Abstract and Keywords

This article follows the study of Garriga and Melé (2004), which distinguishes four groups of corporate social responsibility theories, considering their respective focus on four different aspects of the social reality: economics, politics, social integration, and ethics. The first one focuses on economics. Here the corporation is seen as a mere instrument for wealth creation. The second group focuses on the social power of the corporation and its responsibility in the political arena associated with its power. The third group focuses on social integration. It includes theories which consider that business ought to integrate. In describing each theory, this article commences with an overview, followed by a brief historical background, including the milestones of its development. Then, it outlines the conceptual bases of the theory, concluding with a brief discussion on the strengths and weaknesses of each theory.

Keywords: economics, politics, social integration, ethics, wealth creation

Introduction

In order to consider Corporate Social Responsibility (CSR) theories, the first difficulty is how to identify with and organize the great variety of existing approaches on CSR. Even the concept of CSR itself is far from being unanimous. Carroll (1999) has reviewed and discussed over 25 different ways that CSR is defined in the academic literature. Some of them are wider while others are narrower in their contents, but most definitions contain certain similarities. Some proposals of CSR are presented as a vague notion or even as a belief. Others, however, respond to a more or less elaborate theory on the firm and the purpose of business in society, in which CSR is a part. Those theories generally include a certain vision of the human being and society within a social philosophy framework, although sometimes in an implicit manner.

Among the attempts to classify CSR theories, three studies can be pointed out. Klonoski (1991) distinguishes three different kinds of theories. He calls the first group ‘fundamentalism’. It includes all positions that, in one way or another, claim (p. 48) that corporations are only legal artifacts and the only social responsibility of business is increasing profits in compliance with the laws. The second group is made up of those theories which defend the corporation's moral personhood and point to its moral agency. Consequently, corporations can be held morally responsible for their actions. The third group considers theories in which the social dimension of the corporation is particularly relevant. The roots of these theories are in political and ethical theories.

Windsor (2006) understands that there are three key approaches to CSR:

(1) ethical responsibility theory, which presents strong corporate self-restraint and altruistic duties and expansive public policy to strengthen stakeholders' rights,
Corporate Social Responsibility Theories

(2) economic responsibility theory, which advocates market wealth creation subject only to minimalist public policy and perhaps customary business ethics, and

(3) corporate citizenship, which language invokes a political metaphor which provides neither true intermediate positioning nor theoretical synthesis.

In a third study, Garriga and Melé (2004) distinguish four groups of CSR theories, considering their respective focus on four different aspects of the social reality: economics, politics, social integration, and ethics. The first one focuses on economics. Here the corporation is seen as a mere instrument for wealth creation. The second group focuses on the social power of the corporation and its responsibility in the political arena associated with its power. The third group focuses on social integration. It includes theories which consider that business ought to integrate social demands. The fourth group of theories focuses on ethics, including theories which consider that the relationship between business and society should be embedded with ethical values. Garriga and Melé have classified theories considering the main focus of each one, although they point out that in some cases this is not too easy, since some theories seem to focus on more than one aspect. In addition, they suggest that ‘the concept of business and society relationship must include these four aspects or dimensions and some connection among them must exist.’ (2004: 64)

This chapter follows this last study by discussing four theories of CSR, or more precisely, four theories about the responsibilities of business in society, which can be considered contemporary mainstream theories:

1. Corporate Social Performance, a theory basically grounded in sociology. This theory has some relation to the second group of Klonoski (1991).

2. The theory sometimes called ‘Shareholder Value Theory’ or ‘Fiduciary Capitalism’, which comes from a particular economic theory. There is close relationship with what Klonoski calls ‘fundamentalism’ and Windsor ‘economic responsibility theory’.

3. Stakeholder theory, which in its normative version is based on ethical perspectives. It can be related to ‘ethical responsibility theory’ of Wilson and with some theories included in the third group of Klonoski. (p. 49)

4. Corporate Citizenship theory (or approach), whose roots are on political studies. Windsor mentions it as one of the key approaches and Klonoski considers it as one of the theories included in his third group.

In describing each theory we will commence with an overview, followed by a brief historical background, including the milestones of its development. Then, we will outline the conceptual bases of the theory, concluding with a brief discussion on the strengths and weaknesses of each theory.

Corporate Social Performance

Overview

Corporate Social Performance (CSP) theory has evolved from several previous notions and approaches. In one of its prominent versions, Corporate Social Performance is understood as ‘the configuration in the business organization of principles of social responsibility, processes of response to social requirements, and policies, programs and tangible results that reflect the company’s relations with society’ (Wood, 1991b: 693). This theory maintains that business, apart from wealth creation, also has responsibilities for social problems created by business or by other causes, beyond its economic and legal responsibilities. This includes ethical requirements and discretionary or philanthropic actions carried out by business in favor of society. In other words, improving corporate social performance ‘means altering corporate behavior to produce less harm and more beneficial outcomes for society and their people’ (Wood, 1991a: 68).

In order to determine specific responsibilities, many authors insist on the importance of paying attention to social expectations regarding the firm’s performance and concern for social needs. Among other arguments for assuming CSR, it is stressed that business has power and power requires responsibility. It is also emphasized that society gives license to business to operate and, consequently, business must serve society not only by creating wealth, but also by contributing to social needs and satisfying social expectations towards business.

It also emphasizes the risk to which a company would be vulnerable if its performance was contrary to the
Corporate Social Responsibility Theories

expectations of those people who constitute the company’s social environment (Davis, 1975). In a positive sense, corporate reputation is also related to the acceptance of the community where a company is operating (Lewis, 2003). Nevertheless, the long-term economic consequences for the company, which are not always easy to evaluate, are not the main consideration for many authors, who point out that assuming social responsibilities is not considered (p. 50) primarily an economic question but a social and ethical matter: being responsible is doing the right thing.

Historical Background

Howard R. Bowen marked the beginning of the modern period of CSR literature with his book Social Responsibility of the Businessman, published in 1953. He started by asking the following: ‘What responsibility to society may businessmen reasonably be expected to assume?’ Then, he explained that the social responsibility of businessmen [at this time the presence of women in management was rare] ‘refers to the obligation of businessmen to pursue those policies, to make decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society’ (1953: 6). In a more detailed and pragmatic way, the Committee for Economic Development (1971) (USA) defined CSR as related to (i) products, jobs, and economic growth, (ii) societal expectations, and (iii) activities aimed at improving the social environment of the firm.

In the 1970s, new directions appeared in the business and society literature. They arose within a context of protests against capitalism and business and growing social concerns, which led to an increasing government regulatory procedures and formal requirements. At this time, Ackerman (Ackerman, 1973; Ackerman and Bauer, 1976), Sethi (1975), and others started to pay attention toward what was called ‘corporate responsiveness’, or adaptation of corporate behavior to social needs and demands, even acting in a pro-active manner. Sethi (1975) set out a three-level model, which was a predecessor of the current ‘corporate social performance’ theory. This model included: (i) social obligations, as response to legal and market constraints, (ii) societal responsibility, that is, congruent with societal norms, and (iii) social responsiveness (adaptive, anticipatory, and preventive).

The concept of ‘social responsiveness’ was soon widened to the concept ‘issues management’. The latter includes the former but emphasizes social and political issues which may impact significantly upon the process of corporate response. Considering ‘issues management’ attempts to minimize the ‘surprises’ which accompany social and political change by serving as an early warning system for potential environmental threats and opportunities.

Preston and Post (1975) introduced the notion of ‘public responsibility’. With this notion, they tried to define the function of organizational management within the specific context of public life. The term ‘public’ rather than ‘social’ was chosen ‘to stress the importance of the public process, rather than individual opinion and conscience, as the source of goals and appraisal criteria’ (1975: 112).

This approach provoked controversy among defenders of ‘corporate responsiveness’ which emphasizes the process rather than the content. Jones (1980) posited that social responsibility ought not to be seen as a set of outcomes but as a process. (p. 51) From this perspective, he was critical of abstract concept of CSR and particularly with the concept of ‘public responsibility’ proposed by Preston and Post. The latter replied to Jones by updating their main thesis and presenting practical applications (Preston and Post, 1981).

