which have reached almost \$23 trillion worldwide, with an annual composite growth rate of 12% between 2014 and 2016 and a record of European investors that represents almost 55% of the total market (Global Sustainable Investment Alliance, 2016). This growth demonstrates a demand for environmental, social and governance (ESG)

screening criteria, in opposition to the shareholder primacy of traditional agency theory which assumes the maximization of the individual utility of the shareholder only through profit (Goodman and Arenas, 2015). With these facts in mind, the following sections will analyse how the theory describes the ethical and socially responsible investor, and the gap between the monolithic personification of this investor and a much more complex operating behaviour. A final analysis will examine the emerging risk of distortion of ethical finance as a result of its progressive spread into the mainstream within financial markets.

5.2.1. Beyond maximization of economic utility: the ethical and socially responsible investor

In recent decades, along with a growth in financial markets, ethical and socially responsible investment has fuelled a wide-ranging debate among both scholars and practitioners (Juravle and Lewis, 2008). The variety of definitions attributed to this specific type of investor on the one hand highlights the lack of consensus but on the other suggests the possibility of identifying different characteristics that distinguish these investors from those generally defined as conventional relative to the principles of finance (Cheah et al., 2011).

In the late 1990s, Cowton (1999) identified the socially responsible investor as one who consciously uses both traditional financial criteria along with ethical, social and environmental principles. A few years later, Sparkes (2002: 26) proposed a similar definition, describing socially responsible investment (SRI) as “the construction of equity portfolios whose investment objectives combine social, ecological and financial goals”. In the same period, Dembinski et al. (2003: 206) emphasized the ethical component of a investment decision, stating that “the notion of investment refers to the subject that considers that the act of investing is not neutral from the ethical point of view, and thus intends subjecting it to ethical criteria”. Michelson et al. (2004) agree with this viewpoint, because what is considered relevant is a necessary awareness of acting in an ethical sense. For these authors, in fact, the ethical investor is a subject that consciously integrates its personal values with social considerations and economic factors. The same concept of integration underlying investment decisions was confirmed a few years later by Sandberg et al. (2009) who see the socially responsible investor as one who integrates an interest in social, ethical and environmental aspects, as well as in corporate governance, within the investment process. Despite their differences, these propositions have common themes, namely the role of the investor’s personal values and the identification of socially responsible investment as a new philosophy that differentiates it from conventional investment (Lewis, 2001). Along the same lines, Cheah et al. (2011: 305), define SRI as “the philosophy and practice of making strategic investment decisions by integrating financial and non-financial considerations, including personal values, societal demands, environmental concerns, and corporate governance issues”. At an institutional level, among professionals, sustainable and responsible investment consists of any strategy that an investor can implement by incorporating environmental, social and governance considerations (Eurosif, 2014).

The above definitions make it clear how, at least on a theoretical level, ethical finance can provide some answers in light of the growing awareness of the need to understand finance in an innovative way and in the interests of society. When the Norwegian sovereign fund, the largest in the world with over €1 trillion of AUM, decides not to invest any more resources in fossil fuel, not only it is defining a new portfolio strategy but also transmitting an important signal to the financial markets and investors. Can this be one answer to the question of how to find new way of understanding finance for society? Probably yes, to the extent that ethical finance effectively operates to consciously integrate financial criteria with extra-financial criteria (Juravle and Lewis, 2008: 286) relating to society, the environment and corporate governance. However, it is worth pointing out

that, as underlined by Nilsson (2009: 6), the ethical and socially responsible investor “does not have the desire to give away his money”. Rather, the motivations are much deeper and more complex. Ethical finance is not philanthropy: it aims at obtaining a financial return without sacrificing individuals’ moral values and while safeguarding higher interests such as those of the community. These are useful clarifications in the debate about the real motivations of the socially responsible investor and the potential ethical trade-off (Pasewark and Riley, 2010) attributable to the renunciation of a conventional investment by opting for a socially responsible one, regardless of the expected return.

Analysing investors’ motivations is not just a scientific pursuit but a practical one as well. An understanding of the personal factors behind SRI can facilitate a convergence between demand and the social responsibility offer linked to investment choices. Specifically, on the one hand instead of an individual investor we find financial intermediaries such as socially responsible investment funds (SRFs). On the other, we find companies in which these funds choose to invest the resources entrusted to them by individual or private investors. In the first case, a knowledge of investment motives enables a better understanding of the savers’ market segmentation, by implementing communication and investment strategies that are more consistent with their expectations. In the second case, for companies, socially responsible investors can give voice to the “marginalized stakeholders”, placing them at the centre of the decision-making process, overcoming the priority of shareholder interest according to the traditional agency perspective (Goodman and Arenas, 2015).

The personal reasons for choosing ethical and socially responsible investments is an open topic that touches on individuals’ psychological and cognitive aspects (Glac, 2009; Pasewark and Riley, 2010). In theory, ethical concerns in investment can be construed in different ways. Dembinski et al. (2003) enumerate different forms of ethical concerns, such as: value-based ethics, fructification ethics, impact-based ethics and ethics as a financial criterion. In the first and second propositions, moral factors prevail which exclude some investments or encourage practices that conform to personal ethical requirements. In the third and fourth propositions, economic motivations prevail, represented by a higher financial return in the medium to long term from companies that safeguard ethical values compared to those without such policies. In this case, the assumption is a personal belief in a positive association between the social and financial performance of a socially responsible company.

The variety of SRI motivations is an emerging feature of the ethical finance debate. Pasewark and Riley (2009) identify three, namely: return on investment, non-wealth return and contribution to social change. The first is linked to expectations of higher financial returns compared to conventional forms of investment. The other two are linked to a broader conception of the individual utility function (Beal et al., 2005) which embraces the psychological sphere and the investor’s personal values. According to this perspective, non-wealth maximization would be balanced by incremental benefits of a psychological nature which offset the potential gap between financial return and expected utility. Furthermore, the investor’s engagement should offer the possibility of acquiring a personal benefit indirectly linked to the real results of the activities put in place by the socially responsible company (impact investment). This mix of psychological and cognitive factors finds support in the conception of socially responsible investment as a potential vehicle for social change (Kreander et al., 2005 and in the vision of investment as a flow of gratification (Beal et al., 2005). A heterogeneity of benefits that are not only financial but also psychological and social, or expressive, plays a role in the investment decision (Glac, 2009). In this

perspective, investing in a socially responsible way is a form of extension of an individual's identity and his/her social convictions. In addition to one's personal awareness of doing the right thing, both for oneself and for society in general, socially responsible investment acquires a symbolic and experiential value.

Empirical studies of the financial performance of SRFs relative to conventional funds offer mixed findings. Some studies find no significant difference in performance (Ortas et al., 2013; Renneboog et al., 2008); some find a U-shaped relationship between the intensity of SRI screens and financial performance (Barnett and Salomon, 2006); and others identify improved financial results with SRFs in certain settings, such as during financial crises in capital markets (Gangi and Trotta, 2015; Lesser et al., 2016; Silva and Cortez, 2016). Aside from methodological aspects, the persistence of these mixed results supports the idea of complex motivations underlying socially responsible investing, going beyond the wealth maximization standard.

5.2.2. The ethical and socially responsible investor is not a monolithic entity

Over time, researchers have tried to find empirical evidence to confirm the theoretical hypotheses on the mix of personal and financial factors characterizing the choice of socially responsible investment and fill the gap in theory. Such studies have been mainly based on questionnaires, experimental surveys and role-playing. The first attempts in the early 1990s (Rosen et al., 1991) focused on the socio-demographic characteristics of the investor.. Findings indicated that these investors would be predominantly young, white-collar people from a relatively high cultural background. Furthermore, environmental protection and industrial relations were considered as priorities in assessing whether a company was socially responsible.

