THE STAKEHOLDER APPROACH IN CORPORATE SOCIAL RESPONSIBILITY

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Abstract

The Corporate Social Responsibility (CSR) theory consists not only of theories, but also a large number of approaches, which are often disputed, complex and uncertain. According to Garriga and Melé CSR theories and related approaches are classified in four groups: (1) instrumental theories, in which the corporation is seen as instrument for wealth generation and its social activities are only a method to achieve economic results; (2) political theories, which cover the power of corporations in society and the good use of this power in the political field; (3) integrative theories, in which the organization is focused on the fulfillment of social demands; and (4) ethical theories, based on ethical responsibilities of corporations to society [1]. Presently, CSR approach has emerged from focusing on the shareholders to stakeholders due to the acknowledgement of the crucial roles of stakeholders in every organization. Stakeholder management and CSR is always connected. Stakeholder theory involves critical stakeholders such as employees, suppliers, customers, media, local communities, NGOs, could be the source of new ideas and opportunities [2]. This article’s goal is to examine first the different views to the CSR concepts, to identify the core elements of CSR and also it will explore the development of the stakeholder approach in CSR.

Keywords: corporate social responsibility, stakeholders, human resources

1. INTRODUCTION

Over the past decades, the interest in the concept of Corporate Social Responsibility (CSR) within both the academic and practitioner discourses has been rapidly increasing. Much of the early literature aimed to specify the concept and the various components of CSR, as it emerged in the second half of the 20th century [3]. CSR was developed to become a strategic objective for many organizations. Corporate social responsibility is an integral component of corporate governance, particularly when there is a conflict between the social goal of benefiting society and the corporate goal of maximizing profits. The existence and persistence of such a conflict require corporations to establish CSR policies and programs to ensure that their boards of directors and senior executives set an
appropriate tone at the top, taking social interests seriously [4]. CSR is a phenomenon that emerged first in developed countries, originally in the U.S., partly in response to the challenges of the depression, the domestic economic hardship during World War II, and the postwar recovery period [5]. A socially responsible company can achieve several benefits, among which: reduced operating costs, enhance of corporate image and reputation, and increased customer loyalty and sales [6].

2. CSR CONCEPTS AND THEORIES (CSR THROUGH TIME)

The roots of CSR can be traced back to Ancient Mesopotamia around 1700 BC, where King Hammurabi introduced a code in which builders, innkeepers or farmers were put to death if their negligence caused the deaths of others, or major inconvenience to local citizens [7]. In Ancient Rome senators grumbled about the failure of businesses to contribute sufficient taxes to fund their military campaigns, while in 1622 disgruntled shareholders in the Dutch East India Company started issuing pamphlets complaining about management secrecy and “self-enrichment”. Furthermore, in 1981 Eberstadt claims in his study that phenomena of social responsibility were already presented in the ancient Greece [33], while today's corporate responsibility movement is an attempt to restore a 2000 year old tradition of businesses being connected to the community [8].

In the 18th Adam Smith presented for the first time the classical economic model. The model suggested that the needs and the interests of the public would best be met if the individuals act in self-interest manner. Driven by their own self-interests, the individuals would produce and deliver goods and services which would earn them profit, but also meet the needs of the others. According to Brown (2005), the companies in order to keep their employees satisfied, because of the negative effects that the lack of food, housing and health care had on the labour force efficiency, they started to invest in housing, health care and nourishment [9]. Moving forward the worker villages of the industrial revolution, company medical facilities and the subsidized works canteen come into sight. That action of social philanthropy by the companies can be considered as the prototype of the modern day CSR.

The contemporary CSR originated back to the beginning of the 20th century and is based upon two principles claims Sims (2003). The first, the principle of charity, is based on religious tradition and suggests that those who are well financially should give to those with difficulties. The second one, the principle of stewardship, says that the organizations have an obligation to serve the society and satisfy the public's needs since their wealth and the power that they have springs through their activities within the society [10]. This second principle had an impact on affected how companies were faced by governments, press and other groups and led to the conduction of new more socially responsible laws.

