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Corporate Governance Mechanisms and Corporate Social Responsibility (CSR): Evidence from Tehran Stock Exchange

[1]*Robab Rahimi,* [2]*Saied Jabbarzadeh Kangarluei and* [1]*Adel Shavalizadeh*

[1]Department of Accounting, Ardabil Branch, Islamic Azad University, Ardabil, Iran
[2]Department of Accounting, Urmia Branch, Islamic Azad University, Urmia, Iran

Abstract: With regard to social progresses and getting more important human rights, in addition to profitability, the responsibility of companies has become more important towards community and environment. Maximization of shareholder wealth and performing the duties of social responsibility can be considered as most important goal for companies. Efficiently performing corporate governance can have an outstanding role in achieving this goal. The purpose of this study is investigating the relationship between the corporate governance mechanisms and the social responsibility of companies listed at Tehran Stock Exchange. The samples used in this research were 70 listed companies in Tehran Stock Exchange which studied during the years of 2002-2010. Data related to the corporate governance variables were gathered through the financial statements of the studied companies and data related to the social responsibility was gathered through the Singhapakdi and *et al* standard questionnaire (2007) because of its high validity and reliability. In order to analyze data, the correlation test, regression and SPSS software were used. The research findings show that there is no significant relationship between the elements of corporate governance (i.e. Percent of independent outside directors on the board, free float, auditor type, institutional ownership and ownership concentration) and the social responsibility of companies. In addition, the research findings indicate that the independent variables (by either with control variables or without control variables) have no effect on dependent variable.

Key words: Corporate Governance Mechanisms · Corporate Social Responsibility (CSR) and Tehran Stock Exchange (TSE)

INTRODUCTION

After the fall of huge companies like Enron and WorldCom and as a result of severe loss of their shareholders, issues such as the companies' management methods, the need for financial and nonfinancial transparency and avoiding from managers abuses, have higher sensitivity. For this purpose, various tools are used such as application of ethics in accounting theory, conceptual framework and accounting standards creation, internal controls, type of auditor and non-bound member of board of directors by the governance. Corporate governance seeks to protect shareholder interests against organization's management [1]. More of the corporate governance literature centers on the alignment of the incentives of management and shareholders. It is often assumed that if left to their own devices, managers/directors will pursue activities that benefit themselves at the expense of the firm's stockholders. Although self-serving behavior may reduce the wealth of shareholders, it is not clear that all such behavior will also have an adverse effect on the firm's bondholders [2]. One of the main aspects of corporate governance is corporate social responsibility. Social responsibility accounting helps stakeholders' satisfaction and continuous development. Regarding to human rights and societies development, besides usual responsibility of corporations, i.e. profitability, corporation responsibility against society and environment is considered. It is ideal in corporate social responsibility that not only the shareholders are stakeholders but also customers, personnel and government and totally most parts of society are stakeholders [3]. The purpose of this study is investigating the relationship between corporate governance mechanisms and the social responsibility. The remainder of this paper is outlined as follows.

Corresponding Author: Robab Rahimi, Department of Accounting, Ardabil Branch, Islamic Azad University, Ardabil, Iran. Tel: +98-914-990 -1092.

Section 2 reviews the theoretical and empirical literature on the corporate governance and corporate social responsibility. Our variable description and hypothesis development is described in Section 3. The Sample description and research methodology are presented in Section 4. Finally, Section 5 is consisting of conclusion and discussion.

Literature Review: The recognition of an ethical and social dimension of business activity is founded on a vast corpus of theory. The earliest contributions [4] have been progressively enriched in the last 20 years, producing a vast and complex frame of normative references that has fed lively and rich debates involving academics form diverse disciplines: business-economics, management, sociology, anthropology, philosophy. Four groups of theories form the core of this literature; they likewise correspond to four different approaches [5]. The first (instrumental theories) has Friedman (1962) as its most notable exponent and is founded on the principle of the instrumentality of the business with respect to the creation of wealth, a goal that is synthesized as the firm's only responsibility (maximization of shareholder value; reaching the competitive advantage). The second (political theories), which can be divided into three principle theoretical strands (corporate constitutionalism; integrative social contract, corporate citizenship), is focused on the role of business and of the rights/needs which connect them and on the responsible use of power in political and social arenas. The third body of studies (integrative theories), in which the approaches of issues management, public responsibility, stakeholder management and corporate social performance coexist, maintains that ''social demands are generally considered to be the way in which society interacts with business and gives it a certain legitimacy and prestige. As a consequence, corporate management should take into account social demands and integrate them in such a way that the business operates in accordance with social values. The last represents a collection of ethical theories which, focused ''on the right thing to achieve a good society'' includes the approach of stakeholder normative theory which is based on the premise of universal rights of sustainable development [6].