In more recent years, investigations have delved more deeply into the investor's psychology. Here, the focus is on the relationship between the investor's ethical and financial attitudes (Lewis and Mackenzie, 2000). Specifically, even where socially responsible investors show ethical concern, they are not at all prepared to sacrifice their financial needs, willing to invest a larger share of their money only if the ethical vehicle generates higher rates of return. This brings out a first important phenomenon in terms of comparison with the theory. That is, authors (Mackenzie and Lewis, 1999, Lewis and Mackenzie, 2000) have recognized the existence of "ethical contradictions" that can be explained through the mental-account behavioural model (Thaler, 1990). The ethical investor manifests a propensity to allocate only a portion of his/her wealth to this type of unconventional investment. This tension between ethical and conventional investment was confirmed in opposing relationship by McLachlan and Gardner (2004) who found that socially responsible investors are more concerned with ethical issues than with financial issues.

The previous evidence distances us from the theoretical dichotomy between ethical investor and conventional investor, or at least makes the classification not totally mutually exclusive. As with any other category of investor, we are not dealing with a monolithic group. In this regard, Nilsson (2009) highlights the need for a more detailed classification according to the level of concern for profit and social responsibility. Following this line of interpretation, Berry and Yeung (2012) show that ethical screening is not totally consistent with the trade-off model proposed by Jensen and Meckling (1994). In fact, the ethical investor is not always ready to exchange his/her need for ethics for a better risk–return combination. However, this propensity is not equally distributed among investors. For this reason, Berry and Yeung (2012) propose a classification according to a number of sub-groups. Committed investors are those who derive the most benefit from an increase in the ethical nature of the investment. Opportunistic investors are those for whom utility grows according to a given

ethical performance and a higher financial return. Finally, for materialistic investors, any increase in usefulness derived from higher ethical performance is lower than that derived from higher financial performance.

A financial component is not excluded from the mental schema of the ethical investor; to think otherwise would be misguided. Glac (2009) turns to an evaluation of cognitive differences among investors, distinguishing those characterized by an expressive decision frame compared to those characterized by a classic decision frame, with the former showing a greater propensity to invest in a socially responsible way and also more willing to sacrifice financial performance. The perspective of behavioural finance is useful in evaluating the variety of psychological and cognitive components that can differentiate the ethical investor's decision-making process (Tversky and Kahneman, 1974 Shefrin, 2005) – a perspective shared by Pasewark and Riley (2010) for whom those approaches that fail to evaluate investors' personal values risk neglecting factors that may affect investment decisions.

The variety of empirical results leads to two conclusions. The first is that there is a gap still to filled with the unique profile of the ethical investor. In reality, this type of investor is much more complex than the general theoretical principles of ethical finance would allow. The second conclusion is that, although their motivations may be varied, the presence of these investors on the capital markets is important in giving voice to demands other than those of the conventional shareholder. This contributes to a widening of the Friedman (1970) perspective, according to which the only way to align the interests of managers and property is to create profit for shareholders. The latter, we can now attest, are not a monolithic entity, and include ethical investors interested in the direct participation of companies and stakeholders in solving societal problems (Goodman and Arenas, 2015).

5.2.3. The risks of mainstreaming ethical finance

Ethical and socially responsible finance has undergone important changes over the years. Its weight within financial markets has increased significantly. A growing desire to meet needs other than the strictly financial has triggered a response from institutional investors who have increased financial products. The offers show an increasing differentiation, apply very specific logics, such as those related to the environment, or more holistic logics that include the different pillars of a triple-bottom-line approach (environment, society, governance). Furthermore, ethical finance's progressive departure from a niche position has also been stimulated by the increase in reputational risk following the 2008 financial crisis and the consequent loss of trust in traditional finance by savers and the community in general.

The opacity of financial models and the use of technicalities that are not easily explained to unprepared investors are two critical points that have exacerbated the crisis of confidence after the explosion of the speculative subprime mortgage bubble. Even banks, with the growth of impaired loans, were exposed not only to technical contagion but also to the risk of widespread loss of reputation. This was also accentuated by the evolution of the bailout procedure to an internal logic (bail-in) involving both shareholders and savers.

Under this scenario, significant changes have occurred in the criteria for selecting investments, even among institutional investors commonly defined as conventional investors. In particular, this type of investor has begun to promote ethical and social criteria together with the traditional financial criteria for selecting investments. Conversely, those institutional investors labelled as socially

responsible have increased their application of conventional standards, in an attempt to bring their performance closer to that of other funds, especially in the climate of strong growth in the financial markets after the 2008 crisis. Revelli (2017: 711) highlights a tendency towards the financialization of SRFs concurrent with the shift of ethical finance from a market niche to the mainstream. These phenomena bring to the attention of scholars and practitioners a theme already raised in the past and to which the previous literature has provided partial answers. In particular, the issue shares strong similarities with the phenomenon of greenwashing, where companies, banks and investors show only a superficial commitment to social responsibility, without implementing concrete policies in compliance with socially and ethically responsible standards.

On the investor side the risk can be a tendency to change the name of funds, without actually changing the selection criteria. This topic has already been raised (Goetz, 1997), but is still very relevant today due to the success of SRFs. Some evidence suggests that this approach can help ride the wave of certain market trends, with the aim of increasing the attractiveness of new flows of investment (Cooper et al., 2005). At the same time, in an attempt to achieve better financial performance, such SRFs would lower the thresholds of ethical and social standards. This creates confusion among individual investors.

In a situation of information asymmetry between target companies, investors and savers (Rhodes, 2010), a cosmetic approach can disregard the wishes of those who are genuinely interested in applying ethical and social criteria in their investment decisions. The potential gap between the selection criteria advertised by the SRF and those actually applied risks compromising the fiduciary mandate given by savers to these funds. The lack of transparency limits individual investors' ability to compare different funds and monitor the effective application of the declared standards. For this reason the risk is that, ultimately, an SRF portfolio may not be very different from that of a conventional fund (Hawken, 2004). Names and communications can be deceptive because they do not necessarily reflect their managers' investment strategy. The language used is sometimes too vague and can lead to errors and distortions of investors' objectives. This opacity can stimulate opportunistic behaviour, to the extent that an SRF might lower the threshold of social benefits in an attempt to improve its financial performance (Barnett and Salomon, 2006).

The debate, therefore, centres on the SRFs' actual ethics following the mainstreaming of ethical finance (Arjaliès, 2010; Revelli and Viviani, 2015). It is difficult to define as "socially responsible" those funds that do not fundamentally change their investment strategy. If the selection of companies to be included in the investment portfolios is too lax, the portfolio structure will end up mimicking that of the so-called conventional portfolios. Such an eventuality can lose the real ethical investors who depend on the managers of the funds to prepare and offer the financial products: an individual investor is often a spectator with no direct influence on the selection criteria and must accept the decisions taken by the managers who received the mandate to invest (Revelli, 2017). As the level of transparency decreases, the risk of opportunism increases. The lack of clarity increases the risk of confusion and deceptive marketing (Novethic, 2010). Currently, there is a major gap in the literature on these issues. Analyses have focused on comparisons of SRFs' financial performance with those of the conventional funds, assuming that the former always respect highest ethical and social standards. This underestimates the risk of mainstreaming, especially after the 2008 crisis. The literature has generally paid little attention to the social performance of SRFs' target companies, usually focusing just on market performance or on accounting-based ratios.