The turn of the businesses to the society and the development of a more societal thinking led the organizations to increase their responsibility and consideration for both social and environmental wellbeing. This response to environmental and social matters by the corporations is what it is known today as Corporate Social Responsibility [8].
2.1. CSR DEFINITIONS

Corporate Social Responsibility has gained its attention and popularity since the last decade. There are many CSR debates arise which shaped by trends and fundamental changes of the political, social, and economic spheres of life. The first academically accepted definition of CSR can be found in the book “Social Responsibilities of the Businessman”, written by Howard Bowen in 1953. Bowen defines CSR as “an obligation to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society” [8]. Since Bowen there has been a change in terminology from the social responsibility of business to CSR. Moreover, the CSR theories nowadays consist a wide number of concepts, approaches and terminologies.

Carroll (2004) argues that “the social responsibility of businesses encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time” [11]. Buhmann (2006) simply defines CSR as “doing more than what is required by law” [12]. Johnson, Scholes and Whittington define CSR as “the ways in which an organization exceeds its minimum obligations to stakeholders specified through regulation” [13]. The World Business Council for Sustainable Development (WBCSD) defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” [14]. A commonly accepted illustration of CSR is Carroll’s (1979) four component model (Figure 1).

Carroll suggests that the social responsibility of an organization can be deconstructed into four components: economic, legal, ethical, and discretionary responsibilities. The four components could be depicted as a pyramid. The pyramid starts with economic

![Carroll’s pyramid of CSR]

*Figure 1. Carroll’s pyramid of CSR [15]*
responsibility as a foundation; the component Economic Responsibilities are the first and foremost responsibility of business. As the basic economic unit in society, a business is responsible to provide goods or services and make profit to create wealth. At the same time, rules and regulations are set for the business to operate within certain limits. Meeting these rules constitutes the legal responsibilities of the business. Besides the ethical norms embodied in the first two categories, there are additional ethical actions which are not included in the law but expected by society. The importance of ethical responsibilities has been well noticed, although it is always an issue to judge what is and is not ethical. It is reasonable to say that the ethical responsibilities are the expectations above legal requirements that society has of business. Discretionary/philanthropic responsibilities are even vaguer than ethical responsibilities. Society leaves these to the judgment and choice of business. To fulfill these responsibilities, the social role of business is voluntary. The decision to assume them is not required by law and is also above and beyond the sense of ethics. It is only led by the business’s desire to be involved in this role and contribute to society [15].

Part of the CSR definition is to whom is a business responsibly. According to Marrewijk (2003), this approach can take three forms to elicit the information. The shareholder approach is referred to as the classical view of CSR [16]. The sole responsibility of a business is to make profit and create wealth. The shareholders of the business should be the focal point. The business should be concerned with CSR to the extent and only to the extent that it creates value for the owner. In this approach, only the economic dimension is considered [1]. The stakeholder approach indicates that a business is not only responsible to its owners but also has obligations to various stakeholders, such as employees, customers, business partners, government and non-governmental organizations [8, 17]. The social approach is a broader view on CSR. It suggests that a business is a part of the society and responsible to the society as a whole. It should serve to meet the needs of society constructively [16].

To conclude, it can be clearly seen that the base line of the above definitions is the volunteering obligation that the organizations must have over their employees and their families, the environment and the general public which sometimes may go further with their legal requirements.