Carroll (1979), who first introduced the concept of ‘corporate social performance’, made a synthesis of the basic principle of social responsibility, the concrete issues for which social responsibility exists, and the specific philosophy of response to social issues. Carroll suggested that an entire range of obligations that business has to society must embody the economic, legal, ethical, and discretionary (philanthropic) categories. He included them in a ‘Pyramid of Corporate Social Responsibility’ (Carroll, 1991). More recently, Schwartz and Carroll (2003) have proposed an alternative approach based on three core domains (economic, legal, and ethical responsibilities) and a Venn model framework. The Venn framework yields seven CSR categories resulting from the overlap of the three core domains. The model is more complex but the essential concepts remain. In a global context, Carroll has applied his ‘pyramid’ understanding that ‘economic responsibility’ is to do what is required by global capitalism, ‘legal responsibility’ is to do what is required by global stakeholders, ‘ethical responsibility’ is to do what is expected by stakeholders, and ‘philanthropic responsibility’ is to do what is desired by global stakeholders (Carroll, 2004).
Wartick and Cochran (1985) extended the Carroll approach suggesting that corporate social involvement rests on the principles of social responsibility, the process of social responsiveness, and the policy of issues management. A new development came with Wood (1991b), whose model we will discuss next. This is probably the most complete approach on Corporate Social Performance considering social expectations. However, the Wood model has some limitations. Swanson (1995) has revised this model integrating business ethics perspectives.

In recent times, the social expectations considered in this model have become more specific in terms of actors, processes, and contents. Actors have multiplied. Immediate stakeholders, non-governmental organizations (NGOs), activists (sometimes even ‘shareholders’ activists’), media, communities, governments, and other institutional forces asking for what they consider corporate responsible practices. Some companies are establishing processes of dialogue with stakeholders in order to determine what should be an appropriate corporate social behaviour. Besides, more and more corporations are being pro-active in publishing reports on economic, social, and environmental performance, following the idea of triple-bottom line (Elkington, 1998). The Global Initiative Report (GIR) has become more and more popular as have certifications or reports, such as the UN Global Compact, the AA1000, SA8000, and others. All of this introduces more complexity into the corporate social performance models but, in essence, the conceptual foundations of this theory remain unalterable.

(p. 52) Conceptual Bases

The CSP model presented by Wood (1991b) is probably one of the most representative within this theory. It is a synthesis which includes: (i) principles of CSR, expressed on three levels: institutional, organizational, and individual; (ii) processes of corporate social responsiveness, and (iii) outcomes of corporate behavior.

The ‘Institutional Principle’ is also called ‘the Principle of Legitimacy’ and its origin is in Davis (1973). Davis presented interesting arguments based on ethics (human values and responsibility), social legitimacy (what society considers responsible), and a pragmatic vision of business through considering the consequences of an irresponsible use of power. He began his approach by emphasizing that responsibility goes with power, and business has power which has social impact (Davis, 1960). Consequently, business has to assume corresponding responsibility. He remarked that the factors that give rise to the social power of the firm are not completely internal to the firm but also external and their locus is unstable and shifting all the time from the economic to the social forum, and from there to the political forum and vice versa. Business needs social acceptance. ‘Because society changes’—he wrote—‘evidence suggests that the continued vigor of business depends upon its forthright acceptance of further socio-human responsibilities’ (1960: 76).

Davis formulated ‘the power-responsibility equation’ in these terms: ‘social responsibility of businessmen arises from the amount of social power they have’ (1967: 48), an ‘equation’ which goes along with the ‘Iron Law of Responsibility’, which states that ‘those who do not take responsibility for their power, ultimately shall lose it’ (Davis and Blomstrom, 1966: 174; Davis, 1967: 50). Finally, he applied these ideas to business by saying: ‘Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it’ (Davis, 1973: 314).

Davis distinguished two types of social responsibilities for business people: first, socio-economic responsibility for general economic welfare; and second, socio-human responsibility for preserving and developing human values. However, he rejected two extreme positions: first, those who defend businesses having ‘no responsibility’ for what they are doing, that is, business stays in power but accepts no responsibility; and second, he also refused a sense of ‘total responsibility’, that is, business is responsible for ‘everything’ (Davis, 1967).

Wood understood the ‘Organizational Principle’ or ‘Principle of Public Responsibility’ following Preston and Post (1975, 1981), who proposed the public responsibility principle, that is ‘widely shared and generally acknowledged principles directing and controlling actions that have broad implications for society at large or major portions thereof’ (Preston and Post, 1975: 56). In accordance with this view, business should adhere to the standards of performance in law and the existing public policy process.

(p. 53)

At the core of the ‘Public Responsibility’ approach presented by these scholars lies the idea that business and society are two interpenetrating systems. They emphasized the interdependence between social institutions. This
differs from the functional theory of the business-society relationship, in which every social institution (family, school, business, etc.) is mono-functional. Considering business and society are interpenetrating systems, firms should be socially responsible, because they exist and operate in a shared environment.

For Preston and Post standards come from public policy, but understanding that ‘public policy includes not only the literal text of law and regulation but also the broad pattern of social direction reflected in public opinion, emerging issues, formal legal requirements and enforcement or implementation practices’ (Preston and Post, 1981: 57). They recognized that discovering the content of the principle of public responsibility is a complex and difficult task, variable over time, which requires substantial management attention.

At the same time, Preston and Post are in favor of business intervention in the public policy process especially with respect to areas in which specific public policy is not yet clearly established or is in transition: ‘It is legitimate—and may be essential—that affected firms participate openly in the policy formation’ (Preston and Post, 1981: 61).

Wood (1991b), without accepting in full Preston and Post's theory, understands business and society relations in a similar way, as 'interwoven rather than being distinct entities'. Hence, social expectations have direct influence on the shaping of CSR.

Preston and Post (1975) analyzed the scope of managerial responsibility in terms of the 'primary' and 'secondary' involvement of the firm in its social environment. Primary involvement includes the essential economic tasks of the firm, such as locating and establishing its facilities, procuring suppliers, engaging employees, carrying out its production functions, and marketing products. It also includes legal requirements. Secondary involvements follow (e.g. career and earning opportunities for individuals), arising from the primary activity of selection and advancement of employees.

The 'Individual Principle' is, for Wood, 'the Principle of Managerial Discretion'. Since managers are moral actors, they are obliged to exercise such discretion, within the very domain of CSR, as is available to them, towards socially responsible outcomes. In other words, this principle implies that ‘because managers possess discretion, they are personally responsible for exercising it and cannot avoid this responsibility through reference to rules, policies, or procedures’ (Wood, 1991b: 699).

Within the 'Processes of Corporate Social Responsiveness', Wood (1991b) includes ‘environmental assessment’, adapting the organization to its environment in order to survive, ‘stakeholder management', analyzing stakeholder relationships and (p. 54) processes in order to manage interdependences and relations correctly, and ‘issues management’, which includes external issues, such as public-private partnership, community involvement, social strategies, etc. and internal issues such as corporate ethical programs, corporate codes of ethics, etc. Finally, 'outcomes of corporate behavior' include studies on social impacts, social programs, and social policies.

**Strengths and Weaknesses**

The CSP model is a synthesis of relevant developments on CSR up to the 1980s. Actually, it ‘provides a coherent structure for assessing the relevance of research topics to central questions in the business and society field’ (Swanson, 1995: 43). However, this model suffers from several weaknesses. The first comes from the vagueness of the concept of CSR. However, this is not the most important, since this can be partially solved by integrating stakeholder perspectives within those traditional approaches (Carroll, 1991, 2004).

More important is the weakness of the lack of integration between ethical normative aspects and business activity. Wood's institutional principle, which searches for legitimacy, does not advocate the moral motivation of respect (Swanson, 1995: 48). But, apart from that, this theory only emphasizes the social control of business by paying attention to public responsibility. As Freeman and Liedtka (1991) have suggested, CSR appears exclusively to give a human face to capitalism, but with a complete separation of economics and ethics.

