Experiences on corporate social responsibility (CSR) implementation in Lebanon: a causal recursive system

Tarik Mikdashi*

Business school, Lebanese American University
Chouran Beirut 1102 2801, Lebanon
E-mail: tmikdshi@lau.edu.lb
*Corresponding author

Walter Leal

Life Sciences, TuTech Innovation,
Harburger Schlossstrasse 6-12, Hamburg D-21079, Germany
E-mail: leal@tutech.de

Abstract: The purpose of this paper is to describe trends related to corporate social responsibility (CSR) implementation in Lebanon and to assess the extent to which such an implementation is reinforced or weakened when test factors such as environmental concern, environmental management, and total quality management (TQM) implementation are introduced.

Keywords: corporate social responsibility; environmental concern; environmental management; total quality management implementation; recursive unidirectional causal model; path analysis.

Biographical notes: Tarik Mikdashi is the Dean of Business School at the Lebanese American University. He served as member of the Board of Directors of the Investment and Development Authority in Lebanon and member of the Board of Directors of the EuroArab Management School. He has published a lot of research papers in major refereed journals, including *Corporate Governance*: *The International Journal of Business in Society*, *International Journal of Hospitality Management*, *Journal of International Academy of Hospitality Research*, *International Journal of Commerce and Management IJCM*, and *Journal of Environment & Development*. Mikdashi has been active in research, teaching and service to the profession.

Professor Walter Leal who has a BSc, PhD, DSC, and DL is Head of Life Sciences at TuTech Innovation, the technology transfer agency of the City of Hamburg. He is author, co-author or editor of nearly 40 books on environment and development issues and has over 100 papers to his credit. He manages a portfolio of 11 European projects with a volume in excess of US$ 10 million.

1   Introduction

Corporate social responsibility is very much in its embryonic stage in Lebanon, a country with a population of approximately 2.6 million. The perception of Lebanese firms of such a phenomenon follows a route that may look like a 'U' shaped curve. In the initial phase, Lebanese firms are observers with minimal involvement. In the second phase, the firms become involved in CSR at varying lengths in time, and in the last phase, they experience an increase in corporate social involvement. More and more companies are becoming aware of the fact that they need not necessarily fade away, but that they can be immortal if they become accountable for their actions. This makes them especially responsible (Hardy, 1999).

In fact, what is becoming impressive today, is the determination and dedication to tackle both environmental and societal matters. Elkington (1999) argues that environmental reporting is now well recognised, as much as financial reporting. It is important to note here that focusing on community issues is not a recent development. In fact, the role of a corporate organisation acting as a good and accountable citizen can be traced back to the 1950s. Dr. Deming as far back as 1946 stressed on the importance of the social contribution that results from applying TQM process (Oak and Schoeffler, 2001). A review of related literature reveals that the definition of CSR remains a problematic issue. A number of papers have tackled the subject of corporate social responsibility and differed on the definition and scope of the CSR. At one extreme, we find Frankental who believes that CSR is an ambiguous and indefinable term, which can mean anything to anybody (Frankental, 2001). At the other extreme, we find Tuzzolino and Armandi who provide a motivational definition and argue that CSR is the fulfilment of a firm's self-actualisation needs (Tuzzolino and Armandi, 1981).

When it comes to the effect of CSR on a firm's performance, we conclude that previous empirical research has produced varied results. Some studies have argued for a positive relation (Moskowitz, 1972; Parket and Eibert, 1975), whereas others have concluded that CSR has negative effects (Aupperle et al., 1985; Vance, 1975). In the literature, the empirical evidence for the success of corporate social responsibility (CSR) as a good investment is indeterminate. It is unclear whether socially responsible corporations outperform or underperform other companies (McWilliams and Siegel, 2001). When one comes right down to the scope of CSR, one finds a school of thought arguing that business has only one economic responsibility, to make profit while obeying the law. Benkert and Friedman believe that commitment of corporate resources to social causes deviates them from an implied contract with investors to maximise their profits, and therefore, spending their money on social issues (Brenkert, 1996; Friedman, 1996). Another school of thought calls for corporations to be enthusiastically concerned with programmes that can provide employment opportunities, improve environment, and promote justice even if it comes at the expense of profits (Miller and Ahrens, 1993).