Corporate Governance focuses on the principal-agent problem of corporations. The problem results from the separation of ownership and control and the emancipation of management from owner control in public corporations [7]. The separation of ownership and management in the listed firms came with opportunistic management behavior and agency problems. Corporate governance now comprehends all dimensions of corporate activities and management control including their interrelation with banks, capital markets, investor protection, the market of corporate control and information intermediaries such as auditors, credit rating agencies and financial analysts. A precise definition of corporate governance is not available. Corporate governance refers to a complex of rules, standards, procedures and institutions intended to guarantee good and responsible corporate management and to overcome deficits of corporate control. Corporate governance can be defined as "a set of mechanisms, both industrial and market-based, that induce the self-interested controllers of a company to make decisions that maximize the value of the company to its owners [8].

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while impoving the guality of life of the workforce and their families as well as of the local community and society at large [9]. The concept of corporate social responsibility (CSR) opens a new dimension of corporate control. Corporate social responsibility widens the scope of corporate control beyond shareholders, managers and board members, by including stakeholders. The idea behind CSR is: corporations should consider the impact of their activities not only on shareholders, but also on stakeholders. Stakeholders are all persons, groups and institutions, related to and affected by the impact of corporate activities [7]. The role of shareholder activism arises when shareholders continue to hold their shares and seek to induce changes within the firm without a change in control [10]. These investors may then press for corporate reforms by negotiating with management behind the scenes or especially when management is unresponsive by submitting proxy proposals for shareholder vote [11]. Stakeholders are the employees of the firm and all types of external participants including suppliers, consumers and other clients as well as creditors and eventually society at large and the state [7]. Corporate social responsibility has different definitions. Some are mentioned as following: From the view of Cherry (1978) social accounting means measuring and reporting the affects of internal or external information of corporation and its activity on society... Corporate social responsibility is defined as the economic, legal, ethical and discretionary expectancies that society has of organizations at a given point in time [12].

Where an adhesion to multiple declensions of CSR is present, corporate governance positions itself at the center of relations between stakeholders, strategic profile and internal processes, human capital [13] and is experienced as enlarged governance [14]. A necessary condition is the involvement of top management: the top managers and/or the entrepreneur serve as the impetus for the reorientation of the firm's mission, from its maximization of profits to gaining value that comes from economic performance and finds a source in the modification of the business direction and the rules that govern it [6].

Husted states that to increase a firm's competitive advantage, CSR projects must be cost effective and produce a clear return on investment. This is most readily achieved when CSR projects are strategically aligned with the core mission of the company and the costs of implementing CSR activities are minimized in relation to their overall return on investment. The strategic decisions facing senior managers are twofold: (1) in which CSR projects should the company be involved? And (2) how should CSR activities be managed so as to reduce the costs associated with such activities? [15].

Corporate Governance is needed to incorporate and manage CSR in a corporation's policies, practices and reporting. Organizations worldwide are becoming gradually more mindful of the responsibilities organizations have to future generations. At the same time stakeholders, government and the public in general are calling organizations to account for the actions of their senior management and corporate board members. Increasingly, the success of an organization and its members will be measured not only in financial terms but also in terms of human and social benefits and costs [16]. Salehi *et al* concluded in a study about relationship between institutional investors and corporate value, the institutional investors' concentration, debt and size variables are the most important factors, which have the negative effect on the corporate value [17].

