Corporate Citizenship: Understanding the Character Strength of Citizenship from Corporate Law and Leadership Perspectives

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Abstract

The board of a corporation holds a legal duty of loyalty to the organization, yet competing values within and between board members often discourage loyalty reflecting corporate citizenship. Prior research and legal precedent have not examined those actions that may be enhancers and inhibitors of corporate citizenship behavior by corporate directors from a legal and leadership research perspective. To address this gap in the literature, we present a multi-level model that identifies organizational-level and group-level enhancers and inhibitors of the character strength of citizenship in corporate contexts. Practical implications for management practice are discussed in the analysis of corporate citizenship.

Keywords: loyalty, citizenship, character strengths, executive boards, corporate law, leadership

Introduction

Corporations have general characteristics including status as a separate entity, limited liability of owners, continued existence, transferability of ownership, and centralization of management. Although a corporation may be public, corporations are not public in the sense of having responsibilities to society, being owned by the community, or being subject to particularly stringent public oversight (Greenfield, 2006). A corporation is a good corporate citizen when it abides by the law (Diaz, 2011) and is socially responsible (Murphy, 2009). Within limits, corporations are granted a right to self-regulation (Diaz, 2011) and must do so in order to be a good citizen. Moreover, the board of a corporation holds a duty of loyalty to the organization. However, board members often possess values that are not congruent with the best interest of the corporation as pointed out by Cameron and Quinn (1999) in their competing values framework. Because of the dilemma of competing values, policy changes related to corporate leadership may warrant leadership considerations from organizational-level and group-level perspectives of citizenship. Because of the general characteristics of corporations, the roles of business and government have become increasingly intertwined (Crane & Matten, 2010;

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Gabel, Mansfield, & Houghton, 2009). Corporate citizenship does not impose restrictions on corporate activities but rather promotes "relationships of reciprocity" with society (Murphy, 2009, p. 459). Citizenship strengths may be important to guide corporate leaders in executive decision-making, to address social concerns for the common good, to cultivate relationships, and to foster trust and understanding.

One major component of corporate citizenship involves loyalty. Citizenship involves an individual demonstrating loyalty, social responsibility, and teamwork and is included in Peterson and Seligman's (2004) Values in Action model identifying character strengths and virtues associated with human excellence. While board members are expected to possess this virtue as required by corporate law, board members in leadership roles often fail to remain loyal to the corporation and put their self-interests behind those of the organization (e.g., Bass, 2008; Cameron & Quinn, 1999; Sosik & Cameron, 2010). Being a good corporate leader requires demonstrating the character strength of citizenship (Sosik, 2015; Sosik & Cameron, 2010).

According to Nielsen, Hrivnak and Shaw (2009), most research on organizational citizenship behavior has been conducted at the individual level of analysis but little work has been conducted at the group or organization level. Corporate citizenship has focused on certain duties and responsibilities that companies fulfill, just as individual citizens are expected to attain (Carroll, 2015). Unfortunately, prior research and legal precedent have not adequately examined actions that may be enhancers and inhibitors of corporate citizenship behavior from a legal and leadership perspective. To address this gap in the literature, we examine the enhancers and inhibitors of corporate citizenship and their relationships to the virtue of loyalty. We introduce a multi-level model that identifies organizational- level and group-level enhancers and organizational-level and group- level inhibitors of citizenship, reflecting loyalty, social responsibility, and teamwork in corporate contexts.

Theoretical Model

Citizenship is defined by Peterson and Seligman (2004) as a feeling of identification with and sense of obligation to a common good which extends beyond one's own self- interest. Corporate citizenship is a relatively new concept in the discourse surrounding business-society relations (Carroll, 1998; Crane & Matten, 2010; Meehan, Meehan, & Richards, 2006; Waddock, 2004). In addition to relationships between companies and their employees, corporate citizenship also includes the response to and interaction with vital stakeholders (Carroll, 1998). This paper's theoretical model (described below) applies relational identification processes that are described in the enhancers of citizenship. Because of the dual nature of corporate citizenship from the business and legal perspectives, our theoretical model suggests a collaborative relational approach, which accounts for the concerns of the business community as well as society.

In addition to social responsibility and teamwork, we identify loyalty as the essential component of corporate citizenship. The Delaware Supreme Court has traditionally and consistently defined the duty of loyalty in broad and unyielding terms. Corporate officers and directors are required to observe an undivided and unselfish loyalty to the corporation which demands that there be no conflict between this duty and self- interest (*Cede & Co. v Technicolor*, 1994). Loyalty has been described as a special relationship, connoting an unwavering commitment and a bond of trust (Keller, 2007; Peterson & Seligman, 2004). Keller (2007)

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suggested that loyalty reflects good citizenship and that good citizenship is closely related to a general moral sense of commitment to others. This commitment of loyalty between the follower and leader is described as “a form of identification with the leader” (Liborius, 2014, p. 350).

Our aim here is to develop a theoretical model that shows potential enhancers and inhibitors of citizenship behavior within the context of the corporate legal environment. According to Wood (1991), corporate directors and officers exercise managerial discretion to decide and act within the bounds of economic, legal and ethical constraints.

Kelman (1958) identified three forms of responses to power or conditions under which an outcome variable such as citizenship may be influenced: compliance, identification, and internalization. In our theoretical model, the potential enhancers could be construed to influence citizenship conduct through compliance because corporate citizenship induces traits, attitudes, or behavior through the gaining of rewards or social approval and avoiding of punishments or disapprovals. However, our theoretical model proposes that the potential enhancers are more likely to influence citizenship through identification processes, which Kelman (1958) defined as occurring when “an individual accepts influence because he wants to establish or maintain a satisfying self-defining relationship to another person or group” (p. 53). The theoretical model is based upon the literatures on leader-member exchange theory (LMX; Graen & Uhl-Bien, 1995) and team-member exchange (TMX; Seers, Petty, & Cashman, 1995), which suggest that identification processes are important in building positive relationships within dyads and groups that are characterized by commitment and trust.

Corporate citizenship has been defined as a form of corporate self-regulation integrated into a business model (Lin, 2010; Wang, Tsai, & Lin, 2013; Wood, 1991). Our theoretical model is predicated upon the integration of the organizational citizenship, leadership, and corporate law literature. As shown in Figure 1, we consider citizenship to be a character strength that is enhanced/ inhibited by several organizational-level and group-level phenomena.

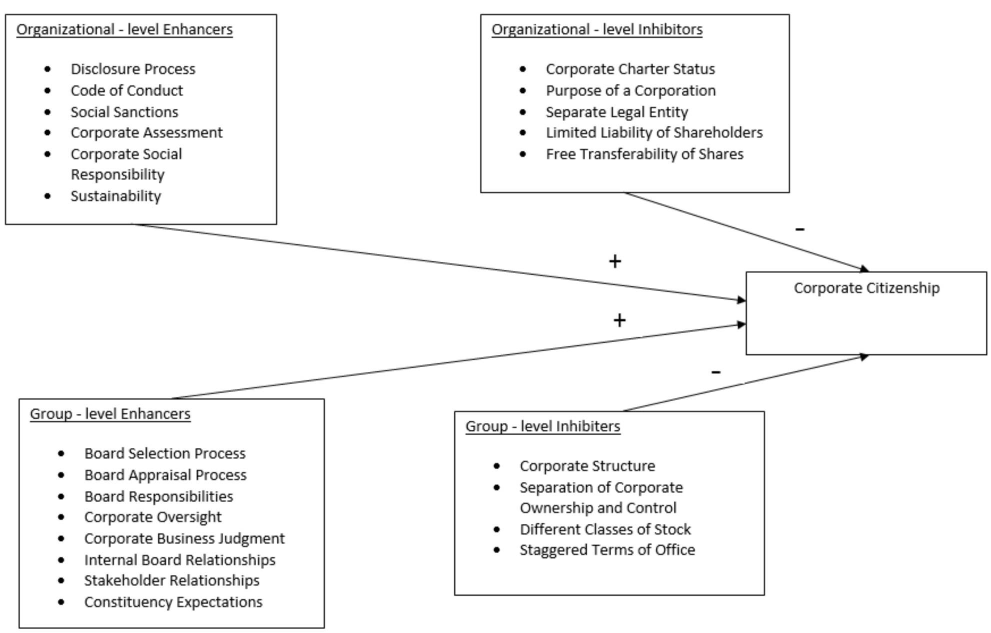

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Figure 1. Theoretical model of the organizational and group-level enhancers and inhibitors of the character strength of corporate citizenship

Organizational-Level Enhancers of Citizenship

As shown in Figure 1, corporate citizenship can be enhanced at the organizational-level by the disclosure process, code of conduct, social sanctions, corporate assessment of the board, corporate social responsibility, and sustainability initiatives by the board. These enhancers are proposed to create high standards for corporate citizenship.

