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Part I

Theories and Perspectives

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A New Approach to CSR: Company Stakeholder Responsibility[1]

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1 The problem: has the idea of Corporate Social Responsibility outlived its usefulness?

Assume that the CEO of Firm A is asked the following: 'Well, I know that your company makes products that consumers like, and that those products make their lives better. And I know that suppliers want to do business with your company because they benefit from this business relationship. I also know that employees really want to work for your company, and are satisfied with their remuneration and professional development. And, let's not forget that you're a good citizen in the communities where you are located;[2] among other things, you pay taxes on the profits you make. You compete hard but fairly. You also make an attractive return on capital for shareholders and other financiers. However, are you socially responsible?'

We confess to having absolutely no idea what 'socially responsible' could mean here. If a firm is doing all the things that Firm A does, then it deserves to be applauded and offered as an example for other firms, large and small, to emulate. If it is not doing them as satisfactorily as we think it ought to, then we could perhaps offer to help it do them better, rather than appeal to actions and responsibilities that might lie outside the domain of its day-to-day activities. In summary, by talking of business and social responsibility as if they were two separate things, we might unintentionally be promoting the idea that they involve discrete thought processes and activities. In our opinion, the challenge is to promote a different way of doing business that integrates considerations of business, ethics and society.

Herein lies the problem with Corporate Social Responsibility. Corporate social responsibility reinforces the 'the separation thesis', or the idea that we should separate 'business' from 'ethics or society'. This separation is an idea that reaches very deeply into western culture. It is reinforced by the disciplines of business, by our major theoretical frameworks in management, and by executives and business thinkers themselves. At its worst it generates an absolutely destructive idea of capitalism, i.e. that capitalism is about 'anything goes'. After all, the theory says, 'its just business'. Viewed in this way, corporate social responsibility becomes an 'add-on' to ameliorate the supposedly harsh consequences of this view of capitalism.

Let us go back to the example of our Firm A, and examine its decision to hire employees. Has it done something that is 'for the business'? We believe that the answer to that question is a resounding and unqualified 'Yes.' Has it done something that is 'for society'? We believe that the answer to that question is also a resounding and unqualified 'Yes.' So, how do matters of employment count – in the social ledger or the business ledger? A similar argument can be made for customers and communities, and for suppliers and financiers as well. All these individuals and organisations are full-fledged members of society, as well as being stakeholders in Firm A. If they benefit in their dealings with Firm A, then society benefits too, both directly and in a number of indirect ways.

Corporate social responsibility is often about seeming to 'do good works'. And, while there is certainly nothing wrong with doing more good, there can be an implication that companies need to do good works because the underlying structure of business is not good, or morally neutral. We believe that this is a destructive idea, because it fails to recognise the central role business has played in improving the well-being and prosperity of hundreds of millions of people around the world. And, it often causes companies to act in bad faith and get involved in matters where they have little expertise.

This is not Milton Friedman's argument that the only social responsibility is to increase profits; rather it is a practical matter, that giving money to the opera doesn't make up (in any moral sense) for short-changing customers or communities. The focus needs to be on how value is created in the basic business proposition. How does this company make customers, suppliers, communities, employees and financiers better off? Capitalism is a system of social cooperation – a system of how we work together to create value for each other. Seeing it any other way can lead to dangerous social policies, and to the tarnishing of the one institution – business – that still has to play a central role in lifting hundreds of millions of people out of poverty in Asia, Africa and Latin America.

The second problem with corporate social responsibility is that it is focused on 'Corporate' social responsibility. Why is it not called Business Social Responsibility? The focus on 'Corporate' implies that corporations, due to their size and success and perhaps their shareholding pattern, have to shoulder responsibilities that smaller and more closely held businesses do not. Why? It could be argued that large and successful corporations have a greater responsibility to society than small and less successful ones, because they have greater resources to shoulder society's burdens, and 'can' implies 'ought'. However, we believe that talking of responsibilities that are contingent on size and success is highly problematic.

In short, our argument is that if you take a 'creating value for stakeholders' approach to business, and if you acknowledge that ethics and values are as important in these relationships as they are in our other relationships with our fellow human beings, then the idea of 'corporate social responsibility' is just superfluous. There is nothing natural about categories such as 'economic, political, social, etc.' and we want to suggest that such a conceptual scheme – that separates the social responsibilities of a corporation from its business responsibilities – has long outlived its usefulness.