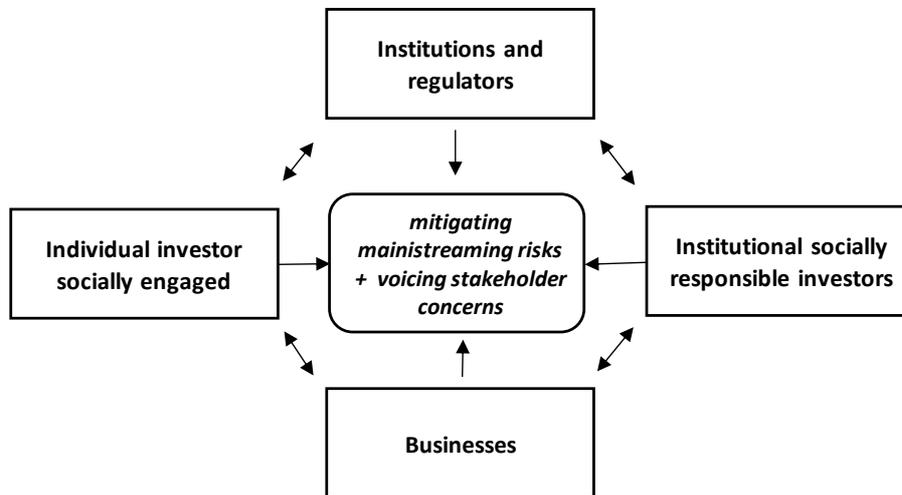
More recently, some analyses have tried to redress this by shifting the focus to the social performance of companies included in the SRFs' portfolios, in order to verify if it differed significantly from that of companies held in the so-called conventional fund portfolios (Gangi and Varrone, 2018). The results empirically confirm the risk of mainstreaming raised by previous studies (e.g. Revelli and Viviani, 2015; Revelli, 2017), to the extent that companies held by so-called conventional funds actually show significantly *higher* levels of social performance than those of the SRFs' target companies. These effects have different causes. Firstly, the mainstreaming of ethical and social criteria has led to a greater diffusion among institutional investors of the attempt to recover of image and reputation. Secondly, the lowering of SRFs' thresholds has brought the composition of their portfolios closer to those of conventional funds. Finally, information asymmetries encourage opaque behaviour, only leading to more confusion among institutional and individual investors interested in the principles of ethical and socially responsible finance. The problem, however, lies not only in the financial markets but also in the institutions that work with the markets and which control their functioning. What we are proposing here is a fundamental call to restore transparency and effectiveness to an area of finance that should in fact be making a contribution to the mitigation of the relentless pursuit of profit.

There are some institutions that appear to be aware of the problem and are trying to contain the risks of mainstreaming. For example, the Morningstar platform, which, like Bloomberg, numbers among the world's most widely used by investors, for some years has been assigning its own rating to funds that claim to invest according to social responsibility criteria. The Morningstar Sustainability Rating (on a scale from 1 to 5) is a measure of consistency between the declared standards and the composition of investment fund portfolios. The very existence of such a rating is indicative of the risk of misalignment between a fund's actual objectives and those of the investor. Furthermore, the assignment of a rating to measure compliance with the corporate mandate confirms the need for policy-makers to be more diligent about providing control measures about the consistency between declared principles and actual investment strategies.

In the responsible investment literature, McLaren (2004) indicates that norms and standards are useful in helping investors adopt an engagement approach with regard to assessment of effectiveness and quality. The fact that policy-makers are paying attention to whether ethical principles in finance are actually being applied represents an opportunity to keep the economic and political spheres united on these issues (Scherer et al., 2014). In a multi-level approach to the analysis of shareholder social engagement (see Figure 5.1), regulatory issues for ethical discourse involve shareholders and institutions (Goodman and Arenas, 2015). In the first instance, the objective is to strengthen the legitimacy of a plurality of shareholders who can give the various stakeholders a voice, even if marginalized (Scherer and Palazzo, 2007). This should facilitate consultation with, and the consent of, the community, an understanding of the expectations of the beneficiaries of the investment, the veracity of the information and the transparency of the processes (Goodman and Arenas, 2015). In the second instance, regulatory institutions and contexts influence the effectiveness of socially committed investor strategies (Dhir, 2006). The latter can promote institutional changes to give voice to stakeholders and encourage social dialogue (Goodman and Arenas, 2015). So, if the mainstreaming problem is not adequately managed and monitored also on the institutional level, there is a risk of disaffection from, or a loss of power of, the investor motivated by ethical and social principles. This means that the mainstreaming of ethical finance turns an opportunity into a threat as regards the correct functioning of financial markets and businesses from the perspective of social and environmental claims. Borrowing an assertion by Hendry (2001), the neutralization of this risk implies a convergence by institutions, individual

investors, investment funds and business towards a consensus that finance exists to serve societal interests and is not just a vehicle for profit.

Figure 5.1: Multiple engagement avoiding the risk of mainstreaming



5.3. On the company side: revisiting the concept of value maximization

All organizations, in order to prosper and grow, compete in the capital markets for financial resources to invest in their positive net present value projects (Cheng et al., 2014). Although the term “corporate finance” implies that this function is especially relevant for large firms, in fact corporate financial principles pertain to every business, regardless of complexity or size. In effect, each company is required to decide where to invest (investment principle), using which financial structure (financing principle), and to what extent to reinvest profits or remunerate investors (dividend principle) (Damodaran, 2010). In engaging with these decisions, the unifying objective of corporate finance is the maximization of company value, traditionally defined as a maximization of shareholder value.

Although the identification of unique criteria has allowed academics to build integrated and coherent models that can guide corporate investment and financing decisions, the results obtained are valid only to the extent that value maximization is accepted as the sole corporate objective. Furthermore, the uncompromising adherence to this concept has configured in some cases a kind of finance that serves only a few categories of stakeholder (Zingales, 2015). The recent financial crisis has, in fact, triggered a critical reassessment of the value maximization concept as the guiding principle of the financial function notwithstanding the interests of the community. The literature finds agreement on the principle that an organization’s objective is value maximization, but debate centres on whether this implies value maximization of net capital or of a broader value beyond shareholders, encompassing the expectations of all other stakeholder categories. The emphasis is on the type of value that the management is engaged to prioritize, and if this engagement is

addressed avoiding to charge society with environmental or social costs of competence of firms (Heal, 2004).

The centrality of stockholders' claims and the undervaluation of social cost produced by this approach are the main arguments around which the debate has evolved about the primary objective of the firm. In the literature, two main theoretical approaches are available in exploring the value maximization objective. Agency theory (Jensen and Meckling, 1976) insists that a manager's primary responsibility is to take care of shareholders' interests. According to this perspective, those investment options will be privileged that increase shareholders' dividend prospects, otherwise there will be a discrepancy, and thus an agency problem, between managers and shareholders (McWilliams et al., 2006). Or, according to stakeholder theory (Freeman, 1984), detaching the value maximization objective from equity capital providers should allow an allocation of financial resources to those investment options that will not impose costs on other groups or entities that are higher than the benefits accruing to the firm or lead to negative effects on society.

Accordingly, business financial decisions should be oriented towards investment opportunities either with no social costs or with costs that can be identified and charged to the firm (Heal, 2004). Otherwise, these costs ultimately burden the community, increasing inequalities among the stakeholder categories and leading to a reduction of opportunities for firms to grow (Freeman and Velamuri, 2006).

The growing media and government attention being paid to firms' social commitments is a consequence of the realization that, when firms and financial systems operate under the presumption of value maximization and ignore the collective consequences of this behaviour, a fissure develops between society and the economic system, manifested by negative opinions coming from society directed at the managerial class and the financial system (Zingales, 2015). From an economic perspective, this general scepticism creates higher inefficiencies and costs for firms which, in turn, increase the risk profile, in the form of either a higher financial or operational risk (Sharfman and Fernando, 2008; Jo and Na, 2012).

There is empirical evidence that society reacts unfavourably to socially irresponsible behaviour, instead rewarding firms' commitment to society by giving greater support in terms of customer loyalty, reputation and licence to operate (Aramburu and Pescador, 2017; Hsu, 2012). Additionally, a socially responsible approach not only promotes relationships with stakeholders that are peripheral to the core business but also acts as a facilitator in dialogue with those stakeholders central to a firm's survival, such as employees and the financial system (Hartman et al., 2007; Greening and Turban, 2000; Scholtens, 2006).

A second criticism often levelled at the traditional value maximization view regards the assumption that capital markets are perfect (Damodaran, 1996). The debate surrounding the relationship between financial structure and value maximization has traditionally been influenced by Modigliani and Miller's (1958 first proposition, which argues that a firm's market value is not affected by the source of investment funding: whether it be debt or equity. As noted by Stiglitz (1969), this viewpoint makes no account of taxes, bankruptcy costs or other agency costs.

When market conditions fall short of being perfect, this hypothesis – the immateriality of the financial structure to value creation – is no longer valid and the different sources of external capital with which a firm finances itself have an effect on its value and thus its financial and operational risk. This implies that, in an imperfect market, where companies compete for financial resources

instrumental to the production of value, the cost of external capital will influence their financial structure and thus their competitiveness. The financial function will be responsible for a structure which, at the same time, guarantees the firm's value maximization and the minimization of financial risk as perceived by capital providers. Organizations that suffer from a lack of internal resources revert to external sources; however, firms' ability to undertake valuable investment projects is directly influenced by financial constraints, defined by Cheng et al. (2014 as "market frictions that may prevent a firm from funding all desired". In capital markets, an acknowledged source of friction comes from information asymmetry between market actors (Akerlof, 1970).