A relatively recent view that now dominates is the contractual theory of the firm. It argues that company's assets are provided by many groups in addition to shareholders, such as employees, customers, suppliers, and the like, and so the company arises from the property rights and the right of contract of every corporate constituency, not just stockholders (Boatright, 1999). The most developed version of CSR demands that corporations help alleviate public welfare insufficiency, i.e., problems such as drugs,

poverty, crime, illiteracy, poorly funded educational institutions, chronic unemployment, etc. (Brenkert, 1996). In sum, previous research shows that the CSR remains a complicated and not an easy issue. Epstein differentiates between business ethics and CSR. According to him, business ethics is related to morality of organisational decisions, while CSR is the expectations and claims on business policies that are related to the satisfaction of stakeholders' needs (Epstein, 1987). Elkington et al. (1988) believe that the interdependency between ethics and social responsibility is undeniable and business should first of all operate with high codes of ethics. Ingelidis and Ibrahim view CSR differently and see it as an achievement of social equilibrium based on social demand and supply (Angelidis and Ibrahim, 1993).

Carroll (2000, p.187) suggests that corporations have four responsibilities or 'four faces' to fulfil and become good corporate citizens: economic, legal, ethical and philanthropic. Novak outlined a set of seven economic responsibilities. These are to satisfy customers with goods and services of real value; earn a fair return on the funds entrusted to the corporation by its investors; create new wealth that can accrue to non-profit institutions, which own shares of publicly held companies and help lift the poor out of poverty as their wages rise; create (and, we would add, maintain) new jobs; defeat envy; promote innovation; and diversify the economic interest of citizens so as to prevent the tyranny of the majority. In summary, a review of literature shows that the subject of CSR continues to the subject of considerable discussions around the globe. It further suggests that the major shortcomings in current CSR research have been the difficulty in defining what CSR is and how to measure its effects.

2   Corporate social responsibility in Lebanon

Even though CSR is in its infancy stage in Lebanon, it is gaining ground with growth. Unfortunately, however, there is a scarcity of applied research on CSR in Lebanon. The importance of CSR has been continually emphasised, but no one has yet provided an empirical evidence of the effects of CSR on firm performance in Lebanon.

While hosting the World Environment Day (WED) in Beirut, Lebanon's Prime Minister Rafik Hariri in his message described the event 'as a declaration of hope during these challenging times'.

Hariri notes that taking environmental issues seriously means that people are striving for a better quality of life. He concludes by pointing out the efforts done by the Lebanese Government to tackle environmental issues such as establishing an Environment Ministry, passing a Clean Air Act, adopting a nation-wide reforestation scheme, and including integrated environmental management in its policy statement.

A study prepared by the Mediterranean Environmental Technical Assistance Programme (METAP) and the UNDP estimated the cost of environmental degradation (DAMAGE) in Lebanon at an amount of US$ 565 million per year, which is around 3.9% of the GDP. The study found that the Lebanese coast tends to be the most prone to environmental deterioration among all Arab countries covered by the assessment (The Weekly Economics and Market Report, 2003).

Applying the principles of ISO 9002 has helped Sukleen, a privately owned company responsible for the city's garbage collection and city cleanliness, in providing the best quality services. Today, SKL is proud to have 384 committed institutions that are enrolled in its ambitious environmental campaign for resources and energy preservation.

The initiative was undertaken to provide an outlet to the recycling community (Sukleen, 2002).

The HSBC Corporation established in 1996 the Community Middle East Foundation to fund courses for youngsters across the region, such as educational and environmental programmes at schools. HSBC is funding teacher–training seminars (HSBC in the Community, internet).

The Investment Development Authority of Lebanon (IDAL) launched a new service on its website, the 'Investors matching service', which aims at enhancing and facilitating the creation of strategic international–local partnership through matching the interest of local entrepreneurs with those of local and international investors. The main criteria used in the evaluation process include credibility and reputation of the local promoter, implications on the Lebanese economy, employment effort, environmental soundness and social liability (Lebanon Invest Research, 2003).

