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Toward a Unified Theory of the CSP–CFP Link

Isaiah Yeshayahu Marom

ABSTRACT. This article proposes a unified theory of the relationship between corporate social performance (CSP) and corporate financial performance (CFP). The theory provides a framework for rationalizing the various and contradictory findings in past empirical research. The theory is based on the parallels between the business and CSR domains, and thus draws on models from economics.

KEY WORDS: corporate financial performance, corporate social performance, profit maximization, social products, stakeholder management, stakeholders utility, unified theory

Introduction

For over three decades, the study of the correlation between corporate social performance (CSP) and corporate financial performance (CFP) has yielded various and contradictory results. On various occasions the correlation has been found to be positive, negative or non-significant, and with different causal directions.

To explain the various findings, several theoretical models on the CSP–CFP relationship have been proposed (Preston and O'Bannon, 1997). These competing models, each purport to explain a different outcome of the CSP–CFP link, created a very amorphous and contentious area of inquiry. For example, stakeholder management lacked consistent theoretical grounding that could explain and predict the relationships between the practice of corporate social responsibility (CSR) and financial performance. For these and other reasons, the need for a unified theory has been recognized (Simpson and Kohers, 2002).

This paper attempts to fill this void by introducing a unified theory that explains the range of different relationships that may be observed between CSR and CFP. The theory is constructed through inductive reasoning, based on the parallels between the business and CSR domains, and thus drawing on models from the business (economic) domain. Then, its impact and potential applications are discussed.

The concepts of corporate social responsibility and stakeholder theory

The two concepts of CSR and stakeholder theory are fundamental to the study of business and society. While numerous articles and books have been published about the two concepts, the review below is limited to the most important ideas, which are also the most relevant to the development of our argument.

Corporate social responsibility

According to the concept of CSR, corporations have moral responsibilities toward society that go beyond the goal of simply making profits for their owners and shareholders (Berman et al., 1999).

Corporations take upon themselves the commitment to be socially responsible for both moral and practical reasons. The moral (normative) reason claims that corporations create problems for the environment and society, and thus are responsible for alleviating those problems (Freeman, 1984). The practical business (instrumental) reason, also called ''enlightened self-interest'', suggests that by taking actions that reflect a socially responsible posture, a

corporation can enhance its own financial performance. Thus, the socially responsible approach serves business interests (Mellahi and Wood, 2003; Rowley and Berman, 2000).

It has been suggested that CSR activities can be rewarded with more satisfied customers, better employees, improved reputation, and improved access to financial markets. CSR can also forestall harmful legislation (Berman et al., 1999). These and other outcomes support the claim that CSR can improve financial performance and sustain the business.

Stakeholder theory of the firm

There have been numerous definitions of *stakeholder*. The classic definition by Freeman (1984) identifies a stakeholder group as one that ''can affect or is affected by the achievement of the organization's objectives''.

The organization can affect stakeholders negatively as well as positively. Stakeholders can be harmed by the firms' actions as well as be helped to achieve their goals. Conversely, stakeholders can act in ways that either help or hinder the firm achieve its goals (Rowley and Berman, 2000). Firms therefore institute stakeholder management practices in order to address the needs and expectations of their stakeholders to avoid negative outcomes and induce positive outcomes for themselves (Donaldson and Preston, 1995; Freeman, 1984; Frooman, 1997).

Stakeholder theory has three aspects (Donaldson and Preston, 1995) – descriptive, instrumental, and normative. The descriptive aspect describes and explains the theory. The instrumental aspect focuses on the cause–effect relationships between stakeholder management practices and corporate performance. This instrumental focus is derived from the proposition that practicing stakeholder management will improve financial performance (Berman et al., 1999; Donaldson and Preston, 1995). The normative aspect of stakeholder theory stresses the moral imperatives for practicing stakeholder management, rather than the business benefits it may provide.

CSR and stakeholder theory both address the issue of social responsibility; either toward stakeholders, or toward society as a whole. Both concepts served the discussion of the relationship between social responsible conduct by corporations and their financial performances.

Corporate social performance, stakeholder management, and corporate financial performance

The research on the CSP–CFP link: Why, what and how

The two concepts of CSR and stakeholder theory shared the proposition that social responsibility affects financial performance. Whether such an effect exists has been the subject of elaborated research.

These concepts have taken center stage over the past few decades, gaining increased recognition as being important aspects of running a business. This trend can be seen as a natural progression, paralleling developments in the industrial and business world that increasingly emphasize humanity, environmental preservation, and enlightened social consciousness. Ideology has therefore been a prime mover behind the flowering of this subject area.