Insiders, management for example, often choose not to reveal information about investment opportunities. Investors are aware of this information asymmetry problem and therefore tend to raise the cost of capital to compensate for the extra risk. An imperfect capital market configuration implies that transparent and efficient information among actors can serve to mitigate the perceived risk. The higher the level of available information, the lower the cost of capital (Spence, 1974; Lambert et al., 2007).

In an organization's value creation process, disclosure assumes a central role, being an asset that should prevent non-distorted interpretations of the risk associated with investments and related returns. A lack of frequent and transparent information about an organization's real business and financial risks represents an obstacle to capital market access. Partial or insufficient disclosure about firm performance makes for an opacity that means a higher barrier for investors, thereby increasing a firm's costs in acquiring external capital.

The growing relevance of non-financial information in decision-making processes serves as a testament to how, beyond financial information (Lambert et al., 2007), companies' socially responsible behaviour can encourage efficient capital exchanges, becoming a key variable in the assessment of the overall risk associated with an investment (Chatterji et al., 2009; Ioannou and Serafeim, 2010). The reference organization here is one that adopts CSR strategies, adequately supported by strong social disclosure for the benefit of private investors and the finance industry. Such social disclosure, and the CSR policies that it reflects, has financial implications not only from an *ex post* perspective – the traditional viewpoint in studies of the relationship between CSR and financial performance: an organization's social commitment represents a determining dimension in relaxing the financial constraints that firms face (Cheng et al., 2014 Jo and Na, 2012).

5.3.1. Societal care as a form of risk protection

Corporate social responsibility is the process by which an organization thinks about, develops and manages its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by the adoption of appropriate business processes and strategies. This is a clear indication that CSR is not charity or philanthropy: it is a way of conducting business in which corporate entities tangibly contribute to the social good. As stated by Jones (1995), CSR activities are essential in obtaining the resources that a company needs because those resources are in fact the support of stakeholders. From this perspective, the stronger stakeholders' opinion about a company's licence to operate, the more willing are they to provide resources. This view is consistent with the observations of Carroll (1998) and Porter and Kramer (2002), who stressed that CSR is not only beneficial for the community but primarily beneficial for companies, and from different perspectives. This is because CSR equips the company with what Godfrey (2005) calls "moral capital", which signals to external actors that the company is oriented towards the creation

of a broader value, which facilitates the acquisition of different forms of capital, including financial capital.

In the literature, the debate surrounding CSR and financial performance has been mainly approached from the perspective of the outcome. That is, as CSR engagement increases so does an organization's endowment of intangible resources, with its sustainable orientation leveraging competitive advantage, leading to better financial performance. In this case, the perspective is that of a CSR function promoting higher financial performance, due to an organization's ability to govern commercial and community relationships efficiently.

However, the finance–CSR relationship can also be investigated from the perspective of the provision of financial resources, as a strategic dimension contributing to a firm's risk mitigation, positively impacting the cost of finance (Oikonomou et al., 2012; Cheng et al., 2014; Jo and Na, 2012). Arguments supporting the ability of CSR to reduce firms' risk are mainly related to better stakeholder engagement, sustained by a strong commitment to social disclosure to markets (Cheng et al., 2014). The adoption and implementation of CSR strategies enhances mutual trust and cooperation between a firm and its stakeholders (Jones, 1995; Andriof et al., 2002). CSR is a reputational driver that enhances the citizenship rights of an organization (Matten and Crane, 2005; Barnett and Salomon, 2012), acting as a "buffer" protecting firm financial performance from adverse scenarios (Godfrey et al., 2009). Consequently, organizations that can leverage their stakeholder networks, establishing durable flows of information and trust, may directly curb financial constraints, due to reduced agency and/or transaction costs (Cheng et al., 2014). Additionally, a commitment to CSR reduces short-term opportunistic behaviour (Bénabou and Tirole, 2010), limiting what Goss and Roberts (2011) describe as the over-investment hypothesis: namely, the possibility that management might over-invest in CSR to burnish their own reputation at the expense of stakeholders. Better stakeholder engagement can decrease the unsystematic risk faced by a firm, by reducing the likelihood of financial, social or environmental crises.

However, an organization's social commitment, in order to be effective, needs to be sustained by a strong orientation towards social disclosure. In the information asymmetry perspective, as discussed by Dhaliwal et al. (2009), it is important to note that CSR performance information is available to investors via third parties (media and agency). Detailed CSR disclosure potentially provides additional information necessary for investors to assimilate these synthetic measures of firm ratings. CSR-committed organizations tend to disclose more information about their social and environmental performance, in order to create a favourable and impressive image as good citizens. When such information becomes available to investors via media and analysts, socially oriented investors tend to avoid companies with lower CSR ratings (Dhaliwal et al., 2009). Vasi and King (2012), in fact, showed that even the mere perception by investors of higher risk might precipitate a financial loss for firms. Prior studies have suggested that investors perceive irresponsible businesses as riskier since such firms underestimate the potential for future claims coming as a result of having neglected social and environmental issues other than those strictly related to the firm's ability to survive and prosper (Waddock and Graves, 1997). Based on these arguments, several studies have revealed CSR's deeper ability to reduce the cost of acquisition of external capital, both debt and equity.

Specifically, in an investigation of whether CSR affects the cost of equity capital for firms, El Ghouli et al. (2011) found that firms with better CSR paid less. CSR is a multifaceted phenomenon comprising several social and environmental dimensions and, interestingly, the negative

relationship between cost of equity capital and CSR is stronger for those firms that invest in dimensions such as employee relations and environmental policies and product strategies. The relevance of the environmental dimension is corroborated by Sharfman and Fernando's (2008) study, which looked at CSR environmental engagement in relation to the cost of equity capital and concluded that "green" firms enjoy a lower cost of capital. This is in line with Wu and Shen's (2013) observation that a strategic approach to CSR offers firms tangible business advantages. Investors reward CSR-oriented firms, while those firms less engaged with CSR have a restricted pool of investors who are more risk-oriented and thus more interested in pure financial maximization of their investment.

Other studies have confirmed CSR's ability to reduce the cost of debt capital acquisition, underlining that CSR commitment signals a more conscious approach to managing the business which makes for reduced interest on borrowed capital. Cooper and Uzun (2015) also found that socially oriented firms with a strong sustainability commitment enjoy a lower cost of debt, which is particularly evident in the financial and manufacturing industries. The authors claim that firms focusing exclusively on shareholder value maximization are less attractive to investors, because they prioritise the interests of only a few, or possibly only one, type of stakeholder.

As a whole, the evidence points to the fact that, in the case of both equity and debt capital, an organization's CSR commitment reduces the cost of capital, thereby creating more potential for expanding investment and financial performance. Irresponsible businesses endure a higher cost of capital because of poor reputation or lack of licence to operate, reflecting the possibility of penalties being incurred which would depress the firm's value, and thus the return for investors. Intuitively, if CSR engagement can act as a buffer against unfavourable events, a sustainability commitment could be especially useful for controversial industries (alcohol, tobacco, etc.), which by their very nature are more prone to attacks about their contribution to society. Jo and Na's (2012) empirical investigation of CSR's potential to reduce firms' risk found that, even for controversial firms, a CSR commitment reduces perceptions of window-dressing activities, increasing the corporate image and thus reducing the risk associated with sectors that are problematic from a sustainability perspective.