3   Need for the study

When the 2002 environmental sustainability index (ESI) was released, Lebanon's score of 106 of a total number of 142 countries attracted my interest. This bad ranking could be attributed to 17 years of civil war and the migration of people from rural areas to urban areas, which created pressure on land, housing, education, sanitation and other social services. (Levy, 2002). According to the UNDP Human Development Report (HDR), Lebanon ranks 65th of a total number of 175 countries, at the top of the high medium human development category (UNDP, 2003). The Heritage Foundation categorises Lebanon in 2004 as one of the mostly unfree countries of the world. Its rank on the index of economic freedom is 83rd of a total number of 153 countries. The United Nations Economic and Social Council for West Asia (ESCWA) 2001 survey reported that investors in Lebanon consider bureaucratic and administrative red tape, lack of transparency, and corruption amongst the major barriers to investment.

The US Department of State recognises that "Unauthorised copying of imported books, videotapes, cassettes, and computer software is common in Lebanon" (Miles et al., 2001, 2003). When it comes to the judicial system, we find that the legal system in Lebanon is a mixture of French Civil Law and Ottoman Civil Law. The Lebanese score on the legal index of 2.95 (The best possible score is 1.0; the worst is 5.0.) shows that an urgent need exists for having a well-trained, independent judiciary system as a pre-requisite to a democratic political and social system (Maybury, 2003). The Lebanese political risk score on the Euromoney's nine weighted variables is worse. According to Standard and Poor, the ratings have been downgraded owing to severe fiscal imbalances (Jordan Times, 2001). Lebanon falls in the middle in the Euromoney Country ranking. Lebanon's country risk score is 98 of a total number of 185 countries (Euromoney, 2003). The Economist Intelligence Unit has placed Lebanon's 'C' grade overall risk rating on its watch list for a possible downgrade (AIG, 2003).

To sum up, all the international indices reveal that an imperative need exists for a project to identify gaps and opportunities in the provision of sustainable development. A stream of research suggests that CSR is becoming a corporate goal, and if Lebanese firms are to function effectively in our society, then it seems reasonable to expect them to contribute more to the quality of life than just supplying goods and services. Lebanese firms have to adapt to CSR and be prepared to assume a broader responsibility to society

than ever before. Unfortunately, however, there is a shortage of applied research into CSR in Lebanon. The importance of CSR has been continually emphasised, but no one has yet provided empirical evidence on CSR. Today's business organisations are expected to exhibit ethical behaviour and moral management (Charbaji et al., 2004). Not only are firms expected to be good, but they are also being called to practice 'social responsibility' or 'corporate citizenship' (Carroll, 2000, p.187).

4   Purpose of the study

The purpose of this paper is twofold:

- to look closely at the CSR issue and to check if Lebanese firms are totally or partially involved in corporate social responsibility, and to what extent are the Lebanese firms involved in sustainable economic development as well as in wider societal goals and concerns

- to examine the causal relationships between variables.

5   Research questions

- what are the major characteristics of the selected sample for the study?

- how many dimensions underline the measuring instrument?

- what are the direct and indirect effects of the explanatory variables to the explained variation in the dependent variable?

6   Variables and their measurement

The following areas were covered:

- details about the company

- economic dimension

- corporate governance and organisational policy

- supply chain management

- investor relations

- environmental management

- social dimension

- employees' satisfaction

- customer relation management

- shareholders' satisfaction with ROI.

7   Research design

The present study was initiated to address the CSR issue by involving a sample of 406 including managers, assistant managers, directors, assistant directors in addition to other positions in the banking sector (57.4%), distribution sector (22.7%), construction sector (8.4%), and manufacturing industry (11.6%) working in small firms having less than 50 employees (36%), in medium firms having between 50 and 500 employees (64%) with the rest working for large firms (1.7%). Only 74.1% of the respondents said their company's mission statement addresses economic goals; 21.9% felt their company's mission statement addresses environmental, and 33.5% declared their company's mission statement addresses social goals.