Disclosure process. To influence corporate citizenship, the officers of corporations may take a more active role in establishing internal and external mechanisms to conform to legal parameters and to better inform the directors and the financial market of the corporation's financial reporting (Westbrook, 2004). The way members of the organizations perceive and respond to the legal mandate can vary between compliance, identification, and internalization (Kelman, 1958). Tyler and Blader (2005) suggested that considering both instrumental and value based motivation models together better explains rule following behavior. Hess (2007) argued that integrity based compliance programs may also influence attitudes by creating the perception of more positive outcomes from ethical behavior. With regard to ethics/compliance programs, results reported by Trevino, Weaver, Gibson, and Toffler (1999) reveal that in practice, compliance and values-based approaches are not mutually exclusive and may be complementary.

In the context of the current corporate environment, prosecutorial policies and practices recognize compliance programs as evidence of due diligence (Laufer & Strudler, 2000). However, the upright corporate citizen must go beyond mere compliance with the law (Carroll, 1998). Our theoretical model suggests that the most effective efforts to manage ethics and legal compliance should be oriented toward values (Trevino et al., 1999). Companies are expected to disclose truthful information that a reasonable investor would find relevant for making an investment decision (Westbrook, 2004). Brooks and Dunn (2015) suggest that ethics problems will play a serious and significant role in the future. Federal disclosure requirements under the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 address recent corporate governance mandates (Barclift, 2011). These internal control structures and procedures for financial reporting improve financial discourse by establishing responsibilities to assure that the financial statements fairly represent the financial condition and results of the operations of the corporation (Westbrook, 2004). Media richness theory suggests that access to greater information leads to better decisions and good group dynamics (Daft & Lengel, 1986). Thus, the improvement of financial disclosure by the officers of the corporation may serve as an organizational-level enhancer of corporate citizenship.

Code of conduct. Since the directors are directly responsible and accountable for the conduct of the board, the establishment of a code of conduct for the board members to follow may act as an organizational-level enhancer of corporate citizenship. Organizations can adapt corporate cultures to motivate their members to act based upon personal feelings of responsibility and obligation to both company codes of conduct and to their own personal feelings of morality (Tyler, 2005). Applying the concept of identification in the corporate setting, the identities of the corporate members become arranged or rearranged to be consistent with the organization's values and mission (Nelson, 2013). Prior research suggests that the existence of

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corporate codes have a significant influence on employee perceptions about their self-identities regarding ethics and ethical behavior in their organizations (Adams, Tashchian, & Shore, 2001). Furthermore, the absence of an ethics code may convey a message that management does not consider ethics to be important or has ignored this component of ethical behavior (Adams et al., 2001). Our theoretical model emphasizes the importance of internalizing company codes of conduct to an individual's own personal feelings of morality.

Peterson and Seligman (2004) point out that the essence of citizenship strengths involves valuing one's social bond to others and in working to sustain and build those relationships. Douglas (1934) identified the need for extensive revision of both legal and ethical codes of conduct for directors and business executives in order to strengthen social bonds among stakeholders. Peterson and Park (2006) argue that an organization must go beyond rhetoric to put its moral vision into action. Codes of conduct and ethics statements act as a formal foundation going beyond mere compliance to motivate the directors of the corporation to behave ethically while conducting their board activities (Porrini, Hiris, & Poncini, 2009). To adhere to community standards, corporations may establish codes of ethics to promote honest and ethical conduct, full disclosure, and compliance with applicable governmental rules and regulations (Westbrook, 2004).

The board has the authority to reform internal standards of practice, codes of conduct, codes of ethics, and implement best practices mechanisms for the benefit of the corporation and its members. Hill and Rapp (2013) contend that the business leaders are essential in creating the right conditions and removing any obstacles to ethics development in the organization. Since 2003, any company that is subject to the reporting requirements of the Securities Exchange Act of 1934 is required to disclose to the Securities and Exchange Commission whether it has adopted a code of ethics for the executive officer, financial officer, accounting officer and controller or explain why it has not done so (*City of Roseville Employees' Ret. Sys. v Horizon Lines, Inc.*, 2009). Since 2006, NASDAQ rules also require its members to adopt a code of conduct applicable to all officers and directors (*Andropolis v Red Robin Gourmet Burgers, Inc.*, 2007). Directors sign a corporate code of conduct at the time of election and re-election which expressly and explicitly states what they should do and what values they should uphold (Handelsman, Knapp, & Gottlieb, 2002). Authentic leaders achieve high levels of authenticity by knowing who they are, what they believe and value, and acting upon those values and beliefs while transparently interacting with others in compliance with corporate codes (Gardner, Cogliser, Davis, & Dickens, 2011). Such codes may clarify core values for executives and board members so they act as authentic and ethical leaders who remain loyal to their organization (Brown & Trevino, 2006; Sosik, 2015). Thus, the code of conduct and other standards may enhance corporate citizenship.

Social sanctions. In corporations, decision makers are quite insulated from the constraints of the community (Greenfield, 2006). The possibility of social sanctions is likely to be a way to enhance corporate citizenship. The use of social sanctions influences corporate citizenship through identification processes. Specifically, prior research suggests that the concept that social identification is an essential part of an individual's social existence (Al Ramiah, Hewstone, & Schmid, 2011). Self-regulatory approaches may be integrated with management practices to augment deterrent strategies.

Social identification is important at the board level. Group members of a board are motivated to protect their self-esteem and achieve a positive social identity and may achieve such

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status in one's own group (Al Ramiah et al, 2011). Social pressures may also have a positive influence on ethical behavior (Hess, 2007). Our theoretical model suggests that self-regulatory approaches, which activate ethical values in combination with social sanctions, may have a strong influence on behavior (Tyler, 2005).

Social sanctions may be applied to constrain behavior, influence the actions and the behavior of directors, and motivate them to heed the concerns of the corporate constituents (Gopalan, 2007). Shaming practices are employed by courts, private parties, shareholder activists, and the financial press (Skeel, 2001). To be most effective, shaming practices are carried out within the business community (Skeel, 2001). Courts may consider employing the technique of shaming or using reputational sanctions to influence the development and evolution of social norms of conduct for directors to follow (Rock, 1997). Public shaming may draw attention to the bad dispositions or actions of an offender (Kahan & Posner, 1999). Various mechanisms to implement shaming techniques include publishing lists of underperforming firms, investigative reports, selection strategies, and shaming advertisements (Skeel, 2001). Shaming impacts the reputation and dignity of the offender and may provide potentially effective penalties for members of corporations (Skeel, 2001). People typically internalize rules and standards of conduct and generally try to comply. Compliance results from a fear of sanctions and the awareness that doing a good job is important for a person's sense of self-worth (Rock, 1997). Thus, social sanctions may enhance corporate citizenship at the organizational-level.

Corporate assessment. Corporate assessment of board performance is likely to enhance corporate citizenship. Our theoretical model identifies corporate assessment as a group process of surveillance to encourage feedback. Corporate assessment affords an opportunity for the Board to obtain feedback, and evaluate performance and the progress of positive initiatives that enhance corporate citizenship. Schneider (1987) suggested that organizations need to know about the kinds of people in the organization and their attitudes toward the organization prior to reaching conclusions about a best structure. Corporate assessment using personality and interest measures may afford the Board with important data on which they can focus (Schneider, 1987). The identification process is described as a category of influence in which attraction to the other is more than a power process or relation with the other's credibility, but implies a form of acceptance of the other's values motivated by a desire to be similar to the other (Turner, 1991).