Corporations have been encouraged to take steps toward socially responsible behavior for both moral (normative) and practical (instrumental) business reasons. Many advocates of socially responsible behavior attempted to show that it pays off through improved financial performance. This trend has stimulated a new area of research within the field of business and society. This area investigates the relationship between corporate social conduct, both toward the corporation's stakeholders and the wider society, and the corporation's financial performance.

Studies have differed from each other in their conceptual frameworks, as well as many other attributes. CSR and stakeholder theory have both been used as the main theoretical viewpoint for conceptualizing the relationship between responsibility and performance. This led to studies having different points of emphasis and different terminologies. Scholars working from the CSR viewpoint studied the relationship between CSP and CFP (Griffin and Mahon, 1997). Scholars working from the stakeholder theory viewpoint studied the relationship between stakeholder management and its influence on financial performance (Berman et al., 1999). Despite the different viewpoints, all

these studies are very similar, and address the same issue; how moral conduct by firms toward their stakeholders affects the firms' wealth.

Other differences among studies included methodology, design approach, social and environmental points of view, measurement definitions, and sources of data concerning social and financial performance, industry, time span, and more (Griffin and Mahon, 1997).

Financial performance was the most common but not the only indicator used as a measure of firms' wealth. A broader definition of wealth, dubbed the "Objective Function" (Jensen, 2001) incorporated additional indicators, such as short term profits, long-term profits, market value, and other forms of competitive advantage.

Many studies have emphasized the importance of measuring long-term financial performance (Pava and Krausz, 1996). Most of the expenditures incurred by CSR initiatives are short term, while most of the stakeholder reactions to these initiatives play out over the long term. Without a long-term perspective, the effects of the initiatives on performance cannot be observed.

Past findings on the CSP–CFP link

The link between CSP and CFP has been widely studied during the last three decades. More than one hundred studies have been done to date, as well as some comprehensive meta-analyses. Some widely cited landmark studies include those of Ullmann (1985); McGuire et al. (1988); Preston and O'Bannon (1997); Griffin and Mahon (1997); Waddock and Graves (1997); Roman et al. (1999); Jones and Wicks (1999); McWilliams and Siegel (2000); and Orlitzky et al. (2003).

However, the results of these studies were not conclusive and in some cases contradictory (Carroll, 2000; Griffin and Mahon, 1997; Jones and Wicks, 1999; McWilliams and Siegel, 2001; Roman et al., 1999; Rowley and Berman, 2000; Wood and Jones, 1995). The correlation between CSP and CFP was found to be positive, negative, or non-significant, and with different causal directions.

Most studies found a positive relationship between CSP and CFP (or stakeholder management and FP). Such positive relationship has also been supported by a meta-analysis by Orlitzky et al. (2003), which reviewed 52 previous studies, as well as a study by Griffin and Mahon (1997), which reviewed 51 previous articles on the subject. This led to wide acceptance of the notion that being socially responsible, and responding to stakeholders' needs and expectations, would result in competitive advantage, improved financial performance, and a higher value of the firm's objective function.

Despite mostly positive findings, ambiguity still remains about the factors that affect the direction of the relationship, and determine whether it will be positive, negative, or non-existent.

Theoretical concepts on the CSP–CFP link

Over the years, and in reaction to the disparate findings, several theoretical models have been proposed to explain the observed relationships between CSP and CFP. The most widely accepted theories were summarized in Preston and O'Bannon's (1997) six-cell-typology. When looking at the impact of CSP on CFP, the two influential (and contradictory) hypotheses are as follows:

The social impact hypothesis (Preston and O'Bannon, 1997) assumes that meeting the needs and expectations of various stakeholders increases financial performance (i.e., CSR positively influences CFP). Several mechanisms that mediate the relationship have been suggested; these include improving corporate reputation, decreasing business risk, gaining higher support from regulatory agencies, attracting more investment from financial markets, and others.

The trade-off hypothesis (Preston and O'Bannon, 1997) assumes that by increasing their social performance, firms incur unnecessary costs and consequently reduce their profitability, thus putting them at a disadvantage when compared to firms that are less socially active (i.e., CSR negatively influences CFP).

The implications of past research

There has been a great deal of discussion about problems related to various aspects of the empirical research. Major controversies related to the subjects of CSP measures, whether they should be operationalized as a multidimensional construct or not

(Margolis and Walsh, 2001; Rowley and Berman, 2000; Waddock and Graves, 1997), and mismatching between stakeholders and measures of performance (Wood and Jones, 1995).

