J Bus Ethics (2014) 119:77–86
DOI 10.1007/s10551-012-1615-9

Embedding Corporate Social Responsibility in Corporate Governance: A Stakeholder Systems Approach

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Received: 26 April 2012 / Accepted: 30 December 2012 / Published online: 18 January 2013

Abstract Current research on corporate social responsibility (CSR) illustrates the growing sense of discord surrounding the 'business of doing good' (Dobers and Springett, Corp Soc Responsib Environ Manage 17(2): 63–69, 2010). Central to these concerns is that CSR risks becoming an over-simplified and peripheral part of corporate strategy. Rather than transforming the dominant corporate discourse, it is argued that CSR and related concepts are limited to "emancipatory rhetoric…defined by narrow business interests and serve to curtail interests of external stakeholders." (Banerjee, Crit Sociol 34(1):52, 2008). The paper addresses gaps in the literature and challenges current thinking on corporate governance and CSR by offering a new conceptual framework that responds to the concerns of researchers and practitioners. The limited focus of existing analyses is extended by a holistic approach to corporate governance and social responsibility that integrates company, shareholder and wider stakeholder concerns. A defensive stance is avoided by delineating key stages of the governance process and aligning profit centred and social responsibility concerns to produce a business-based rationale for minimising risk and mainstreaming CSR.

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Keywords Corporate governance · Corporate social responsibility · Stakeholder systems

Introduction

Current research on corporate social responsibility (CSR) illustrates the growing sense of discord surrounding the business of doing good (Dobers and Springett 2010). Central to these concerns is that CSR risks becoming an over-simplified and peripheral part of corporate strategy. Rather than transforming the dominant corporate discourse, it is argued that CSR and related concepts are limited to 'emancipatory rhetoric … defined by narrow business interests and serve to curtail interests of external stakeholders' (Banerjee 2008, p. 52). The focal point of criticism on CSR is the boards of directors, as this key group defines and implements corporate strategy, and serves to safeguard the interests of key beneficiaries. Thus, we contend that a gap in research knowledge exists relating to CSR and its enactment through corporate governance systems. We respond to this gap by focusing on CSR's role in corporate governance by offering a new conceptual framework. To address the *limited* knowledge we have used a holistic approach to corporate governance and CSR that integrates company, shareholder and wider stakeholder concerns. A *defensive* stance has been avoided by delineating key stages of the governance process and aligning profit-centred and social responsibility concerns to produce a business-based rationale for minimising financial risk and mainstreaming CSR (Paulet 2011; Katsoulakos and Katsoulakos 2007). We have also addressed the *disconnection* of many salient stakeholders from company decisions on CSR by incorporating stakeholder evaluation of the effectiveness and equity of system outcomes at each stage of the governance model that the paper proposes.

Corporate Governance and CSR: A Combined Stakeholder Perspective

Corporate governance is conceptualised as the creation and implementation of processes seeking to optimise returns to shareholders while satisfying the legitimate demands of stakeholders (Durden 2008). Aligned with this, we have adopted Sachs et al. (2006) approach that aligns a stakeholder perspective of CSR and corporate governance. Viewing corporate governance through a stakeholder lens broadens traditional shareholder-centric and hub-spoke approaches to organisation–stakeholder relationships (Andriof et al. 2002). It facilitates consideration of a wider range of corporate governance issues, contributes to stakeholder management decisions on ‘who and what really counts’ (Mitchell et al. 1997), and extends company director duties to include formal consideration of stakeholder perspectives and agendas. Stakeholder approaches also facilitate a heightened awareness of CSR, business ethics, and business practices that enable more informed decisions on stakeholder salience (Fassin 2010) and more robust CSR evaluations (Fassin and Buelens 2011).

Greater recognition of stakeholder perceptions of CSR may also addresses issues identified in recent research, that stakeholder engagement in corporate governance is largely characterised by low power and low influence (Spitzeck and Hansen 2010); that the salience of a stakeholder group is a potent antecedent of an organisation’s perceived social obligation to them (Mishra and Suar 2010); and that governance processes generally fail to accord to stakeholder expectations (Law 2011). Stakeholder theory also highlights organisational justice, and the awareness of stakeholder perspectives on the equity of corporate governance (Freeman 2010). It also challenges the primacy that corporate governance traditionally accords shareholders, of being residual risk-takers.