We consider two elements of corporate assessment involving the assignment of responsibility and the scope of the process. First, the selection of the most appropriate party to monitor the conduct of directors is vital to encourage effectiveness and achieve high ethical performance. The use of external bodies to monitor board decisions, internal corporate practices, and corporate behavior may be difficult. These external review mechanisms are often retrospective, lack impartiality, are subject to conflicts of interest, and lack a reliable window into the inner workings of the board (Miller, 2010). Likewise, the courts may not always be the most appropriate setting for corporate assessment. Proof of misconduct, the interpretation of information, and risk assessment can be challenging. Although the judiciary is impartial, corporate assessments may be more effective if accomplished by individuals who are familiar with the organization. The root of moral leadership is internal and begins within organizations (Dent, 2008).

We also consider the scope of the internal corporate assessment process to enhance corporate citizenship by including additional measures of performance beyond financial indicators. Corporations are now conducting social audits of their social responsibility activities

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such as minority recruitment and training, pollution control, community projects, and unemployment programs (Mondy, 2012). If an effective evaluation system has economic benefits for the corporation, the board could violate its duty of loyalty for failure to implement the corporate evaluation process (Adams, 2009). Therefore, the board is encouraged to implement an effective corporate assessment process. Directors may need to expand their leadership roles and foster broader internal accountability in order to enhance corporate citizenship. Although this broader social context of corporate assessment can be challenging for leaders, the favorable influence of corporate assessment on corporation citizenship is anticipated.

Corporate social responsibility. We propose that corporate social responsibility may act as an organizational enhancer of corporate citizenship. Corporate citizenship is a popular term adopted by business to characterize corporate social responsibilities of companies (Carroll, 2015). Researchers consider an organization's culture as its personality and climate as the organization's mood (Jick, 1979; Schneider, 1987). Members are attracted to, selected by, and removed by organizational cultures and climates (Schneider, 1987). Organizational cultures and climates that support corporate social responsibility are likely to influence the corporate citizenship of organizational members because of the shared practices, norms, and expectations that shape members attitudes and behaviors (Schein, 2010).

We consider two aspects of corporate social responsibility including the scope of corporate goals and the appropriate constituents. Peterson and Seligman (2004) indicated that people exhibiting citizenship identify with the common good. Corporate leadership may be capable of achieving beneficial collective identity and outcomes and maintaining ethical principles to society as well as corporate duties and responsibilities that are economic in nature to the corporation (Carroll, 1999; Epstein, 1987). Corporate leaders are expected to hold the power conceded to them, on behalf of all, to exhibit courageous leadership, develop a social mindedness, and exhibit a social responsibility toward the general public (Berle, 1931,1959; Dodd, 1932; Douglas, 1934; Zadek, 2004).

According to Mondy (2012), corporate social responsibility considers the overall influence of corporations on society and goes beyond the interests of shareholders. The socially responsible corporation strives to promote the attainment of valued social goals such as high standard of living, economic progress, economic stability, personal security, community improvement, national security, and personal integrity (Bowen, 1953). The core problem is to achieve the common good of the organization, while at the same time meeting the needs and safeguarding the rights of the various stakeholders (Bass & Steidlmeier, 1999).

Other interpretations of corporate social responsibility focus on the implied obligation of board members to serve or protect the interests of constituencies, communities, and groups other than themselves (Mondy, 2012). Goodpaster (1991) noted that by expanding the list of stakeholders, ethical responsibility is introduced into business decision-making. In a white paper published by IBM, corporate social responsibility is depicted as the manner in which a corporation manages its business to produce an overall positive impact on society through economic, environmental and social actions (Pohle & Hittner, 2008; Siebecker, 2009). CSR is no longer viewed as just a regulatory or discretionary cost, but an investment that brings financial returns (Pohle & Hittner, 2008). Another benefit of being socially responsible, in addition to the satisfaction gained from helping others, is the network of connections with its resources and opportunities that emerges from partnering with others on important social projects (Sosik, 2015). As such, corporate leaders are encouraged to pursue greater corporate social

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responsibility. So long as the broader social context is emphasized, we propose that corporate social responsibility may act as an organizational enhancer of corporate citizenship.

Sustainability. Another organizational enhancer of corporate citizenship is sustainability. Sustainability initiatives emerge from responses to societal and business trends upon which organizations elect to take action (Quinn & Van Velsor, 2010). Organizational members are subject to the strategic initiatives (e.g., sustainability) that their leadership chooses to pursue (Finkelstein, Hambrick, & Cannella, 2009).

According to the World Commission on Environment and Development (1987), sustainability "meets the needs of the present without compromising the ability of future generations to meet their own needs." The commitment to sustainability reflects an obligation to benefit society, limits the detrimental impact of business operations on the environment, and demonstrates leadership by the corporation (Quinn & Van Velsor, 2010). Peterson and Seligman (2004) describe citizenship values as a means to make the world a better place for future generations. The board is generally expected to establish a corporation's long-term business strategy and the time frame for achieving and sustaining corporate goals (ABA Committee on Corporate Laws, 2007).

Corporate sustainability has "clear public good qualities" (Wagner, 2011, p. 562). The Global Reporting Initiative for measuring outputs and natural resource usage, and the life cycle analysis that focuses on the design of production processes, offer effective measures of corporate sustainability (Wagner, 2011). From the public good viewpoint of sustainability assessments, independently respected experts could perform the life cycle analysis if corporations cannot afford to conduct these expensive analyses voluntarily (Wagner, 2011). More specifically, corporate attitudes toward sustainability efforts can be measured with the Environmental Attitudes Inventory (Milfont & Duckitt, 2010). A variety of objective measures of economic, social, and environmental sustainability can be found in Moldan, Janouskova, and Hak (2012). Under the concept of sustainability, good corporate citizens earn money while enabling other stakeholders to be assured of the continuity of the business and the flow of products, services, jobs, and other benefits provided by the company (Carroll, 1998).

Greenfield (2008) proposes that the key to sustainability is for those who contribute to the corporation to believe that the corporation can be trusted. Citizenship has been linked to higher levels of social trust (Sosik, 2015). Trust in leadership has been identified as a crucial element in the long-term effectiveness of board members leading organizations (Bass, 2008). Therefore, for purposes of achieving corporate goals, sustainability is likely to act as an organizational enhancer of corporate citizenship.

Group-Level Enhancers of Corporate Citizenship

As shown in Figure 1, corporate citizenship is enhanced at the group-level by the board selection process, the board appraisal process, board responsibilities and the duty of loyalty principle, corporate oversight of the board, the corporate business judgment rule, internal board relationships, stakeholder relationship obligations for the board, and constituency expectations.

Board selection process. The corporate bylaws, as determined by the board, may prescribe the qualifications deemed necessary to serve on the board. We consider a diverse board and recruitment criteria to be two relevant aspects of the board selection process. We propose that the careful determination of factors associated with the board selection process may

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enhance corporate citizenship. Specifically, a pluralistic board may anticipate and articulate the impact that its decisions would have on other interested stakeholders by taking into consideration the interests and concerns of the shareholders and consumers (Dent, 2008; Greenfield, 2008; Yosifon, 2009). Outside directors of other corporations may be selected to serve on the board for their business knowledge and expertise (Cheeseman, 2012).

Most American corporate boards have a majority of outside directors and independent directors (Bhagat & Black, 2002). In the process of examining board composition, Coles, Naveen, and Naveen (2008) reported that highly complex firms were more likely to benefit from outside directors with relevant experience and expertise. Research evidence did not support the notion that smaller boards with fewer insiders are necessarily value-enhancing (Coles et al., 2008). Bhagat and Black (2002) reported that firms with more independent boards do not achieve improved profitability. While Moltz (1995) concluded that there is strong conceptual grounding for this relationship between pluralistic boards and firm performance, his study found no empirical support for the relationship. However, lack of empirical support with respect to shareholder value or board performance does not negate other justifications for a diverse board (Hazen, 2011; Fanto, Solan, & Darley, 2011), and future research is needed to replicate this result. Sharpet (2011) suggests that employing more substantive characteristics from organizational behavior theory in the board selection process may lead to better board decision-making.

