Positioning Stakeholder Theory within the Debate on Corporate Social Responsibility

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Abstract

Companies engage in corporate social responsibility (CSR) mainly because they can reap some kind of benefits from such engagement. It is thus necessary to have a CSR notion which is able to address this important feature. The differing views regarding the role of business in society are often presented as being placed within the stakeholder-shareholder debate. This article tries to show that a useful notion of CSR should be based on a stakeholder view and should be capable of addressing both its normative and instrumental aspects. Companies are seen as having an obligation to consider society's long-run needs and wants, which implies that they engage in activities that promote benefits for society and minimize the negative effects of their actions, so long as the company is not prejudiced by engaging in such activities.

Keywords

Corporate social responsibility; shareholder perspective; stakeholder perspective

Introduction

The present-day conception of corporate social responsibility (CSR) implies that companies voluntarily integrate social and environmental concerns in their operations and interaction with stakeholders. The European Commission defines it as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment." (European Commission, 2001, p. 5) It is related to complex issues such as environmental protection, human resources management, health and safety at work, relations with local communities, relations with suppliers and consumers.

The notion of CSR is one of ethical and moral issues surrounding corporate decision making and behaviour. Knowing if a company should undertake certain activities or refrain from doing so because they are beneficial or harmful to society is a central question. Social issues deserve moral consideration of their own and should lead managers to consider the social impacts of corporate activities in decision making. Regardless of any stakeholders' pressures, actions which lead to things such as the conservation of the Earth's natural resources or bio-diversity preservation, are morally praiseworthy.

However, some argue that the contribution of concepts such as CSR is just a reminder that the search for profit should be constrained by social considerations (Valor, 2005, p. 199). Increasingly CSR is analysed as a source of competitive advantage and not as an end in itself (Branco and Rodrigues, 2006). In effect, the concept of CSR has evolved from being regarded as detrimental to a company's profitability, to being considered as somehow benefiting the company as a whole, at least in the long run (see, for example, Hess et al., 2002; Porter and Kramer, 2002; Smith, 2003).

CSR has been conceptualised in a number of different ways which are related clearly to differing views regarding the role of business in society (see, for example, Clarke, 1998; Lantos, 2001). These views are often presented within the stakeholder-shareholder debate. The idea which underlies the "shareholder perspective" is that the only responsibility of managers is to serve the interests of shareholders in the best possible way, using corporate resources to increase the wealth of the latter by seeking profits (see, for example, Friedman, 1998; Jensen, 2001). In contrast, the "stakeholder perspective" suggests that besides shareholders, other groups or constituents are affected by a company's activities (such as employees or the local community), and have to be considered in managers' decisions, possibly equally with shareholders (see, for example, Freeman, 1998; Werhane and Freeman, 1999).

The purpose of this article is to give an account of the concept of CSR and its evolution, based on the notion that nowadays companies engage in CSR because they can reap benefits from such engagement. Thus, it is necessary to have a CSR notion which is able to address this important feature. The argument is that such notion should be based on a stakeholder view and should be capable of addressing both normative and instrumental aspects of CSR.

This article argues that the stakeholder perspective has become something which is inescapable if one wants to discuss and analyse CSR. Stakeholder theory is considered as "a necessary process in the operationalisation of corporate social responsibility, as a complimentary rather than conflicting body of literature." (Matten et al., 2003, p. 111) Furthermore, it can be said to exist a "stakeholder metanarrative" (Campbell et al., 2003, p. 559) which underlies the CSR debate. In fact, recent analysis of the extensive body of research on ethics and social responsibility issues show (see, for example, Garriga and Melé, 2004; Margolis and Walsh, 2003) that an important number of the authors who devote themselves to these areas of study have mostly drawn on stakeholder theory.

In the following section, the different perspectives of CSR are analysed and the argument that a stakeholder view of the role of business in society is more adequate, is presented. Thereafter, follow sections on the evolution of the concept of CSR based on the stakeholder perspective, and a discussion of the debate on business and society relationships.

Perspectives on corporate social responsibility

Based on Clarke (1998) and Lantos (2001) two viewpoints on the role of business in society (which lead to different views on CSR) will be distinguished (Table 1). The "classical view", based on neoclassical economic theory, defines it in purely economic profit making terms, focusing on the profit of the shareholders. In contrast, the "stakeholder view", based on stakeholder theory, holds that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions.

Table 1 – Spectrum of viewpoints on the role of business in society

View	Position on Business' Role in Society
Classical	Pure profit-making view: business has lower standards of ethics than society and no social responsibility other than obedience to the law.
	Constrained profit-making view: business should maximize shareholder wealth, obey the law, and be ethical.
Stakeholder	Socially aware view: business should be sensitive to potential harms of its actions on various stakeholder groups.
	Social activism: business must use its vast resources for social good.

Source: Adapted from Lantos (2001, p. 602).

Classical view

Lantos (2001) has identified two perspectives in the classical view: the "pure profit-making view"; and the "constrained profit-making view". The "pure profit-making view" is exemplified by Carr's (1968) position. The distinctive feature of this author's perspective is that some degree of dishonesty is acceptable because business people have a lower set of moral standards than those in the rest of society. He compared the ethics of business to those of the poker game. The lower set of moral standards permits what he calls "business bluffing" which includes things like conscious misstatements, concealment of pertinent facts, or exaggeration. Deception is probably a necessary component of a strategy to be successful in business, and thus business people can not afford to be guided by ethics as conceived in private life. Thus, for Carr, a company has the legal right to shape its strategy without reference to anything but its profits, so long as it stays within the rules of the game legally set out by law.

The major proponent of the "constrained profit-making view" is Friedman (1998), who believed companies should behave honestly: that is, they do not engage in deception and fraud. This economist argues that the purpose of the company is to make profits for shareholders. The only responsibility of business is to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game. Because managers are agents of the shareholders they have a responsibility to conduct business in accordance with their interest. This is generally to make as much money as possible and maximise their wealth. Under this view, because shareholders are the owners of the company and therefore the profits belong to them, requiring managers to pursue socially responsible objectives may be unethical, since it requires managers to spend money that belongs to other individuals. Asking companies to engage in social responsibility activities is considered to be harmful to the foundations of a free society with a free-enterprise and private-property system. Social problems should be left for the state to address.