Giannetti and Simonov examine how corporate governance influences investor ownership in Sweden. Using data from 2001, they construct several measures of corporate governance based on the likelihood that management will expropriate wealth from shareholders. In their approach, total profits from a firm can either be distributed to shareholders on a pro-rata basis or they can be used to disproportionately benefit corporate insiders [18]. Hanifehzadeh in a study about studying the structure of ownership and efficiency of insurance companies in iran, believe that the structure of centralized ownership which bears profit maximization and exerts enough control on the company's assets may best control the management of the company [19].

Werner concluded in a study about corporate social responsibility that corporate social responsibility has potential for positive and lasting impact on developing countries, specifically on socially-excluded populations [20]. Jin & Drozdenko studied relationships among perceived organizational core values, corporate social responsibility, ethics and organizational performance outcomes and concluded that managers from organizations with organic core values reported a higher level of social responsibility relative to managers in organizations with mechanistic values; that managers in both mechanistic and organic organizations which were perceived as more socially responsible were also perceived as more ethical [21].

Stancu and *et al*. studied corporate social responsibility in Romania's Top 100 companies and found that corporate landscape is mostly populated by companies adopting a vision of corporate responsibility centered on the firm and the competitive advantages that derive from CSR activity which does little towards recognizing the embeddings of business in the very fabric of social life [22].

Fang and *et al*. found that a firm's particular dynamic capabilities of stakeholder relationship management can determine the effectiveness of alternative CSR strategies, in return influencing organizational performance [23].

Research Method

Methodology: This study is a survey and archival research. In terms of purpose, this study is applied research that its results can be useful for extensive range of users including stockholders, auditors and Tehran Stock Exchange. Companies' information collected through the Stock Exchange official website and then data analyzed by the software of SPSS.

Sample & Statistical Population: The statistical population in this study includes the accepted companies in Tehran Stock Exchange in the period of 2002-2010. Existence of some heterogeneousness among the accepted companies in Tehran Stock Exchange led to consider some special conditions for selection of studied companies as follows:

- Companies selected must be accepted in Tehran Stock Exchange since the year 2002 in Tehran Stock Exchange is accepted.
- Companies cannot change the financial course in the study period.
- Companies should not be members of any financial investment and mediators.

With regard to the above conditions, 70 companies were selected as the statistical sample.

Research Variables

Depended Variable: In this research, Corporate Social Responsibility (CSR) is dependent variable. For the measurement of this variable, Singhapakdi *et al*. questionnaire [24] is used. This questionnaire was distributed among 252 managers, financial personnel and auditing departments of studied companies. And finally, 205 questionnaires were received.

Independent Variables: Independent variables are mechanisms of corporate governance as follows:

Percent of Independent Outside Directors on the Board (OBD): Independent directors refer to those directors who have been explicitly and clearly announced as independent directors in a listed company's annual report. We used OBD to stand for the percentage of independent directors on board, i.e. the ratio of independent directors to total number of directors on board.

Free Float (FF): Free float is stock that belongs to the minority shareholders and easily and without any limitation on the market can be traded.

Auditor Type of Company (AT): In this research, if company is audited by auditing organization, indicator variable is equals to one and otherwise zero is considered. In this study, average of the above variables was applied as proxy for each variable.

Percent of Institutional Ownership (PIO): This variable is owned stock by institutional organizations divided by issued stocks of a firm.

Ownership Centralization (OC): This variable is calculated by summing stock percentage owned by 3 major stockholders.

Control Variables: We include two control variables that the literature documents could potentially influence on the corporate social responsibility.

Size: Firm size is measured as the natural log of market value of equity in end of financial period.

Ratio of Market Value to Book Value of Equity (MB)

Research Hypotheses

Main Hypothesis: There is significant relationship between mechanisms of corporate governance and corporate social responsibility (CSR) in Tehran stock exchange.

Sub Hypotheses:

H_1: There is significant relationship between percent of independent outside directors on the board and corporate social responsibility in Tehran stock exchange.

H_2: There is significant relationship between free float and corporate social responsibility in Tehran stock exchange.

H_3: There is significant relationship between type of auditor and corporate social responsibility in Tehran stock exchange.