Interestingly, just 49.5% of the companies issue a corporate social responsibility report that includes generally applicable or organisational-specific environmental and social responsibilities. Sixty-seven respondents (16.5%) said that their company adopted corporate environmental impacts of product and services policy. Seventy-two (17.7%) indicated that division/ business units such as research and development, or procurement are ISO 14001 certified. Sixty-eight (16.7%) do regularly track and benchmark employee satisfaction against industry peers with regard to supportive/collaborative team environment. Two hundred and thirteen (52.5%) have a system in place to collect and handle employees' grievance and complaints. Two hundred and eighty nine (71.2%) said that their companies provide disability insurance programme. Two hundred and eighteen (53.7%) of the companies have a code of ethics (published statement of moral expectations for employee conduct). Ninety-seven (23.9%) said that their companies provide an organisational climate that rewards ethical conduct. Eighteen (4.4%) felt that their companies provide employee performance appraisal systems. Three hundred and thirty three (82%) agreed that their company regularly track the satisfaction and/or the complaints of customers.

One hundred and seventy five (43.1%) agreed that their company regularly track the satisfaction and/or the complaints of shareholders. One hundred and seventy eight (43.8%) indicated that their companies identified return on investment with shareholders. Eighty seven (21.4%) said their organisation is involved in women empowerment. Forty one (10.1%) mentioned that their organisation is involved in awareness-raising campaigns on alcohol/drug abuse.

8   Findings of the study

For purposes of clarity, a factor analysis as a data reduction technique was used. Table 1 shows the results of the factor analysis.

Table 1   Factor analysis

Kaiser-Meyer-Olkin measure of sampling adequacy		*0.650*
KMO and Bartlett's Test		
Bartlett's test of sphericity	approx. chi-square	3608.464
	df	66
	Sig.	0.000

Table 1 Factor analysis (continued)

Component	Initial values			Extraction sums of squared loadings			Rotation sums of squared loadings
	Total	Percentage of variance (%)	Cumulative %	Total	Percentage of variance (%)	Cumulative %	Total
Total variance explained							
1	3.664	30.529	30.529	3.664	30.529	30.529	2.681
2	3.033	25.277	55.807	3.033	25.277	55.807	2.167
3	1.825	15.210	71.017	1.825	15.210	71.017	3.201
4	1.307	10.889	81.906	1.307	10.889	81.906	2.651
5	0.576	4.800	86.707				
6	0.446	3.716	90.423				
7	0.348	2.900	93.323				
8	0.278	2.314	95.637				
9	0.239	1.991	97.628				
10	0.139	1.157	98.785				
11	8.397E–02	0.700	99.485				
12	6.182E–02	0.515	100.000				

Extraction method: principal component analysis.

	Component			
	1	*2*	*3*	*4*
Structure matrix				
ENVPOLIC	0.926	0.043	0.217	–0.206
BENCHMAR	0.904	–0.014	0.181	–0.098
ENVIROM	0.782	–0.231	0.180	–0.471
CUSTOMER	0.103	–0.915	0.034	–0.199
EMPOWER	–0.005	0.864	0.253	0.359
ENVEPORT	0.306	–0.013	0.919	0.031
ECOREPOR	0.207	0.023	0.859	0.053
ENVGUID	0.220	0.144	0.819	0.060
PERAPPRA	0.065	–0.099	0.802	–0.047
CODETHIC	0.268	–0.411	0.135	–0.921
GRIEVANC	0.281	–0.420	0.117	–0.918
IMPLCODE	–0.208	–0.388	0.311	0.712

Extraction method: principal component analysis; rotation method: Oblimin with Kaiser normalisation.

Even though the factor analysis was run on 217 valid cases without missing values from 406 cases, it is noted that both the KMO measure of sampling adequacy (KMO = 0.650) and the Bartlett test of sphericity ($B = 3608.464$, $p = 0.000$) suggest that the data are suitable for factor analysis. The PA (principal axis factoring) method of factor extraction using oblique rotation returns a four-factor solution accounting for 81.906% of variance among the original 12 variables. (The researcher used two criteria: factor loading greater than 0.70 and eigenvalues greater than 1.0). Factor 1 accounts for 30.5% of the variance, factor 2 25.28% , factor 3 15.2%, and Factor 4 10.89%.