Consequently, we synthesised a key rationale as comprising the need for CSR analyses to adopt a systemic approach to balance shareholder and stakeholder interests, and to incorporate methods of corporate governance corresponding with CSR. There is significant support for this rationale. Existing research advocates conceptual frameworks that include ethical standards, structures, processes, and performance (Svensson and Wood 2011), or ones that differentiate system principles, procedures and effectiveness (Cegarra-Navarro and Martinez-Martinez 2009). However, we are mindful that replacing a shareholder-centric mode of corporate governance with one focused on ethical concerns is unlikely to find favour within the business community. Yet acceptance that a wider range of stakeholders have legitimate expectations has resulted in proposals to align profit centred and social responsibility models of corporate governance (Waring 2008), and to balance ‘shareholder value creation’ with ‘stakeholder value protection’ (Law 2011). Indeed, some studies suggest that the maximisation of shareholder value may well entail company directors pursuing a wider range of social and economic objectives that are consistent with CSR (Tudgay and Pascal 2006).

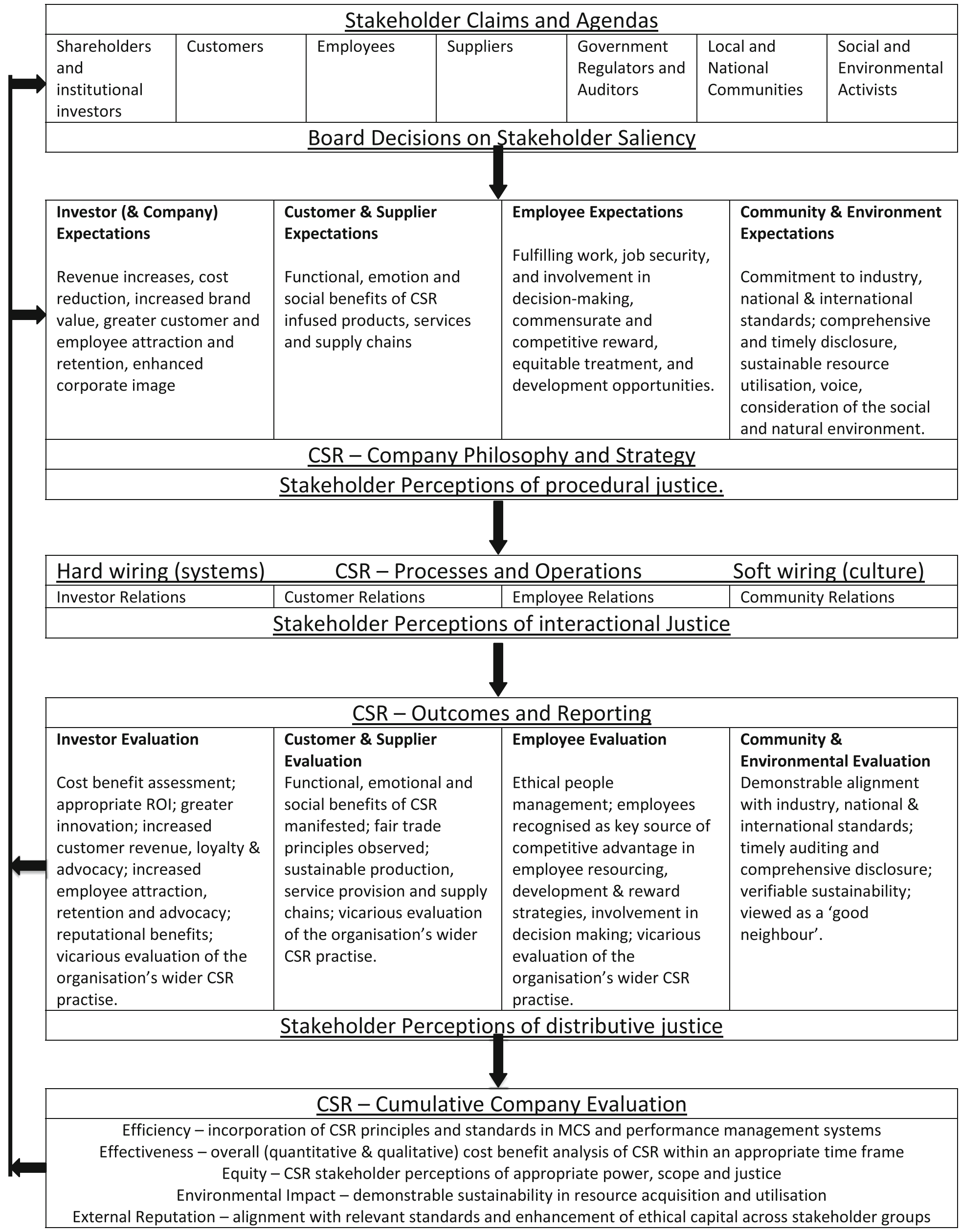
A broader-based audit of CSR can evaluate corporate governance systems, policies, and outcomes in relation to their contribution to business effectiveness, as well as how well they meet stakeholder expectations of customer care, employee involvement, appropriate relationships with government, and sustainability. The corporate failures and malfeasance of the 1990s, together with their reappearance in the recent banking crisis, have increased systemic risk (Paulet 2011). This has prompted calls from sections of the business community, politicians, and the general public for more timely, comprehensive and rigorous methods of corporate governance that accord with CSR principles of inclusivity, materiality, and responsiveness (Rasche 2010). We have responded to these calls by offering a combined systems approach that seeks to reconcile the conflicts between CSR rhetoric and the reality of corporate governance systems and their capabilities.