The issue of social perspective is not limited to the expansion of the pool of candidates for board representation. Recruitment criteria should also consider the exhibited behavior, character, and beliefs of the individual candidates. According to the American Bar Association (ABA) Committee on Corporate Laws (2007), the principle attributes of an effective corporate director include strength of character, an inquiring mind, practical wisdom, and mature judgment. These attributes mirror the character strengths that reflect the virtue of wisdom and knowledge that have been proposed to enable leaders to display several aspects of transformational leadership (Sosik, 2015). Transformational leadership involves the development of followers into leaders through their identification with the leader, inspiration, intellectual stimulation, and empowerment (Bass, 2008). Transformational leaders often possess curiosity, creativity, open-mindedness, love of learning, and perspective-taking. These character strengths reflect the virtues of wisdom and knowledge (Sosik, 2015).

Loyalty to the corporation can be facilitated if candidates for the board possess character strengths associated with transformational leadership and adhere to ethical standards (Colley, Doyle, Logan, & Stettinius, 2003). The ethics of leadership entails the moral character of the leader, the ethical legitimacy of the values embedded in the leader's vision, and articulation which builds followers' loyalty and commitment to the organization (Brown & Trevino, 2006). Such ethics also includes the morality of the processes of social ethical choice and action that leaders and followers engage in and collectively pursue (Bass & Steidlmeier, 1999). As such, if the board expands the criteria for the recruitment and the selection of its members to include loyalty reflecting attributes, the board selection process may enhance citizenship.

Board appraisal process. We suggest that corporations should consider implementing an annual board appraisal process that may support the presence of corporate citizenship. The ABA Committee on Corporate Laws (2007) recommends that directors of public corporations evaluate, at least annually, the effectiveness of the board and each of its committees. Individual director appraisals are viewed as part of an overall board evaluation process (Conger & Lawler,

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2009). These reviews are typically annual, formal, and thorough, and the results discussed with each director and with the entire board (Colley et al., 2003).

An annual performance review of corporate leaders made by the board, utilizing an in-depth review of competence, attendance, and interest of the leadership, may also enhance corporate citizenship. Skeel (2001) suggests that corporations monitor themselves for misbehavior. To minimize problems of biased self-reporting, Sosik, Gentry and Chun (2012) recommend measures to evaluate executive performance. The measures should assess and compare ratings from self and other reports that are relevant to executive work, the organization's culture and external environment, the applicant's history of leadership development and decision-making performance, and reacting to and reflecting upon assessment feedback (Sosik et al., 2012). The annual board appraisal process may include other metrics such as an annual audit review by a certified public accounting firm and any ongoing internal audit procedures in compliance with the Sarbanes- Oxley Act of 2002. If the Board appraisal process increases the economic performance of a corporation, the failure of the Board to support this effort could be considered a breach of their duty of loyalty to the shareholders (Adams, 2009). Therefore, it is in the best interest of the board to implement an effective appraisal process. As such, the annual performance review may serve as an effective board appraisal process related to the presence of corporate citizenship.

Board responsibilities and the duty of loyalty principle. States mandate the legal and fiduciary obligations and duties of directors. The substance of fiduciary duties has traditionally been described as the duty of loyalty and the duty of care (Choudhury, 2009). The ABA Committee on Corporate Laws (2007) interprets this mandate to mean that the director owes a duty of loyalty to the corporation. This concept requires acting in good faith and avoiding personal and financial conflicts with the corporation as explained by agency theory (Eisenhardt, 1989).

Under the duty of loyalty principle, directors are entrusted with the obligation to represent and act in the best interest of the corporation and prevent corporate actors from pursuing their own interests to the detriment of the corporation (Mitchell, 2001). This legal principle corresponds to the character strength of citizenship. Peterson and Seligman (2004) point out that a sense of responsibility and a strong sense of duty are indicators of citizenship, social responsibility, loyalty, and teamwork. Furthermore, loyalty has long been considered to be a sub-component of the organizational citizenship construct in both conceptual (Organ, 1997) and empirical research (Organ, Podsakoff, & MacKenzie, 2006; Van Dyne, Graham, & Dienesch, 1994).

Because corporate ownership and control of the corporation are separated, directors are designated as agents of the corporation. Agency theory describes business corporations as interlocking collections of myriad contractual arrangements between principals and agents into which all of the parties enter for reasons of personal gain (French, 1995). A corporation consists of departments acting in concert which only functions benevolently if there is a solid foundation of moral trust between the parties (Eisenhardt, 1989; Hosmer, 1995).

The director's fiduciary duty has been characterized as a triad including due care, good faith and loyalty (*Cede & Co. v Technicolor, Inc.*, 1993). The duty of loyalty rule imposes on corporate officers and directors an obligation to protect the interests of the corporation and to refrain from doing anything that would injure the corporation (*Aronson v Lewis*, 1984; *Cede & Co. v Technicolor,* 1993; *Gantler v Stephens*, 2009; *Guth v Loft*, 1939). Under agency theory,

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these parties manifest the trait of loyalty within their particular roles (Keller, 2007). An agent owes the principal a duty of good faith, loyalty and fair dealing (*Sci. Accessories Corp. v Summagraphics Corp*., 1980). An agent who acquires a position adverse to the principal, but fails to disclose it, simultaneously breaches the duties of loyalty and care (*Triton Constr. Co. v Eastern Shore Elec. Servs, Inc.*, 2009).

In the corporate context, the officers and directors are charged with the leadership responsibilities of the corporation in a loyal and committed manner. This duty of loyalty is derived from a profound knowledge of human characteristics and motives of organizational members which requires an undivided and unselfish loyalty to the corporation by the corporate directors and officers (*Guth v Loft,*1939). This legal precedent is consistent with leadership research linking citizenship to the transformational leadership of organizations (e.g., Sosik, 2015; Sosik & Cameron, 2010).

While there are psychometrically-sound measures of citizenship and loyalty using a variety of self-report scales (see Peterson & Seligman 2004 for a comprehensive review), the standard of loyalty can vary and there is no fixed legal scale to measure values such as honesty, good faith, and loyal conduct (*Guth v Loft,* 1939). Directors may misconstrue the duty of loyalty and use their corporate powers to provide themselves with nonmonetary benefits, increases in their own authority, security of position, and quality of life (Blair & Stout, 1999). Reichheld (2001) describes these situations as a paradox between self-sacrifice and the pursuit of self-interest. Brown, Trevino and Harrison (2005) propose that leaders become attractive, credible, and legitimate as ethical role models loyal to their organizations in part by engaging in ongoing behaviors that are evaluated by followers as normatively appropriate and that suggest altruistic (rather than selfish) motivation. Ethical leaders do not just talk a good game - they practice what they preach and are proactive role models for ethical conduct (Brown & Trevino, 2006). Because of the corporate obligation of unselfish loyalty, carefully managed board responsibilities by ethical leaders may serve as a group enhancer of corporate citizenship.

Corporate oversight. The board has responsibility for the oversight of the corporation. Social control theory proposes that people's interactions, obligations, values, norms, and beliefs urge them not to break the law (Hirschi, 2002). Weaver and Trevino (1999) analyzed the modes by which control systems create order and alignment in the behavior of organization members. In support of the effectiveness of control systems, empirical evidence demonstrates that corporate governance practices reduce inefficiency resulting from moral hazard and adverse selection (Vintila & Gherghina, 2012). Corporate governance is a key element in improving efficiency and companies with weaker governance structures have greater agency problems (Vintila & Gherghina, 2012). Cheung, Connelly, Jiang, and Limpaphayom (2011) published empirical findings that demonstrated (a) improvement in the quality of corporate governance practices as being positively related to market valuation, (b) a decline in the quality of corporate governance practices as being negatively related to market valuation, and (c) that these changes predicted future market valuation.

While some programs are compliance oriented toward rule-compliance, Weaver and Trevino (1999) observed that other values oriented programs emphasize ethical values and the potential for employees to adhere to a set of ethical ideals in which employees can identify with them and thereby act according to them. When organizational goals are consistent with the goals of employees, they no longer experience formal procedures as a negation of individual autonomy but rather as a valuable means to a desired end (Adler & Borys, 1996). Thus, if corporate

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oversight and ethical codes are internalized and employees are committed to them and have a stake in their organization, employees are apt to voluntarily enhance their propensity to be a good corporate citizen.