Although Friedman's ideas are better known, his view had a conspicuous predecessor in Levitt (1958). The latter also believed that companies should be concerned with improving production and increasing profits while abiding by the rules of the game, which include acting honestly and in good faith, and that social problems should be left for the state to address.

The classical view also has contemporary adherents. Their arguments, which can be associated with the "constrained profit-making view", have arisen mainly in debate with stakeholder perspective proponents (see, for example, Barry, 2000, 2002; Coelho et al., 2003; Henderson, 2005; Jensen, 2001; Sternberg, 1997; Sundaram and Inkpen, 2004). However, it is important to note that not all of these authors can be shown as opposing social responsibility actions by companies.

Barry (2000) argues that companies can only engage in social responsibility activities the less competitive the markets in which they operate are, and that such engagement is a form of rent-seeking by managers. However, the central argument is that the use of companies' resources to further social goals amounts to managers' usurpation of the political function. The difficulty in making appropriate decisions when the predominant authority of shareholders is removed and the purpose of maximizing shareholder wealth is disregarded in order to take into account a variety of interests, is stressed by Barry when he argues that in such conditions decision-making in a company "would resemble that of a parliamentary assembly." (op. cit., p. 105) Barry (2002, p. 545) claims that it leads "to the politicization of the company in that many groups and a number of almost certainly competing purposes must now be considered." Therefore, Barry's assessment of the stakeholder perspective is that it "tries to make the business system operate like the political system." (op. cit., p. 552) This is not advisable because it will "bring all the disadvantages of voting, as well as the enervating effect of pressure groups to an activity that depends on personal freedom and individual initiative to fulfil its promise." (ibid.)

The ex-OECD Chief Economist David Henderson (Henderson, 2005) is another of the modern critics of CSR. Whereas Friedman focused his concern in managers adopting misguided objectives, Henderson's focus is on outside interferences with efficient resource allocation. Henderson contends that CSR adversely affects a company's performance. However, his case against CSR rests primarily on the contention that it impairs the performance of business enterprises in their primary role, and would make people in general poorer. He is an adamant opponent of over-regulation, and views increased legislation in this matter to be harmful, and lead to decreased business activity. CSR is seen as leading to ineffective markets, reduced wealth generation and increased social inequity and poverty. He does not attribute any social responsibility related function to companies.

Other contemporary authors defend shareholder value maximization as the one objective function to all companies but are not necessarily against the social responsibility actions by companies (Jensen, 2001; Coelho et al., 2003; Sternberg, 1997; Sundaram and Inkpen, 2004). Basically these authors argue that having more than one objective creates difficulties for managers and some confusion in their decision making. On the other hand, having shareholder value maximization as objective is believed to lead managers to decisions that enhance outcomes for multiple stakeholders. Jensen (2001, p. 11), for example, considers that "200 years' worth of work in economics and finance indicate that social welfare is maximized when all companies in an economy maximize total company value." However, their basic point is that value seeking should be a company's only objective function and having as only objective making money for shareholders implies that managers should not be allowed to pursue moral goals at the expense of profitability.

These authors repeat several of their predecessors' arguments, but they are not necessarily against the social responsibility actions by companies. In the words of Sternberg (1997, p. 9), a company "cannot afford to ignore any stakeholder concern that might affect its ability to generate long-term owner value." A company's interactions with its stakeholders are recognized as affecting profitability, and "ethical executives should consider this as part of their fiduciary duties to shareholders." (Coelho et al., 2003, p. 18) Social responsibility actions might even be used strategically by companies in seeking value maximization of the company. These authors seem to defend what Jensen (2001) calls "enlightened shareholder maximization" view, according to which a company cannot maximize value if any important stakeholder is ignored or mistreated, but the criterion for making the requisite tradeoffs among its stakeholders is long-term value maximization.

Even Carr (1968, p. 149), in spite of defending the pure profit-making view recognized that if a company wishes to take a long-term view of its profits, "it will need to preserve amicable relations with whom it deals. A wise businessman will not seek advantage to the point where he generates dangerous hostility among employees, competitors, customers, government, or the public at large." However, he thought that "decisions in this area are, in the final test, decisions of strategy, not of ethics." (ibid.)

The classical view is justified mainly on the basis of neoclassical economic theory arguments using notions such as the free market, economic efficiency, and profit maximisation. This view might be grounded in three different, but complementary, ways:

- first, shareholders are the owners of the corporation, and managers have no right to act on their own preferences, to make discretionary decisions or to use company's resources to further social goals which cannot be shown to be directly related to profits;

- second, companies' role is to produce wealth, and pursue socially responsible objectives may impair their performance in that role interfering with efficient resource allocation;

- finally, other organizations exist to deal with the kind of function requested by socially responsible actions, such as government, and companies and managers are not equipped to perform such role.

However, some authors believe that CSR is often useful in generating long-term owner value. For some time the arguments that have been presented for strategic CSR arise, at least in part, from the classical idea that the sole objective of business is to maximise shareholder wealth and that a company should engage in CSR activities only if it allows value to be created. This approach is synthesized by McWilliams and Siegel (2001, p. 125). They argue that decisions regarding CSR should be treated by managers "precisely as they treat all investment decisions." Some authors argue that CSR "should be considered as a form of strategic investment." (McWilliams et al., 2006, p. 4)

Stakeholder view

Stakeholder theory is based on the notion that beyond shareholders there are several agents with an interest in the actions and decisions of companies. Stakeholders are "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions." (Freeman, 1998, p. 174) In addition to shareholders, stakeholders include creditors, employees, customers, suppliers, and the communities at large. Stakeholder theory asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Management should not only consider its shareholders in the decision making process, but also anyone who is affected by business decisions. In contrast to the classical view, the stakeholder view holds that "the goal of any company is or should be the flourishing of the company and all its principal stakeholders." (Werhane and Freeman, 1999, p. 8) It is important to stress that shareholders are stakeholders and that dividing the world into the concerns of the two is "the logical equivalent of contrasting 'apples' with 'fruit'." (Freeman et al., 2004, p. 365)