Actually, from the very beginning, proponents of this model struggled for a business respectful to all people, defending human rights and human conditions in the workplace. In spite of the ethical content of these goals, many pioneers in CSR literature were reluctant to connect CSR with ethics, maybe because of the dominant ethical relativism in those days or to avoid discussing what is morally right or wrong. Instead, they preferred to use terms such as 'values of our society', 'social expectation', 'performance expectation', and so forth, instead of 'ethical
duties’ or equivalent expressions. Thus, as we have seen above, Bowen (1953) talked about ‘objectives and values of our society’. Similarly, Frederick affirmed that social responsibility ‘means that businessmen should oversee the operations of an economic system that fulfills the expectations of the public’ (1960: 60), and Sethi considered that CSR ‘has to be congruent with the prevailing social norms, values, and expectations of performance’ (Sethi, 1975: 62). Archie B. Carroll (1979) also emphasized the role of the changing expectations of society on the contents of the CSR. Even when he talked about ethics responsibilities he meant the kinds of behaviors and ethical norms that society expects business to follow (Carroll, 1999: 283 and 1979: 500).

Other early scholars, however, without forgetting social expectations and demands, took into consideration ethical requirements as well. Thus, Eells et al., (p. 55) wrote that ‘when people, talk about corporate social responsibilities they are thinking in terms of the problems that arise when the corporate enterprise casts its shadow on the social scene, and of the ethical principles that ought to govern the relationships between the corporation and society’ (1961: 457–8). Likewise, Davis, who was a great champion of CSR in the 1960s and 1970s, asserted that ‘the substance of social responsibility arises from concern for the ethical consequences of one's acts as they might affect the interest of others’ (1967: 46). Reference to ethical principles and ethical values became more frequent after the business ethics movement started by the late 1970s, and some relevant scholars, such as Frederick (1986), advocate for normative ethical foundation of CSR.

Because the CSP model does not integrate economic and duty-aligned perspectives, some attempts have been made to solve this problem (Swanson, 1995, 1999). However, and in spite of some advances, we are still far from having a sound ‘integrated theory’ of CSP.

Shareholder Value Theory

Overview

Shareholder Value Theory (SVT) or Fiduciary Capitalism holds that only social responsibility of business is making profits and, as the supreme goal, increasing the economic value of the company for its shareholders. Other social activities that companies could engage in would only be acceptable if they are prescribed by law or if they contribute to the maximization of shareholder value. This is the theory that underlies neoclassical economic theory, primarily concerned with shareholder utility maximization. The Nobel laureate Milton Friedman is the paramount representative of this view. He wrote, with his wife Rose Friedman: ‘In such an economy, there is one and only one social responsibility of business—to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competitions, without deception or fraud’ (Friedman and Friedman, 1962: 133).

In a famous article published in the New York Times Magazine in 1970, Friedman repeated and completed this approach by saying: ‘the only one responsibility of business towards the society is the maximization of profits to the shareholders, within the legal framework and the ethical custom of the country’ (1970).

This approach, which currently is presented as ‘shareholder value-oriented’, usually takes shareholder value maximization as the supreme reference for corporate (p. 56) governance and business management. Generally, ‘shareholder value-oriented’ goes along with the Agency Theory (Ross, 1973; Jensen and Meckling, 1976), which has been dominant in many business schools in the last few decades. In this theory, owners are the principal and managers are the agent. The latter bear fiduciary duties towards the former, and are generally subject to strong incentives in order to align their economic interests with those of the owners, and with the maximization of shareholder value.

Historical Background

The SVT has been quite common in the USA and other Anglo-Saxon countries, supported by the law, at least until the mid-twentieth century.

In the 1960s and 1970s a big debate took place between Friedman and others who defended the business enterprise as being responsible only for making as much profit as possible, always in compliance with the law, and in contrast, scholars including Davis (1960, 1973), Walton (1967), and Andrews (1971) who argued that
corporations had much power and power entails responsibility, therefore, corporations had responsibilities beyond the economic and legal.

Friedman's position was clearly against the concept of social responsibility currently held in the 1960s, emphasizing the responsibility of business facing social problems, including those such as pollution created by companies themselves. He wrote: ‘Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible’ (Friedman and Friedman, 1962: 133). Likewise, Theodor Levitt, who was editor of Harvard Business Review, wrote about the danger of corporate social responsibilities. In his own words: ‘Corporate welfare makes good sense if it makes good economic sense—and not infrequently it does. But if something does not make economic sense, sentiment or idealism ought not to let it in the door’ (1958: 42).

Since then, and in line with Friedman, some economists have argued that the market, instead of managers, should have control over the allocation of resources and returns. The starting point was the belief that the market is always superior to organizations in the efficient allocation of resources, and managers may lead companies in favor of their own interests and not of shareholder interests. If the rate of return on corporate stock was taken as the measure of a superior performance and managers' remuneration reflects this rate, opportunistic behaviors of managers would be avoided. In this view shareholders are seen as the principal and managers as agents of this principal. The expected role of the manager is exclusively to serve the principal interests. Thus agency theory, and the maximization of shareholder value, became a new creed (Lazonick and O'Sullivan, 2000), reinforcing the Friedman position. Under this philosophy, from the late 1970s, merger and takeover activity was widely employed, especially in American and British companies, to discipline managers who failed in their responsibility to enhance shareholder value.

Adherents of this view considered CSR as a threatening dragon for shareholder value creation. However, an interesting answer came from Peter Drucker. This well-known management ‘guru’, who had already mentioned social responsibility of business (1954), reintroduced this topic three decades later, stressing the idea that profitability and responsibility were compatible, and the challenge was to convert business social responsibilities into business opportunities. He wrote: ‘... the proper “social responsibility” of business is to tame the dragon, that is, to turn a social problem into economic opportunities and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth’ (1984: 62). A similar view was held by Paul Samuelson, another Nobel laureate, arguing that ‘a large corporation these days may not only engage in social responsibility, it had damn well better try to do so’ (1971: 24, quoted by Davis, 1973).

Subsequently, others have insisted that social contributions can be profitable, presenting CSR as a question of enlightened self-interest (Keim, 1978). As a result, arguments have been made for cause-related marketing (Murray and Montanari, 1986; Varadarajan and Menon, 1988; Smith and Higgins, 2000), corporate philanthropy in a competitive context (Porter and Kramer, 2002, 2006), and strategies for the bottom of the economic pyramid, that is, strategies which can simultaneously serve the poor and make profits (Prahalad, 2003).

Today, it is commonly accepted that under certain conditions the satisfaction of social interests contributes to maximizing shareholder value and most large companies pay attention to CSR, particularly in considering the interests of people with a stake in the firm (stakeholders). In this respect, Jensen (2000) has proposed what he calls ‘enlightened value maximization’. This concept specifies long-term value maximization or value-seeking as the firm's objective, which permits some trade-offs with relevant constituencies of the firm.

However, it is hard to affirm that all practices of CSR are profitable. Burke and Logsdon (1996) have proposed the concept of ‘Strategic Corporate Social Responsibility’ (SCSR) to refer to policies, programmes, and processes which yield ‘substantial business related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission’ (p. 496). On this perspective, there is an ‘ideal’ level of CSR determinable by cost-benefit analysis and depending on several factors (McWilliams and Siegel, 2001). In this way, CSR becomes compatible with Friedman’s vision, if one carefully calculates what the optimal level of social output for maximizing shareholder value is in each situation (Husted and Salazar, 2006).

(p. 58) Conceptual Bases
Milton Friedman, in his *New York Times Magazine* article, made several references to values such as: ‘free society’, ‘free-enterprise’, ‘private-property system’, and, before stating that the only responsibility of business is to increase profits, he establishes as a condition: ‘In a free society...’.

Again, when he explains that a corporate executive is an employee of the owners, he gives as a premise: ‘In a free-enterprise, private-property system...’. In the same sense, Friedman’s criticisms of his counterparts who defend corporate social responsibilities appeal to the fact that their theories ‘undermine the basis of a free society’; they are a ‘fundamental subversive doctrine’. He adds that those who spread the idea of business as not concerned ‘merely’ with profits ‘are preaching pure and unadulterated socialism’. It is a doctrine—he said—that ‘harms the foundation of a free society’. Talking about voluntary cooperation you find the same logic: ‘In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary...’.