H_4: There is significant relationship between percent institutional ownership and corporate social responsibility in Tehran stock exchange.

H_5: There is significant relationship between ownership concentration and corporate social responsibility in Tehran stock exchange.

Results Analysis

Descriptive Statistics: Descriptive statistics for total companies were represented in Table1. According to this table, most stockholders in Iran capital market are institutional shareholders and shares average belong to minority shareholders, is about 23%. It is observed that mean of size of company variable is 11.56 which is the most mean among other variables means. Also, it's obvious that among of research variables, ratio of market value to book value of equity (MB) had most variation coefficient and free float (FF) had the lowest variation coefficient during study period.

It is observed that Pearson test for hypothesis 1 is not significant at any levels (1 and 5 percent). In other hand, error level is more than 5 percent (0.838), thus, there is no significant relation between percent of independent outside directors on the board (OBD) and corporate social responsibility (CSR). Considering negative relation between OBD and CSR, it can be concluded that managers might not have enough motivation to attention to social responsibility; therefore, they consider social investment as a expense not as a long-term investment. In other hand, short-term policies lead managers to be inattentive to long-term social responsibility [25].

Table 1: Descriptive Statistics

	OBD	FF	AT	PIO	OC	MB	Size	CSR
N	70	70	70	70	70	70	70	70
Mean	0/60	0/231	344/0	48/0	72/0	15/1	56/11	55/3
Std. Deviation	0/18	117/0	186/0	20/0	22/0	72/0	66/0	46/0
Sleekness	168/0-	947/0	409/0-	082/0	64/1	64/0	375/0	323/0-
Kurtosis	179/0-	06/1	214/0-	131/0-	39/10	28/0	046/0	212/0
Range	8/0	543/0	714/0	921/0	7/1	89/2	94/2	15/2
Minimum	2/0	05/0	000/0	000/0	150/0	029/0	22/10	3/2
Maximum	1	59/0	714/0	921/0	85/1	01/3	17/13	46/4

Table 2: Pearson test for research hypotheses

	Pearson Test	N	Significant Level
H_1	0/028	70	0/838
H_2	0/119	70	0/382
H_3	0/086	70	0/526
H_4	0/015	70	0/915
H_5	0/172	70	0/202

Table 3: Pearson test for control variables

	Pearson Test	N	Significant level
MB	-0/021	70	0/88
SIZE	-0/04	70	0/767

Table 4: General Regression Model- without control variables

Model		Unstandardized Coefficients		Standardized Coefficients		
Dependent Variable		B	Std. Error	Beta	t	Sig
CSR	Constant	3/61	-0/0475		7/59	0/000
	OBD	-0/079	-0/373	-0/031	-0/231	0/832
	FF	0/383	0/063	0/096	0/607	0/543
	AT	0/0107	0/0362	0/042	0/295	0/769
	PIO	0/0198	0/0348	0/087	0/570	0/571
	OC	-0/319	0/0325	0/0157	-/980	0/332

Table 5: General Regression Model- with control variables

Model		Unstandardized Coefficients		Standardized Coefficients		
Dependent Variable		B	Std. Error	Beta	t	Sig
CSR	Constant	3/83	1/39		2/75	0/008
	OBD	-0/055	0/409	-0/021	-0/135	0/893
	FF	0/351	0/681	0/088	0/516	0/608
	AT	0/105	0/379	0/042	0/276	0/783
	PIO	0/105	0/356	0/085	0/543	0/589
	OC	-0/193	0/339	0/0159	-/951	0/347
	MB	0/809	0/113	0/000	0/000	0/999
	Size	-/019	0/120	0/028	-0/161	0/873

Pearson test for hypothesis 2 is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.382), thus, there is no significant relation between Free float (FF) and corporate social responsibility (CSR). According to literature review, minority shareholders don't have enough motivations for attention to social responsibility, because supervision needs knowledge, expense and professionalism and minority shareholders don't have powers to do such activities, either undertaking charges is not cost benefit. Pearson test for hypothesis 3 is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.526), thus, there is no significant relation between Auditor type of company (AT) and corporate social responsibility (CSR). Regarding to results acquired from accepted companies in Tehran stock exchange, auditing by auditors employed in auditing organization or auditing institutions don't have significant difference in corporate social responsibility.This shows high quality of auditing by private auditors in Iran.