Factor 1 (Z_4) could be called environmental management. It includes high positive loadings for 'My organisation issues CSR report that includes performance against benchmarks'; 'My company adopted CSR environmental impact policy' and 'My company has an environmental mission statement'.

Factor 2 (Z_3) could be called TQM practices. It is a bipolar factor, which includes negative high loading for 'My company regularly tracks the satisfaction and/or complaints of customers' and, high positive loadings for 'My organisation is involved in minority and women employment'.

Factor 3 (Z_1) could be called corporate governance and organisational policy. It includes high positive loadings for 'My company issues CSR environmental report'; 'My organisation issues CSR economic performance report'; 'environmental guidelines for selecting suppliers', and 'My company uses employee performance appraisal systems that integrate compliance with code of conduct'.

Factor 4 (Z_2) could be called code of conduct. It is a bipolar factor, which includes high negative loading for 'My company has a code of ethics'; high negative loading for 'Our company has a system in place to handle employees grievances' and high positive loading for 'My company implements code of ethics'.

Using factor scores and the dependent variable 'indicate the percentage of your company's total shares held by ethical, sustainable, or socially responsible investors', multiple regression analysis is conducted.

Table 2 shows the results of the regression analysis, which is highly significant ($p = 0.000$) and R^2 is 0.948, indicating that virtually all of the variance in the data is accounted for by the model.

Table 2   Regression analysis

Model	R	R square	Adjusted R square	Std. error of the estimate		
Model summary						
1	0.974	0.948	0.947	7.344		

Predictors: (constant), FAC4_1, FAC1_1, FAC3_1, FAC2_1.

Model		Sum of squares	df	Mean square	F	Sig.
ANOVA						
1	Regression	209155.691	4	52288.923	969.558	0.000
	Residual	11433.305	212	53.931		
	Total	220588.995	216			

Predictors: (constant), FAC4_1, FAC1_1, FAC3_1, FAC2_1.
Dependent variable: Q7PER.

Table 2 Regression analysis (continued)

Model		Unstandardised coefficients		Standardised coefficients		Sig.
		Beta	Std. error	Beta	t	
Coefficients						
1	(Constant)	47.171	1.457		32.384	0.000
	FAC1_1	8.242	0.434	0.309	18.975	0.000
	FAC2_1	–11.964	1.391	–0.320	–8.599	0.000
	FAC3_1	5.919	0.475	0.237	12.474	0.000
	FAC4_1	–36.346	2.129	–0.673	–17.074	0.000

Dependent variable: Q7PER.

9 Path analysis

An essential part of path analysis is the construction of a hypothetical causal model of reality based on review of literature.

Given the state of knowledge and previous research in CSR, one may conclude that understanding of the interrelationships between CSR variables is lacking. To address this issue, the researcher constructed five variable causal model in which the percentage of the company's total shares held by ethical, sustainable, or socially responsible investors is taken as the endogenous variable.

9.1 Decomposing the correlation coefficients

Figure 1 represents the hypothesised theoretical model of the current study that includes two exogenous variables that are assumed to be independent of each other. The remaining three variables are defined as endogenous. Causality is presumed to flow in the direction of unidirectional arrows. The mathematical model underlining the relations is as follows:

$$Z_3 = P_{31}Z_1 + P_{32}Z_2 + R_u$$

$$Z_4 = P_{41}Z_1 + P_{42}Z_2 + P_{43}Z_3 + R_w$$

$$Z_5 = P_{51}Z_1 + P_{52}Z_2 + P_{53}Z_3 + P_{54}Z_4 + R_v$$

$$r_{51} = P_{51} + P_{52}P_{21} + P_{53}P_{31} + P_{53}P_{32}P_{21} + P_{54}P_{41} + P_{54}P_{42}P_{21} + {} \\ {} + P_{54}P_{43}P_{31} + P_{54}P_{43}P_{32}P_{21}$$