The courts have long recognized corporate oversight as a group enhancer which influences corporate citizenship. Corporate oversight connotes such behaviors as a good faith effort by its leaders to be informed, to exercise appropriate judgment, and to satisfy fully their duty of attention to the corporation (*In re Caremark Int'l Inc. Deriv. Litig*., 1996). Where the fiduciary leaders fail to act in good faith (*Stone v Ritter,* 2006), intentionally act with a purpose other than that of advancing the best interests of the corporation (*In re Walt Disney Co. Deriv. Litig*., 2006), intentionally fail to act in the face of a known duty to act, or demonstrate a conscious disregard for their duties or their jobs, the courts have found the directors to have breached their duty of loyalty (*Guttman v Huang*, 2003). Taken together, these case holdings and social control theory suggest that if leaders properly perform their duties, corporate oversight may serve as a group enhancer which influences corporate citizenship.

Corporate business judgment. Peterson and Seligman (2004) view the virtues of a good citizen as one who exercises informed judgment in the interests of the whole. Regarding business decisions, corporations are subject to moral criteria and the actions of its leaders are expected to be rationally related to the corporation (Choudhury, 2009; Goodpaster, 1991). As such, the standards of review for board members are governed by a legal doctrine known as the business judgment rule.

The courts recognize corporate business judgment as a group enhancer of corporate citizenship. Certain common principles govern the business judgment rule. Board members are expected to inform themselves (i.e., gain information), prior to making a business decision, and act with the requisite care in the discharge of their duties (*Aronson v Lewis*, 1984). They are also expected to possess appropriate skills, information, and judgment (*In re J.P. Stevens & Co., Inc. S'holders Litig.,* 1988), follow a rational process in a good faith effort to advance corporate interests (*In re Caremark Int'l Inc. Deriv. Litig.,* 1996), and avail themselves of all material and reasonably available information (*In re Citigroup Inc. S'holder Deriv. Litig.,* 2009).

As a group enhancer of corporate citizenship, corporate business judgment practices afford opportunities to increase employee and board commitment to the organization through the identification and internalization processes. Consistent with research findings of O'Reilly and Chatman (1986), there exists different dimensions of commitment to an organization and the more internalized the commitment, the more prosocial the behavior of the individuals in the entity, which may enhance corporate citizenship. A director being a good citizen exercises his/her informed judgment in the best interests of the organization (Peterson & Seligman, 2004). The business perspective subscale of the *Executive Dimensions* survey (CCL, 2009), published by the Center for Creative Leadership, can be used to assess business judgment. This subscale was found to exhibit good psychometric properties (i.e., reliability and construct validity) in studies conducted by Sosik et al. (2012) and Gentry, Cullen, Sosik, Chun, Leopold, and Tonidandel (2013).

The business judgment rule is a legal presumption that leaders make corporate decisions with due care, in good faith, and in the best interests of the corporation (Mitchell, 2001). Although the presumption is rebuttable, the doctrine extends to the leaders of a corporation a great deal of discretion in their decision-making (Arsht, 1979). Therefore, we propose that the corporate business judgment may be a group enhancer of corporate citizenship.

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Internal board relationships. Corporate citizenship may be influenced by intricate board relationships. Character strengths are essentially relational describing individual behavior within the context of interpersonal relationships within group (Peterson & Seligman, 2004). Kelman (1958) described the process by which organizational members develop and maintain the character strength of social responsibility through identification processes. Identification processes represent an alternative motivation process to "forced compliance." Identification processes promote changes in personal attributes, attitudes, and behaviors through social influences that aim to establish or maintain a satisfying relationship with an individual or group. Corporate citizenship promotes relationships of reciprocity with members of the organization and society, which research on leader-member exchange and team-member exchange describe as high quality relationships based on loyalty and trust (Graen & Uhl-Bein, 1995; Seers et al., 1995). The quality of the internal board relationships can be measured by assessing team member exchange (TMX; Seers, 1989) exhibited by the board members. Board members constitute a work team. TMX reflects the amount of high quality social exchange within a work team. As Chun, Cho, and Sosik (in press) point out, "TMX quality refers to the ongoing reciprocation among team members with respect to their contribution of ideas and feedback, recognition from teammates, and mutual assistance and thus may reflect the quality of teamwork (Seers, 1989)." Prior empirical research found a positive relationship between TMX and team performance (e.g., Jordan, Field, & Armenakis, 2002; Seers et al., 1995).

In the corporate setting, board relationships are characterized as independent, dependent, or interdependent (Lewicki, Barry, & Saunders, 2010). Peterson and Seligman (2004) describe these relationships with the character strength of citizenship that refers to teamwork or one's ability to work with others in a group for a common purpose as to collaborate and cooperate.

Independent parties meet their own needs without the help and assistance of others (Lewicki et al., 2010). The board functions in a collective manner while maintaining their independence from management (*Guth v Loft*, 1939). However, in the context of corporate duties, the requirement of independence by the director is more involved and has been enumerated by the courts to mean that a leader's decision is based on the corporate merits of the subject before the board rather than extraneous considerations or influences (*Aronson v Lewis*, 1984). If the leader is dominated by another party, then a leader would be found to be controlled by another (*Orman v Cullman*, 2002) and to have breached the duty of loyalty and to have infected the full board's collective decision (*Cede & Co. v Technicolor*, 1994). When unsatisfactory relationships deteriorate in a company, dissenting shareholders have the ability to challenge a business decision by pursuing an equitable action for breach of fiduciary duty (*Nagy v Bistricer*, 2000).

To provide proper oversight and leadership, interdependent parties need each other to accomplish their objectives. Therefore, individuals network, work interdependently with each other, and share interlocking goals in a group setting without selfish competition (Gopalan, 2007; Lewicki et al., 2010; Mitchell, 1992; Walton, 2009). Bainbridge (2002) notes that an individual director lacks the right or power to act alone. Directors may confer, debate, and resolve their differences through compromise or by reasonable reliance upon the expertise of their colleagues and other qualified persons so long as each director brings their own informed business judgment to bear with specificity upon the corporate merits of the issues (*Aronson v Lewis*, 1984). Management may also act in an interdependent relationship with the board (*Guth v Loft*, 1939).

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Dependent parties rely on others for help, benevolence, or cooperation of each other to advance corporate citizenship (Lewicki et al., 2010). The board and the corporation are considered dependent parties in such a relationship. Because of these numerous unique connections that promote collaboration (Cameron & Quinn, 1999), we propose that the internal board relationships may enhance corporate citizenship.

Stakeholder relationships. Corporate boards also engage in many direct and complex external relationships with society on an ongoing basis. Under modern corporate theory, contracts define the interactions and corporate relationships among various groups of shareholders, management and stakeholders (Leung, 1997). Viewing corporations from a contractual perspective encourages management to pursue efficiency as the goal of management fiduciary duties (Leung, 1997). Research suggests that Kaldor-Hicks efficiency and Pareto efficiency theories can be utilized as means to measure economic outcomes that result in net gains in wealth (Leung, 1997). Pareto efficient exchanges enable one to be better off without making anyone else worse off (Malloy, 2000). Kaldor-Hicks efficient exchanges enable one to gain more than the loser loses (Malloy, 2000). For these reasons, we believe that rational and profit-motivated companies would willingly make such trades.

Boards perform a wide variety of relational functions that assist the corporation in forging relationships with various stakeholders (Dallas, 1996). The manner in which corporations are accountable to society and its various stakeholders may influence corporate citizenship. For example, the extent to which corporations interact with stakeholders can vary. Socially responsible organizations in the decision-making process try to identify and be accountable to all stakeholder groups and their interests (Goodpaster, 1991). Johnson (2009) suggests cooperating with stakeholders whenever possible to minimize the negative impact of organizational activities.

The integration of interests among stakeholders may require strengths indicative of a high stage of moral reasoning that reflects loyalty and trustworthiness (Higgins, Powers, & Kohlberg, 1984). Because loyalty and trustworthiness are essential components of ethically responsible leaders (Brown & Trevino, 2006; Sosik & Cameron, 2010), high quality stakeholder relationships are likely to serve as a group enhancer of corporate citizenship.