Shareholder Value Theory contains several philosophical assumptions. Those tend to originate in the seventeenth century, particularly from the British philosopher John Locke, who, from an atomistic vision of society, wrote extensively on ‘natural’ laws of liberties for the individual and the necessity of social contracts for living together, as buyers and sellers, and championing a limited government. These ideas arrived in America in the eighteenth century and had an enormous influence on the US Constitution and, to a great extent, served as an economic and business framework along with Adam Smith’s ideas on a free market economy.

Human beings are seen as individuals with desires and preferences. Some civic rights such as the rights to life, private property, and freedom are particularly emphasized. Society is no more than the sum of the individuals and the good of society is only the agreement on individual interests. This individualism is compatible with a sense of ‘equality’ understood as ‘equal opportunity’ and with the formation of ‘interest group pluralism’ as a key means of directing society.

Private property is considered practically as an absolute right, limited only by a few legal restrictions to avoid abuses. Private property is crucial, since it is considered the best guarantee of individual rights. The right of property is traditionally seen as a concept that assures individual freedom from predatory powers of sovereign. Thus, Sternberg (2000) strongly defends property rights, and argues that owners are legally entitled to the (residual) fruits of their financial investment and any other use is unjust.

Regarding the concept of the firm, SVT generally accepts that ‘a corporation is an artificial person’, that is to say, a creation of the law (Friedman, 1970), (p. 59) which establishes duties and rights for the corporation. Frequently, the firm is seen ‘a nexus of contracts’, especially in the economic neoclassical literature (Williamson and Winter, 1991). In the agency theory, contracts adopt a relation of principal-agent (Jensen and Meckling, 1976).

This vision of the corporation comes from legal fiction or from a hypothesis employed in economic and financial theory. But, to some extent, it is also a part of the reality one can observe everywhere: those who own business corporations hire people to manage them and these in turn hire labor to work in them. Managers and workers are employees of the owners of the business. On behalf of the company managers establish a set of contracts with suppliers, creditors, and buyers. So it seems unquestionable that in the firm there is a net of contracts and as Friedman points out, ‘the persons among whom a voluntary contractual arrangement exists are clearly defined’ (1970).

Coinciding with other theories, SVT accepts as a matter of fact democracy, market economy, and liberties included in economic activity, such as freedom of contract, freedom of association, freedom to start up a business, to hire labor, for choose products and to trade. More controversial is another assumption implicit in this theory: a full separation of the functions of the public and private spheres. So business is considered as a private and autonomous activity only restricted by the regulations of the government, without responsibility other than to make profits and create wealth. This mono-functional view leads to the rejection of responsibilities for the consequences of business activities. Thus, responsibility for the pollution of a factory has to be taken into account only if there is a legal requirement to avoid it. Friedman literally says that it is not acceptable ‘to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving environment’ (1970). In other words, the public good has to be pursued exclusively by public servants and politicians, but not by private businesses. So in Friedman’s view, if the corporate executive assigns corporate resources to ‘social objectives’ that means that he or she is imposing ‘taxes’ on shareholders.
As a consequence of property rights, those who own the means of production hire managers, who have to defend the owners’ interests. This raises a crucial point: corporate management has fiduciary duties towards the owners. These fiduciary duties, as Friedman (1970) stated, come from considering that ‘a corporate executive is an employee of the owners of the business’. Consequently, ‘he [or she] has direct responsibility to his employers’.

The purpose of business in society, according to Friedman (1970), is to generate profits. This purpose is expressed by this criticism towards those who state that ‘business is concerned ‘merely’ with profits.’ That is the exclusive responsibility of business. In his own words: ‘there is one and only social responsibility of (p. 60) business:... increase its profits’ (Friedman, 1970). Nowadays, it is expressed in a wider way by saying the corporation has to be oriented to ‘maximizing shareholder value’.

In the SVT there are two basic normative standards: the fiduciary duties of corporate executives and the compliance with the law, with a minimalist public policy. The fiduciary duties of corporate executives towards the shareholders or the company’s owners become an important standard for responsibilities. According to Friedman (1970), ‘a corporate executive is an employee of the owners of the business’ and therefore ‘he has a direct responsibility to his employers’. His or her responsibility is to conduct the business in accordance with the owners’ desires, which generally will be to make as much money as possible.

Corporate structure in shareholder theory generally includes a decision-making structure based on principal-agency theory and to facilitate the fiduciary duties of executives towards shareholders. Likewise, the role of the corporate governance is seen basically to defend the shareholders’ interests. Managerial systems also have to be designed in order to maximize shareholder wealth.

The second standard covers observance of the ‘rules of the game’ of open and free competition and abiding the law. Some defend a mitigated theory in which some other voluntary responsibilities can also be acceptable, according to a customary ethics.

**Strengths and Weaknesses**

Those who support shareholder theory usually emphasize the efficiency of this model for creating wealth. Managing and governing a company towards maximization of shareholder value is not only to enrich the shareholders, but also to achieve a better economic performance of the whole system. It is argued that conducting business for self-interest, presenting profits as the supreme goal, and operating under conditions of free and competitive markets within a minimalist public policy are the best conditions for wealth creation. For Jensen (2000), two centuries of experience strongly support this thesis. The above-mentioned conditions provide incentives for innovation, cutting costs and prices, producing products with economic added value, and having capital for future investments. At the same time, the tax system permits a part of the wealth generated to be shared by society through governmental mediation. The negative social impacts of business can be avoided through appropriate laws and government actions along with private charity, which can deal with inequalities and other social problems created by markets.

This approach is widely supported by the law and many companies are running under the guidance of this model, especially in Anglo-Saxon countries. However, there are also many critics who point out several weaknesses of this theory. (p. 61) To begin with, economic performance is not the whole public good. Profits can go up, while workers are exploited, natural resources are irreversibly exhausted and the environment seriously damaged.

Adam Smith talked about the ‘invisible hand’ which provides public good, and the idea is still latent in many approaches supporting Shareholder Value Theory. Kenneth Arrow (1973), who criticized both the efficiency of markets and the factual separation of political and economical power, argues that the effects of externalities through asymmetric information (and for social purposes) destroys the invisible hand of Adam Smith and the connection between the micro and macro levels, and therefore the efficiency of markets.

In practice, shareholder maximization value frequently reflects short-term profits, such as a reduction in personnel expenses, rather than long-term profitability. There is increasing evidence that economic success in the long run cannot be achieved unless management takes into account not only shareholder interests, but also those of employees, customers, suppliers, local communities, and other groups with a stake in companies’ activities (stakeholders). A successful business firm needs much more than self-interest and concern for profits. It requires
trust, a sense of loyalty, and good relationships with all stakeholders and, as a consequence, an enduring cooperation among those who are involved in or are interdependent with the firm (Hosmer, 1995; Kay, 1993; Kotter and Heskett, 1992).

Alienating managers with shareholder interests, through high remuneration strongly connected with share value (stocks, stock options), is not always best for the company (Delves, 2003). Merger and takeover activities, regardless of their effects on disciplining managers, can cause economic instability and insecurity (Porter, 1992).

Property rights considered almost as an absolute right, which is pivotal to Shareholder Value Theory, have also been criticized as not acceptable for modern theories of property (Donaldson and Preston, 1995). Handy (1997) argues that the old language of property and ownership no longer serves us in the modern world because it no longer describes what a company really is. Capital is neither the only asset nor the main asset of a company. People who work in the corporation are, increasingly, its principal asset.

Regarding constraints introduced by the law, critics remember that laws are imperfect and their effects limited. It is neither possible nor convenient to regulate everything in business life. Furthermore, laws generally come after some undesirable impact occurs. Moreover, loopholes can easily be found in the law and many regulations strangle business creativity and entrepreneurial initiatives. In addition, a strong interventionism with laws, rules, and other governmental actions is opposed to minimalist regulation of markets, also required for strong free competition.

Last, but not least, some criticisms have been made of this theory, and particularly of Friedman's approach, for its narrow view of human beings, limited (p. 62) to freedom of election and self-interest, the atomistic vision of society, and the autonomous conception of business activity within society (Davis, 1960; Preston and Post, 1975; Sethi, 1975; Grant, 1991; among others).