A Stakeholder Systems Model of CSR: Overview

Limitations in current practice of corporate governance require a new conceptual framework that balances effectiveness and equity expectations of CSR. Our approach therefore aligns with longstanding views that the purpose of organisations is to deliver economic and ethical performance to society (Sherwin 1983). *Effectiveness* has been assessed based on CSR’s contribution to organisation objectives, and *equity expectations* by stakeholder perceptions of how they are treated by the organisation in CSR-related contexts. Donaldson and Preston (1995) claimed that all stakeholder theories contain three separate attributes. ‘Descriptive’ in that they involve a description of how organisations operate; ‘instrumental’ in that they examine how stakeholder management can contribute to the achievement of organisation goals; and ‘normative’ in that they provide an ethical rationale for approaches to stakeholder management (Fig. 1).

The stakeholder systems model that we propose incorporates these three attributes. It can be used *descriptively* to identify particular stakeholder groups’ expectations of the organisation, how organisations respond to these expectations, and the implications for both parties with their

Fig. 1 A stakeholder systems model of CSR



expectations being met. It has an *instrumental* application by demonstrating how effective stakeholder management can make a significant contribution to organisation efficiency, effectiveness, and reputation. *Normatively*, it uses equity as an ethical basis for stakeholder management, via organisational justice dimensions to assess stakeholder satisfaction with CSR philosophy, process, and outcomes. Current research identifies the challenge of turning values into processes, and this remains a key barrier to sustainable business practice (Ballinger 2011). By incorporating values (organisational justice dimensions) into evaluation processes (stakeholder perceptions of system equity), the stakeholder systems model represents both a rationale and a method for achieving this.

Literature on the incorporation of values into management control systems (MCSs) is limited and under-researched (Durden 2008). These issues centre on the omission of CSR measures from conventional MCSs, which in turn creates uncertainty on who salient stakeholders are, their SR expectations and how their SR satisfaction can be measured. A SR MCS incorporates social and environmental considerations alongside financial, combines external, and internal stakeholder perspectives on SR performance, and recognises stakeholder expectations when evaluating SR outcomes (Durden 2008). The stakeholder systems model we propose subsumes these features and builds on them in the following ways. It identifies salient stakeholder constituencies, and delineates their expectations of a SR organisation; specifies the design, operation, evaluation, and reporting stages of a SR MCS; links stakeholder perceptions of whether their expectations have been met with organisational justice dimensions; and relates an organisation's cumulative evaluation of SR outcomes to the ways in which this information is disseminated. Thus, it responds to recent calls to evaluate CSR from multi-stakeholder perspectives (Mishra and Suar, 2010), and to link macro level activity (CSR) with its micro level consequences (perceptions of organisational justice) (Rupp et al. 2006).