We propose to replace 'corporate social responsibility' with an idea we call 'company stakeholder responsibility'. This is not just semantics, but a new interpretation of the very purpose of CSR. 'Company' signals that all forms of value creation and trade, all businesses, need to be involved. 'Stakeholder' goes back to the very first paragraph of this essay and suggests that the main goal of CSR is to create value for key stakeholders and fulfill our responsibilities to them. And 'Responsibility' implies that we cannot separate business from ethics.[3] We will argue that taking a stakeholder approach to business is ideally suited to integrate business, ethics and societal considerations. Stakeholder theory is about value creation and trade – it is a managerial theory about how business works. It does not subscribe to the separation thesis, so it asks at once business and ethics questions about each stakeholder relationship. The remainder of this paper is structured as follows. Section 2 provides a brief history of the how the stakeholder approach to management developed. Section 3 outlines four successive levels of commitment to the stakeholder approach to CSR – the basic value proposition, sustained stakeholder cooperation, understanding of the broader societal issues, and ethical leadership. These four levels can be considered steps that firms can take as they progressively increase their commitment to the stakeholder approach. In Section 4, we discuss ten principles of the stakeholder mindset that a firm must follow for it to reach the highest level of stakeholder commitment – that of ethical leadership. In Section 5, we summarise the argument.

2 A brief history of the stakeholder idea[4]

A stakeholder approach to business emerged in the mid-1980s. One focal point in this movement was the publication of R. Edward Freeman's *Strategic Management: a Stakeholder Approach* (1984), building on the process work of Russell Ackoff, Eric Trist, Ian Mitroff, Richard Mason and James Emshoff. The impetus behind stakeholder management was to try and build a framework that was responsive to the concerns of managers who were being buffeted by unprecedented levels of environmental turbulence and change. Traditional business frameworks were neither helping managers develop new strategic directions nor were they helping them understand how to create new opportunities in the midst of so much change.

As Freeman observed '[O]ur current theories are inconsistent with both the quantity and kinds of change that are occurring in the business environment of the 1980s … A new conceptual framework is needed' (Freeman, 1984: 5). A stakeholder approach was a response to this challenge. An obvious play on the word 'stockholder', the approach sought to broaden the concept of business beyond its traditional economic roots, by defining stakeholders as 'any group or individual who is affected by or can affect the achievement of an organization's objectives'. The purpose of stakeholder management was to devise a framework to manage strategically the myriad groups that influenced, directly and indirectly, the ability of a firm to achieve its objectives. While the stakeholder framework had roots in a number of academic fields, its heart lay in the clinical studies of management practitioners that were carried out over ten years through the Busch Center, the Wharton Applied Research Center, and the Managerial and Behavioral Science Center, all at the Wharton School, University of Pennsylvania, by a host of researchers.

While the 1980s provided an environment that demonstrated the power of a stakeholder approach, the idea was not entirely new. The use of the term stakeholder grew out of the pioneering work at Stanford Research Institute (now SRI International) in the 1960s. SRI's work, in turn, was heavily influenced by concepts that were developed in the planning department of Lockheed and these ideas were further developed through the work of Igor Ansoff and Robert Stewart. Thus, the stakeholder approach is firmly rooted in the practice of management.

Recently, Giles Slinger has revisited the early history of the idea of stakeholders. Through more extensive interviews, and the examination of a number of historical documents, Slinger rewrites the history as told in Freeman (1984). The essential difference is that the early use of the stakeholder idea was not particularly oriented towards the survival of the firm.[5]

SRI argued that managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders and society, in order to develop objectives that stakeholders would support. This support was necessary for long term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies.

The stakeholder approach has been used extensively by business ethicists to explore the ethical consequences on stakeholders of managerial action. Donaldson and Preston (1995)[6] proposed four different ways in which scholars had applied the stakeholder approach to business ethics: as a normative theory, which posits that managers ought to take into consideration the interests of all stakeholders; as a descriptive theory, which limits itself to describing how managers in fact treat stakeholders; as an instrumental theory, which takes the position that managers who take into consideration stakeholders' interests will enjoy better firm performance; and finally, as a managerial theory, that is, as a guide to managerial action. We believe that this fourth managerial perspective on the stakeholder approach has received the least attention in recent times, in spite of having been at the roots of the stakeholder concept at SRI.