**Stakeholder Theory**

**Overview**

In contrast to the ‘Shareholder Theory’, the ‘Stakeholder Theory’ takes into account the individuals or groups with a ‘stake’ in or claim on the company. In a very general sense, stakeholders are groups and individuals who benefit from or are harmed by corporate actions. From this perspective, the notion of CSR means that ‘corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contact’ (Jones, 1980: 59–60).

However, not everybody describes business responsibilities towards the firm's stakeholders as CSR. For instance, Freeman and Liedtka (1991), who defend the stakeholder approach, maintain that CSR is not a useful idea and ought to be abandoned. They stated that the question of social responsibility just doesn't come up if stakeholders are broadly defined to include suppliers, community, employees, customers, and financiers. They wrote: ‘Once we come to see each of these groups, and the individuals within them, as legitimate partners in the dialogue about ‘what is this corporation going to be,’ the social responsibility of the resulting entity is moot’. Instead, they suggested corporations have responsibility to all the parties affected by business activity, that is, *responsibilities towards the stakeholders* of the firm.

More recently Freeman and collaborators have insisted that the authentic responsibility is to create value for stakeholders, including the local community. Thus, Freeman and Velamuri (2006) have suggested that the main goal of CSR is to create value for stakeholders fulfilling the firm's responsibilities to them, without separating business from ethics. Consequently, they have proposed replacing CSR with ‘company stakeholder responsibility’, not just as a semantic change but as a different interpretation of the CSR meaning. Previously Wheeler et al. (2003) presented a proposal to reconcile the stakeholder approach, CSR, and sustainability with the creation of value (economic, social, and ecologic) for constituencies of the firm, not only economic value for shareholders. Apart from this clarification, there is no doubt that this ‘stakeholder value-oriented’ is a different theory for understanding the responsibilities of business, and is therefore relevant here.
Although there are a variety of approaches to the ‘stakeholder theory’, a sound definition of this theory could be the following: ‘The firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services’ (Clarkson, 1995).

Stakeholder theory was first presented as a managerial theory. ‘The stakeholder concept’ wrote Freeman in 1984, ‘provides a new way of thinking about strategic management—that is, how a corporation can and should set and implement direction. By paying attention to strategic management executives can begin to put a corporation back on the road to success.’ (p. vi). However, it is also a normative theory which requires management to have a moral duty to protect the corporation as a whole and, connected with this aim, the legitimate interests of all stakeholders. In Evan and Freeman’s words: ‘management, especially top management, must look after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders’ (1988: p. 151).

In the stakeholder theory, the corporation ought to be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and local communities, and to maintain the survival of the firm (Evan and Freeman, 1988) The decision-making structure is based on the discretion of top management and corporate governance, and frequently it is stated that such governance should incorporate stakeholder representatives.

In spite of these arguments, if we take CSR in a broad sense, then stakeholder theory can be considered a CSR theory, because it provides a normative framework for responsible business towards society.

**Historical Background**

The word ‘stakeholder’ was used for the first time in 1963 in an internal memorandum at the Stanford Research Institute, although the concept of constituencies of a company had existed before (Freeman, 1984; Preston and Sapienza, 1990). In 1983, Freeman and Reed contrasted the notions of ‘stockholder’ and ‘stakeholder’ in the context of corporate governance. In 1984, R. Edward Freeman published the landmark book *Strategic Management: A Stakeholder Approach* as a new conceptual framework for management. Four years later, Evan and Freeman presented a normative stakeholder theory based on a Kantian approach. In 1995, Donaldson and Preston examined in depth the foundations of the normative stakeholder theory. Since then, this model has spread considerably and Freeman, alone or with collaborators, has deepened his initial work, enlarging it, clarifying some aspects, and introducing some modifications (Freeman and Evan, 1990; Freeman and Liedtka, 1991; Freeman and Gilbert, 1988; Wicks et al., 1994; Freeman, 1994, 1995, 1997, 1999; Freeman and Phillips, 2002; Phillips et al., 2003; Freeman et al., 2004; Dunham et al., 2006; Freeman and Velamuri, 2006; among others). Other authors have also made further developments. Phillips (2003a) echoed some of these works.

**Conceptual Bases**

The term ‘stakeholder’, closely related to ‘stockholder’, was meant by Freeman ‘to generalize the notion of stockholder as the only group to whom management needs to be responsible’ (1984: 31). ‘Stakeholder’ can be taken in two senses: in a narrow sense, the term stockholder includes those groups who are vital to the survival and success of the corporation; in a wide sense this includes any group or individual who can affect or is affected by the corporation (Freeman and Reed, 1983; Freeman, 1984). Thus, ‘stakeholders are identified by their interests in the affairs of the corporation’ and it is assumed that ‘the interests of all stakeholders have intrinsic value’ (Donaldson and Preston, 1995: 81).

The stakeholder theory basically shares the same convictions as the shareholder theory regarding democracy and market economy principles. However, on other points they are quite divergent. The firm is seen as an ‘abstract entity’ where a variety of interests converge rather than as a ‘set of contracts’. The purpose of the firm is related to the interests of different individuals or groups who affect or are affected by the activities of the firm. In other words, the purpose of the firm is ‘to serve as a vehicle for coordinating stakeholder interests’ (Evan and Freeman, 1988: 151).

Evan and Freeman base the legitimacy of the stakeholder theory on two ethical principles, respectively called by these authors: ‘Principle of Corporate Rights’ and ‘Principle of Corporate Effects’. Both principles take into account Kant’s dictum of respect for persons. The former establishes that ‘the corporation and its managers may not violate
the legitimate rights of others to determine their future’. The latter focuses on the responsibility for consequences by stating that ‘the corporation and its managers are responsible for the effects of their actions on others’.

Two more principles come to guide managerial decision-making known as P1 and P2 ‘Stakeholder Management Principles’ (Evan and Freeman, 1988):

P1: The corporation ought to be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees and local communities. The rights of these groups must be ensured, and, further the groups must participate, in some sense, in decisions that substantially affect their welfare.

P2: Management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interest of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group.

Donaldson and Preston (1995) argue that property rights must be based upon an underlying principle of distributive justice. They also contend that all the critical (p. 65) characteristics underlying the classical theories of distributive justice are present in stakeholder theories. They conclude that the normative principles which support the contemporary pluralistic theory of property rights provide the foundation for stakeholder theory.

Several authors, accepting the basic stakeholder framework, have used different ethical theories to elaborate different approaches to the stakeholder theory, among others, Feminist Ethics (Wicks, Gilbert, and Freeman, 1994; Burton and Dunn, 1996), the Common Good Theory (Argandoña, 1998), the Integrative Social Contracts Theory (Donaldson and Dunfee, 1999), and the Principle of Fairness (Phillips, 1997). Freeman accepted a pluralistic ethical approach by presenting the stakeholder model as a metaphor where different ethical theories find room (Freeman, 1994). Balancing stakeholders’ interests could be quite complex. Carson (1993: 174) made an interesting distinction which helps us to deal with those different interest:

Business executives have positive duties to promote the interests of all stakeholders. (These are prima facie duties.) But the duties to some stakeholders are more important than the duties to other stakeholders. Thus, sometimes lesser interests of more important stakeholders take precedence over the greater interests of less important stakeholders. Positive duties to stakeholders are constrained by negatives duties not to lie or break the law, etc.

In order to make this theory practical, seven Principles of Stakeholder Management have been proposed by The Clarkson Center for Business Ethics (1999):

**Principle 1:** Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders, and should take their interests appropriately into account in decision-making and operations.

**Principle 2:** Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation.

**Principle 3:** Managers should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder constituency.

**Principle 4:** Managers should recognize the interdependence of efforts and rewards among stakeholders, and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.

**Principle 5:** Managers should work cooperatively with other entities, both public and private, to ensure that risks and harms arising from corporate activities are minimized and, where they cannot be avoided, appropriately compensated.

**Principle 6:** Managers should avoid altogether activities that might jeopardize inalienable human rights (e.g. the right to life) or give rise to risks which, if clearly understood, would be patently unacceptable to relevant stakeholders.

**Principle 7:** Managers should acknowledge the potential conflicts between (a) their own role as corporate
stakeholders, and (b) their legal and moral responsibilities for the interests of all stakeholders, and should address such conflicts through open communication, appropriate reporting and incentive systems and, where necessary, third party review.