3. CORPORATE SOCIAL RESPONSIBILITY THEORIES: MAPPING THE TERRITORY

After defining CSR, a business may conduct a series of CSR related activities to meet that definition. The way a business performs CSR is also subject to its understanding of how CSR should be implemented. Similar to CSR definition, implementation of CSR includes a great proliferation of theories, approaches and terminologies. The various theories of CSR could be classified in four groups for better understanding: instrumental theories, political theories, integrative theories and ethical theories [1]. Based on these theories, CSR is perceived as a consequence of how the relationship between business and society is understood. Different understandings may lead to different approaches to CSR.
3.1. Instrumental theories

Instrumental theories, in which the corporation is seen only as an instrument of wealth creation, and its social activities as a tool to achieve economic results. Friedman (1970) asserts that increasing profit is the only social responsibility of business. In a free society, business has only one responsibility, to increase its profits as long as it stays in open and free competition [18]. This group of theories includes:

- Maximization of shareholder value as the supreme criterion for evaluating specific corporate social activities. Maximizing shareholder value takes shareholder value maximization as the supreme criterion for corporate decision-making. A decision should be made if it results in an increase of shareholder value, as long as it is within the limitation of laws, while any social demand should be rejected if it only imposes a cost on the company [1]. As mentioned before, this does not exclude taking into account the interests of stakeholders. The term “enlightened value maximization” specifies the idea that the company could maximize shareholder value in the long-term by taking care of the interests of the stakeholders.

- Strategies for achieving competitive advantages. This group of theories includes three approaches:
  - Social investments in a competitive context. The supporters of this approach argue that investing in philanthropic activities may be a way to improve the context of competitive advantage for a firm and usually creates greater social value than individual donors or governments can.
  - Natural resource-based view of the firm and dynamic capabilities. This approach maintains that the ability of a firm to perform better than its competitors depends on the unique interplay of human, organizational, and physical resources over time and on the organizational and strategic routines by which managers acquire, modify, integrate, and recombine those resources to generate new value-creating strategies.
  - Strategies from the bottom of the economic pyramid, which some authors suggest should be seen as an opportunity to innovate rather than as a problem. A specific means of tackling the issue is disruptive innovation - products or services that do not have the same capabilities and qualities as those being used by customers in the mainstream markets and thus can be introduced only for new or less demanding applications among non-traditional customers, with low-cost production and adapted to local needs.

- Cause related marketing, aimed principally at boosting company revenues and sales or enhancing customer relationships by associating the brand with the ethical or social responsibility dimension.

3.2. Political theories

This group of theories focuses on the interactions and connections between business and society. It also concerns the power and position of the business in the society. Among the most important, Garriga and Melé mention [1]:

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• Corporate constitutionalism, built on the idea that business is a social institution and must use power responsibly, subject to “the social power equation” (“The social responsibilities of business owners arise from the amount of social power that they have”) and “the iron law of responsibility” (“Whoever does not use his social power responsibly will lose it.”).

• Integrative social contract theory, derived from Locke's philosophical thought, considers that social responsibilities come from the consent, at two levels: a theoretical macrosocial contract appealing to all rational contractors, and a real microsocial contract by members of numerous localized communities.

• Corporate citizenship, a revived concept with three different meanings: a limited view, comprising corporate philanthropy, social investment, and certain acknowledged responsibilities to the local community; a view equivalent to CSR; and an extended view of corporations entering the arena of citizenship at the point where governments fail to protect citizens, even in a global context. In spite of important differences within this group of theories, the authors point out the convergence on some points: a strong sense of business responsibility to the local community; partnerships; and consideration for the environment. As companies become global, the concern for the local community has gradually become a global concern.

3.3. Integrative theories

Integrative theories demonstrate that business depends on society in a broad sense. Social demands are considered to be the way in which society communicates with the business. Thus, a company should listen to the society and integrate social demands in its corporate management [1]. This group of theories comprises:

• Issues management, defined as the processes by which the corporation identifies, evaluates, and responds to social and political issues that may impact significantly upon it. It emphasizes the decision-making process of a company responding to social issues. Issue management is the process by which the corporation identifies and responds to the social issues which may have a significant impact upon it. It could help the organization adapt to social changes through early identification of the threats and opportunities.