According to Freeman and McVea (2001), the stakeholder approach has seven distinguishing characteristics. First, it offers a single strategic framework that allows a manager to deal with changes in the external environment without the need for new strategic paradigms. In this way, it is particularly suited for the dynamic environments that are so prevalent today. Second, the stakeholder approach is a strategic management process rather than a strategic planning process. The focus is less on predicting the future and more on proactively plotting the direction of the firm. Third, a central concern of the stakeholder approach is the achievement of the organisation's objectives through the harnessing of support of all those who are affected by the firm's actions, as well as all those who can affect the progress of the firm. Fourth, the stakeholder approach emphasises the critical role of values-based management, by recognising that a diverse collection of stakeholders will cooperate with the firm over the long term only if they share a core set of values. Fifth, it is at once a prescriptive and a descriptive framework. It advocates a holistic approach to management, integrating economic, social, political and ethical considerations. Sixth, rather than take a stylised view of stakeholders based on very general roles-based groupings (such as shareholders, suppliers, etc.), the stakeholder approach places great importance in acquiring a fine grained understanding of the particular stakeholders of each firm. This deep understanding enables the management to develop tailored solutions for particular stakeholders, as with mass customisation. Finally, it starts off with the premise that a firm can exist and sustain itself only if it offers solutions that balance the interests of multiple stakeholders over time. Taking a stakeholder approach to CSR means we have to focus on integration across stakeholders and on practical managerial solutions that create value for customers, employees, suppliers, communities and financiers.

In the section that follows, we outline four levels of commitment to Company Stakeholder Responsibility.

3 Four levels of commitment to the stakeholder approach[7]

Level 1: basic value proposition

At this most basic level, the entrepreneur or manager needs to understand how the firm can make the customer better off, while at the same time offering an attractive value proposition to employees, suppliers, communities and financiers. It is important to note that it is not possible to sustain making customers better off, without at the same time making the other stakeholders better off. For example, Naturhouse, a Spanish dietary supplements retail chain, has grown at an annual rate of between 40 and 50 per cent for seven years in a row from 1997–2004, in a mature and highly competitive market. It took the company five long years, from 1992–1997, to develop and refine a new business model with strong value propositions to its stakeholders. Once the company had finally come up with a model that offered its suppliers a decent price, its franchisees an attractive return on investment and effort, and its customers a unique combination of products and nutritional advisory services, it was able to grow at an explosive rate. What this example highlights is so obvious that we too often take it for granted: a business model that simultaneously satisfies the different stakeholders is a prerequisite for any company to start doing business profitably. Business failure and mediocre performance are often attributable to the firm's inability to articulate strong enough value propositions simultaneously to all its stakeholders.

Level 2: sustained stakeholder cooperation

Once the most basic level of stakeholder awareness has been achieved, the entrepreneur or manager must understand that the continued survival and profitability of the company depend on effectively sustaining the cooperation amongst the stakeholders over time. The competitive, macroeconomic, regulatory and political environments are so dynamic that they make it necessary for the initial stakeholder arrangements to be revised on a constant basis. Each revision will invariably upset the delicate balance struck in the value propositions of the company to the different stakeholder groups. For example, the entry of a new competitor from a low cost country such as China might mean the company has to reduce its price to its customers. This reduction might well involve a short term reduction in the prices paid to suppliers, a reduction in the wages of employees relative to output, or a reduction in the return to financiers. It is important for the manager to have a deep understanding of how these trade-offs affect each stakeholder, the limits to the sacrifice a given stakeholder will accept, and how these current sacrifices can be compensated in the future. Indeed, management according to the stakeholder approach is the effective balancing over time of multiple stakeholder interests.

Level 3: an understanding of broader societal issues

According to Haaland-Matlary (2005), the manager today is asked to be aware of and responsive to more and more international issues, without the moral compass of the nation state or religion to guide her any more. The insecurity caused by the increase in terrorism further compounds matters. Often, companies are caught flat-footed in the face of unexpected developments.

> [I]t was only after the fact in Nigeria that Shell took a major interest in human rights … [W]hen Amnesty International accused Telenor, a

> Norwegian telecommunications company, of racist policies in Malaysia, the company's management froze and responded more than a week late. Even though Amnesty International's case was poor, the damage was done. (Haaland-Matlary, 2005)

What this means is that managers can no longer decline to take positions on issues that apparently are not purely business related. Shell paid a heavy price through loss of reputation by its refusal to use its considerable leverage with the Nigerian government to try to halt the execution of political activist Ken Saro-Wiwa. A proactive attitude is necessary towards all stakeholder groups, both primary, i.e. those that have direct business dealings with the company, and secondary, such as NGOs and political activists who can affect the operations of the company.