Constituency expectations. Attention by corporate leaders to constituency expectations may influence corporate citizenship. By using economic models such as the Kaldor-Hicks efficiency and Pareto efficiency theories and their related measures, prior research has demonstrated that constituency statutes may enable the board to achieve an efficient corporate decision making process (cf. Adams & Matheson, 2000). According to Adams and Matheson (2000), the overall interests of the company are promoted in the process of considering the interests of the stakeholders and the maximization of profitability and shareholder return. The enactment of constituency statutes by state legislatures is a method to foster greater loyalty by enabling corporations to address the concerns and to protect the interests of non-shareholders who are affected by corporate decisions (Springer, 1999). Constituency statutes encourage directors to make decisions in the best interests of the corporation, which increase productivity and profitability (Davids, 1995). These statutes permit a board to maximize shareholder gains and minimize stakeholder losses (McDaniel, 1990).

Stakeholders facing negative consequences from corporations depend primarily on external regulations for protection, which may hinder communication (Greenfield, 2008). Constituency statutes may increase dialogue between corporate board members and stakeholders

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and thereby enhance corporate citizenship. However, the application of constituency statutes in the corporate context is optional, permissive, and non-obligatory by corporate leaders (Choudhury, 2009; Springer, 1999). Constituency statutes clarify the expectations of stakeholders for board members. Expectancy theory suggests that board members are likely to be motivated to select specific actions that are consistent with stakeholders' wishes because this action would be valued by the stakeholders (Vroom, 1964). If corporate leaders implement these provisions, these constituency statutes may act as a group enhancer for corporate citizenship.

Organizational-Level Inhibitors of Corporate Citizenship

The basic elements of corporate structure, corporate roles and corporate law tend to produce identifiable patterns of detachment among corporate constituents (Nelson, 2013). These detached relationships can be described as inhibitors of citizenship. As shown in Figure 1, corporate citizenship can be inhibited at the organizational-level by corporate charter status, the purpose of a corporation, the status as a separate legal entity, the limited liability of shareholders, and the free transferability of shares.

Corporate charter status. A primary inhibitor of corporate citizenship stems from the designation of the corporate charter status by the state. States grant and administer corporate charters through their laws and regulations and set forth the specific requirements for corporate formation (Colley et al., 2003; Hayden & Bodie, 2010). The ultimate authority that is granted to corporations by the states frames the general parameters of a corporation (*Zapata Corp. v Maldonado*, 1981). The general powers granted to corporations include the power to have and exercise all of the powers and means appropriate to effect the purpose(s) for which the corporation is incorporated (cf. Pennsylvania Business Corporation Law of 1988). These provisions provide broad power to a corporation that could influence privilege, foster culpable behavior, or reflect willingness to compromise ethical behavior in certain situations (Wolverton, 2012). Furthermore, power can be used for abusive purposes or personal gain of board members if left uncontrolled (French & Raven, 1959). As such, the granting of broad corporate authority may inhibit the character strength of corporate citizenship if the powers are not properly managed and safeguarded.

Purpose of a corporation. Existing law for corporate charters may act as an inhibitor of corporate citizenship. Most states require the corporate charter to contain a general-purpose clause (Cheeseman, 2012). So long as the purpose is lawful, a vague statement suffices for any lawful business (Schneeman, 2007). This practice provides no guidance in setting the course for a business and offers no insight into the corporate social responsibility of the organization.

From an economic viewpoint, the purpose of a corporation is to make money (Jensen & Meckling, 1976). If the corporate purpose is vague and general in nature, then leaders and followers of the organization may have no clear indication of the direction of the entity. Such a lack of direction may create confusion between the corporation and the community, lack of clarity, unethical behavior, and poor communication (Bass, 2008).

Separate legal entity. A publicly chartered corporation is a separate legal entity. As such, it is treated as a legal person by law with rights and responsibilities (Strine, Hamermesh, Balott, & Gorris, 2010). Corporations are given express powers by state statutes to sue or be sued directly, enter into and enforce contracts, hold title to and transfer property, and be civilly and criminally liable for violations of law (Cheeseman, 2012). In the landmark *Trustees of*

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Dartmouth College v Woodward (1819, p. 636) case, Chief Justice Marshall described the corporation as "an artificial being, invisible, intangible and existing only in contemplation of law."

This designation as an artificial person has a major shortcoming. From this viewpoint, state action determines the rights, duties and powers of the corporation and precedes collective organization (Nelson, 2013). The corporation has been imbued with negative traits. Because it is an artificial entity, the corporation is depicted as impersonal (Berle, 1959), an intangible entity which cannot itself misbehave or commit a crime (Skeel, 2001), and having no conscience of its own (Greenfield, 2008). We propose that this detachment of individual decision-making and accountability by the designation of a separate legal entity represents a potential inhibitor of citizenship behavior. Because this unique status is conferred on the corporation entity, the individual owners are not always involved in the decisions of the company. Social psychology (Latane, Williams, & Harkins, 1979) and ethics (Brown & Trevino, 2006) research indicates that such a lack of engagement and accountability detracts from cooperation and ethical behavior required for citizenship behavior. Therefore, the designation of corporation as a separate legal entity is likely to inhibit corporate citizenship.

Limited liability of shareholders. Because corporations are liable for their own debts and obligations, shareholders have no personal liability or risk for the acts or debts of the company. Generally, the shareholders are not held accountable for the actions of the corporation unless they participate in wrongful conduct. Shareholders may become less risk adverse to aggressive actions of the corporation because of the limited liability nature of shareholder ownership. Citizenship behavior typically occurs when individuals are committed to the organization and perceive their self-interests to be integrally related to those of the organization (Organ & Ryan, 1995). Because shareholders are less inclined to have concern or oversight for the actions of the business, the concept of limited liability of shareholders suggests an inhibitor of corporate citizenship.

Free transferability of shares. The corporate shares of a company are freely transferable by the shareholders. The easy transferability of ownership affords to the individual shareholders the opportunity to dispose of shares in the corporation with little or no consequences (Cheeseman, 2012). Free transferability may promote short-term focus that may detract from corporate goals and objectives and lessen commitment and follow through on the part of directors and officers. If the individual investors are dissatisfied or less inclined to care about corporate decisions, they can easily dispose of their financial interests in the corporation. The board is allowed to continue its course of direction without impediment by the owners. This situation creates a lack of goal congruency between the shareholders and the board (Cameron & Quinn, 1999). Goal incongruity reflects the competing values among shareholders and the board. Organ and Ryan (1995) suggested that goal incongruity is detrimental to organizational citizenship. Therefore, the free transferability of shares is likely to act as an inhibitor of corporate citizenship.

Group-Level Inhibitors of Corporate Citizenship

As shown in Figure 1, corporate citizenship can be inhibited at the group-level by corporate structure, separation of corporate ownership and control, different classes of stock, and staggered terms of office.

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Corporate structure. Corporate structure may produce detrimental attributes such as power struggles, hierarchy status issues, rank issues, title issues, communication barriers, red tape, and lack of cohesive teamwork (Daft & Lengel, 1998). We consider the significance of roles, group decision-making, and board authority as three aspects of corporate structure that may influence corporate citizenship.

First, we consider the significance such as roles in the corporate structure. When leaders assume the roles of directors and officers, the corporate context sometimes takes away their individual capacities for self-determination (Mitchell, 2001). Self-determination theory according to Gagne and Deci (2005) distinguishes between autonomous motivation, involving a sense of volition and having the experience of choice and controlled motivation, and acting with a sense of pressure (i.e., a sense of having to engage in the actions). This pattern of expectations for directors and officers may weaken their individual identification with the corporation and lead to a detached affiliation with the corporation (Nelson, 2013). If the artificial corporate context takes away individual capacities for self-determination, the corporate structure may act as a group inhibitor toward the behavior of corporate citizenship and the display of loyalty.

