CSR: four theories for a necessary practice

In the field of corporate social responsibility, four theories are currently considered the most relevant: corporate social performance, shareholder value, stakeholder theory and corporate citizenship. Each has strengths and weaknesses, and understanding the possibilities and limitations of each will help you decide which CSR approach is best for your organization, as IESE Prof. Domènec Melé explains.

October 17, 2008

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The role of companies in society has evolved significantly since the 1960s. Corporate attitudes that were once considered responsible enough no longer seem so. With each passing day, companies are expected to play a more active role in building and improving society.

In the chapter "Corporate Social Responsibility Theories" from the 2008 book *The Oxford Handbook of Corporate Social Responsibility*, IESE Prof. Domènec Melé distinguishes four theories of corporate social responsibility (CSR) and discusses the merits of each.

Corporate Social Performance: Business has power and power requires responsibility. Society allows companies to operate and in return they must serve society not only by creating wealth, but also by contributing to social needs and satisfying social expectations towards business.

In a positive sense, corporate reputation is related to the acceptance by the community in which a company is operating.

According to Melé, however, this model has several weaknesses, most notably the greater attention given to social demands than to ethics. CSR becomes merely a social control of business, giving a human face to capitalism.

Shareholder Value: A company's sole responsibility is to generate profits and increase the value of its stock. Social activities are only carried out if stipulated by law or if the activity contributes to increasing share value.

True, Melé admits, wealth creation is part of a company's social responsibility, but not the only one. Here the challenge is to turn CSR into a business opportunity.

Compliance with the law is limited, adds Melé. Companies can follow the letter of the law yet still exploit workers, consumers and resources. To achieve sustainable economic success, executives need to take account of the interests of their employees, customers, distributors and other stakeholders, he says.

Stakeholder Theory: This recognizes that a firm has interdependent interest groups — employees, customers, suppliers, the local community — apart from its shareholders, and it is the satisfaction of all these legitimate interests that leads to long-term success.

However, detractors claim this can lead to opportunism, since self-serving executives can justify any decision or action by arguing that it favors stakeholders. Another objection is that

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it treats all interests equally, when, in fact, each one has different rights and competing claims. Ensuring fair stakeholder representation makes decision making more difficult.

Just as a company cannot be reduced to a nexus of contracts where the financial obligations toward shareholders take precedent, neither can the company become a mere vehicle for coordinating stakeholder interests, says Melé.

Corporate Citizenship: With corporate citizenship, the key concept is participation in society, going beyond fulfilling legal duties as occurs with state citizenship, to actively contributing to the good of society or the world as a whole, as in the case of "global corporate citizenship," which has been talked about more recently.

This theory recovers the position of the company in society and suggests that the company stands shoulder to shoulder with citizens who together form a community. It expands the functionalist vision that would reduce business to an economic purpose. Moreover, it has a global scope.

Critics argue that the concept is too diffuse, and it is difficult to define global standards for corporate citizenship. Nonetheless, a growing number of companies, particularly transnational firms, are adopting this approach.

Though no single theory has all the answers, it is important for companies to rehearse the arguments. As Melé insists, this is the only way to justify or reject certain practices — and inspire new ones.

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