Stakeholder salience and organisational justice provide the frame of reference that underpins the stakeholder systems model. The model represents a holistic approach to corporate governance and CSR that integrates company, shareholder, and wider stakeholder concerns. It recognises the paradox that society is demanding more of business while simultaneously trusting it less (Rake and Grayson 2009). The implication is that responsible CSR is no longer about individual projects or programmes, but rather how the totality of business activity impacts on organisation stakeholders such as customers, suppliers, employees, communities, government, and the environment (Rake and Grayson 2009).

The main stages of the stakeholder systems model therefore comprise the following. First, the model identifies the stakeholder groups that seek recognition of their CSR claims and agendas in the corporate governance process. Second, it analyses the factors that influence board decisions on stakeholder salience and delineates the stakeholder constituencies typically accorded salience in corporate governance. Third, it provides a method of evaluating stakeholder satisfaction with CSR effectiveness and equity at the strategy, operations, and outcomes stages of the corporate governance system. Finally, it offers a framework for incorporating stakeholder assessments in overall company evaluation of CSR, as well as determining how effectively such evaluation is actioned and communicated to stakeholders.

Organisational Justice and the Socially Responsible Organisation

We have utilised organisational justice to develop an ethical framework that can be applied in CSR contexts, drawing from a Rawlsian view of justice as the pre-eminent value of social institutions (Ahmed and Machold 2004). Organisational justice has been defined as the study of fairness at work, and the literature suggests it has three distinct components: distributive, procedural, and interactional justice (Palaiologos et al. 2011). *Distributive justice* relates to the perceived fairness of the outcomes that individuals or groups receive from an organisational system, *procedural justice* is the perceived fairness of the processes used to determine the outcomes of the system, and *interactional justice* is the perceived fairness of the interpersonal treatment individuals or groups receive from the organsation.

The concept of organisational justice can be extended by applying it to stakeholder perceptions of equitable treatment in an organisation context, together with stakeholders' attitudinal and behavioural responses to such perceptions. Components of organisational justice are related to stakeholder perceptions of equity in the above three CSR domains, and are therefore utilised at different stages of the stakeholder systems model. The distribution of organisation resources as an outcome of CSR decision-making determines the level of distributive justice; the equity of CSR systems relates to stakeholder perceptions of procedural justice; and how fairly managers treat employees in the enactment of CSR systems determines their level of interactional justice (Erdogan et al. 2001). The use of organisational justice aligns with equity theory in suggesting that stakeholders reduce their commitment to organisation systems they believe treat them unfairly (Flint 1999). It also aligns with psychological contract research that indicates stakeholder support is more likely when factors that give rise to mutuality are present in the corporate governance system (Rousseau 2001). Organisational justice dimensions therefore represent strong rationales for stakeholder viewpoints to be recognised as key measures of the equity of CSR systems.

A normative rationale for the stakeholder systems model is further developed by utilising Niebuhr and Gustafson's concept of 'the responsible self' (1963). This suggests that individuals act responsibly if they consider the consequences of envisaged actions for those affected by them in a manner analogous to the 'ethical foresight' capability identified by Nijhof and Jeurissen (2006). We relate this to CSR contexts by proposing the concept of 'the responsible organisation'. Responsible organisations are those whose corporate governance systems recognise relationships with a range of stakeholders, and establish systems to facilitate fair discourse with them on potential strategy initiatives (Simmons 2008). Such organisations demonstrate ethical foresight by anticipating the possible consequences of their actions within their sphere of influence (Nijhof and Jeurissen 2006).

While many organisations recognise instrumental rationales for dialogue with stakeholders that can facilitate or impede organisation actions, the responsible organisation goes further by acknowledging a duty of care for all stakeholders, including those who are affected by organisation decision-making but who have limited scope to influence this. The participatory stance of responsible organisations towards stakeholders is similar to Kohlberg's (1969) 'just community' theory, where members engage in meaningful dialogue over matters of moral significance (Maclagan 2007). We recognise that this view of the corporation and its role in society represents a challenge to current business models. However, this view is supported by others who have a similar vision of the 'responsible and sustainable corporation', and whose point of departure is also the company's relationship with its stakeholders (e.g., Lozano 2008).