Many interesting typologies of stakeholders have been proposed. Clarkson's typology of stakeholders is the most widely cited and accepted. Clarkson (1995) distinguishes primary and secondary stakeholders. Primary stakeholders are those "without whose continuing participation the corporation cannot survive as a going concern" (shareholders and investors, employees, customers and suppliers, and also governments and communities "that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due") (op. cit., p. 106), whereas secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival." (op. cit., p. 107)

Some of the problems with stakeholder theory lie in the difficulty of considering "mute" stakeholders (the natural environment) and "absent" stakeholders (such as future generations or potential victims) (Capron, 2003, p. 15). The difficulty of considering the natural environment as a stakeholder is real because the majority of the definitions of stakeholders usually treat them as groups or individuals, thereby excluding the natural environment as a matter of definition because it is not a human group or community as are, for example, employees or consumers (Buchholz, 2004, p. 130). Phillips and Reichart (2000) argue that only humans can be considered as organizational stakeholders and criticize attempts to give the natural environment stakeholder status. The authors of this article agree with this assertion.

One way of seeing the environment as a stakeholder is through the interests of future generations (Jacobs, 1997). However, it is impossible to ask the opinion of the natural environment or of future generations, and they cannot be members of a consultative committee (ibid.). Thus, the problem is that only humans are capable of generating the necessary obligations for establishing stakeholder status and of the necessary volition in the acceptance of benefits of a mutually beneficial cooperative scheme (Phillips and Reichart, 2000, p. 191). However, if among the interests of legitimate stakeholders is a concern for the natural environment, it has to be taken into account. Moreover, the interests of the environment and future generations should contemplated by "being represented in decision-making structures, whether of companies or of society as a whole." (Jacobs, 1997, p. 26)

Regarding stakeholder theory, Donaldson and Preston (1995) argue that it can be used in three different ways:

1. the descriptive/empirical, when it is used to "describe, and sometimes to explain, specific corporate characteristics and

behaviors" (op. cit., p. 70);

2. the instrumental, when it is used to "identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g., profitability, growth)" (op. cit., p. 71); and

3. the normative, when it is used to "interpret the function" of companies and identify "moral or philosophical guidelines" that should be followed with regard to their "operation and management" (ibid.).

The empirical and the instrumental uses are interrelated inextricably. This suggests a difficulty in relating empirical and normative endeavours. Whereas the former is descriptive in nature and attempts to analyse the way things are, the latter is prescriptive and aims to prescribe how things should to be. The normative and instrumental uses probably entail the existence of two conflicting approaches to stakeholder theory. The normative approach to stakeholder theory views stakeholders as "end". The instrumental approach is interested in how stakeholders can be considered in a way that enhances financial performance and efficiency, and thus regards stakeholders as "means".

The instrumental approach to stakeholder theory views stakeholders' interests as factors to be taken into account and managed while the company is engaged in maximization of shareholders wealth. The underlying argument is that stakeholders' interests are considered as means for higher level goals, such as profit maximization, survival and growth. Referring to the instrumental use, Jawahar and McLaughlin (2001, p. 399) consider that a "fundamental assumption is that the ultimate objective of corporate decisions is marketplace success, and stakeholder management is a means to that end."

Having established the importance of stakeholder management, a question that remains is which stakeholders managers view as most significant. This question has been addressed by Mitchell et al. (1997). They offered a theory of stakeholder identification and salience that suggests that managers' perceptions of three key stakeholder attributes (power to influence the company, legitimacy of the relationship with the company and urgency of the claim on the company) affect the degree to which managers give priority to competing stakeholder claims. A stakeholder "may have a legitimate claim on the company, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience for the company's managers." (op. cit., p. 866)

Power is a stakeholder attribute that has been used to identify and prioritize stakeholders, with some authors suggesting that companies respond to the most powerful stakeholder issues. For example, Nasi et al. (1997) found that forestry companies in Canada and Sweden focused on issues that were relevant to the most powerful stakeholders rather than on those issues that were relevant from an ethical or socially responsible point of view.

The "social activist" perspective shares with stakeholder theory the notion that companies are accountable to all other stakeholders beyond shareholders. Hence, they should behave to actively promote social interests, even when it is not expected or demanded by society. Companies should be involved actively "in programs which can ameliorate various social ills, such as by providing employment opportunities for everyone, improving the environment, and promoting worldwide justice, even if it costs the shareholders money." (Lantos, 2001, p. 602)

Enlightened value maximization versus enlightened stakeholder theory

The question that one can legitimately pose is: in what way is the use of some kind of stakeholder management as a means to achieve marketplace success different from the classical view? If stakeholder theory does not give any primacy to one stakeholder over another, there will be times when some groups will benefit at the expense of others. The problem that then arises is which groups would be given preferential treatment? One can say that the classical view is purely economic in nature, and presents a clear differentiation between economic and social aspects, whereas stakeholder management perspective brings together social and economic aspects.

Jensen (2001) argues that what he calls "enlightened value maximization" and "enlightened stakeholder theory" may be thought of as identical. Enlightened value maximization uses stakeholder theory to consider that a company cannot maximize value if any important stakeholder is ignored or mistreated. However, it maintains as the criterion for making the requisite tradeoffs among its stakeholders long-term value maximization. Enlightened stakeholder theory considers long-term value maximization or value as the objective function of the company, thereby solving the problems that arise from considering multiple objectives, as in traditional stakeholder theory.

Proponents of stakeholder theory, such as Freeman et al. (2004, p. 366), question the alternatives available for managers to create shareholder value other than "by creating products and services that customers are willing to buy, offering jobs that employees are willing to fill, building relationships with suppliers that companies are eager to have, and being good citizens in the community".