• The principle of public responsibility, whose theoreticians consider that appropriate managerial behavior is found within the relevant public policy, which includes the broad pattern of social direction reflected in public opinion, emerging issues, formal legal requirements, and enforcement or implementation practices. The scope of a corporation's responsibility is analyzed as the primary involvement and secondary involvement. Primary involvement is the economic responsibility of the corporation, such as establishing its facilities, procuring suppliers and carrying out its producing functions. Secondary involvement is as the consequence of the

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1 Locke believed that human nature is characterized by reason and tolerance. Like Hobbes, Locke believed that human nature allowed people to be selfish. This is apparent with the introduction of currency. In a natural state all people were equal and independent, and everyone had a natural right to defend his “Life, health, Liberty, or Possessions”. Source: https://en.wikipedia.org/wiki/John_Locke, retrieved 25 January, 2017.
primary involvement. For example, selecting and engaging employees is a primary involvement.

- **Stakeholder management**, an approach oriented toward people who affect or are affected by corporate policies and practices. Its advantage is the company's increased sensitiveness to its environment, but also stakeholders' better understanding of the dilemmas the organization faces. The most efficient strategy of managing stakeholders is to make efforts dealing with issues affecting multiple stakeholders simultaneously. The central goal of this approach is to accomplish the maximum cooperation between the stakeholder group and the corporation. Stakeholder management concerns integrating groups of people with a stake in the corporation into decision-making processes [1].

- **Corporate social performance (CSP)**, a set of theories that includes a search for social legitimacy, with processes for giving appropriate responses. In Carroll's (1979) model, it has three elements [15]: a definition of CSR, the issues which the corporation is responsible for and the way of responding to those issues.

## 3.4. Ethical theories

Ethical theories are based on the ethical responsibilities of corporations to society. They are based on principles that express the right thing to do or the necessity to achieve a good society. As the main approaches, Garriga and Melé distinguish the following [1]:

- **Normative stakeholder theory**, which considers fiduciary duties toward all stakeholders of the firm suppliers, customers, employees, stockholders, and the local community. Its application requires reference to any moral theory (Kantian, Utilitarianism, theories of justice, etc.).
- **Universal rights**, based on human rights, labor rights, and respect for the environment.
- **Sustainable development**, aimed at achieving human development, while taking into account both present and future generations. To evaluate its own sustainability, the business should adopt a “triple bottom line”, which would include not only economic, but also social and environmental aspects of performance.
- **The common good approach**, which maintains that business must contribute to the common good, because it is a part of society. The corporation has many means to achieve this: by creating wealth and providing goods and services efficiently and fairly, while at the same time respecting the dignity and the inalienable and fundamental rights of the individual. It may also contribute to social wellbeing and a harmonious way of living together in just, peaceful and friendly conditions, now and in the future.

## 4. THE STAKEHOLDER APPROACH TO CSR

The stakeholders are a key factor for the success of the CSR practices. Without their engagement, knowledge, skills, talent, loyalty, the organization could not achieve its objectives. A characteristic of CSR is the idea that the business is accountable to the various stakeholders who can be identified and have a claim, either legally mentioned or
morally expected, on the business activities that affect them [19]. Nowadays, more and more authors put the stakeholder approach in the core of the CSR theories [20]. Homes and Watts (2000) see the engagement of the stakeholders as “the essence of CSR” [21]. More recently, CSR has become recognized as a growing area of strategic value creation for companies. Yet stakeholder engagement is often seen as secondary, even non-essential, to the CSR agenda.

4.1. Categorization of stakeholders

Commonly identified stakeholder groups include shareholders (or owners), employees, customers, suppliers, local community, competitors, interest groups (or sometimes civil society representatives, though slightly more inclusive in definition), government, the media, and society at large [22]. Some of these terms by themselves raise significant problems in relation to the value of organizational accountability to stakeholders, especially “society at large” and the notion of community. Stakeholder theory emphasizes that beyond shareholders there are several agents that are interested in firms’ actions and decisions. The theory highlights the need for managers to be accountable to stakeholders. Stakeholders are individuals or groups which were either harmed by or benefits from the corporation; or whose rights have been violated or have to be respected by the corporation [23]. Firms have several stakeholders which compete for organizational resources; hence, the need for firms to identify strategies for managing stakeholders [24, 25]. The type of stakeholders proactively engaged and resources control strategy adopted impact firm’s corporate strategy. From a business-driven viewpoint, stakeholder theory interest covers three premises: that organizations have stakeholders which impact their activities; these interactions impact on specific stakeholders and the organization; and perceptions of major stakeholders impact the viability of organizational strategic options [26]. Firms, therefore, need to adopt suitable approaches to deal with primary stakeholders accordingly [27]. Firms are unlikely to fulfil responsibilities (economic and non-economic) of some primary stakeholders; hence, the need for stakeholders management.