$$r_{52} = P_{51}P_{21} + P_{52} + P_{53}P_{31}P_{21} + P_{53}P_{32} + P_{54}P_{41}P_{21} + P_{54}P_{42} + {} \\ {} + P_{54}P_{43}P_{31}P_{21} + P_{54}P_{43}P_{32}$$

$$r_{53} = P_{51}P_{31} + P_{51}P_{32}P_{21} + P_{52}P_{31}P_{21} + P_{52}P_{32} + P_{53} + P_{54}P_{41}P_{31} + {} \\ {} + P_{54}P_{41}P_{32}P_{21} + P_{54}P_{42}P_{331}P_{21} + P_{54}P_{42}P_{332} + P_{54}P_{43}$$

$$r_{54} = P_{51}P_{41} + P_{51}P_{42}P_{21} + P_{51}P_{43}P_{31} + P_{51}P_{43}P_{32}P_{21} + P_{52}P_{41}P_{21} + {} \\ {} + P_{52}P_{42} + P_{52}P_{43}P_{31}P_{21} + P_{52}P_{43}P_{32} + P_{53}P_{41}P_{31} + P_{53}P_{41}P_{32}P_{21} + {} \\ {} + P_{53}P_{42}P_{31}P_{21} + P_{53}P_{42}P_{32} + P_{53}P_{43} + P_{54.}$$

Figure 1   Path diagram of a hypothesised model
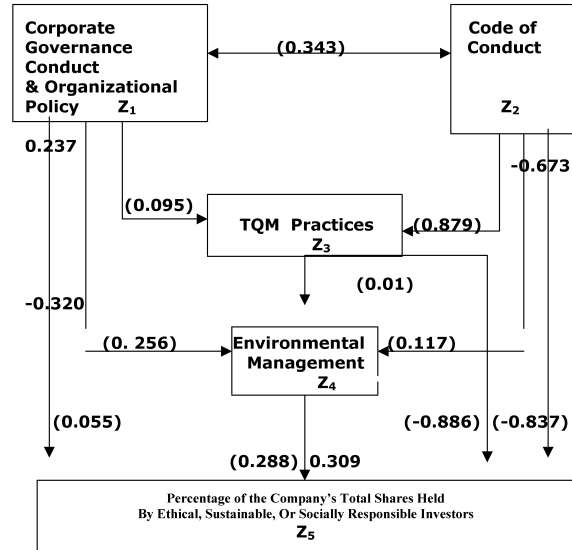
Numbers in parentheses are zero order correlations.

Other numbers are path coefficients: $r_{51} = 0.055$; $r_{52} = -0.0.837$; $r_{53} = -0.886$; $r_{54} = 0.288$; $P_{51} = 0.237$; $P_{52} = -0.673$; $P_{53} = -0.320$; $P_{54} = 0.309$.

10 Conclusions

The model in Figure 1 proposes that the true direct effect of corporate governance and organisational policy on the percentage of company's total shares held by ethical, sustainable, or socially responsible investors is almost four times the simple relation but the relation is decreased because of the indirect negative effects implying a more environmental concern. The negative true effect present in the findings between TQM practices, code of conduct and the percentage of company's total shares held by ethical, sustainable, or socially responsible investors is only tentative until further confirmation is derived from other factor and multiple regression analyses.

Based on the experiences gathered in the data collection and analysis for the current study, the researchers suggest a methodology to construct CSR index that aids in ranking countries on CSR scale as follows:

- First of all, we should construct a valid and reliable instrument(s) that can be used in measuring CSR in developed and developing countries.

- Second, we can use factor analysis to obtain the principal component factor loadings on the different dimensions underlying the CSR. Oblique solution can be used to have a better and cleaner solution.

- Factor scores can be computed for the different dimensions underlying CSR.

- A grand total CSR score can be used for each country in standardised score.

- Factor scores will have a standard deviation equal to 1.0, and a mean, median, mode, sum equal to 0. Even though the sum of the grand total score in standardised score will be 0, the standard deviation will be different from 1.0 and the median score will be different from 0.

- The median standardised grand score can be used as an index to rank countries on CSR scale.

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