Integrating Normative and Instrumental Expectations of CSR

A longstanding dichotomy in CSR literature is the basis on which organisations should manage their stakeholder relationships (Roberts 1992). One school of thought adopts a normative approach and evaluates CSR on whether it represents SR behaviour towards stakeholders, while the other (instrumental) approach assesses the extent to which stakeholder awareness of an organisation's CSR activities enhances corporate performance and reputation. Mindful of the two perspectives, we suggest that they do not represent a 'zero sum game' whereby acceptance of one obviates the other. Ethical principles are compatible with profit seeking aims, as long-term, sustainable business performance necessitates regard for the organisation's impact on wider society and the environment (Jones 2012).

Some current research suggests that a CSR perspective on business performance is best achieved by considering the voice of multiple stakeholders (Lozano 2005), which we concur with. However, a holistic assessment would incorporate stakeholder evaluation of the effectiveness and equity of CSR at three stages: CSR strategy, CSR operations, and CSR results. *Strategy* decisions determine stakeholder perspectives of the legitimacy of CSR, the implementation of CSR *operations* shapes stakeholder evaluation of the processes and how stakeholders are treated by them, and at the *results* stage stakeholders evaluate how closely CSR outcomes match their expectations. While recognising effectiveness and equity expectations of CSR, we concentrate on the latter—a central critique of CSR is that it lacks any principle of justice to guide the process of mediation between stakeholders (Koslowski 2000).

Stakeholder Claims and Agendas

Stakeholder often seek to influence an organisation's CSR philosophy and practice, with particular groups such as local and national communities, the media, government and government agencies being seen as having a lesser or episodic impact (e.g. Simmons 2008). Broader consideration of stakeholder expectations is appropriate, as Archel et al. (2011) found in an empirical study of CSR programmes in Spain, where stakeholder consultations often resulted in a silencing of divergent voices from the dominant CSR discourse. Thus, we have guardedly theorised broad interpretations of the stakeholder expectations, each of which has the capability to exert instrumental or moral leverage on the focal organisation. While recognising that not all stakeholders prioritise CSR, studies show that an increasing proportion regard an organisation's stance on CSR as a significant influence on their relationship with it (Drews 2010).

External constituencies include investors who want profitable and socially responsible investment that also enhances corporate reputation; customers who seek products, services, and supply chains that have 'green' credentials (Hess and Warren 2008); suppliers that seek to work in partnership with companies that respect fair trade principles and do not abuse their monopoly power; government, regulators, and auditors seeking compliance with legislation and codes of conduct, internal monitoring of CSR practice, and transparency in CSR reporting; and communities and pressure groups that expect companies to recognise the impact of their CSR decision-making on employment and the environment. Employees constitute the organisation's internal stakeholders, with expectations of demonstrated SR in its people management practices and in treating other stakeholders in line with employee social values (Cheng and Ahmad 2010). Research suggests that employee decisions on retention, motivation, and advocacy are influenced by this evaluation (Drews 2010).

The significance of stakeholder expectations is determined via an evaluation that assesses the legitimacy, leverage, and urgency of stakeholder claims (Mitchell et al. 1997). Management decisions on stakeholder saliency mean that certain stakeholder perspectives are acknowledged as requiring reconciliation with those of other stakeholder groups. We have followed Papasolomou et al. (2005) in focusing on three main categories of stakeholder expectation that are likely to be recognised by organisations: investors, customers, and suppliers; employees; and social and environmental groups. The precise nature and saliency of stakeholder claims—and their organisation responses (Laudal, 2011)—are influenced by the size, industrial sector and resources of the focal organisation, the CSR-related expectations likely to emanate from stakeholder are described below.