Concern for society and a strategic commitment to the social and environmental issues that are relevant to the community represent, from a capital acquisition perspective, a strategic approach that can mitigate risk for unsystematic firms. This is more evident when considered over the long term or in a period of crisis and uncertainty. Oikonomou et al. (2012), discussing the relationship between CSP and firms' financial risks, pointed out that, in times of moderate volatility, firms with better CSR performance are associated with a lower level of risk and, conversely, in times of higher volatility, irresponsible businesses incur a higher level of financial risk. This is consistent with the idea that CSR incurs short-term costs but pays off in the long term (Burke and Logsdon, 1996) and implies that managers who wish to allocate financial resources in pursuit of wealth generation should be aware that investing in CSR can make the firm more resilient in the face of systemic economic turbulence (Oikonomou et al., 2012). Companies engaged in socially responsible activities are able in the long term to build and strengthen their corporate reputation by engaging in continuous dialogue with their stakeholders, with the aim of aligning market expectations with business growth strategies. In this sense, CSR is an important reputational driver, delivering trust value over time. Corporate reputation can be defined as the set of expectations, perceptions and opinions that each stakeholder has regarding the organizational characteristics, values and behaviour of a firm derived from observation or a direct relationship. It is a thermometer measuring licence to operate as acquired by the company on the market as a result of its actions and the degree

to which they are congruent with the expectations of the social system in which it operates (Fombrun and Van Riel, 1997; Bennett and Kottasz, 2000).

Finally, from a financial perspective, CSR's potential to reduce the cost of external investor capital loosens the firm's financial constraints, which is especially the case for small firms which traditionally tend to be less engaged with CSR due to their lower financial capabilities. This potential of CSR to smooth financial friction is an important point, since the literature has broadly documented that firms facing financial constraints are likely to curtail a wide range of their strategic activities, and not just CSR expenditure. A prolonged climate of financial constraint does not just affect firms at the individual level, so the literature tells us, but also affects industry-level growth and even country-level development, which highlights the relevance of businesses' social and environmental initiatives to ensure they can grow over time in harmony with society (Cheng et al., 2014).

Much has been written since the 1970s about the need to limit leaders' arbitrary power and the personal benefits they can accrue from their positions. The term "corporate governance", as opposed to simply "management", assisted in distinguishing this problem from other organizational issues. It should be noted, however, that, from the outset, this critical trajectory has been diverted onto a detour that we are still following to this day: that of stock ownership. Even a progressive scholar like J. K. Galbraith (1967) made the point that shareholders were losing control over the company's capturing of profits because of their "technostructure", and the agency theory of Jensen and Meckling (1976) followed a path already laid down by progressive thinkers. Subsequent theories of "government" or "corporate governance" would henceforth bear the imprint of these initiators of the debate. Its most perverse outcome would be the justification of stock options and golden parachutes in the name of the alignment of top management's interests with those of the shareholders. In this game, it appears in retrospect that the CEOs have not been losers.

At the very time that a resurgence of shareholder power by was being theorized, a much broader concept of governance was emerging, particularly within international organizations. For example, the notion of "poor governance" was laid out by the World Bank (1992) in the following terms: "Failure to make a clear separation between what is public and what is private", "arbitrariness in the application of rules and laws", "excessive rules, regulations, licensing requirements, and so forth", "priorities inconsistent with development", "Excessively narrowly based or nontransparent decision making". Given the exclusively procedural formulation of this concept, with no circumscription of aims, the whole field of collective action, at all levels, was always likely to be constrained by these definitions. The concept of "governance" was thus confined by a need to find an explanation for the obvious failure of the "Washington Consensus". The path had been laid for the concept of governance to be mobilized by the supporters of New Public Management to justify the shrinking of the state, in all market economies and in many developing countries. At the same time, in the UK, the need for "good governance", as well as "agency relations", was invoked to justify the dismantling of cooperative banks. Beyond the state, the "third sector" – that of the cooperatives and mutuals – were trammelled as part of the widespread "corporatization" of the world.

A criticism initially made against the disproportionate power of CEOs ended up being part of the world's transformation into a corporation, along with the justification of top management's extravagant bonuses and the reduction of whole sections of the

alternative economy. The diversion and hijacking of stakeholder theory (see Chapters 2 and 3) by top management have a long series of precedents.

We have shown in Chapter 3 that there is little hope of producing criticism for recovery that is immune to these processes without profoundly restructuring our theoretical patterns. This is why we propose analysing the implications of corporate governance for society within the decentralized organic scheme delineated in Figure 6.1. In this scheme, stakeholders are divided into three spheres: Business, Political bodies and Society (biosphere included), where the interdependencies between the spheres are of three different types: market, solidarity and sovereignty, respectively. These spheres interact with each other: there are service relations between business and society, regulatory relations between the state and business and (ideally) relations of democracy between politics and society.

Such a pattern has the advantage of making explicit the current theoretical restrictions, as well as raising some major challenges for the “governance for society” research field, when we try to fit the current paradigm into its geometrical framework.

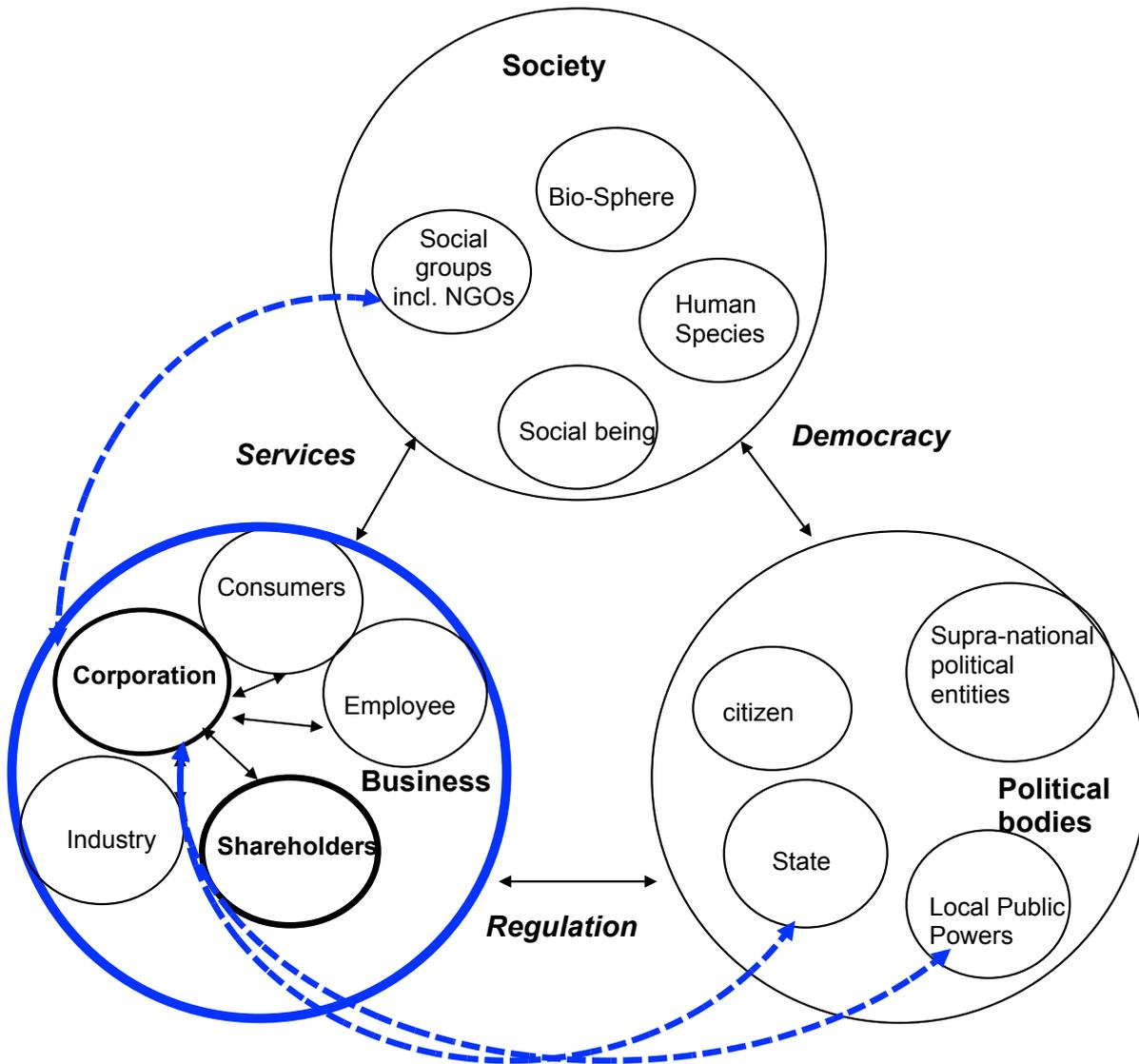


Figure 6.1: The dominant paradigm of research on governance according to a social perspective

The dominant paradigm of research on governance essentially encloses the debate within the sphere of business, in spite of the well-documented societal externalities of the latter. When it is not obsessing with board of directors composition, the governance research stream admits the pre-eminence of “primary” stakeholders (“Business” sphere in Figure 6.1, marked by bold lines). The theme of “corporate social responsibility” (CSR) thus appears to concern peripheral and more distant relations (dashed lines) than the company actually establishes, voluntarily or involuntarily, with stakeholders outside the sphere of business, in a framework where the latter is conceptually privileged. In the ternary schema presented in Figure 6.2, the lack of balance of our current knowledge and debate becomes more explicit, ignoring as it does two major challenges – which we will develop in this chapter.