What is it then that differentiates stakeholder theory from this enlightened value maximization. Freeman et al. (2004, p. 364) argue that the former "begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis", according to which ethics and economics can be separated clearly. Stakeholder theory proponents reject the separation thesis. They see a moral dimension to business activity, because economics "is clearly infused or embedded with ethical assumptions, implications, and overtones." (Carroll, 2000, p. 35) On the other hand, many proponents of the shareholder, single-objective view distinguish between economic and ethical consequences and values and see business as an amoral economic activity.

According to Porter and Kramer (2002, p. 58), Friedman's argument has two implicit assumptions: social and economic objectives are separate and distinct; and by addressing social objectives companies do not provide greater benefit than is provided by individual donors. The enlightened shareholder maximization view also has such assumptions. But the dichotomy between economic and social objectives is a false one because companies do not function in isolation from the society in which they operate (op. cit., p. 59). For these authors, "in the long run, then, social and economic goals are not inherently conflicting but integrally connected." (ibid.) Therefore, contrary to Friedman's ideas, managers who undertake social responsibility activities do not necessarily misuse financial resources that legitimately belong to shareholders.

Freeman et al. (2004, p. 364) correctly consider that the shareholder, single-objective view "is a narrow view that cannot possibly do justice to the panoply of human activity that is value creation and trade, i.e., business." Whereas the shareholder view sees a unique answer, and attributes one objective function to all companies, stakeholder theory admits a wide range of answers. Freeman et al. (2004) also believe that these theories should not be considered as opposed, in the sense that even shareholder theory can be regarded as a version of stakeholder theory, because stakeholder theory admits many possible normative cores (op. cit., p. 368). As a particular version of stakeholder theory, shareholder view's moral presuppositions can be seen as including "respect for property rights, voluntary cooperation, and individual initiative to improve everyone's circumstances. These presuppositions provide a good starting point, but not a complete vision of value creation." (ibid.)

Sundaram and Inkpen (2004, p. 356) recognize that decisions to enhance efficiency are made to increase shareholder value and impose costs on other stakeholders, and imply that it is an acceptable trade-off. According to stakeholder theory as perceived in this article, such costs are unacceptable unless it can be proven that benefits for the society outweigh them. It is important to note that existent deviations between short run impacts of business activities and the long run alignment of business and social interests in wealth creation leave ample scope for abuse or market power and irresponsible conduct (Windsor, 2001, p. 250). Furthermore, "the leitmotif of wealth creation can easily lead to both moral misconduct and financial manipulation ultimately destructive of social purposes and stakeholders' welfare." (ibid.)

The evolution of the corporate social responsibility concept from a stakeholder perspective

Frederick (1994) referred to the distinction between social responsibility and social responsiveness when he identified two stages of development in the thinking about CSR. The first stage, which he labelled CSR1, focused on CSR as an examination of companies' "obligation to work for social betterment" (op. cit., p. 151). Around 1970, there was a shift to corporate social responsiveness, labelled as CSR2, which is "the capacity of a corporation to respond to social pressures" (op. cit., p. 151). Frederick (1986) further developed this analysis by adding a third stage, that of corporate social rectitude (CSR3), to include "the notion of moral correctness in actions taken and policies formulated" (op. cit., p. 135). In a more recent work, Frederick (1998) refers to the need to enter a new stage (CSR4) "enriched by natural sciences insights" (op. cit., p. 41). In this article, the distinction between social responsibility and social responsiveness is of interest and will be developed.

The term "social responsibility" has been challenged as early as the 1970's. Sethi (1975, 1979) distinguishes between social obligation, social responsibility, and social responsiveness. He argues that, like all other social institutions, companies are an integral part of society and must depend on acceptance of their role and activities for their existence, continuity and growth. When a difference between corporate performance and social expectations for such performance occurs, a legitimacy gap is said to exist. The crucial issues in the concept of CSR are the search for legitimacy by companies and the doubts by critics about the legitimacy of companies' actions. Corporate behaviour in response to market forces or legal constraints is defined as social obligation, and is proscriptive in nature. Social responsibility implies congruence of corporate behaviour with prevailing social norms, values and expectations of performance, and it is a concept which is prescriptive in nature. The concept of social responsiveness suggests that what is important is not how a company should respond to social pressures, but what should be their long-term role in a dynamic social system. The idea is that business orientation in any social dimension must be anticipatory and preventive.

Although Sethi implied that social responsiveness could be seen as a replacement for social responsibility, later writers reject such a view (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991). For example, Carroll (1979, p. 502) holds that social responsiveness is not an alternative to social responsibility but rather "the action phase of management responding in the social sphere." Wartick and Cochran (1985, p. 765) hold that both "are equally valid concepts and that both should be included as separate dimensions of corporate social involvement." The concepts of social responsiveness and of corporate social performance can be seen as the evolution of the concept of social responsibility. In this article, the concept of CSR is seen as including the other two concepts.

Carroll's "Three-dimensional Conceptual Model" (Carroll, 1979, 1991) was the initial model of corporate social performance. It consisted of an integration of three aspects: first, a definition of social responsibility; second, an identification of the social issues to which these responsibilities are tied, such as consumerism, environment, employment discrimination, product safety, occupational safety and health; and third, the philosophy of responsiveness, that is the philosophy, mode, or strategy behind companies' response to social responsibility and social issues (reaction, defense, accommodation, and proaction).