Level 4: ethical leadership

Recent research points to a strong connection between ethical values and positive firm outcomes such as sustained profitable growth and high innovativeness. The Good Work Project, started in 1995 by three teams of investigators led by Howard Gardner, Mihaly Czikszentmihalyi and William Damon, examined the relationship between ethics and performance. This project involved intensive, face-to-face interviews with professionals in a variety of domains – 'journalism, genetics, business, jazz music, theater, philanthropy, and higher education' (Gardner, H., M. Czikszentmihalyi, and W. Damon, 2000, 'The Good Work Project: a Description', Unpublished Document). Based on forty interviews with business leaders in the US, Damon (2002) concludes:

> We found that a strong sense of moral purpose not only promotes a business career but also provides a telling advantage in the quest to build a thriving enterprise. In fact, a sense of moral purpose stands at the center of all successful business innovations. Far from being a constraining force that merely keeps people honest and out of trouble, morality creates a fertile source of business motivation, inspiration, and innovation. (Damon, 2002)

Damon (2002) proposes the three faces of morality: restrictive, philanthropic and generative. Restrictive morality mainly consists of controlling behaviours that can be destructive, such as cheating, lying, or committing sexual harassment; it provides us with guidance of what not to do. Philanthropic morality promotes contributions to worthy social causes. Damon points out that this form of morality is triggered after the individual or organisation has achieved success and profits. It is often practised out of enlightened self-interest. The third type of morality is of the generative kind, which is based on a:

> proactive promotion of positive moral initiatives, as opposed to embracing ethical postures as a way to avoid ethical breaches. A positive moral initiative may be as simple as the urge to serve customers better by bringing them a superior or less-expensive product, or as complex as making the news available to everyone on earth 24 hours a day. But whether the impetus is large or small, a sense of moral purpose beats at the heart of every great business success, because it's that pulse that creates and sustains the innovation that achieves success.
>
> Generative morality arises from a deep inner belief that sparks imagination and gives birth to a new business concept. It also fosters the sense of commitment that sustains the concept during inevitable periods of doubt, stress, and temporary reversals. It provides a reason to go to the mat for an idea, a steel foundation for the persistence needed to implement any innovation. And it's the key to giving your company the moral advantage. (Damon, 2002)

We believe that this form of proactive ethical leadership is possible only if there exists a deep understanding of the interests, priorities and concerns of the stakeholders.

We believe that there are some general principles which make up a 'mindset' or 'worldview' that is necessary to understand and practise all four levels of Company Stakeholder Responsibility.

4 Ten principles of company stakeholder responsibility

(1) We see stakeholder interests as going together over time. The very idea of managing for stakeholders is that the process of value creation is a joint process. Let us take the case of a typical CEO of a large international company. We'll make the CEO an amalgam of a number of real CEOs, and call him Bob Collingwood, and his company Woodland International.[8] Collingwood's company's products and services must create value for customers, first and foremost, so that they are willing to pay for them. Suppliers must be willing to do business with Woodland International, so that products and services can be created in the first place, and if the suppliers are committed to making Woodland even more effective and productive, then both will be winners. Woodland must offer employees jobs (wages and benefits) that are acceptable, and if Bob and his colleagues can get employees to share the purpose of Woodland, to come to work engaged and ready to create value, then all will be winners. Woodland needs to be a good citizen in the communities in which it operates, if for no other reason than in a relatively free and open society citizens can use the political process to force Woodland to be a better citizen. If on the other hand, Woodland acts as a responsible citizen it may well generate very positive goodwill, and be able to operate more freely. Finally, Wood-

land needs to show returns to its shareholders, meet obligations to debt holders, banks and others. Profits don't conflict with other stakeholders, rather they are the scorecard which tells us how well we are managing the whole set of stakeholder relationships. Bob and his colleagues must keep these stakeholder interests in balance, hopefully mutually reinforcing each other.