Pearson test for hypothesis 4 is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.915), thus, there is no significant relation between Percent of institutional ownership (PIO) and corporate social responsibility (CSR). This shows short-term attitude of institutional shareholders. Shareholders with short-term attitude consider current profit in share price determination instead of long-term profits. So managers' motivations to increase profitability may lead their responsibilities and duties disregard against society and nature.

Pearson test for hypothesis 5 is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.202), thus, there is no significant relation between Ownership centralization (OC) and corporate social responsibility (CSR). Regarding to results of research, it can be concluded that Tehran stock exchange may not have necessary juridical structure and executive capacity of minority shareholders' support. This will lead to disregard the social responsibility by accepted companies in Tehran stock exchange.

Results of control variable tests (MB and Size) on social responsibility indicate that Pearson test for Mb is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.880). Thus, there is no significant relation between MB and corporate social responsibility and Pearson test for size is not significant at any levels (1 and 5 percent). In other hand, the test error is more than 5 percent (0.767). Thus, there is no significant relation between Size and social responsibility.

The results of general regression model without control variables in Table 4 show that among of corporate governance mechanisms, OBD & OC is negatively related to CSR and FF, AT & PIO are positively related with this variable. These relationships aren't significant statistically.

The results of general regression model without control variables in Table 4 show that among of corporate governance mechanisms, OBD, OC & Size is negatively related to CSR and FF, AT, PIO & MB are positively related with this variable.

CONCLUSION

The purpose of this study is investigating the relationship between corporate governance mechanisms and the corporate social responsibility of companies listed at the Tehran Stock Exchange. Considering negative relation between OBD and CSR, it can be concluded managers might not have enough motivation to attention to social responsibility; therefore, they consider social investment as a expense not as a long-term investment. In other hand, short-term policies lead managers to be inattentive to long-term social responsibility. Considering negative relation between FF and CSR, it can be concluded minority shareholders don't have enough motivations to responsibility, because supervision needs knowledge, expense and professionalism and minority shareholders don't have powers to do such activities, either undertaking charges is not cost benefit. Regarding to results acquired, auditing by auditors employed in auditing organization or auditing institutions don't have significant difference in corporate social responsibility. This shows high quality of auditing by private auditors in Iran. Considering negative relation between PIO and CSR, it can be concluded there is no significant relation between them. This shows short-term attitude of institutional shareholders. Shareholders with short-term attitude consider current profit in share price determination instead of long-term profits. Considering negative relation between OC and CSR, it can be concluded that Tehran stock exchange may not have necessary juridical structure and executive capacity of minority shareholders' support. Considering negative relation between control variable (Mb and Size) and corporate social responsibility variable, it can be concluded that major companies with valuable shares, considering political costs, has lower social responsibility. Results of Arass & Chrosser study (2008) explain low level of relation between corporate governance and social responsibility which is adapted to current research result. But this study finding is against the results of Ott (2009).

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Appendix: Singapekdi and et.al standard questionnaire (Shafer, 2007) Stockholder view (all items reverse scored):

- The most important concern for a firm is making a profit, even if it means bending or breaking the rules.
- To remain competitive in a global environment, business firms will have to disregard ethics and social responsibility.
- If survival of a business enterprise is at stake, then you must forget about ethics and social responsibility.

- Efficiency is much more important to a firm than whether or not the firm is seen as ethical or socially responsible.
- If the stockholders are unhappy, nothing else matters.

Stakeholder view:

- being ethical and socially responsible is the most important thing a firm can do.
- The ethics and social responsibility of a firm is essential to its long-term profitability.
- The overall effectiveness of a business can be determined to a great extent by the degree to which it is ethical and socially responsible.
- Business ethics and social responsibility are critical to the survival of a business enterprise.
- A firm's first priority should be employee morale.
- Business has a social responsibility beyond making a profit.
- Social responsibility and profitability can be compatible.
- Good ethics is often good business.