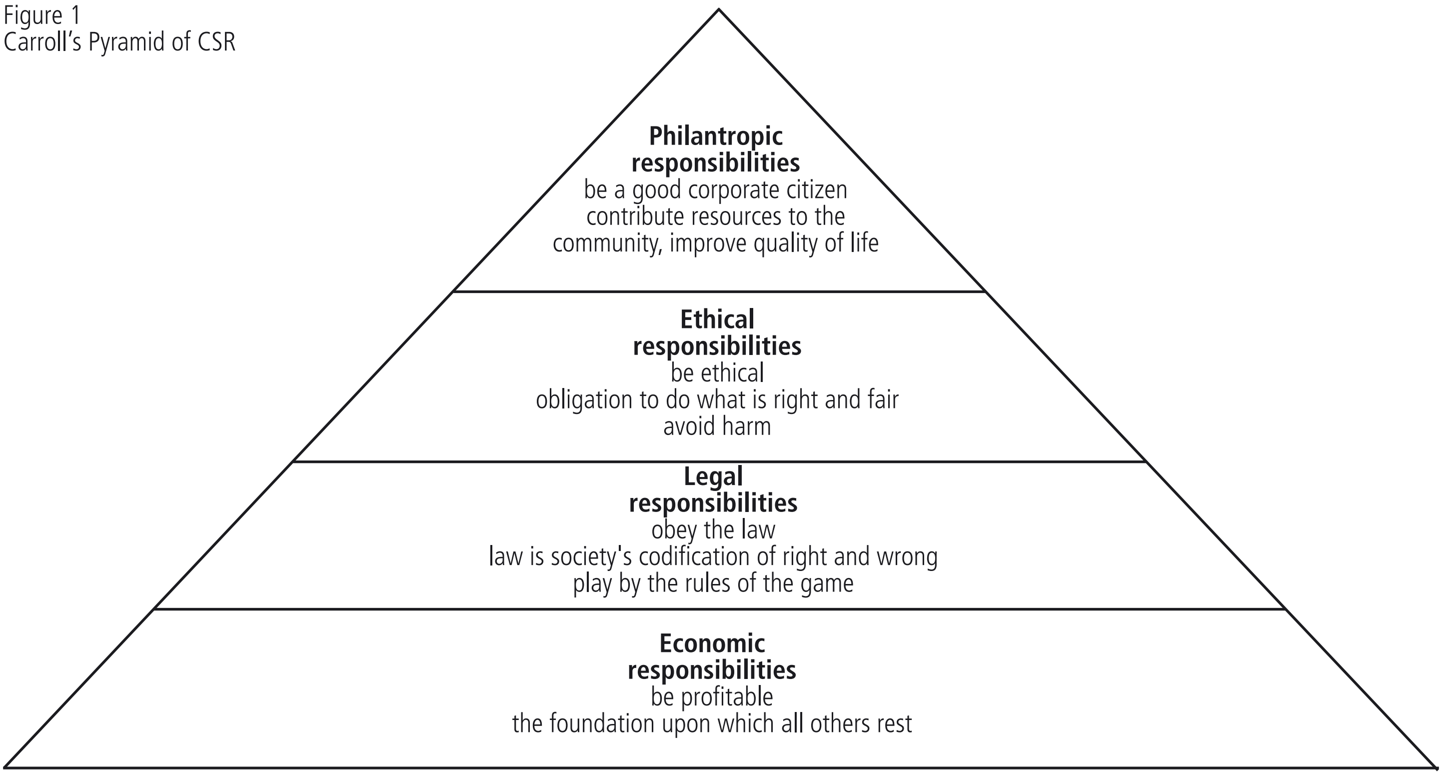
Building on previous definitions of CSR which refer to the responsibility to make a profit, obey the law, and "go beyond" these activities, Carroll (1979, 1991) argues that CSR encompasses four categories of social responsibilities: economic, legal, ethical, and discretionary (or philanthropic). Economic responsibilities reflect the belief that companies have an obligation to produce goods and services that consumers need and want, and to be profitable in the process. Legal responsibilities indicate that companies are expected to pursue economic responsibilities within the confines of written law. Ethical and discretionary responsibilities encompass the more general responsibilities to do what is right and avoid harm. Ethical responsibilities indicate a concern that companies meet society's expectations of business conduct that are not codified into law, but rather are reflected in unwritten standards, norms, and values implicitly derived from society. Companies' discretionary responsibilities are volitional or philanthropic in nature, in the sense that they represent voluntary roles assumed by companies for which society's expectations are not as clear-cut as in the ethical responsibilities.

Carroll (1991) argues that these four categories of corporate social responsibilities can be depicted as a pyramid, in which economic responsibilities are the foundation upon which all other responsibilities are predicated and without which they can not be achieved, and discretionary responsibilities are the apex (Figure 1). Notwithstanding, companies are expected to fulfil these four social responsibilities simultaneously. An important consideration regarding this perspective is that, contrary to the common belief that economic responsibility is related to what the companies do for themselves, and the other responsibilities are related to what they do for others, "economic viability is something business does for society as well." (Carroll, 1999, p. 284)

Matten et al. (2003, p. 110) underline the centrality of the ethical and philanthropical areas of responsibility to the study of CSR because of the differentiation they allow to establish between voluntary corporate behaviour and mere compliance. The CSR debate has focused on the moral and philanthropic responsibilities, giving little attention to economic and legal responsibilities. In this article, the term CSR will also be used to refer to ethical and philantropical responsibilities of business.

An important and recent addition to the discussion of Carroll's model was offered by Carroll himself in Schwartz and Carroll (2003). These authors develop a three-domain approach, in

Figure 1
Carroll's Pyramid of CSR



Source: Carroll (1991, p. 42).

which they propose the subsumption of the philanthropic or discretionary component under the ethical and/or economic components. The reasons for such proposal are related, on the one hand, to the difficulty in distinguishing between "philanthropic" and "ethical" activities on both the theoretical and practical levels, and, on the other hand, to the observation that philanthropic activities are often explained by underlying economic interests (op. cit., p. 506). As the authors argue, a company can engage in philanthropical activities for ethical or economic reasons or a combination of the two. When economic motives, such as increased sales, enhanced public image or improved employee morale, underlie a company's actions in the form of strategic philanthropy, this does not constitute a distinct philanthropic obligation (op. cit., p. 507).

Carroll (1991, p. 43) provided a linkage to stakeholder theory by noting the "natural fit between the idea of CSR and an organization's stakeholders." Furthermore, the concept of stakeholder personalizes social responsibilities by specifying groups or persons to whom companies are responsible and should be responsive (ibid.).