This schema illustrates another paradigm which places the two following phenomena at the centre. On the one hand, there is a substantial link between the three spheres of business, politics and society in the form of the social being – the employee–citizen – because this triptych depicts three

roles played by the same individual (the central triangle in Figure 6.2). On the other hand, under the same principle of an individual's divided roles, the potential triptych of shareholder–employee–and/or consumer (the small dotted triangle that appears in the “Business” sphere) visualizes the business impact of alternative modes of governance.

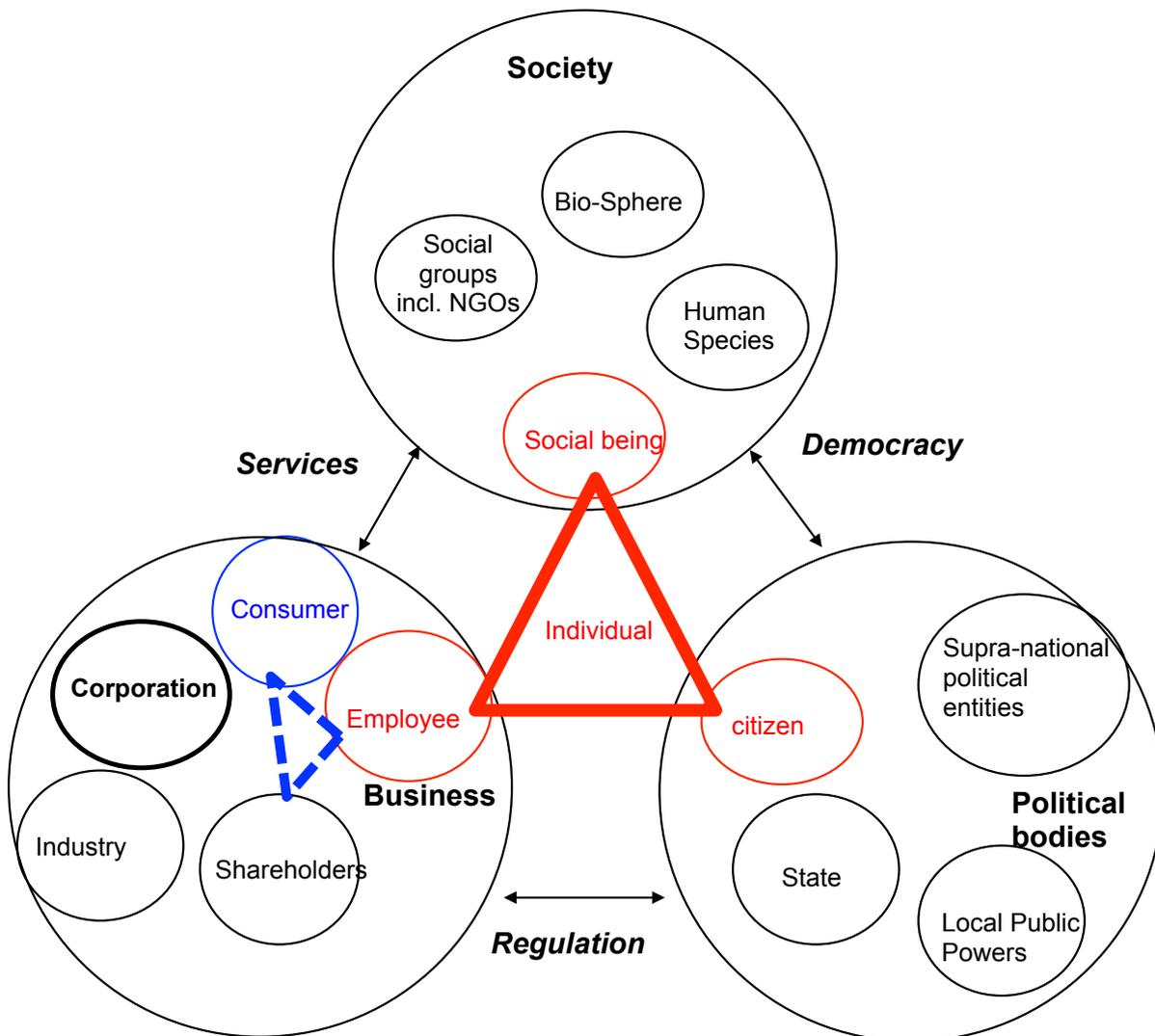


Figure 6.2: A new paradigm for research on corporate governance at the service of society

Two things are of paramount importance here:

- Firstly, each of these two triangles plays a special role in the tensions and shortcomings that affect corporate governance and the relationship between business and society. The big triangle of the individual maintains a permanent tension between the temptations of domination and submission in pursuit of profit and aspirations towards freedom as well as a need for solidarity. Insofar as (and this must be contextualized) an employee is both a citizen accustomed to having a voice in choosing and controlling his/her leaders, he/she will be reluctant to accept dictatorial management under a form of oligarchic governance. Because he/she is also an individual in society and a member of a species dependent on the biosphere, this same employee can hardly be proud of degrading the environment or strengthening oppressive regimes. The small triangle in the “Business” sphere opens up the possibility of an alternative type of governance, which already exists in many organizations,

where the business is owned and governed by clients and/or its employees. It seems, however, that academic research in this area is relegated to the periphery.

- Following from this, these current tensions sketch a pattern for a potential world, a world of tomorrow, where each triangle represents a complementary step in its transformation. It is precisely because employees are both bio-social beings and political citizens that a company can get away with being managed without the societal and political issues of business life being taken into account, exonerated from its responsibilities. It is also when these employees hold substantial power as shareholders that governance positions the interests of the citizen (political sphere) as a human being (a bio-social being) as central to the company's purpose. The small triangle, through its power of direct governance in the company, serves as an amplifier relay for the big triangle in a rebalancing of the power of business vis-à-vis society and political bodies. In combining the two triangles, the citizen and the individual–species–society enter directly into the governance of the company.

In order to lay the ground for future work, in this chapter we will develop two lines of research implied by these two triangles. In the first instance, we will focus the analysis at the level of the interaction between the three spheres of Business, Society and the Political bodies: how can we measure and improve companies' actions with regard to the interplay of systemic interdependencies linking the three spheres? The whole topic of CSR is largely based on this level of analysis. Secondly, we will focus on the small employee–consumer–shareholder triangle by reflecting on the current and potential effects of alternative modes of corporate governance. At this level of analysis, the question of democracy within the company arises.

6.1. The company and the inter-regulation of the three spheres of Society–Politics–Business/the company and democracy

The three spheres of Society, Politics and Business are inter-regulating and therefore companies have a systemic responsibility that extends to all the relationships at stake, including the indirect effects on the regulation of the social by the body politic. These effects occur both as a result of the relationship to politics and the relationship to the social.