These principles propose a normative model for management. It is not a rigid code to be applied but a set of guidelines respecting stakeholders’ legitimate interests and rights. They combine both the above-mentioned philosophical principles and some ‘best managerial practices’.

**Strengths and Weaknesses**

Several strengths can be mentioned regarding stakeholder theory. First, this theory seems ethically superior to maximizing shareholder value because it takes into consideration stakeholder rights and their legitimate interests, and not only what is strictly required by law in manager—stakeholder relations. Consequently, managerial duties are wider than management fiduciary duties to the shareholders. In addition, the consideration of property rights fit better with justice requirements than the Shareholder Value Theory. Finally, this theory, at least in its original formulation, is more respectful of human dignity and rights.

It also contributes to a pedagogical language more in accordance with recognizing such dignity than other kinds of business language which tend to suggest people are mere human resources and a corporation simply a matter of ownership, which is bought and sold, sometimes without considering that the corporation is basically formed by persons. It is in line with Handy’s argument that ‘the language and the measures of business need to be reversed. A good business is a community with purpose, and a community is not something to be “owned”. A community has members, and those members have rights, including the right to vote or express their views on major issues’ (Handy, 2002: 52).

A second strength, is that the stakeholder theory superseded the conceptual vagueness of CSR by addressing concrete interests and practices and visualizing specific responsibilities to specific groups of people affected by business activity (Blair, 1995; Clarkson, 1995).

As a third strength, it can be pointed out that this is not a mere ethical theory disconnected from business management, but a managerial theory related to business success. The normative approach comes later and is closely connected with managerial decision-making. Stakeholder management is well accepted in many companies and provides a guideline which can lead to business success in the long term (e.g. see Royal Society of Arts, 1995; Collins and Porras, 1994), although to establish sound conclusions on the relationship between stakeholder theory and financial performance requires further research (Berman et al., 1999).

Along with these strengths, this theory also has weaknesses, or at least, some critics. Criticisms, sometimes take the form of critical distortions, and at other times of friendly misinterpretations (Phillips et al., 2003). Among the latter are those who (p. 67) consider that the stakeholder theory is socialism and refers to the entire economy or interpret it as a comprehensive moral doctrine. It is also a misinterpretation to apply stakeholder theory only to corporations and to think that this theory requires legal changes.

Some critics of stakeholder theory argue that it cannot provide a sufficiently specific objective function for the corporation, since the balancing of stakeholder interests abandons an objective basis for evaluating business actions (Jensen, 2000; Sundaram and Inkpen, 2004). This does not seem a strong objection since objective functions, algorithms, and mathematics, though useful in some respects, are not sufficient as a guide for human life, including business. In addition, stakeholder management is not necessarily against shareholders. As Freeman et al. (2004) note: (i) the goal of creating value for stakeholders is decidedly pro-shareholder, (ii) creating value for stakeholders creates appropriate incentives for managers to assume entrepreneurial risks, (iii) having one objective function will make governance and management difficult, if not impossible, (iv) it is easier to make stakeholders out of shareholders rather than vice versa, and (v) in the event of a breach of contract or trust, shareholders, compared with stakeholders, have protection (or can seek remedies) through mechanisms such as the market price per share.

Stakeholder theory has also been accused of being an excuse for managerial opportunism (Jensen, 2000; Marcoux, 2000; and Sternberg, 2000). A manager is able to justify self-serving behavior by appealing to the interests of those stakeholders who benefit. Hence the stakeholder theory, states Sternberg, ‘effectively destroys
business accountability... because a business that is accountable to all, is actually accountable to none’ (2000: 51. f) Phillips et al. (2003) reply that managerial opportunism is a problem, but it is no more a problem for stakeholder theory than the alternatives. Furthermore, because a manager can attempt to justify self-serving behavior by reference to some stakeholder group does not mean that the justification is a persuasive or viable one. They also argue that stakeholder groups, in certain conditions, will maintain managerial accountability.

Another criticism is that stakeholder theory seems to be primarily concerned with the distribution of final outputs (Marcoux, 2000). However, this is more than questionable. Actually, ‘stakeholder theory is concerned with who has input in decision-making as well as with who benefits from the outcomes of such decisions. Procedure is as important to stakeholder theory as the final distribution’ (Phillips et al., 2003: 487).

Several criticisms come from accepting that managers bear a fiduciary duty to all stakeholders and that all of them ought to be treated equally, balancing their interests (Marcoux, 2000, 2003; Sternberg 2000). Marcoux (2003) argues that stakeholder—manager relations contemplated by stakeholder theorists are necessarily non-fiduciary, while stakeholder—manager relations possess the features that make fiduciary duties morally necessary to those relations. He concludes that stakeholder theory is morally lacking because (i) it fails to account for shareholders being (p. 68) owed fiduciary duties, and (ii) it treats all stakeholders’ interests equally despite shareholders’ legitimate claim to managerial partiality as required by the fiduciary duties owed to them. Here there could be some misunderstanding regarding legitimacy (Phillips, 2003b). Only legitimate interests should be considered in stakeholder theory. Gioia (1999) adds that managers do not find credible a normative theory based on voices shouting from the sidelines that organizational decision-makers should do the right thing. He believes that stakeholders do not adequately represent the complex social, economic, and organizational realities managers face.

It has also been objected that stakeholder theory admits a pluralistic set of interpretations (e.g. feminist, ecological, fair contracts, etc.). Hummels (1998) argues that ‘each interpretation provides us with a different set of stakeholders and stresses the importance of specific values, rights and interests. Hence, different stakeholder interpretations lead to different distribution of benefits and burden, of pleasures and pain, of values, rights and interests’ (p. 1404). This could be a more serious problem if stakeholder theory does not adopt a sound ethical theory and if the manager does not act properly.

Another weakness of this theory concerns stakeholder representation in corporate decision-making. This point has difficulties in both justification and implementation. Etzioni (1998) argues that although the theory can justify stakeholders taking part in corporate governance, it cannot be implemented without affecting the common good: ‘while all stakeholders and not only shareholders have fair claims to a voice in corporate governance, recognizing such claims may be damaging to the well-being of the economy, and hence injurious to the common good. It might be further maintained that such consideration should outweigh the fairness claim’ (Etzioni, 1998: 688).

To sum up, the normative ‘stakeholder theory’ or ‘company stakeholder responsibility’ needs some improvements, but it seems a powerful theory of the business-society relationship.

**Corporate Citizenship**

**Overview**

For decades, business leaders have been involving their companies in philanthropic activities and donations to the community where businesses operated. This has been understood as an expression of good corporate citizenship. This meaning is still accepted by some people. Thus, for Carroll, ‘be a good corporate citizen’ includes ‘actively engaging in acts or programs to promote human welfare or goodwill’ (1991: 42) and ‘be a good global corporate citizen’ is related to philanthropic (p. 69) responsibility, which ‘reflects global society’s expectations that business will engage in social activities that are not mandated by law nor generally expected of business in an ethical sense’ (2004: 118). However, since the 1990s and even earlier this concept has expanded from its traditional meaning, and the language of corporate citizenship (CC) has frequently been used as equivalent to CSR (Wood and Logsdon, 2002, and Matten et al., 2003, among others). But beyond these two meanings, in the last few years, some scholars have suggested that the notion of corporate citizenship is actually a different way of understanding the role of business in society. Thus, Birch (2001) sees CC as an innovation. While CSR is more concerned with
Corporate Social Responsibility Theories

social responsibilities as an external affair, CC suggests that business is a part of the society. Logsdon and Wood believe that ‘this linguistic change [from corporate social responsibility to corporate citizenship] contains a profound change in normative understanding of how business organization should act in respect to stakeholders’ (2002: 155). Similarly, Windsor thinks of ‘corporate citizenship as a managerial movement that effectively substitutes a different conception, as well as language, for responsibility’ (2001b: 239). For their part, Moon et al. (2005) suggest that corporate citizenship is a metaphor for business participation in society.