Carroll's model was later extended and modified by Wartick and Cochran (1985) and Wood (1991). Wartick and Cochran (1985) presented a "Corporate Social Performance Model" which also integrates three areas: the principles of CSR (using Carroll's four categories of social responsibilities as "principles"); the processes of corporate social responsiveness (reactive, defensive, accommodative, and proactive); and the policies developed to address social issues (social issues management). A summary of the model is presented in Table 2.

Wood (1991, p. 695) considers that the basic idea of CSR "is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes." She retained Carroll's four categories and identified how they relate to the CSR principles (the principle of legitimacy, the principle of public responsibility, and the principle of managerial discretion), considering that the first can be viewed as domains within which the latter are enacted (ibid.). The principle of legitimacy operates on an institutional level and is based on a company's overall responsibilities to the society in which it operates, specifying what is

Table 2 – The corporate social performance model of Wartick and Cochran

Principles	Processes	Policies
Corporate Social Responsibilities (1) Economic (2) Legal (3) Ethical (4) Discretionary	Corporate Social Responsiveness (1) Reactive (2) Defensive (3) Accomodative (4) Proactive	Social Issues Management (1) Issues Identification (2) Issues Analysis (3) Response Development
Directed at: (1) The social contract of business (2) Business as a moral agent	Directed at: (1) The capacity to respond to changing societal conditions (2) Managerial approaches to developing responses	Directed at: (1) Minimising 'surprises' (2) Determining effective Corporate Social Policies
Philosophical Orientation	Institutional Orientation	Organisational Orientation

Source: Wartick and Cochran (1985, p. 767).

expected of all companies. It is a proscriptive principle, "and it implies that society has available sanctions that can be used when these obligations are not met." (op. cit., p. 699) The principle of public responsibility functions on an organizational level, stating that companies are "responsible for solving problems they have caused, and they are responsible for helping to solve problems and social issues related to their business operations and interests." (op. cit., p. 697) Finally, the principle of managerial discretion functions on an individual level and emphasizes managers' responsibilities to behave as moral actors and make choices about activities designed to achieve socially responsible outcomes.

Wood (1991) also suggests that companies use three main kinds of processes to bring these principles into practice: environmental assessment, issues management, and stakeholder management. She then presents the outcomes of bringing principles into practice within the economic, legal, ethical, and discretionary domains, categorizing them in terms of social impacts (beneficial or negative), social programs (which refer to the actions companies take to manage their social impacts in a favourable manner), and social policies (which emerge to guide decision making).

Wood and Jones (1995) use a stakeholder framework to modify Wood's definition of corporate social performance as principles, processes, and outcomes. They redefine the outcomes as internal stakeholder effects, external stakeholder effects, and external institutional effects. They argue that stakeholders have three roles: they are the sources of expectations about what constitutes desirable and undesirable company performance, defining the norms for corporate behaviour; they experience the effects of corporate behaviour; and they evaluate the outcomes of companies' behaviours in terms of how they have met expectations and have affected the groups and organizations in their environment (op. cit., p. 231).

From a stakeholder theory perspective, corporate social performance can thus be assessed in terms of a company meeting the demands of its multiple stakeholder groups, and companies must seek to satisfy their demands "as an unavoidable cost of doing business." (Ruf et al., 2001, p. 143) Corporate social performance is considered to refer to "the ability of the company to meet or exceed stakeholder expectations regarding social issues." (Husted, 2000, p. 27)

Clarkson (1995) holds that a stakeholder management framework is more useful to the analysis and evaluation of corporate social performance than models and methodologies based on concepts of social responsibilities and responsiveness. He contends that it is necessary to distinguish "between stakeholder issues and social issues because corporations and their managers manage relationships with their stakeholders and not with society." (op. cit., p. 100)

However, it is vital to understand that being responsive to stakeholders' expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. Stakeholders' expectations of companies are intertwined inextricably with society's views or expectations of business performance which evolve over time. Thus, the distinction between stakeholder issues and social issues may not be as straightforward as it seems.

Nonetheless, Hillman and Keim (2001) argue that to analyse the relationship between social performance and financial performance, it is useful to distinguish between two components of corporate social performance: stakeholder management and social issue participation. They believe that these two components of social performance have opposing relationships to financial performance. Building good relations with primary stakeholders is susceptible of leading to increased financial returns. On the one hand, it assists companies in developing valuable intangible assets (resources and capabilities) which can be sources of competitive advantage because such assets can differentiate a company from its competitors. On the other hand, pursuing social issues that are not related directly to the relationship with primary stakeholders may not create such advantages, because participating in social issues is something which can be easily copied by competitors. Thus, one can infer that social responsibility activities can pay off, as long as they are in the interest of a company's primary stakeholders. Hillman and Keim's (2001) conclude that whereas stakeholder management can lead to shareholder wealth creation, participation in social issues does not have the same kind of result.

The conception of CSR adopted in this article is based clearly on the perspective put forward by Carroll (1979, 1991, 1999, 2000) and Schwartz and Carroll (2003), and extended by Wartick and Cochran (1995), Wood (1991), and Wood and Jones (1995). This perspective has evolved to incorporate stakeholder theory concepts, already present in Carroll (1991) and Wood (1991), but particularly developed by Wood and Jones (1995) and Clarkson (1995).

Carroll's model is adopted in this article, although the focus will be on ethical and philanthropic components. A distinctive feature of Carroll's model is that it draws attention to the importance of economic responsibilities as a fundamental concern of managers. In this article this is considered as an important concern for three reasons. First, the economic responsibilities of companies are also fundamental from a social point of view, as the notion of sustainable development also stresses. Second, shareholders are stakeholders whose interests must be considered by managers. This is not only because those interests are protected by law but also because the managers' livelihood is dependent upon how shareholders evaluate their performance. Finally, the other responsibilities depend on the fulfilment of economic responsibilities in the sense that the survival of the company and availability of sufficient resources to devote to other responsibilities depends on such fulfilment.