4.2. Management of stakeholders

The obligation to serve all stakeholders’ interests is often referred to as stakeholder management. Since corporations deal with several stakeholders over time and simultaneously; it is unlikely that organizations would fulfil all their responsibilities towards each primary stakeholder or groups [23]. Hence, firms’ should identify strategies for managing stakeholders as there are several stakeholders competing for organizational resources [28]. Furthermore, the type of stakeholders engages, and resources control strategy adopted impact organization’s corporate strategy [29]. Stakeholder management facilitates consideration of individuals or groups within and outside the firm when allocating organizational resources. Stakeholder management promotes an effective allocation of resources among stakeholders to achieve a “win-win” outcome.
Although the practice of stakeholder management is long-established, its academic review started only at the end of 70s [1]. In a seminal paper, Freeman (1978) presented two basic concepts, which underpin stakeholder management. The first is that the central goal of the stakeholder management is to achieve maximum overall cooperation between all stakeholder groups and the objectives of the corporation. The second says that the most efficient stakeholder management policy involves efforts, which simultaneously deal with issues affecting multiple stakeholders. Stakeholder management tries to combine groups with a stake in the firm into managerial decision-making.

4.3. The relation between CSR and stakeholders

The relationship between CSR and business is traditionally examined through related concepts of Corporate Social Performance. The generally accepted definition of CSP itself suggests that top managers, i.e., those who make strategic choices and decisions for organizational development and prosperity, play “a critical role in the articulation of the organization’s posture vis-a-vis its stakeholders and constituents” [30]. Thomas and Simerly found that “top managers are important internal determinants of a firm’s CSP, and top management teams and CEOs are both important to social performance outcomes”. They also suggested that a top manager’s background could play a significant role in his or her sensitivity towards stakeholders’ claims and any CSR issues the organization might be confronted with [30]. In other words, organizations are ultimately built by people, who are citizens themselves entitled to rights, duties and responsibilities [31]. If the extended enterprise is confronted with so many stakeholders towards whom it has so many responsibilities such boundlessness could render CSR meaningless. It may well be that the problem is not in the pertinence of CSR, but rather on the very personal, individual values and responsibilities of the people that make the social organizations [31]. CSR cannot exist if individuals do not possess enough maturity and competence to act responsibly. It is up to companies to train and for society to socialize the individuals towards the development of such necessary competencies [31].

5. CONCLUSION

Through this article, it became clear that the CSR field still needs a more commonly accepted definitions. Yet, it is possible to clarify some basic theories [1] which could be the framework for future research goals. This paper aimed to mark one of the most recognized theories of CSR and stakeholders in the academic literature. As mentioned above, both theories of CSR and stakeholders are related, thus there is a lack of research into a broader assessment of the relationships between business and society. It appears that human resources, as one of the main stakeholder groups, have a notable role in the implementation of CSR policies, which is a subject of a further research.

The stakeholder approach outlines a new capability for organizations to develop their CSR policy. Through managing the stakeholders and their engagement in the CSR managers could more easily develop, integrate and realize CSR policy with bigger influence. Stakeholder engagement is an opportunity for managers to carefully listen to the issues
raised in the engagement, fully understand the viewpoints presented around the issues and then engage in dialogues and action. The CSR stakeholder engagement can vary, but its main purpose is to provide a framework for a dialogue in which devout stakeholders bring concerns forward to the organization with the plan of discussing coming to agreement in the form of a policy designed to address a particular issue.

REFERENCES