6.1.1. The influence path Business → Politics → Society

From this perspective, the role of business has traditionally been one of seeking to minimize the regulation imposed by the body politic, in the classic framework of liberal and neoliberal ideologies. Some will argue that this is part of a traditional power game, and without this constant effort the temptation would be too strong for states to exert a growing stranglehold on the economy which would ultimately be harmful to all. Nevertheless, by supporting the idea that a defence of special interests is the very essence of politics, the business world has, through its lobbying, disrupted one of democracy's central function: the emergence of a general will. J.-J. Rousseau, in *The Social Contract* (1762), defined the general will (*volonté générale*) as the result of a deliberative process in which "the small petty interests of the one and the other neutralize each other in their opposition while what emerges is what genuinely unites all citizens around a higher interest¹⁵". The general will is this process that leads to the realization of a higher interest, which is also called the general interest, and without which democracy is nothing but a "tyranny of the majority" – a term used by

¹⁵ JJ Rousseau's quotation are drawn from GDH Cole's translation « On the Social Contract », see the list of references

de Tocqueville (1835). A citizen's acceptance of political decisions presupposes that he/she feels that a general interest is being pursued; otherwise, the will that animates the state is no longer "general" and democracy becomes illegitimate. The impression that pressure groups representing big companies are controlling political power weakens faith in democracy and has reached dangerous levels in Europe and the US. Companies cannot dodge responsibility for this phenomenon. Their over-intervention in the regulatory relationship, which links the Business and Political spheres, has had a deleterious effect on the democratic relationship between politics and society.

Not being as sensational, this diffuse influence of business life has received much less attention than the contribution of some large companies to the crushing of democratic movements. The latter has been publicized among others by journalist Naomi Klein in *The Shock Doctrine* (2007), in which the action of large international groups in Latin America was described as nothing less than "corporate coups". In cases related to the wars in the Middle East, there is even the ugly spectre of companies collaborating not only with dictatorships but also with terrorist organizations.

6.1.2. The influence path Business → Society → Politics

Through the relationship between business and society, the company also affects the democratic relationship between politics and society. Much has been written about the positive and negative externalities imposed by a company on its environment. The company's defenders will cite economic development, construction of infrastructure, technical progress, while its critics point to pollution, layoffs, discrimination and corruption. These are typically CSR issues, as measured by ratings agencies, with supposed indicators of good governance such as "transparency". On the other hand, it is possible to downplay the systemic link between these aspects and companies' contribution to the support or decline of democracy, arguing that in some cases companies, especially multinationals, can play a positive role vis-à-vis oppressive regimes, particularly by opening up new horizons to local employees.

Nevertheless, it seems that a key concern is the decoupling of the company's identity as a service provider/drag on society from its relationships with political bodies, not to mention the indirect effects caused by its relationships between society and political bodies. For instance, the main headings of non-financial ratings agencies are an integral part of the governance of listed companies, insofar as the resulting valuations are taken into account by "responsible" investment funds. Nevertheless, these agencies, in providing their ratings, notwithstanding the well-known shortcomings of the metrics used, are careful to avoid "doing politics", confining their evaluation to criteria of "good governance". The ratings deal (superficially) with corruption but do not go anywhere near the democratization of political regimes. It is striking that, while the media were denouncing the working conditions at Apple's subcontractors in dictatorial regimes, the ratings agency Vigeo's only alert was about consumer data protection.

And yet these concerns are real, as evidenced by internal conversations at Google, revealed in 2018, about the construction of a search engine to suit the monitoring requirements of the Chinese regime. Google's employees refused to take part to that project. This simple fact illustrates the strength of the systemic link between the three spheres of Business, Political bodies and Society, because the three identities co-exist in the same individual: employee–citizen–social being – the big triangle.

Yet it is this same triangle that has been discreetly effecting societal and political progress via the same Western companies by infusing education with freedom and personal development, in the context of the Cold War. By promoting and training their employees, US companies made a big contribution to the modernization not only of the economies but also the civil societies of Western European democracies, strengthening their resilience to fascism as well as facing off the threat of Communist subversion.

6.1.3. Studying and measuring the systemic influence of corporations on governance within state and society

The key issue of business in democracy, does business foster (or not) of greater adherence to democratic values is not merely a question of the relationship between executives and managers on one side with the state administration on the other. It crosses all levels of management, insofar as it is exercised over the employee–citizen–social being, endowing him/her with capacities, resources, and even a certain vision of the world. It highlights the systemic influence that companies exert on the governance of states and societies.

Companies' contributions to societal and political development are yet to be the subject of systematic evaluation, and building a theoretical approach to this into the business governance field remains an area to be addressed. It would be interesting to look at the possibility of measurement indicators related to social and political development induced by the sphere of business in general and companies in particular. What is the contribution of companies to the development of the cognitive and social capacities of their employees, their customers, the families of those employees and customers? What social advancement do we find companies contributing to in the medium to long term when we compare the social trajectory of their employees against the baseline of their environment of origin? Does this rise compensate for the negative effects of plant closures and layoffs? To what extent does being an employee in the company correlate with a strengthening or weakening of adherence to democratic values? What sort of citizen does the company make of its employees, given the corporate culture and type of management they are subjected to year on year? Here we have deliberately put forward questions that, in probing societal and political issues, attempt to link observable effects with actions that are managerial and not just macroeconomic. It is a whole new field of study for management science which will open up an awareness of the triangle in which the employee, the citizen and the social individual co-exist, going beyond questions about discrimination, which is what interrogations about CSR in human resources are usually limited to.

6.2. Alternative modes of “corporate” governance: democracy within the firm

The employee–citizen–social being triangle calls into question the employee–shareholder–client triangle. Considering that those who work in a company are at the same time the citizens (or subjects) of a political regime, how could one realistically suggest that their conception of power relationships in political society has no bearing on how they perceive power relationships in companies? Can we be immersed, in society as in politics, in a flow of ideas and debates that value dialogue, cohesion, emancipation, equality, a rejection of the abuses of power and the denunciation of state crimes, and all the while consent to spend half of our waking lives in organizations that are all too often characterized by authoritarian decision-making, subjugation, arbitrariness, favouritism and fear of unemployment? Having also assumed the expectations of their rights as consumers, how

could they find meaning in an organization that deceives its customers about the value, origin or safety of its products or services?

These questions were the subject of intense debate in the US in the 1950s and 1960s, as recounted by the philosopher Grégoire Chamayou (2018) in his intellectual genealogy of “authoritarian liberalism”. The finding was widely shared, dating back to the work of Berle and Means (1932), who had identified that managers had acquired new power in companies, decoupled from the ownership. From this point, executive management could be thought of as a kind of private government, exercising power within the sphere of the company, something in fact noted by an executive: Richard Eels of General Electric (1962, quoted in Chamayou, 2018). This political analysis of organizational management raised the technical question: what kind of government is there and should there be in big corporations – “Obviously not a democracy, but it is no longer possible for a very large company to be an autocracy” (ibid.). It also raised, in a more disturbing way for business leaders, a social question. Indeed, as the Rockefeller Foundation asked anxiously, can the firm, an “authoritarian form of industrial government”, last long being governed in this way by its managers while embedded “in a supposedly democratic society” (ibid.)?

If we follow the history as traced by Chamayou, it seems that these questions were quickly overshadowed in the following decade, for two reasons. The first part of the ideological struggle was that, in the years 1960–70, a shareholder ideology emerged, based on the reduction of the company solely to its legal dimension, theorizing managers as executors of the shareholder will. Jensen and Meckling’s (1976) agency theory remains a keystone of management theory today. A second, deeper reason, according to Chamayou (2018: 51), is inherent in the internal contradictions that necessarily undermine any theory of private corporate governance. Indeed, as long as management retains its hierarchical practice, “the path of corporate constitutionalism is narrow: what political space does it have left, on the basis of this dual diagnosis between, on the one hand, an autocracy that constitutionalism considers untenable and, on the other, a democracy it rejects? Indeed, not much. The only viable option that Chamayou seems to favour is that of self-management, experiments in which were nipped in the bud by hostile forces in the 1970s (ibid.: 266).

It seems to us that the aporia described by Chamayou is only an epistemological obstacle, which is actually surmountable, albeit aggravated by a methodological bias. The obstacle consists in considering government as an inseparable whole, so that democracy does not appear compatible with hierarchical obedience. We will reveal a way of overcoming this obstacle by breaking the notion of government down into three components, one of which falls under the aegis of execution, being strictly hierarchical. The methodological bias of Chamayou’s remarkable work lies in its empirical basis, exclusively documentary and restricted to the Anglo-American sphere. For a researcher in management, the simple observation of a hierarchical management embedded in democratic governance makes it possible to overcome this bias.