Historical Background

The term ‘corporate citizenship’ was introduced in the 1980s into the business and society relationship mainly through practitioners (Altman and Vidaver-Cohen, 2000; Windsor, 2001a). However, the idea of the firm as citizen had already been floated by several pioneers in the CSR field, including McGuire (1963) and Davis (1973). The latter, for instance, wrote that ‘social responsibility begins where the law ends. A firm is not socially responsible if it merely complies with the minimum required of the law, because this is what a good citizen would do’ (1973: 313). Elbirt and Parket, in the 1970s, sought a better understanding of what social responsibility really meant, using the expression ‘good neighborliness’, which is not too far from being a ‘good citizen’. Elbirt and Parket explained that ‘good neighborliness’ entails two meanings. First, ‘not doing things that spoil the neighborhood’ and, second, ‘the commitment of business, or Business, in general, to an active role in the solution of board social problems, such as racial discrimination, pollution, transportation, or urban decay’ (1973: 7).

In the late 1980s, a respected scholar in the business and society field explained that ‘good (corporate) citizenship…as reflected in company assistance to community well-being through its financial and non-monetary contribution was deemed for many years to be the quintessence of socially responsible business behavior’ (Epstein, 1989: 586).

In the 1990s the concept of ‘corporate citizenship’ attracted positive business attention (e.g. Alperson, 1995; McIntosh et al., 1998). The increasing popularity (p. 70) of the corporate citizenship concept has been due, at least in part, to certain factors that have had an impact on the business and society relationship, such as globalization, the crisis of the welfare state, and the power of large multinational companies.

Concern for communities where companies operate has extended progressively to a global concern due to intense protests against globalization, mainly since the end of the 1990s. Facing this challenge, 34 CEOs of the world’s largest multinational corporations signed a document during the World Economic Forum in New York in 2002: *Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards*. For the World Economic Forum, ‘Corporate citizenship is about the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy’.1

Academic work on corporate citizenship, both empirical and conceptual, began in the late 1990s (Tichy et al., 1997; McIntosh et al., 1998; Andriof and McIntosh, 2001; Wood and Logsdon, 2001).

In the last few years, some scholars have undertaken the task of developing normative theories of corporate citizenship or similar concepts. Although a full theory of ‘corporate citizenship’ is not yet available, some valuable academic work has been done, among others, by Wood, Logsdon, and co-authors (Wood and Logsdon, 2001; Logsdon and Wood, 2002, Wood et al., 2006, among other articles) who have developed the concept of ‘Global Business Citizenship’ and by Matten, Crane, and Moon (Matten et al., 2003; Matten and Crane, 2005; Crane and Matten, 2005, and Moon et al., 2005). Matten et al. (2003) have presented an extended view of corporate citizenship derived from the fact that, in some places, corporations enter the arena of citizenship at the point of government failure to protect citizenship. Then, business fulfills a role similar to that of government in solving social problems.

Conceptual Bases

The term ‘citizenship’, taken from political science, is at the core of the ‘corporate citizenship’ notion. The notion of citizen evokes individual duties and rights within a political community. However, it also contains the more general idea of being part of a community. In the Aristotelian tradition, business firms are seen as an integral part of society and for this reason they ought to contribute to the common good of society, first of all to the community where
companies are operating, as good citizenship. In this tradition, the key concept of citizen is ‘participation’ rather than individual rights, as occurs in the current liberal state.

For Aristotle, being a citizen is basically to have ‘the right to participate in the public life of the state, which was more in the line of a duty and a responsibility’ (p. 71) to look after the interest of the community (Erikson and Weigörd, 2000: 15). Whether or not this view is accepted, theories on and approaches to ‘corporate citizenship’ are focused on rights, but even more on duties, responsibilities, and possible partnerships of business with societal groups and institutions.

Although, corporate citizenship is sometimes related to social expectation, it is mostly adopted from an ethical perspective. Thus, Solomon states:

The first principle of business ethics is that the corporation itself is a citizen, a member of the larger community and inconceivable without it...Corporations like individuals are part and parcel of the communities that created them, and the responsibilities they bear are not the products of argument or implicit contracts, but intrinsic to their very existence as social entities (1992: 184).

Solomon contrasts this perspective with current models of CSR which frequently implicitly concur with the Friedmanian assumption that corporations are autonomous, independent entities although they consider their obligations to the surrounding community (Solomon, 1992: 184).

For Waddock and Smith (2000), ‘citizenship, fundamentally, is about the relationships that a company develops with its stakeholders’ (p. 48). They understand that being a good corporate global citizen, basically, is respect for others. At the same time, this ‘involves building good relationships with stakeholders and that such citizenship is the very same thing as doing business well’ (p. 59).

Proponents of corporate citizen theory insist that application of the concept of citizenship to business should be undertaken cautiously, since citizenship primarily refers to individuals. Thus, Logsdon and Wood, the main proponents of ‘Global Business Citizenship’ (GBC), started their theory by analyzing the concept of ‘citizen’ and then considering possible meaning of ‘corporate citizen’ and then ‘business citizenship’. For them ‘business citizenship cannot be deemed equivalent to individual citizenship—instead it derives from and is secondary to individual citizenship’ (2002: 86).

Wood and Logsdon (2002) found especially useful the distinction introduced by Parry (1991) between three views of ‘citizenship’: minimalistic, communitarian, and universal rights. In the minimalistic view of citizenship, citizens are merely residents of a common jurisdiction who recognize certain duties and rights. The communitarian view embeds citizens in a particular social context, where the rules, traditions, and culture of own community are highly significant, along with the participation in such a community. The universal human rights perspective of citizenship is based on the moral assumption of rights as necessary for the recognition of human dignity and for the achievement of human agency. Wood and Logsdon (2002, and in other cited works) think that, although business organizations can be seen from any of these perspectives, only the last seems to them suitable for business operating in a global arena. Thus, based on universal human rights and on the ‘integrative social contracts theory’ (Donaldson and Dunfee, 1994, 1999), (p. 72) Logsdon, Wood, and others have developed an innovative theory of business and society relationship, called Global Business Citizenship (GBC).

In GBC theory, business organizations are vehicles for manifesting human creativity. They permit the creation of surplus value, allowing people and societies to do more with resources. The interests of the firm and their actions span multiple locales and cannot be completely captured in contracts. Each firm is seen as a participant in a network of stakeholder relationships. Because firms can be considered as citizens, although with a secondary status to individuals, they have derivative or weaker rights and duties.

To sum up, Global Business Citizenship can be described as ‘a set of policies and practices that allow a business organization to abide by a limited number of universal ethical standards (called hypernorms), to respect local cultural variations that are consistent with hypernorms, to experiment with ways to reconcile local practice with hypernorms when they are not consistent, and to implement systematic learning processes for the benefit of the organization, local stakeholders, and the larger global community’ (Logsdon and Wood, 2005b). Thinking specifically about multinational companies, Logsdon and Wood explain that ‘a global business citizen is a
multinational enterprise that responsibly implements duties to individuals and to societies within and across national and cultural borders’ (Wood and Logsdon, 2002: 82).

The GBC process requires (1) a set of fundamental values embedded in the corporate code of conduct and in corporate policies that reflect universal ethical standards; (2) implementation throughout the organization with thoughtful awareness of where the code and policies fit well and where they might not fit stakeholder expectations; (3) analysis and experimentation to deal with problem cases; and (4) systematic learning processes to communicate the results of implementation and experiments internally and externally (Logsdon and Wood, 2005a).

Matten and Crane (2005) present a different perspective, which they call ‘extended theoretical conceptualization of Corporate Citizenship’. They start to examine the notion of citizenship from the perspective of its original political theory and some significant recent developments in political studies. They also consider that forces of globalization have changed the relative roles of governments and corporations in administering citizenship rights, with corporations assuming this role: ‘(1) where government ceases to administer citizenship rights, (2) where government has not yet administered citizenship rights, and (3) where the administration of citizenship rights may be beyond the reach of the nation-state government’ (2005: 172).

Matten and Crane state that corporations are ‘active in citizenship and exhibit citizenship behavior’ (2005: 175), but the corporation is neither a citizen itself (as individuals are) nor does it have citizenship. Thus Matten and Crane describe CC as ‘the role of the corporation in administering citizenship rights for individuals’ (2005: 173). This leads ‘towards the acknowledgement that the corporation (p. 73) administers certain aspects of citizenship for other constituencies. These include traditional stakeholders, such as employees, customers, or shareholders, but also include wider constituencies with no direct transactional relationships to the company’ (p. 173).