Another major problem related to business management with regard to devising optimal CSR posture (Preble, 2005). The different empirical findings and competing theoretical models, each of which attempted to explain a different observed relationship between CSP and CFP, created a very amorphous and contentious area of inquiry. Given the inconclusive results, ambiguity remained about what governs the direction of the relationship, and which circumstances cause it to be positive or negative. Corporate management teams were left to wonder whether an investment in social responsibility would result in increased or decreased financial performance.

Thus, the relationship between corporate social and financial performance was left without a consistent theoretical grounding, leading to a call for a unified theory (Simpson and Kohers, 2002). The term *unified theory* suggests a single theory of the CSP–CFP relationship that can explain the range of observed outcomes.

The conceptual framework of the unified theory

The business and CSR domain

The conceptual framework of the unified theory is based on a parallelism between the business (economics) domain and the CSR domain. Such a synthesis of concepts regarding CSR and economics has been suggested in the past (Jones, 1995; McWilliams and Siegel, 2001).

McWilliams and Siegel (2001) outlined a supply and demand model of CSR, and applied cost-benefit analysis for CSR. They suggested that firms produce at a profit-maximizing level, including the production of both core-products and social-responsibility outputs. The social outputs produced depend upon the unique demands for CSP that the firms experience. At optimum production levels, the amount of CSR produced by firms will maximize their profitability.

Jones (1995) offered an instrumental theory of stakeholder management based on a synthesis of the stakeholder concept, economic theory, and ethics. He suggested that because markets are highly competitive and will punish inefficient behavior, firms would be pushed to exercise instrumental stakeholder management to achieve a competitive edge.

These notions lead to the inference that firms strive to maximize profits by taking action in the two domains – the core business domain and the CSR domain (McWilliams and Siegel, 2001). Moreover, a parallelism has been suggested between the two domains in terms of their core concepts and their respective interrelations (Jones, 1995). If such parallelism exists, one could possibly use well-established economic models, which describe the relationships among products, markets, and profits, to construct a model of the relationship between CSR and financial performance. This would be the sought-after unified theory.

The parallelism between the CSR and business domains

The unified theory is developed below by drawing on models from the business (economic) domain. However, before extrapolating from the business domain to the CSR domain, one has to examine whether parallelism exists between the two domains, and which concepts correspond to each other. More precisely, we will be attempting to determine whether the new CSR domain is similar to the traditional business domain, which will serve as a yardstick. This will be done by using two approaches – the theoretical and the empirical. The theoretical approach will examine the parallelism between the core concepts of the two domains. It will also serve later as a mechanism for effecting a transformational mapping of concepts and models between the two domains. Using the empirical approach, we will examine past research findings to identify similar patterns of behavior in the two domains.

Basic concepts parallelism

Let us look first at the business domain. Corporations have been set up to make profits for their owners. Their fundamental mode of operation is to

produce products (both goods and services) that satisfy the needs of their customers. Sales to customers create revenues for the corporations. The more customers value a product, the more they are willing to pay for it. The cost-benefit equilibrium between benefits perceived by customers and the prices they are willing to pay has been described as exchange or transaction contract (Williamson, 1985). Two major components of a cost-benefit analysis are the production function, which governs costs, and the supply-and-demand model, which governs prices.

We can observe parallels to this within the CSR domain. Corporations are concerned with CSR for both normative (moral) and instrumental (business practice) reasons (Donaldson and Preston, 1995). CSR is manifested through social outputs that may take many forms (Rowley and Berman, 2000). Such social outputs include reduced environmental pollution, equal opportunity employment, charitable donations, transparent operations, and others.

Murray and Montanari (1986) suggested that the social outputs of the firm be considered *social products*. The major tenet of this approach is that CSR can be analyzed as a source of "products", which are offered implicitly by the firm to its various stakeholders. These social products address the needs and expectations of various stakeholder constituencies (Preble, 2005), either in the corporation or in society at large. It has been asserted that this is what stakeholder management is about (Rowley and Berman, 2000). From the CSR perspective, it is claimed that social products are specific outputs aimed at satisfying a generalized demand for CSR (McWilliams and Siegel, 2001). Thus, stakeholders can be regarded as a class of consumer, benefiting from the social products produced by firms. Social products are therefore the medium of an exchange process between the firm and its stakeholders (Murray and Montanari, 1986; Eisenhardt, 1988).