This leads us to highlight a whole field of studies devoted to organizations, competitive and quite often successful companies, whose statutes introduce various forms of democratic governance and are part of a societal mission. In some of these organizations, clients are the majority shareholders (e.g. cooperative banks, mutual insurance companies). In others, it is the employees who govern (e.g. industrial production cooperatives like Mondragon in Spain). If governance is statutorily “democratic” with the principle of “one person = one vote”, as opposed to the shareholder principle of “one share = one vote”, the fact remains that management in the organization is usually not

horizontal, as most “self-management” experiments have been cut short. On the other hand, various statutes co-exist, and new ones have appeared, such as those of multi-purpose companies (Segrestin et al., 2016). Various forms of corporate governance co-exist too, variations within which representing far more than what stockholders’ rights demand, and which have reciprocal effects on management, with societal and political impacts.

One of the present authors has already proposed several complementary concepts to aid in unravelling the reciprocal effects of management and governance in the diversity of observed situations (Jardat, 2012):

- Governance deals with the exercise of the sovereign power of the collective. Sovereignty is exercised directly by the members of a collective who decide, as described by Rousseau in *The Social Contract* (Book I, Chapter VI) to build “a form of association that defends and protects the whole of the common strength of the person and the goods of each partner, by which each uniting with all obeys only himself, and remains as free as before”. Typically, in a private company, shareholders will exercise sovereignty. Acting as sovereigns when voting in a general meeting, these same shareholders nevertheless become subjects when agreeing to respect the results of the vote, even if goes against them: it is the miraculous phenomenon of the general will without which no collective would be governable. According to Rousseau, the ratification of general decisions – laws – is typically a sovereign power.
- Government, *sensu stricto*, is, according to custom, a word that designates in most European languages either an organ of power (e.g. “the Clemenceau government”) or the exercise of power by this same organ (one speaks of “good” or “bad” government). The essential point here is that the government is responsible for executing the general decisions taken by the sovereign power. Typically, in a private enterprise, government (in the sense we understand it here) is a matter of doing business and it is the top management that carries it out. It is the so-called “executive power”, as the English term has it, which so aptly describes top managers.
- Governmentality,¹⁶ refers to the modes by which one intends, in daily life, to obtain expected behaviour from a population. Typically, an *Ancien Régime* governmentality will be exercised through a series of prohibitions, offices and exemptions, while a liberal governmentality will tend to rely exclusively on incentive mechanisms. In contrast, *Raison d’État* (national interest) governmentality will be freed from all rules to make whatever decisions are needed to safeguard the existence of the collective. Modern management methods based on career individualization and performance typically belong to liberal governmentality. Governmentality is essentially micro-political. The project of a fully micro-political management of societal issues, proposed by Thatcher’s theorists in the 1980s to drive out the macro policy (Chamayou, 2018: 249), and thus impose a governmentality without government (Jardat, 2012), could be described as an ultra-liberal governmentality.
- Finally, the political constitution of an organization refers to the political relationships induced in this organization as a result of its governance.

Debates about corporate democracy usually focus on governance, while the technocratic legitimacy of managerial decisions focuses on government actions. Lastly, the exploration of managerial practices is a matter of governmentality (usually liberal). It is essential for us to work on the links between these three dimensions (governance, government, governmentality), throughout the

¹⁶ A concept introduced by Michel Foucault (2008, 2009).

various political constitutions. It seems clear to us that no research stream devoted to business for society can afford to ignore the existence of organizations (Jardat, 2008), which together reinforce a political constitution with egalitarian sovereign power and non-profit goals, a government that is revocable under this sovereign power, and which is thus compelled to decide by consensus while reducing its own apparatus, and a patient governmentality that rewards its employees above and beyond the purely monetary criteria of the labour market.

The very existence of such organizations is politically significant: consider, for example, that Thatcher's government in the UK ordered the dismantling of cooperative banks in the 1980s, while the French government enabled the opposite to happen, i.e. a major takeover of capitalist banks by cooperative banks.

There is a great amount of variability in these companies' political constitutions which allows us to study the effects of the various governance arrangements on the management of these organizations and in particular the consequences for the social and political spheres and their interrelationships. We can already be clear that, depending on the case, the "small triangle" of governance brings together various stakeholders with different effects on management and the societal role of the company. In general, it must be borne in mind that the notion of democracy in a company remains a question of degree and that it engages, as the case may be, quite different actors in the sovereign collective. In the case of a private company only the shareholders form a sovereign collective, with the other stakeholders only the object of the action of the government, somehow non-subjects. Through representative bodies or advisory powers and with no influence in general meetings, those stakeholders are kinds of "not sovereign subjects". In the case of a cooperative, where all the members exercise their sovereign power according to the "one man = one vote" principle, governance is democratic. But is the government (including also governmentality and executive power) democratic to the same extent? Everything depends on the perimeter of the sovereign collective: for example, in a cooperative there are organizational citizens (those who belong to the sovereign collective) and non-citizens (those who do not belong to it and are part of a second group, subject but not sovereign). Non-citizens are excluded from what is a sort of "census-like" democracy, the processes of which effectively deprive them of any real participation in the governance of their organization. All gradations exist: from purchasing cooperatives in the retail sector, where only the shop owners are citizens, to the cooperative workers' production company (SCOP¹⁷), where all the employees are citizens. Between the two lie cooperatives and mutual insurance companies, for example, where the sovereign body is made up of clients (who are members), and some cooperative banks where customers join, partly or directly, employees and trade unions.

Future research might aim to look for links between variations of the small triangle, through a study of political constitutions, and the large-scale interrelationships between the three spheres of Business, Society and Political bodies. For example, in the case of some French cooperative banks, where shareholders are primarily clients but where trade unionists and employees have a say in governance (Jardat, 2008), a requirement for short-term profitability, more weak, meant they avoided the real estate speculation of 1980–90 and the toxic financial products of 2000–2008. CSR policies have been linked with a company's political constitution, but even now there is a lack of systematic studies to better understand the nature, the importance and the limits of these relationships. This is a whole field of research that lies before us.

¹⁷ Société cooperative et participative.

Breaking the notion of government down into three terms – sovereign governance, executive government and micropolitical governmentality – allows us to overcome the epistemological obstacle that prevented us conceiving of a managerial and technical hierarchy embedded in a corporate democracy. This opens Conquest areas for corporate democracy that go far beyond the solitary self-management experiments.

6.3. Conclusion

Research on the governance and interrelationship between Business, Society (including the biosphere) and Political bodies must always be conducted with an awareness of the systemic effects of the company's behaviour on this set. In this chapter, we have underlined the tensions generated by the big employee–citizen–social being triangle and the variations produced by the small triangles of the client–employee–shareholder type. Other multi-stakeholder polygons within this same entity, and almost as substantial as the human individual, could be of some importance. This is a case of the less “universal” triangles which concern, for example, social minorities (ethnicity, sexual orientation, etc.), which are particularly threatened when, like workers in irregular situations, they are excluded from the political sphere. This last theme has certainly been better documented thanks to the influence of social movements defending minorities. In contrast, the employee–citizen–social being triangle is the neglected one, and was even the big loser at the end of the “Fordist” compromise which ensured security and prosperity for the employee along with a form of societal progress (to the regrettable exclusion of various minorities) and adherence to democratic values. That is why it is more necessary than ever to return it to the centre of both research and public concern, in a more universal version that takes into account the new challenges of our century.

Universality does not mean uniformity. Depending on the region of the world, depending on the political and social context, the requirements for a rebalancing between the three spheres of society, business and politics are not the same. In some contexts, especially where democracy barely exists, there is a tug-of-war between politics and business, while the social sphere struggles to be heard – if it has not been diminished almost to nothing because of the repression it faces. It is understandable, then, that companies, at least those who claim to be part of a world where democracy progresses, will tend to emphasize their roles within the societal sphere and not slavishly support an already overpowered political sphere. Today we are far from such an attitude and maybe we are increasingly moving away from it. But the debates that are stirring within some big companies, such as Google, are showing the employee–citizen–social being triangle to be an inalienable source of positive tension for the future.

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