Another important aspect to consider is that the existence, survival and profitability of a company depend on the fulfilment of legal responsibilities. If a company does not comply with the law either it will be subject to things such as fines, which impair its profitability, or it will be impeded of functioning.

Therefore, CSR, as the subject of analysis of this article, is seen as an "obligation" to constituent groups in society other than shareholders, which extends beyond that prescribed by law and union contract and is voluntarily adopted (Jones, 1980, pp. 59-60). Thus, although economic and legal responsibilities of companies are part of their social responsibilities, they are not included in corporate social responsibilities as a subject of analysis.

In this article, CSR is understood as a two-way relationship which involves recognition on the part of "society" both of its significance and of the efforts made by companies to gain "society's" approval of its behaviour. Therefore, CSR relates to society's constituent groups' expectations about corporate behaviour that companies have to identify and try to behave in conformity with.

CSR is the concept used most widely to address the relationships between business and society. However, some concepts, such as corporate sustainability and corporate citizenship, have been proposed recently to conceptualize these relations. Some authors view these three concepts as synonymous (see, for example, Andriof and McIntosh, 2001) whereas others propose some distinctions between them (see, for example, Marrewijk, 2003, for distinctions between CSR and corporate sustainability, and Matten et al., 2003, Matten and Crane, 2005; and Valor, 2005, for distinctions between CSR and corporate citizenship).

In this article such concepts are considered to address the same basic issues as CSR. They all are about companies' impacts on, relationships with, and responsibilities to, society. These three concepts also integrate the perspectives which have been discussed so far. For example, the definition of corporate citizenship "as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders" proposed by Maignan and Ferrell (2000, p. 284) incorporates Carroll's classification of four main corporate social responsibilities and acknowledges the conceptual contributions of stakeholder management literature. CSR is used in a loose sense to embrace similar concepts such as corporate citizenship and corporate sustainability, and integrating elements of stakeholder management.

However, the typology of corporate social responsibilities proposed by Lantos (2001, 2002) is considered to be a useful development of Carroll's model, because it addresses the problem of distinguishing the ethical and philanthropic components that Schwartz and Carroll (2003) stressed, and because it considers the purpose with which companies engage in social responsibility activities. Based on their nature (required versus optional) and purpose (for stakeholders' good, the company's good, or both), Lantos considers three different types of responsibilities (see Table 3): ethical, altruistic, and strategic.

Ethical responsibilities are regarded as morally mandatory. They involve preventing or rectifying harm or social injuries, even if the company might not appear to have benefited from such endeavours. It is important to note that ethical responsibilities are required even if their fulfilment is detrimental to the company's profitability. From this point of view, companies are considered as "morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual, and emotional) from a particular course of action. Even when the two parties to a transaction aren't harmed other parties (stakeholders) might be." (Lantos, 2001, p. 606) Thus, managers of a company "do not have an obligation to maximize profits for the shareholders without regard to the means used." (ibid.)

Lantos (2001, p. 606) argues that harm cannot always be avoided, but should be minimized where feasible. He offers, as an example, the decision to close or relocate a plant because the product is no longer selling or the source of raw materials has changed. Although it seems sound from a financial point of view, it entails difficulties (wishfully temporary) for some employees and their community. Notwithstanding, if it also implies a more efficient use of resources and therefore benefits society as a whole, "it is the socially responsible thing to do so long as injuries to workers are minimized as much as reasonably possible via means such as advance notification and severance pay." (ibid.) Another example is the money spent by a company on product safety or pollution control that might reduce shareholders profit, but have as alternative to threaten unethically the welfare of others in society (ibid.).

Altruistic responsibilities involve going beyond ethical responsibilities to address social problems that the company has not caused and regarding which it has no responsibilities for. It can thus be said that altruistic responsibilities involve the assumption of some kind of responsibility for public welfare deficiencies that have not been caused by the company. It involves actions which are not morally mandatory but are beneficial for the company's stakeholders even at "at the possible, probable, or even definite expense of the business." (op. cit., p. 605)

Finally, strategic responsibilities imply engaging in socially responsibility activities only when they are expected to benefit both one or more stakeholder groups and the company. In the case of altruistic responsibilities, the motive is not to reap financial benefits for the company as a consequence of their fulfilment (although that could happen as a by-product). In contrast, with strategic responsibilities, companies contribute to their stakeholders because they believe it is in their best financial interests to do so, thereby fulfilling their responsibilities to the shareholders. Lantos argues altruistic responsibilities are only legitimate when they are strategic: that is, when they also further the objectives of the company.

Discussion and concluding comments

From the perspective of the authors of this article, rather than offering a definition of CSR it seems more worthwhile to agree on the following five key elements identified by Buchholz (1991, p. 19):

- companies have responsibilities beyond the production of goods and services at a profit;
- these responsibilities involve helping to solve important social problems, especially those they have helped create;
- companies have a broader constituency than shareholders;
- companies have impacts that go beyond simple marketplace transactions;
- companies serve a wider range of human values than can be captured by a sole focus on economic values.

Views on CSR are often distinguished between those who oppose it and those who favour it. It is possible to have within the same perspective those who stand for CSR and those who reject it. Following Jones (1999), the arguments in favour and against social responsibility engagement by companies are sum-

Table 3 – Types of CSR

Carroll's classification	Lantos' corresponding classification
1. Economic responsibilities: be profitable for shareholders, provide good jobs for employees, produce quality products for customers. 2. Legal responsibilities: comply with laws and play by rules of the game. 3. Ethical responsibilities: conduct business morally, doing what is right, just and fair, and avoiding harm. 4. Philanthropic responsibilities: make voluntary contributions to society, giving time and money to good works.	1. Ethical CSR: morally mandatory fulfilment of a company's economic responsibilities, legal responsibilities, and ethical responsibilities. 2. Altruistic CSR: Fulfilment of an organization's philanthropic responsibilities, going beyond preventing possible harm (ethical CSR) to helping alleviate public welfare deficiencies regardless of whether or not this will benefit the business itself. 3. Strategic CSR: fulfilling those philanthropic responsibilities which will benefit the company through positive publicity and goodwill.