The structure of the corporation is often invoked to explain the reasons for the immoral behavior of the corporate entity and its corporate members (Mitchell, 2001). In the corporate context, even though corporate directors are expected to serve the best interests of the corporation and its shareholders, directors are not required to be "unselfish altruists" (Blair & Stout, 1999, p. 283). Numerous authors have defined altruism as the willingness to make a sacrifice, for the sake of a specific individual, that is manifested in behavior with the goal of helping that person (Avolio & Locke, 2002; Batson, 1998; Kanungo & Mendonca, 1996; Sosik, Jung, & Dinger, 2009). However, in the corporate context, the role of the corporation and corporate leaders is to make a profit. When a corporate director enters the boardroom, the director abandons the values of daily life and takes on an entirely new personality- namely that of the corporation (Mitchell, 2001). In contrast, Sosik et al. (2009) suggested the possibility for an altruistic climate that supports the positive relationship between a managers's other- oriented values (e.g., self-transcendence, stronger orientation toward collective self-identity, altruistic behaviors, and managerial performance).

Next, we consider the group decision-making process in the corporate structure. The board usually functions by the consensus of its members. Bainbridge (2002) suggested that group decision-making often is preferred rather than individual decision-making because the group is sure to get the benefit of its best decision maker. However, Janis (1973) cautioned that groups, like individuals, have shortcomings in which group loyalty requires each member to avoid raising controversial issues or questioning weak arguments. As a result, groups may arrive at faulty or unethical decisions because they value group cohesiveness over decision quality- a concept known as groupthink. When board members engage in such groupthink, their corporate citizenship may be compromised (Janis, 1973).

Lastly, we consider the delegation of board authority in the corporate structure. If citizenship implies a legal status, then citizenship refers to members in a political community and the rights and obligations that are integral to that membership (Peterson & Seligman, 2004). However, the internal structure of a corporation establishes a situation in which team members give up important rights to a legal entity created by the act of incorporation (Blair & Stout, 1999). Because directors come into the boardroom expecting to be treated as equals (Lorsch,

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2009), individuals may struggle to understand their status, power, and their identity relative to the other group members (Pick, 2009).

Although the board of directors is legally in charge of the corporation, the officers actually manage the affairs of the business. The directors may serve at the top of the pyramid of authority, but directors rarely manage the corporation on a day-to-day basis (Blair & Stout, 1999). Senior management usually makes decisions. When the chair of the board and chief executive officer positions are held by the same individual, conflict of interest and independent oversight issues may develop which may impede corporate citizenship. Directors possess extreme discretion and freedom from shareholder influence and defer responsibilities and delegate the day-to-day operations of the company to executive officers (Blair & Stout, 2001). Although market forces reward actions with money, market insulation can also be shaped by social forces (Camara, 2005). Effective shareholder voting may be a way to counter insulation from social forces to obtain compliance with external constraints (Camara, 2005).

Taken together, these arguments suggest that corporations are structured to promote the corporate entity. As such, the significance of roles, the group decision-making process, and the delegation of board authority represent aspects of corporate structure which may inhibit the display of loyalty and negatively influence corporate citizenship.

Separation of corporate ownership and control. Shareholders, directors, and officers have different roles, rights, responsibilities, and interests in the corporation. While the shareholders own the corporation, its directors are responsible for formulating policy decisions (Cheeseman, 2012). Agency theory proposes that the differing rights and interests of these stakeholder groups give rise to self-interests and lack of goal congruent behavior that may result in moral hazards and conflicts of interest (Eisenhardt, 1989).

Vesting management powers in a board of directors may result in a tenuous connection between the grantors and the recipients of this power (Berle, 1959). This separation of ownership and control can weaken communication, create misunderstanding, and disenfranchise the owners. Board members may neglect the needs and interests of the various constituents of the corporation. Jensen and Meckling (1976, p. 308) viewed the separation of ownership and control of policy decisions to be related to the concept of agency in which the shareholders acting as principals engage the directors and officers acting as their agents “to perform some service on their behalf which involves delegating some decision making authority to the agent.” For example, the articulated principle that the officers and directors of Delaware corporations have identical fiduciary duties of care and loyalty to the corporation and the fiduciary duties of officers are the same as those of directors has been explicitly established by the Delaware Supreme Court in several decisions (e.g., *Cede v Technicolor*, 1993; *Gantler v Stephens*, 2009; *Guth v Loft*, 1939; *In re Walt Disney Co. Deriv. Litig*., 2004; *Ryan v Gifford*, 2007).

With regard to corporate ownership, the shareholders according to Greenfield (2006) are largely indifferent to the well-being of the corporation in which they own stock, caring only for the return on their funds or stock portfolio. Nelson (2013) described the relationship between shareholders and the corporation as a detached affiliation. This problem of separation of corporate ownership and control is likely to inhibit the display of loyalty and corporate citizenship.

Different classes of stock. Corporations are entitled by law to create different classes of stock with different voting rights and to offer those stocks to a particular class of shareholders (Gazur & Goff, 1991). By the creation of different classes of equity, the voting power to elect

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directors can be maintained by one class of shareholders to the exclusion of another class. Different classes of stock carry different privileges creating the possibility of disparate treatment of shareholder groups (Brudney, 1983), possibly altering the relationship of shareholders (Sjostrom & Kim, 2007), and creating different conflicting duties of the board (Gouvin, 1996). Companies with different classes of stockholder equity may be less responsive to the demands of the other shareholders. Perceived inequities among ownership groups can have deleterious effects on corporate citizenship behavior (Organ & Ryan, 1995). Thus, the creation of different classes of stock may inhibit corporate citizenship.

Staggered terms of office. When directors are elected, their terms are normally staggered and some are elected annually. In a company with a staggered board, directors are grouped into membership classes with each class elected at successive annual meetings having the potential for managerial entrenchment and a mechanism for corporate board members to gain greater power for themselves (Bebchuk, Coates, & Subramanian, 2002; Turner, 2006). If shareholders are dissatisfied with the performance of the board, a staggered board arrangement can impede their efforts to achieve change. Such situations may cause perceived injustices among stakeholders that may be detrimental to citizenship (Peterson & Seligman, 2004). Empirical studies demonstrate a negative correlation between firm value and staggered board provisions that insulate directors from removal (Bebchuk & Cohen, 2005; Bebchuk, Cohen & Ferrell, 2009; Bebchuk, Cohen, & Wang, 2011; Chintrakarn, Jiraporn, Tong, & Chatjuthamard, 2014). Results of these studies support de-staggering board terms of office. Thus, we argue that staggered terms of office may act as a group inhibitor of corporate citizenship.

Discussion

In this paper, we have developed a theoretical model of potential organizational and group enhancers and inhibitors that may influence the character strength of corporate citizenship. This model reflects what we believe future research may identify as a desirable way to bring about behavioral changes in corporations by improving corporate citizenship.

Organizational citizenship behavior depicts a set of actions in the corporate context in which individuals voluntarily behave in ways that are beneficial to the organization (Lobel, 2009). Liborius (2014) described this form of work behavior as “utterly important for a well-functioning work process in every working team or company” (p. 352). Directors and officers are well advised to foster organizational citizenship behavior, because it is positively correlated with job performance and productivity (Lobel, 2009). Past research (e.g., Korsgaard, Brodt, & Whitener, 2002; Pillai, Schriesheim, & Williams, 1999) has found that trustworthy managerial behavior and trust in leadership are positively related to organizational citizenship behaviors.

Corporate directors should consider the factors to enhance and inhibit the character strength of corporate citizenship described in the theoretical model presented in this paper. Peterson and Park (2006) believed that strengths of character can be deliberately nurtured by institutional practices and norms that recognize, celebrate, and encourage their display.

Implications for Managerial Practice

The propositions in the theoretical model may be applied in management practice by implementing changes from the legal and the business perspectives. Brightman and Moran

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(1999) describe practices to enhance corporate citizenship such as articulating a clear organizational mission statement, creating unifying citizenship values with associated behavioral models, organizing functional teams and detailing operational plans. Former Chief Justice E. Norman Veasey identified best practices for governance including the need to develop and monitor corporate compliance systems, to instill internal controls, to instill a director evaluation process, to develop a system to evaluate corporate officers, and to establish business ethics codes (Veasey, 2003).

Based upon research by Paine (1994), senior management may apply an organizational integrity-based approach to ethics management by combining a concern for the law with an emphasis on managerial responsibility for ethical behavior and the concept of self-governance. Berenbeim and Kaplan (2004) advocated for the establishment of a board-level ethics committee with responsibility for the corporate ethics program. Effective compliance and ethics programs may be further enhanced by an authentic symbiotic corporate governance strategy (Hess, McWhorter, & Fort, 2006). Hess (2007) contends that properly implemented integrity-based compliance programs can improve ethical behavior in organizations.