A parallelism therefore exists between products and customers in the business domain, and social products and stakeholders in the CSR domain.

Parallelism in cost-benefit findings

The relationship between profits and sales of core products, which occurs within the business domain, is described by well-established economic theories. Neo-classical theories such as the "Theory of the Firm" and the "Theory of the Consumer", as well as modern theories such as the "New Trade Theory"', provide us with good understanding of the relationships among firms, customers, and the market. These theories help managers make decisions aimed at profit maximization, such as setting a product output level that results in maximum profit. This level corresponds to the point where marginal revenue equals marginal cost.

A common question for business managers is whether "more is better" – that is, whether an increase in product output will increase profits. Although the calculation is complex, in many cases the answer is negative. Generally, profits initially rise with output, reach a peak, and then decline. The plot of output level of production versus profit can be described as an inverted U. Profits decrease on the right side of the plot because consumers experience a decrease in marginal utility. As a result, marginal revenues drop below marginal costs and profits decrease.

Returning to the CSR domain, we seek a model governing the cause-and-effect relationship between the output of social responsibility products (determined by CSP) and corporate profits (CFP).

If the business and the CSR domains are parallel, we should expect to find something similar to the inverted-U function. Indeed, a number of studies have found such a relationship between CSP and CFP (Bowman and Haire, 1975; Sturdivant and Ginter, 1977). Such a non-linear model can explain the range of different outcomes associated with different levels of corporate CSR. In fact, the whole body of empirical research on the CSP–CFP link suggests that both positive and negative relationships are possible (Griffin and Mahon, 1997), which makes an inverted U-shaped function more credible.

The above discussion leads to the tentative conclusion that parallelism does exist between the business domain and the CSR domain.

The unified theory of the CSP–CFP link

We can now turn to constructing a unified theory concerning the relationship between the level of social outputs and financial performance, modeled

on the economic theory, which describes the relationship between products (core business products) and financial performance (profits). We will borrow key principles and nomenclature from the economic domain.

Definitions

The principle economic concepts, such as product and profit, are well understood. To avoid ambiguity, we provide definitions of the equivalent CSR concepts. These are listed below.

Social Outputs/Social Products: Social outputs, also called social products, result from the exercise of CSR. They are equivalent to the core products of the business domain.

Stakeholders: According to the concept of stakeholder management, firms create social outputs to address the needs and expectations of their various stakeholder constituencies. Thus, in parallel with the business domain, stakeholders are equivalent to consumers in the sense that social products are targeted at them.

Cost of Social Outputs: In creating social outputs, firms inevitably incur costs. These costs can take many forms, including labor expenses, raw materials, capital investments, and direct financial expenses. The costs of producing social outputs in the CSR domain are equivalent to the costs of producing products in the business domain.

Utility/Stakeholder Utility: Firms' social outputs are directed at stakeholders to prevent them from being harmed by, or to compensate them for, the negative effects resulting from the firms' business activity. Thus, social outputs provide *utility* to the stakeholders.

We can say that stakeholders attribute certain values to the social outputs that address their needs and expectations. These needs and expectations represent the utility function of the stakeholders. Stakeholders may attribute utility to such things as a cleaner environment, improved working conditions, and the like.

Rewards/Firm Rewards: The firm's CSR activities, aimed at addressing the needs of stakeholders, can pay dividends. Satisfied stakeholders can help a firm in many ways. Satisfied customers buy more, satisfied employees have higher motivation and productivity, satisfied investors support higher market values, satisfied legislators pass favorable laws, and so forth. These outcomes contribute to the firm's financial performance. Rewards in the CSR domain are, therefore, equivalent to revenues in the business domain. In the business domain, revenues are created by goods and services, while in the CSR domain rewards are created by social products.

Although there are strong parallels between the CSR domain and the business domain, there are some substantial differences as well. Within the business domain, the exchange contract between the firm and the consumer is explicit and the transaction is immediate – payment for product. In the CSR domain, the exchange contract is implicit and the transaction takes place over a longer period due to the complexity of the reward mechanism.

Basic assumptions

Before proposing the unified theory, we have to state several assumptions. Although all are plausible, the correctness of some remains to be established.