In explaining how the corporation administers citizenship rights, especially in countries where governments fail in their responsibilities, Matten and Crane distinguish a triple social role by considering three types of rights (social, civil, and political) recognized in democratic societies. First, the corporations is a provider of social rights (by supplying or not supplying individuals with social services which provide the individual with the freedom to participate in society, such as education, health care, and other aspects of the welfare). Second, the corporation is an enabler of civil rights (enabling or constraining citizens’ civil rights, which provide freedom from abuses and interference by third parties). Third, the corporation is a channel for political rights (being an additional conduit for the exercise of individual political rights, which permit active participation in society).

The proposal of Matten and Crane is descriptive, not normative. In fact, they question whether this triple role of corporations is acceptable, since the administration of these rights is a non-mandatory aspect of managerial discretion. If corporations act as CC in the way described, there arises the question of corporate accountability towards society. However, this is also problematic. ‘Governments are accountable to their citizens and, in principle, could be approved or discharge of their responsibilities through an electoral process. Similar mechanisms, however, do not exist with regard to corporations’ (Matten and Crane, 2005: 176).

**Strengths and Weaknesses**

A first strength of the corporate citizenship and global business citizenship concepts is probably the name itself. While some practitioners can see concepts such as ‘business ethics’ and ‘social responsibilities’ as opposed to business, corporate citizenship ‘can be said to highlight the fact that the corporation sees—or recaptures—its rightful place in society, next to other ‘citizens’ with whom the corporation forms a community’ (Matten et al., 2003: 111).

A second point is in overcoming the narrow functionalist vision of business which reduces it to an economic purpose. Without forgetting the basic economic responsibility of business, the notion of corporate citizenship emphasizes the social and ethical dimensions of business and its role in respecting and defending human rights and in contributing to social welfare and human development within society.

A third good quality is its global scope, which seems especially appropriate in the current business globalization. From an economic perspective, it is emphasized that citizenship activities avoid risks, enhance corporate reputation, and hence long-term financial performance (Vidal, 1999). Gardberg and Fombrun (2006) argue that (p. 74) citizenship programs are strategic investments comparable to R&D and advertising. In certain conditions, they
can help globalizing companies neutralize their alien futures by strengthening community ties and by enhancing their reputation among potential local employees, customers, and regulators.

A general criticism of the notion of corporate citizenship notion is that it is a diffuse concept, which includes many different topics: public-private partnership, corporate contributions, corporate ethical practices, corporate community economic development, corporate voluntarism, corporate community involvement and corporate brand, image and reputation management (Windsor, 2001a: 39 and 41). Probably a further theoretical development would give unity and coherence to several practices now presented under the umbrella of 'corporate citizenship'.

These two particular approaches presented above, the GBC and the extended theory of corporate citizenship, have received criticisms in their specific approaches. Moon et al. (2005) recognize that the work of Logsdon and Wood marks a major turning point in the corporate citizenship literature; nevertheless, they argue that their approach severely limits this important new potential. First, they argue that Logsdon and Wood fail to adequately examine the underlying metaphorical nature of the application of Citizenship Corporation. Second, they rely on fairly simplistic and dated notions of citizenship that do not allow them to explore the normative and conceptual potential of the term. Third, Logsdon and Wood's approach doesn't add anything to our understanding of business-society relations. Fourth, they do not offer any new normative base for the social role of corporations, being essentially voluntaristic. Fifth, because of their narrow view, the scope of corporate activities is substantially limited. More specifically, the Logsdon and Wood model is not able to examine actions such as corporate political donations, lobbying, and involvement in rule-making. Finally, Moon and co-authors argue that the application of notions of citizen to corporations also requires a clearer elucidation of the specific conditions under which the status of citizenship could be reasonably extended to corporate bodies.

The extended theory of corporate citizenship has also been criticized (Van Oosterhout, 2005) because Matten and Crane's conceptualization of CC is considered highly speculative with little empirical support and because their approach fails to discuss corporate rights along with responsibilities. In addition, it is not clear why and how CC can emerge and be sustained and what corporations may want in return for assuming the responsibilities included in the concept of CC. Crane and Matten (2005) have responded to these criticisms by clarifying some points and giving further explanations.

Another concern about CC is its dependency on managerial discretion and the philanthropic ideology of this approach (Windsor, 2001a, 2001b). Windsor believes that those who use this concept are taking advantage of rising social expectations of corporate benefits in an age of government cutbacks and of a strategic management aimed at value creation in all functions and activities of a firm. The accusation (p. 75) of CC as a philanthropic ideology is spoiled by considering a broader vision of business as a member of the society and the above-mentioned definition of business citizenship or global business citizenship, more closely related to moral duties. Furthermore, even when some specific programs of corporate citizenship have to do with philanthropy this can have beneficial effects and can even bring about value creation in the long term. In addition, GBC is not, in the first place, about philanthropy but about universal human rights.

Regarding its managerial ideology, corporate citizenship is certainly, managerial-centered, but this is not necessarily a negative characteristic, and to avoid abuses some effective accountability and social controls may be established, although this is not an easy task, especially in a global context. This point deals with the concern expressed by Matten and Crane (2005) about how to make corporate accountability effective.

Another point which could be considered a weakness, or at least an unsolved question, in this theory, is the lack of clarity about who is responsible for creating the standards for global citizenship (Munshi, 2004). However, this point can be addressed if one considers that sets of universal standards and principles already exist, such as the UN Universal Declaration of Human Rights, the UN Global Compact, the Roundtable Principles, and so forth. Furthermore, there is also an increasing interest in discovering common grounds in religions and wisdom traditions, and some have indeed been found (Lewis, 1987, appendix; Moses, 2001; see also Melé, 2006).

A final weakness is that, although universal human rights can be a first step towards a corporate citizenship notion based on relational stakeholder networks, one can object that this approach is minimalist. A sound relationship with stakeholders should require solidarity with them, which is more than respect for other people's rights. Many would agree that a good society must be respectful of human rights, but this is probably not sufficient to build up a good society. On this point further developments will be necessary.
To summarize, ‘corporate citizenship’ and the related notion of ‘global business citizenship’ are powerful notions for business and society relationships, but they need further development to become more robust and overcome some current concerns and criticisms.

**Conclusion**

After reviewing these four theories, one may wonder which theory is the best. The first answer is: it depends on what you are looking for. All these theories can be used to explain what companies are actually doing. But, most of them can also be understood as normative theories showing what companies should do to maintain appropriate behavior in society. From this latter perspective, theories give us reasons why firms ought to assume, and principles for implementing certain responsibilities toward society.

It goes without saying that not all theories which can be proposed are equally acceptable. While a descriptive theory is established as valid after a significant number of tests, a normative theory is accepted as a consequence of its rationality and internal consistency. In practice, many companies, especially in the USA, are probably better described as following the shareholder model, while in other countries (Japan, Europe) the social behavior of many companies is closer to the stakeholder model. However, one can also find anywhere some companies which respond to the corporate social performance model. Furthermore, an increasing number may adopt the corporate citizenship model, particularly among transnational companies.

If we consider these theories as normative, the answer to what is the best is not easy. We have discussed some strengths and weakness in each of them, and we have found reasons in favor of and against each one. A first problem is that every theory comes from a different field of knowledge, with their corresponding premises. Corporate Social Performance is related to sociology, Shareholder Theory to economic theory, Stakeholder Theory is rooted in several ethical theories, and Corporate Citizenship comes from the political concept of citizen.

A good normative theory needs a good philosophical foundation, which has to include a correct view of human nature, business, and society, and the relationship between business and society. In future one may hope for further philosophical developments in order to reach a more convincing normative theory of business and society relations.

**Bibliography**

**References**


Notes:


Domènec Melé

Domènec Melé is Professor of Business Ethics and holds the Chair of Economics and Ethics at IESE Business School, University of Navarra, Spain. He holds a Doctorate in Industrial Engineering (Polytechnic University of Catalonia, Spain) and in Theology (University of Navarra, Spain). He is the author or editor of several books on Business Ethics and related topics, apart from numerous articles and contributions to books. Currently he is working on a book on Business Ethics from a human values perspective.