The CSR System: Stakeholder Expectations

Our focus on stakeholder enables a more holistic view of CSR. Key stakeholder groups anticipate the beneficial impact of CSR in the following ways. Investor expectations of CSR relate to its anticipated impact on other stakeholders and the benefits that should accrue to the company as a result, and are therefore similar to those of senior management. Customer expectations centre on the functional, social, and emotional benefits of CSR in relation to the products or services that they purchase (Becker-Olsen et al. 2006). When these customer benefits are forthcoming, they enhance brand attributes and value that are reflected in greater customer attraction, retention, and trust—and in new marketing opportunities. Employees seek similar benefits in an employment context, and studies suggest that employee recognition of socially responsible people management practices are reflected in higher quality and lower cost recruitment, and improved levels of staff motivation and retention (Collier and Esteban 2007). Similarly, the higher regard of communities and environmentalists for organisations they see as recognising their societal obligations is likely to result in greater marketing opportunities, minimising risk, and as a means of enhancing company value (Petersen and Vredenburg 2009). Cumulatively, the expected benefits to organisations that succeed in meeting CSR expectations of key stakeholder groups are increased company revenue and profitability, lower costs, easier access to finance, and a greater capability to innovate. The CSR expectations of noninvestor stakeholder groups are now considered in greater detail.

As noted previously, customers anticipate-specific functional, social, and emotional benefits or 'value drivers' from their purchase of CSR-enhanced products and services (Green and Peloza 2011). Functional value is the tangible benefit the customer obtains from using such products and services (for example, a hybrid car will deliver lower fuel consumption). Social value is the additional benefit customers anticipate when others recognise that their purchase accords with relevant social norms (e.g. anticipated positive regard for installing solar panels). Emotional value is achieved when the customer's self-worth is enhanced by the belief that their purchase will also benefit wider society or the environment. Recent research suggests that the functional value component is more influential on customer attitudes and behaviour than the indirect impact of social and emotional benefits (Ferreira et al. 2010).

Employees expect similar CSR values to those of customers. A recent study attests that employees seek functional, economic, psychological, and ethical benefits from their employing organisations (Simmons 2009). Functional benefits are obtained if employment provides challenging, stimulating and fulfilling work; economic benefits are derived from competitive compensation; psychological benefits accrue from employee involvement in a valued work role; and ethical benefits are anticipated from the equitable treatment employees hope to experience. Cumulatively, provision of these benefits is seen as indicative of a socially responsible employer, and the significance of employee expectation of socially responsible behaviour by their employer is supported by a recent study identifying this as a main driver of CSR practice (Mont and Leire 2009).

Community and environmental group expectations of socially responsible practice are broader than those of investors, customers, and employees. Moreover, the diffuse or nonhuman nature of these stakeholders means that their interests may be advanced by 'stakewatchers', such as regulators, pressure groups, or activists who legislate or lobby on their behalf (Fassin 2010). Some of their expectations span community and environmental constituencies, and community concern relates to particular local or national contexts, while the focus of environmentalists is unlikely to be constrained by national boundaries.

Both stakeholder groups seek organisation compliance with relevant legislation and regulation, timely, and transparent disclosure of information, scope for their views to be taken into account in organisation decision-making, and safe practice, for example regarding effluent and waste disposal. However, community pressure groups are likely to have more specific expectations of companies on issues such as nonpredatory pricing, the availability of capital for small businesses, and a generalised expectation that companies will avoid the extremes of tax avoidance by recognising fiscal obligations. In contrast, those representing environmental interests expect their broader and transnational concerns such as sustainable resource acquisition, utilisation and disposal to be respected by the organisation. Community influence on socially responsible practice may also take the form of media, a rating agency or regulator attention that can act as significant drivers for organisations to enhance their CSR performance (Mont and Leire 2009; Fassin 2010).

The CSR System: Philosophy and Strategy

Having identified the expectations of key stakeholders, we now propose that the degree of salience accorded to these groups will drive the development of CSR-focused philosophy and strategy. At a board level, such key decisions such be taken mindful of the disparate and potentially competing demands of these groups. We argue that such decisions invite consideration of stakeholder perceptions of organisational justice—meaning that the organisation's treatment of different stakeholder groups is contingent on the just distribution of resources among those groups (distributive justice), equitable methods of determining these groups (procedural justice), and fair treatment of group members (interactional justice) (Erdogan et al. 2001). In the model, the equity of CSR philosophy and strategy is assessed by stakeholder perceptions of their procedural justice.

The CSR System: Process and Operations

More and more companies claim to be 'doing the right thing' in relation to CSR and corporate governance, yet for many the impact is restricted to an espoused philosophy that has limited influence on business operations (Roberts 2001). Infusion of CSR into all aspects of business operations requires the integration of hard wiring and soft wiring approaches (de Wit et al. 2006).