(2) We see stakeholders as real people with names and faces and children. They are complex. Of course people are complex, and that should go without saying. However, much of the popular thinking about business people assumes just the opposite. We often make assumptions that business people are only in it for their own narrowly defined self-interest. One main assumption of the traditional shareholder-centred view is that shareholders only care about returns, and therefore their agents, managers, should only care about returns. Most human beings are more complicated. Most of us do what we do because we are self-interested and interested in others. Business works in part because of our urge to create things with others and for others. Working on a team, or creating a new product or delivery mechanism that makes customers lives better or happier or more pleasurable all can be contributing factors to why we go to work each day. And, this is not to deny the economic incentive of getting a pay cheque. The assumption of narrow self-interest is extremely limiting, and can be self-reinforcing – people can begin to act in a narrow self-interested way if they believe that is what is expected of them, as some of the scandals such as Enron have shown. We need to be open to a more complex psychology – one any parent finds familiar as they have shepherded the growth and development of their children. We have encountered story after story where managers 'discovered' that their 'adversaries' were a lot more like them than they had originally thought. In short they discovered that these 'adversaries' shared a great deal of their own humanity: a lesson which we should all remember.

(3) We seek solutions to issues that satisfy multiple stakeholders simultaneously. Bob Collingwood's problem is that his world is fragmented. Issues and problems come at him and his team from lots of places, in lots of forms. He could spend his entire job just talking to customers, or employees. He needs to find a way to develop programmes, policies, strategies, even products and services that satisfy multiple stakeholders simultaneously. Now the first step in that process is to actually recognise that he needs to look for simultaneous solutions. For instance, suppose that he is under pressure to make a particular service more affordable to low-income citizens. Under the traditional shareholder-centred view, he might see this as an illegitimate 'tax on shareholders'. Such a view would not lead to much innovation and to a constant friction with critics and regulators. He might take this criticism as a call for innovation and productivity, so that if

he can figure something out, he can develop a new market (lower-income customers), satisfy some critics, and become a good citizen in the community. The difference in mindsets is fairly substantial, and so will be the search for a solution.

(4) We engage in intensive communication and dialogue with stakeholders – not just those who are friendly. Obviously we need intensive dialogue through multiple methods with customers, suppliers, employees and shareholders, but communities, critics and other secondary stakeholders count as well. Critics are especially important dialogue members. Critics are trying to give Collingwood and his team another point of view about Woodland International. One way to see critics is to view them as representing unmet market needs, since the critic wants the company to act differently. It is the job of the executives to see if there is some underlying business model, so that this unmet need can be turned into an entrepreneurial opportunity creating wins for all stakeholders. Not every critic can be satisfied, not every critic has a legitimate point of view, and not every need can be met. But, too often, executives don't meet with their critics enough to determine whether or not there is an opportunity to create value. Dialogue is the foundation of a free society, and the foundation of capitalism itself. Despite fictional stories about 'spot market transactions where every player just knows the prices', real business is built on a foundation of solid, honest and open communication. Indeed, most management meetings we have been a part of for the last twenty-five years have all, at some point, reinforced the need for 'better communication'. There is no difference in adopting a managing for stakeholders view – it is just more difficult and even more intense.

(5) We commit to a philosophy of voluntarism – to manage stakeholder relationships ourselves, rather than leaving it to government. When executives and pundits are committed to the traditional shareholder view, there is a temptation to look at the myriad stakeholder pressures and play 'Blame the Stakeholder'. But, the real problem here is our mindset. In short 'we have met the enemy, and he is us'. The challenge for us is to reorient our thinking and our managerial processes to be responsive to stakeholders. We believe that such a stakeholder mindset must be based on the idea of voluntarism. Voluntarism means that an organisation must, of its own will, undertake to satisfy its key stakeholders. A situation where a solution to a stakeholder problem is imposed by a government agency or the courts must be seen as a managerial failure. Similarly, a situation where Firm A satisfies the needs of consumer advocates, government agency, etc. better than Firm B, must be seen as a competitive loss by Firm B. The driving force of an organisation becomes, under a voluntarism mindset, to create as much for stakeholders as possible.

(6) We generalise the marketing approach. We need to 'overspend' on understanding stakeholder needs, using marketing techniques to segment stakeholders to provide a better understanding of their individual needs and using marketing research tools to understand the multi-attribute nature of most stakeholder groups.