The basic assumptions of the unified theory, within the CSR domain, are as follows:

- The firm operates in both the business and CSR domains to maximize profits. As a first approximation, we assume that operations in both domains are independent of each other.
- Stakeholder utility increases as a function of the level of social output stakeholders receive. Moreover, the direction of the relationship is positive; that is, stakeholder utility rises with the level of social output received.
- Each stakeholder group can be described by a utility function that describes the overall utility they attribute to the social outputs they face. The utility function is specific to each stakeholder group, and to the social outputs that the members of the group value. For each stakeholder group i facing social output j there is a utility function $\mathbf{U}_{ij}$. (If stakeholder i does not gain any benefits from social output j the utility function $\mathbf{U}_{ij}$ equals zero).
- Social outputs of a firm are assumed to be independent of each other.

- Reward created for the firm through stakeholder actions are proportional to the utility that the stakeholder group experiences from specific social outputs of the firm. Moreover, the direction of the relationship is positive; that is, rewards to the firm rises with the level of utility experienced by the stakeholder group.

Stating the unified theory

In constructing the unified theory, we utilize two rules from the economic domain, which are:

- The CSR-related *profits* equal *rewards* (CSR-related revenues) less *costs* (CSR-related expenses).
- The total firm reward is given by a linear summation of all the separate rewards attributable to the various stakeholder groups. The reward from each stakeholder group is a function of all social outputs that affect that stakeholder group.

Basic case:

The firm creates a single social output "S".
The firm has one stakeholder group "T", which is affected by "S".
The firm incurs cost "C" in creating the social output "S".
The stakeholder group "T" has utility function "U" for social output "S".
The reward "R" to the firm is proportional to the utility "U". Thus, the additional CSR-related profits ($\text{Profit}_{\text{CSR}}$) equals the total CSR rewards less costs incurred for the creation of the social output "S":

$$\text{Profit}_{\text{CSR}} = \text{R} - \text{C} = \text{U}_{\text{S}}^{\text{T}} \times \text{S} - \text{C}$$

The General Case:

The firm creates "M" social outputs (S^1, S^2, S^3...S^M), represented by a vector matrix [S].
The firm has "N" stakeholder groups (T_1, T_2, T_3...T_N), each one with the potential to gain utility from any of the social outputs. The overall utility function for all N stakeholders, facing "M" social outputs, is given by the *Stakeholders Utility Matrix* [U] with dimension of N×M: $[\text{U}]_{\text{N}\times\text{M}}$
The total reward "R" to the firm is given by:

$$\text{R} = \sum_j \sum_i \text{R}_{ji} = [\text{U}]_{\text{N}\times\text{M}} \times [\text{S}]_{\text{M}\times 1} = [\text{U}] \times [\text{S}]$$

The total CSR-related profit equals the total CSR rewards less total costs of social outputs:

$$\text{Profit}_{\text{CSR}} = \sum_i \sum_j \text{R}_{ij} - \sum_j \text{C}_j = [\text{R}] - [\text{C}]$$

$$\text{Profit}_{\text{CSR}} = [\text{U}] \times [\text{S}] - [\text{C}]$$

Thus, the CSR-related profits are provided by the sum of 'M×N' 'reward' elements resulting from 'M' stakeholder groups, each facing 'N' social outputs; less total costs incurred in producing all these CSR outputs.

Discussion

The Unified Theory, which draws on the parallels between the CSR and business domains, exhibits a balance between financial rewards from satisfied stakeholders and costs incurred in producing social outputs. Moreover, it identifies total rewards as the linear sum of all stakeholders' utilities, which are affected in turn by a set of social outputs.

Since it addresses both rewards and costs, the unified theory puts together the two previous hypotheses about the CSP–CFR relationship – the social impact hypothesis, and the trade-off hypothesis. While the first hypothesis emphasized the increase in firms' financial performance due to its meeting stakeholders' needs, the later emphasized the costs of producing social outputs, which consequently reduce profitability.

Since it includes the two opposing forces – CSR-related rewards and costs – the unified theory explains all possible relationships between CSP and CFP. Depending upon whether marginal rewards

are more or less than marginal costs, the relationship can either be positive, negative or neutral.

According to the unified theory the relationship between CSP and CFP follows a two-tier summation. At top level, the total financial reward to the firm is given by the summation of the separate rewards from all stakeholder constituencies. At the second level, each of these components of stakeholders reward is driven by the summation of all his utilities from the various social outputs that affect him.