Hard wiring is grounding CSR in organisation systems and protocols. Examples of these include the criteria used for employee selection, promotion, and reward; promulgation of codes of ethics and codes of conduct; the use of CSR parameters in new product development; social due diligence assessment of business projects; and regular reporting on the social and environmental impact of the business (Greenwood 2001). Soft wiring relates to the infusion of CSR into cultural aspects of the business (de Wit et al. 2006). Examples include senior managers acting as exemplars of socially responsible business practice; sustainability as a core cultural value in 'the way things are done around here'; support for CSR initiatives that go beyond the formal boundaries of the organisation, facilitating socially responsible supplier and logistics practices; a willingness to choice influence or choice edit customer tastes; and the use of opinion surveys for periodic monitoring of staff attitudes (Rodrigo and Arenas 2008).

The CSR System: Outcomes and Implications

Performance measurement has been defined as 'the comparison of results against expectations with the implied objective of learning to do better' (Rouse and Putterill 2003, p. 275). This broader perspective incorporates financial and nonfinancial aspects of performance, and incorporates stakeholder expectations in the evaluation of performance measures (Rouse and Putterill 2003). Four key perspectives on CSR outcomes are considered here: investors, customers and suppliers, employees, and community and environment groups. Even though these stakeholder evaluation domains are considered separately, it is recognised that there is significant interrelationship between them. Ethical concerns about business practice involve a basic dislocation arising out of phenomenological beliefs and experiences that 'things are out of place' (Beverungen and Case 2011). This multi-source evaluation represents "a broader view of corporate accountability in which there are as many bottom lines as there are stakeholders" (Pava 2011, p. 53).

The evaluation processes and outcomes are now considered in more detail. Investors and customers seek confirmation of the functional, emotional, and social benefits of CSR-related purchases, while both customer and supplier commitment is influenced by whether the company is viewed as evidencing sustainable manufacturing, service provision, and supply chains. The positive regard of customers and suppliers is manifested in increased sales, loyalty, cooperation, and advocacy (Cuganesan 2006). Employees evaluate the ethicality of the people management practices that they experience (Collier and Esteban 2007), while employee evaluation is also influenced by their perception of the impact of the organisation's wider CSR practice on customers, communities, and the environment (Rupp et al. 2006). As noted above, favourable employee evaluation results in enhanced attraction, loyalty, and commitment (Davies and Chun 2002). Community and environmental group evaluation is based on the company's perceived alignment with industry, national or international standards; whether it embodies responsible and sustainable business practice; the timeliness, transparency, and responsiveness of its reporting practices; and whether the organisation is considered to be a 'good neighbour' by communities that coexist alongside it. Positive community and pressure group evaluation enhances organisation reputation and ethical capital, and the equity of CSR outcomes is assessed by stakeholder perceptions of their distributive justice.

The CSR System: Company Evaluation and Reporting

We suggest that responsible organisations will draw on stakeholder perspectives in their cumulative evaluation of CSR, and utilise these to assess CSR's influence on the organisation's efficiency, effectiveness, equity, environmental impact, and external reputation. Using these in turn, the efficiency of CSR can be assessed by the extent to which CSR principles and standards are incorporated into organisation control and performance management systems; CSR effectiveness by an overall cost-benefit analysis of its organisational impact over an appropriate timescale; CSR equity by utilising stakeholder perceptions of the justice of CSR processes, interactions, and outcomes; CSR's environmental impact by the level of sustainability in the organisation's resource acquisition, utilisation and disposal; and CSR's external reputation influence by the extent to which its ethical capital has been enhanced across stakeholder groups.

An organisation's obligations in relation to CSR remain pertinent, comprising the dissemination of information to and dialogue with key stakeholder groups. Dissemination involves reporting back to stakeholder constituencies via a CSR version of the Balanced Scorecard (Kaplan and Norton 1992). Dialogue is via organisation commitment to involve stakeholders in the actions it intends to take as a result of evaluating CSR.

Conclusion

Throughout this paper, we have proposed a conceptual model that represents a rationale for and a method of embedding CSR in corporate governance. Adoption of a stakeholder perspective identifies the limitations of current CSR approaches, recognises the need to incorporate effectiveness and equity assessments of CSR impact, and delineates key stakeholder constituencies and the factors that determine their salience. The CSR-related expectations of four stakeholder constituencies—investors, customers and suppliers, employees, and community and environmental groups—have been identified, and we contend that these drive the development of CSR philosophy and strategy.