Source: Lantos (2002, p. 206).

marized in the following two paragraphs.

Arguments against social responsibility are based on the institutional function of companies or on property rights perspectives. The institutional function argument can be held from three perspectives: first, other organizations, such as government, exist to deal with the kind of function requested by social responsible actions; second, managers are not seen as having the abilities and/or time to implement such kind of public actions; finally, unlike politicians, who are democratically elected, managers should not be held accountable for their social responsibility actions. The argument based on the property rights perspective has its roots in neoclassical economic analysis, and maintains that managers' only obligation is to maximize the shareholder value.

Arguments in favour of companies engaging in social responsibility activities can be ethical or instrumental. Ethical arguments are derived from religious principles, philosophical references or prevailing social norms. They suggest that a company should behave in a socially responsible manner because it is morally correct to do so. These arguments have a strong normative flavour. The instrumental arguments in favour of social responsibility rely on calculative assumptions that it will somehow benefit the company as a whole, at least in the long run.

It is possible to distinguish two contrasting cases for CSR: the normative case which searches for motivations in the desire to do good; and the business case which focuses on the notion of enlightened self-interest. Although there is a clear difference between these two perspectives, the reasons for a company engaging in CSR activities might reflect a mixture of the two (Smith, 2003, p. 53).

Based on Swanson (1995), who refers to the economic and the duty-aligned perspectives as the two dominant approaches in the business and society field, Maignan and Ralston (2002, p. 498) distinguish three main types of motivations to engage in social responsibility activities. First, following the economic or utilitarian perspective, CSR can be viewed as an additional instrument used by companies to achieve traditional corporate objectives. Second, according to the negative duty view, companies engage in social responsibility activities to conform to stakeholder norms and expectations about how their operations should be conducted, thus constituting mainly a legitimacy instrument used by a company to demonstrate its adherence to such norms and expectations. Third, according to the positive duty approach, companies may be self-motivated to engage in social responsibility initiatives and actively promote social interests, even when they are not expected or demanded by society. As Maignan and Ralston (ibid.) state, "both the negative duty and the utilitarian approaches suggest that CSR can be used as an impression management tool employed to influence stakeholders' perceptions of the company."

Whilst the utilitarian arguments can be associated easily with the classical view of social responsibility and the negative-duty arguments with the instrumental use of stakeholder theory, the positive-duty arguments can be associated with the normative use of stakeholder theory and with the activist view of social responsibility. The first two perspectives hold that companies engage in social responsibility activities for strategic reasons. Such motivation is different to the one envisaged by the two latter perspectives.

CSR is understood as a two-way relationship which involves recognition on the part of "society" both of its significance and of the efforts of companies to gain "society's" approval of its behaviour. Therefore, CSR relates to society's constituent groups' expectations about corporate behaviour that companies have to identify and try to conform with. Stakeholders are considered to have three roles: they are the sources of expectations about what constitutes desirable and undesirable company performance, defining the norms for corporate behaviour; they experience the effects of corporate behaviour; and they evaluate the outcomes of companies' behaviours in terms of how they have met expectations and have affected the groups and organizations in their environment (Wood and Jones, 1995, p. 231).

Trying to meet stakeholders' expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. There have always been widely spread assumptions about what a modern company should be and how it should behave. Then it becomes important for companies that are expected to (or want to) appear to be modern to incorporate such assumptions into their operations, or at least into their presentations. The growing social awareness about CSR issues has come to place substantial pressures on companies to manage the social and environmental impact of their activities and to become accountable to a wider audience than shareholders. All these aspects have an ethical dimension and it is probably true that, in many cases, engaging in CSR for strategic reasons will have some ethical and moral motivations and will lead to social benefits.

As argued by Post et al. (2002), the interdependencies that exist among the company and its stakeholders cannot be described in terms of simple contractual exchanges. Furthermore, it is relationships rather than transactions that are the ultimate sources of a company's wealth and it is the ability to establish and maintain such relationships within its entire network of stakeholders that determines its long-term survival and success. Relationships imply continuity and involve on-going conflict as well as collaborative elements.

Post et al. (2002, p. 8) define the stakeholders of a company as the "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers." A company's stakeholders are seen as those who supply critical resources, place something of value "at risk," and have sufficient power to affect its performance. For example, company's competitors are not considered as stakeholders when they are competing for resources and markets but may be considered as such when they have common interests and may gain or lose status and wealth as a result of competitors' actions.

The principal means of sustaining and enhancing a company's wealth-creating capacity are the linkages between the company and its multiple constituencies. Because of their linkage with the company, these constituents have a "stake" in its operations. As a result of the companies' operations, they have the possibility either of gaining greater or lesser benefits or experiencing greater or lesser harm. The stakeholders who engage in voluntary relationships with a company and contribute directly to its operations, such as investors, employees, customers, market partners, expect to be better off as a result of the relationship. Involuntary stakeholders, on the other hand, "particularly those who may be negatively affected by externalities such as pollution or congestion, the guiding principle has to be reduction or avoidance or harm and/or the creation of offsetting benefits. These stakeholders expect that they will be at least as well off as they would be if the company did not exist." (Post et al., 2002, p. 22)

Lantos' (2001, p. 600) conception of CSR as good stewardship of society's economic and human resources is a reasonable and particularly appropriate one nowadays. Companies are seen as having an obligation to consider society's long-run needs and wants, which implies that they engage in activities which promote benefits for society and minimize the negative effects of their actions. However, the company should not be prejudiced by engaging in such activities. The mission of a company should not be restricted to the creation of profit for shareholders. Rather, it should be acknowledged as that of identifying opportunities that are beneficial both for the company and for society (Rodriguez et al., 2002, p. 142). Managers are not mere shareholders' agents. They are "builders of stakeholder relations" (ibid.).

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