We might define 'overspending' as paying extra attention, beyond that warranted by considerations of efficiency, to those groups who are critical for the long term success of the firm. Overspending on stakeholders without whose support the company would fail can make sense in a number of instances. For instance, many fast moving consumer goods (FMCG) companies overspend on customers, interviewing several thousand a year. Traditionally telecom companies overspent on the attention they paid to the regulatory process, which was for a long time their major source of revenue. Oil companies should, likewise, consider adopting a conscious policy of overspending on OPEC and government and stakeholders who can convey a positive image to the public. Chemical companies have recently begun to overspend on environmentalists, trying to clean up their image as 'dirty companies' and 'spoilers of the environment'. 'Overspending' is not necessarily measured in monetary terms. 'Spending' may be in terms of more time or more energy or whatever the relevant resource required by a given stakeholder group.

(7) Everything that we do serves our stakeholders. We never trade off the interests of one versus the other continuously over time. Just as many successful companies think in terms of 'how to serve the customer' or 'how to serve the employees', it is possible to generalise this philosophy to 'how to serve our stakeholders'. The 'reason for being' for most organisations is that they serve some need in their external environment. When an organisation loses its sense of purpose and mission, when it focuses itself internally on the needs of its managers, it is in danger of becoming irrelevant. Someone else (if competition is possible) will serve the environmental need better. The more we can begin to think in terms of how to better serve stakeholders, the more likely we will be to survive and prosper over time. A managing for stakeholders approach asks the company to clearly articulate how its basic business proposition makes its stakeholders better off.

(8) We negotiate with primary and secondary stakeholders. The basic idea behind the stakeholder approach is that if a group or individual can affect a company or be affected by a company then there needs to be some interaction and some strategic thinking. Many executives get caught up in whether or not a particular stakeholder group, especially critics, is 'legitimate' or not. And, while this is an important issue for some purposes, the stakeholder mindset encourages executives to meet, interact and negotiate with both 'legitimate' stakeholders, and those whose legitimacy may be questioned from an overall point of view.

In very practical terms, groups which have some power must be taken into account, regardless of whether or not in a 'pure capitalism' system, they should be there at all. In our relatively free and open society, the consequences of not negotiating with a broad range of stakeholders is that they use the political process to 'negotiate' indirectly by pressuring government to enact a set of rules that is not likely to be optimal to company interests. You can think of this idea as 'managerial legitimacy', i.e., if a group has some power to affect the company then it is legitimate to spend managerial time worrying about that group. Often, because these interactions start off with stereotypes of both business and critic behaviour, careful attention to process can turn the relationship into one positive for both sides.

(9) We constantly monitor and redesign processes to make them better serve our stakeholders. A hallmark of the stakeholder mindset is that in today's world no one 'gets it right' all the time. Whatever your interactions and strategies are with stakeholders, they can always be improved. The classic case for such improvement comes from thinking about the environment. By paying attention to the environment and environmentalists, companies from McDonalds to 3M have radically redefined their production processes to turn waste streams into new products, realise millions of dollars in cost savings, and gain a reputation as companies that are environmentally friendly and willing to work with environmental groups.

(10) We act with purpose that fulfills our commitment to stakeholders. We act with aspiration towards fulfilling our dreams and theirs. We believe that the key idea which holds this stakeholder mindset together is the idea that businesses can have a purpose. And, there are few limits on the kinds of purpose that can drive a business. Wal-Mart may stand for 'everyday low price'. Merck can stand for 'alleviating human suffering'. The point is that if an entrepreneur or an executive can find a purpose that speaks to the hearts and minds of key stakeholders, it is more likely that there will be sustained success.

Purpose is complex. Running a purposeful business is even more complicated. Once we give up the traditional shareholder view as the only possible purpose for a business, the field is wide open. Perhaps 'maximising shareholder value' is a good purpose for a business, but surely it is not the only one. Purpose is inspirational. The Grameen Bank wants to eliminate poverty. Fannie Mae wants to make housing affordable to every income level in society. Tastings, a restaurant in Virginia, wants to bring the taste of really good food and wine to lots of people in the community. All of these organisations have to generate profits, or else they cannot pursue their purposes. And, they cannot generate profits or fulfill purpose without intense engagement with their stakeholders.