The paper's systemic approach links emergent CSR strategy to its enactment through CSR processes, which then result in a range of CSR outcomes. Organisational justice concepts are deployed to evaluate stakeholder perceptions of system equity at each stage—with procedural, interactional, and distributive justice relating to CSR strategy, process, and outcomes, respectively. We contend that stakeholder groups compare CSR outcomes with their expectations, and that these assessments have attitudinal and behavioural implications. Subsequent organisation evaluation of CSR should draw on the same of its stakeholders, and the resultant assessment will inform of any required revision to its CSR stance. Organisational obligations in relation to CSR continue via an acceptance of the need to report back to stakeholders on CSR outcomes, together with a commitment to remain in dialogue with them on actions that the organisation may take as a result.

The significance of our stakeholder systems model is that it represents a formalised process of stakeholder engagement that enables organisations to take stakeholder views into account when evaluating their CSR-related activities. Most organisations interact with a network of stakeholders to acquire resources and obtain legitimacy. However, researchers have challenged the assumption that stakeholder engagement is a responsible practice, as it may or may not involve a moral dimension (Greenwood 2007), and may or may not facilitate sustainability.

These concerns raise questions about the criteria for the morally acceptable engagement of stakeholders (Noland and Phillips 2010), and how to assess the extent to which a business is socially responsible. Noland and Phillips (2010) attested that the social and environmental impact that business organisations have on society implies that they engage with stakeholders who have a legitimate stake in the business. They therefore compared two modes of stakeholder engagement that they termed 'Habermasian' and 'Ethical Strategist'. They believed that while the Habermasian approach is purer in a moral sense, its requirement that CSR decision-makers prioritise ethical purity over cost and alignment with strategy renders it impractical in a business context. Moreover, ethical strategists argue that the Habermasian distinction between morality and strategy is misguided.

Conceivably a good strategy necessarily incorporates moral concerns, as the sustainability of the organisation requires the creation of relevant value for all stakeholders. So how then can an organisation demonstrate that it creates CSR value for its stakeholder constituencies? We contend that stakeholder perceptions of the ethicality of CSR strategy, process, and outcomes which our stakeholder systems model provides, are measures of corporate social performance. Moreover, if an organisation modifies its CSR philosophy and practice as a result of such stakeholder feedback, this evidences the leverage that ethical stakeholder engagement can exert.

Our stakeholder systems model on CSR is also supported by two further critiques of the prevailing CSR orthodoxy. Rasche (2010) proposed a method of incorporating SR into organisations through a multi-stakeholder consultation process that is underpinned by core values of stakeholder engagement: inclusivity, materiality, and responsiveness. Inclusivity requires recognition of an organisation's accountability to stakeholders—including those who impact on it and those who are impacted by it. Materiality is acceptance of the need to determine the significance of CSR-related issues to stakeholders, by identifying their expectations, and perspectives. Responsiveness is a commitment of accountability to stakeholders in relation to CSR policy, process, and performance, as well as through transparent, timely and dialogic communication processes. Scherer and Palazzo (2007) questioned the adequacy of dominant approaches to CSR, by claiming that they fail to consider that the genesis, processes, and consequences of CSR initiatives are shaped and delivered by political processes. They attested that the descriptive approach of most CSR fails to integrate more critical perspectives, which reinforces 'business as usual' stances of researchers and practitioners. Instead they argue for a process of deliberative democracy, to give stakeholders greater involvement in the formulation of an organisation's CSR stance, as well as in the periodic evaluation of CSR system outcomes. Their view is grounded in the belief that the legitimacy of the decisions that organisations make depends on the discursive quality of the decision-making process.

While we do not fully agree with these critiques, we contend that the stakeholder systems model of CSR exhibits significant commonalities to them. Finally, our model has relevance to those in the research community who wish to identify stakeholder perceptions of power, effectiveness, and equity in CSR, and the extent to which these are met. Organisations can make similar use of the model to audit their CSR policy, practice, and outcomes, and to undertake the organisation development that the results imply.

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