This relationship brings us to infer the following:

- Following the practice of instrumental stakeholder management, the firm should identify those stakeholders, which return the most significant CSR-related reward component (i.e., dominant component at the top tier summation); and focus its CSR activity at them.
- Following the practice of instrumental stakeholder management, the firm should invest in these social outputs that generate the highest stakeholder utility. This inference can have two distinguished manifestations: The significance of the social output is manifested either through the utility of a single dominant stakeholder constituency, or by having influence on several stakeholders and thus evoking a significant aggregated utility.
- If the utility function of a stakeholder is known, and assuming decrease marginal utility with increase in social output level, the firm should target the level of that social output not beyond the point where the marginal utility equals marginal costs of that social output.
- The unified theory, being built on summation of separate elements of social outputs, supports the concept of disaggregated index of social performance. Accordingly, aggregated CSP indexes are erroneous and can be misleading.

In its general form the unified theory comprises $M \times N$ components (calculating the two tier summations), where 'M' stakeholders face 'N' social outputs. With that many elements the relationship could prove to be quite complex, and certainly could oscillate between positive and negative values many times. What, then, can cause the tendency toward an inverted-U relationship as identified in the past?

One possible answer could result from the combination of stakeholder power (Agle et al., 1999; Mitchell et al., 1997) and the phenomenon of decreased marginal utility. Following the concept of stakeholder salience and power, one may assume that a few stakeholders who possess higher power account for most of the CSR-related rewards received by the firm. Thus, the number of meaningful elements contributing to total reward is dramatically reduced. The second point is the assumption that the stakeholders' utility function is characterized by decreased marginal utility. That is, when a stakeholder group receives more of a desired social output, the marginal value of the output's perceived utility will decrease. Putting the two together, the expression for the unified theory is reduced to one (or a few) rewards elements, each following a pattern of decreased marginal utility. The overall result then would show a tendency toward an inverted U-shape function.

The unified theory assumes that the business and CSR domains independently affect financial performance, and do not interact. This approach differs from previous concepts (for example: Graffland, 2002) that integrated CSR-related revenues into the business domain. Another way that CSR has been incorporated into economic models in the past was through the concept of externalities. Accordingly, some social responsibility actions or outputs were considered as externalities; that is, costs or benefits of market transactions that do not appear as prices within the business domain. Classical economic models assumed that such externalities were another source of influence on business performance.

Conclusions

A unified theory of the relationship between CSP and CFP has been introduced. It may provide a theoretical explanation for past empirical findings concerning the CSP–CFP link.

The underlying concepts of the unified theory draw on existing knowledge from the subject areas of CSR and economics. It reflects the fact that in the contemporary modern business environment, which

is characterized by high complexity and competitiveness, firms strive to gain competitive advantage and maximize profits while operating in both the business and CSR domains.

Some major issues within the unified theory have to be resolved before it can be put to more practical use. Measuring and mapping the stakeholders' utility function would be one of these. This might prove to be a difficult task. Stakeholders' utility could depend on several variables, including the characteristics of the stakeholder group, the social outputs produced, the industry involved, and more.

The unified theory assumes that the 'Reward' returned to the firm by stakeholders is correlated with the utility that those stakeholders experience from the firm's social output. This assumption has to be tested and verified by further research.

Another difficulty arises from the need to identify and quantify the 'Rewards' to the firm. These rewards are created through variety of mechanisms originating with stakeholders' actions or influences. Such rewards may not coincide with the social outputs causing them, but rather may appear long afterwards. Moreover, CSR-related rewards may be aggregated with other business revenues, and thus may be difficult to segregate and identify.

Since it is built on multiple interactions, the unified theory sets a research agenda that is focused on rewards mechanisms as well as the relationships between specific social outputs and stakeholder groups. This research agenda is aligned with suggestions made in previous papers, to investigate specific types of interactions between the organization and its stakeholders (Griffin, 2000; Rowley and Berman, 2000). In addition, the unified theory supports a disaggregated approach to the handling of the CSP measures, as it is built upon the stand-alone values of each social output of the CSR.

From the managerial view point, the unified theory could provide the basis for more accurate and methodical stakeholder management, aimed at positioning the firm in a region where the CSP–CFP relationship is positive. Such a management process would focus on identifying those stakeholders who return marginal rewards higher than the marginal costs of the social outputs they receive. It would also help determine the optimized level of these social outputs. Consequently, it will permit the CSR posture of the firm to be adjusted in the face of changing conditions.

The unified theory could prove central to the advancement of CSR, changing it from a moral and ethical imperative into another aspect of management science. If it does so, the theory could be instrumental in establishing a central role for CSR within modern business management.

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Isaiah Yeshayahu Marom
Business
APU University
POB 6567, Haifa 31064
Israel
E-mail: isaiah_marom@yahoo.com