5 A new CSR: Company Stakeholder Responsibility

We have argued that Corporate Social Responsibility has outlived its usefulness, because it is flawed in two respects. First, it promotes the 'separation thesis', the idea that business issues and social issues can be dealt with separately. This flaw promotes the potentially destructive idea that the underlying structure of business is either not good or is morally neutral. We have proposed a stakeholder approach that takes into consideration the intertwined nature of economic, political, social and ethical issues. It is centered in the practice of management, and provides the manager with a pragmatic framework for action. The second flaw with Corporate Social Responsibility is its focus on corporations. We do not see why social responsibility only applies to corporations, rather than to all organisational forms. The stakeholder approach that we have proposed applies as much to an entrepreneurial start-up and to a mid-sized closely held firm as it does to a corporation with diffuse ownership.

Based on the stakeholder approach we have outlined, we have proposed a new CSR – Company Stakeholder Responsibility – as a new capability for organisations to develop. We have outlined four levels of commitment to this new CSR, and we have suggested ten principles that can help executives and business thinkers begin to apply this approach. (Boxes 1.1 and 1.2 are a summary of Company Stakeholder Responsibility.)

Box 1.1: Four levels of commitment to Company Stakeholder Responsibility

The Basic Value Proposition

How do we make our stakeholders better off?
What do we stand for?

Principles for Sustained Stakeholder Cooperation

What are our principles or values on which we base our everyday engagement with stakeholders?

Broader Societal Issues

Do we understand how our basic value proposition and principles fit or contradict key trends and opinions in society?

Ethical Leadership

What are the values and principles that inform my leadership?
What is my sense of purpose? What do I stand for as a leader?

Box 1.2: Ten principles for Company Stakeholder Responsibility

(1) We see stakeholder interests as going together over time.
(2) We see stakeholders as real people with names and faces and children. They are complex.
(3) We seek solutions to issues that satisfy multiple stakeholders simultaneously.
(4) We engage in intensive communication and dialogue with stakeholders, not just those who are 'friendly'.
(5) We commit to a philosophy of voluntarism – to manage stakeholder relationships ourselves, rather than leaving it to government.
(6) We generalise the marketing approach.
(7) Everything that we do serves our stakeholders. We never trade off the interests of one versus the other continuously over time.
(8) We negotiate with primary and secondary stakeholders.
(9) We constantly monitor and redesign processes so that we can better serve our stakeholders.
(10) We act with purpose that fulfills our commitment to stakeholders. We act with aspiration toward our dreams and theirs.

Notes

1. The ideas in this paper have been developed with a number of co-authors over the years in several places. In particular see Wicks, Freeman and Parmar (2005); Freeman and McVea (2001); Freeman and Martin, et al. (2005); and Freeman and Phillips, et al. (2005). We are grateful to a number of people for helpful conversations, in particular Professors Gianfranco Rusconi, Dr Valeria Fazio, Dr Mette Morsing, doctoral students at the Copenhagen Business School doctoral consortium on Corporate Responsibility, numerous participants in the EABIS conference in Gent, Professors Jeff Harrison, Robert Phillips and Andrew Wicks.
2. We admit that there are many ways of being a good corporate citizen.
3. Note that we are using 'ethics' in its broadest sense to encompass obligations to employees, and other stakeholders. This is sometimes referred to as an 'American' usage, whereby the 'European' usage is much narrower. CSR is our broad term here, and we think it is more specific and more useful than distinguishing 'ethical' from 'social'. We are grateful to Dr Valeria Fazio for many conversations on this issue.
4. For a fuller discussion of the history of the stakeholder idea see Freeman (2005, in press).
5. Slinger's argument can be found in his doctoral dissertation, 'Stakeholding and Takeovers: Three Essays', University of Cambridge, 2001. An abridged version is in 'Spanning the Gap: The Theoretical Principles Connecting Stakeholder Policies to Business Performance', Centre for Business Research, Department of Applied Economics, Working Paper, University of Cambridge, 1998.
6. An important paper on the stakeholder approach in the business ethics literature is Donaldson, T. and Preston, L. E. 1995. 'The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications'. *Academy of Management Review*: 20(1), 65–91.

7. The first three levels of commitment are explored in greater detail in Wicks, Freeman, and Parmar (2005). The origins of these ideas can be found in part in Freeman (1984) in the idea of 'enterprise strategy'. We are grateful to our co-authors for permission to develop these ideas in the context of Company Stakeholder Responsibility.
8. Some readers may recognise Bob Collingwood as the harried hero of Freeman (1984). In reality he is a composite of the thousands of executives who have been kind enough to have conversations with us about the ideas here.

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