Other recommendations for managerial application include the establishment of town hall forums for shareholder communications, onsite visits from directors, training for board members in ethics/compliance programs, greater board oversight of ethics programs, regular review of compliance program details, greater director familiarity with compliance mechanisms and greater rigor in review processes (Berenbaim & Kaplan, 2004). Dallas (1996) suggested that the board appoint an ombudsperson to provide the board with independent sources of information. These attributes are the essential characteristics that we recommend for public policy changes in fostering corporate citizenship within the corporation. We suggest that the implementation of these practices in the corporate environment may provide a response to the influences of inhibitors to corporate citizenship.

The character strength of citizenship, which reflects social responsibility, loyalty, and teamwork, may advance moral behavior and augment transformational leadership (Peterson & Seligman, 2004; Sosik, 2015). Greenfield (2006) suggested that corporate law may also advance public virtues such as human dignity, fairness, compassion, equality, and autonomy. Similarly, Paine (1996) argued that more focus should be placed on the factors that enhance corporate citizenship and moral thinking.

In this paper, we have considered multiple factors that could influence corporate citizenship behavior in an organization. Because certain corporate concepts that we have identified as inhibitors have a tendency to hinder corporate citizenship behavior, we set forth alternative approaches to address these practical problems. We maintain that the disclosure process is a crucial element in fostering positive corporate citizenship behavior. Therefore, leadership efforts to present clear and precise financial information is recommended. We believe that responsible financial audits follow from generally accepted auditing standards (PCAOB Auditing Standards) and that companies reporting information in conformity with generally accepted accounting principles (FASB Accounting Standards Codification) will improve financial disclosure and enhance corporate citizenship behavior.

Other modern corporate theory changes are suggested to reduce the impact of traditional inhibitors of corporate citizenship. Because corporate charter status has been identified as an inhibitor in our theoretical model, corporations may consider amending corporate charter provisions to address the social and economic effects of corporate actions on its stakeholders and

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to take into account the interests of constituents (Davids, 1995). Bebchuk (2005) suggests that shareholders be allowed to change charter provisions granting them power to intervene and adopt binding resolutions regarding business issues.

Another problematic inhibitor of corporate citizenship identified in our theoretical model is the use of nonspecific and vague corporate purpose clauses in the company charter. Prior research indicates that corporations may address this deficiency in the corporate purpose clause by adopting charter amendments that expand board considerations for corporate social responsibility (Davids, 1995).

A corporation is viewed as a separate legal entity which we propose could inhibit the expression of corporate citizenship behavior. To ameliorate this restrictive practice, we suggest the expanded use of contractual rights by relevant stakeholders. Under modern corporate theory, a corporation is viewed as an intricate set of contractual relationships (Leung, 1997; McDaniel, 1990). Leung (1997) suggests that a change in corporate law to recognize the contractual rights of stakeholders would address the needs of stakeholders. With the increase in contractual rights, corporate directors and officers would be more likely to dialogue and engage with stakeholders leading to the enhanced display of corporate citizenship behavior.

We have recognized in our theoretical model that the shareholder limited liability concept appears to inhibit corporate citizenship behavior. Because shareholders have limited liability, we reviewed methods to increase shareholder connections and involvement with the corporation. We found that Hansmann and Kraakman (1991) set forth various alternative legal reform measures to the current practice of limited liability of shareholders to include minimum capitalization and adequate insurance requirements for the corporation, extension of pro rata unlimited liability to corporate shareholders and risk-shifting alternatives. We believe that these reform measures may correct the negative influence that shareholder limited liability has on corporate citizenship behavior.

We have identified the unintended deleterious effect of shareholder transferability of stock ownership on corporate citizenship behavior. Under modern corporate theory, a stockholder is afforded a right to sell shares of stock which is a contractual opportunity (Leung, 1997). Although shareholders are entitled to transfer their shares, in certain situations the retention of ownership is either desirable or required. While shareholders may diversify their holdings to minimize investment risks or freely transfer their shares, we have identified an alternative approach to retain continuity and ownership involvement in the company and afford the rightful owners with the opportunity to enrich corporate citizenship. Courts have recognized the ability of shareholders to demand that the directors protect the existing shareholder interests enabling the shareholders to proceed with a derivative suit on behalf of the corporation for harm to it (*Joy v North*, 1982). By utilizing this alternative approach, shareholders may retain their ownership interest in the company and collectively work toward a resolution of disagreement with the directors and officers of the company to foster the positive benefits of corporate citizenship.

In our theoretical model, we recognize that the separation of corporate ownership and control interferes with corporate citizenship. Under modern corporate theory, an equity owner is not vested with an actual property interest per se in the corporation but rather the ownership of certain contractual rights (Leung, 1997). We propose that shareholders assert these contractual rights not only to maintain director accountability but also to encourage corporate citizenship behavior among the directors and officers of the company. Leung (1997) also suggests that

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constituency statutes be expanded to recognize implicit stakeholder rights which enable corporate management to consider stakeholder interests equally with shareholder interests. We believe that these reform measures may encourage directors, officers and shareholders to collaborate in a synergistic manner.

We also have proposed that the creation of different classes of stock can inhibit corporate citizenship. Alternative approaches have been employed in the past to counter this negative corporate environment. If a director violates the duty of loyalty and the other directors fail to take corrective action, the shareholders with limited privileges still retain standing to bring a derivative lawsuit on behalf of the corporation to encourage corrective action (Blair & Stout, 2001). Furthermore, Bebchuk (2005) argues that substantial changes in the corporate elections process would enable the shareholders of different classes of stock to have increased access to directorial ballots. These alternative approaches could promote positive change in an organization.

Limitations, Future Considerations and Conclusion

Our theoretical model is limited in that there is the potential for alternative explanations regarding the direction of causality in some of our hypotheses. Future testing of the theoretical model presented in this paper using longitudinal designs may examine issues of causal directionality and identify additional enhancers of and inhibitors to corporate citizenship. Disciplinary measures may also be necessary to encourage proper conduct. However, Wang et al. (2013) imply that merely implementing legal business measures is insufficient to develop organizational trust and perceived corporate citizenship. Hess (2007) identified a need for ongoing evaluation of compliance programs to encourage innovation and sharing of experiences. Continuous improvement is recommended to advance corporate citizenship awareness throughout the organization.

Changes in leadership practices are more likely to occur if corporate leaders become more aware of their personal behavior and the character strengths that are necessary to function in a corporate social responsibility environment. Corporate leaders have the capacity to assume responsibilities for the regulation of their organizations. These leaders need to acknowledge their responsibility to perform a self-assessment of their responsiveness to these societal obligations, and to demonstrate a willingness to be proactive in their leadership of corporate citizenship within and between organizations and industries.

Good corporate citizenship originates with the leaders of our business community (Bass, 2008). Corporate citizenship suggests that corporations promote internal policies and practices to advance the delivery of programs and services which are mutually beneficial for all stakeholders. Strong board governance is necessary to implement change within corporate entities. Along with the commitment of corporate management to high moral values of loyalty, social responsibility and teamwork, we believe that organizations can thrive and achieve excellence in the performance and delivery of quality products and services to the community at large.

Corporate leaders need to possess the same moral compass and sense of responsibility and obligation to honorable actions as other leaders of the community.

Corporate leaders can demonstrate loyalty by responding to the needs of others rather than personal self-interests as described in the model proposed in this paper. If directors display citizenship behaviors in the boardroom, they may have a positive influence on the behavior of

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their peers. Directors who observe other directors demonstrating trustworthiness are more likely to act in a similar manner (Blair & Stout, 2001). Without external rewards and punishments, directors will often try to do the right thing (Blair & Stout, 2001). This fiduciary duty of loyalty has been described as “unremitting” and the “constant compass” which guides all director actions (*Malone v Brincat*, 1999). In conclusion, it is our hope that the literature review and model presented in this paper encourages more work on how loyalty and citizenship are created and displayed by board members for the virtuous leadership of organizations.

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