Corporate Citizenship: What's a CEO to do?

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Corporate Citizenship: What's a CEO to Do?

The Challenge

CEOs are feeling increasing pressure to run their firms such that they are seen as exemplary corporate citizens. The media attacks slips in corporate behaviour while consumers show increasing willingness to punish corporations that they think are not being socially responsible and employees are ever less inclined to work for corporations that they think are not being socially responsible. Over the course of the last decades, assisted by research and communication tools available on the internet to millions worldwide, advocates have been able to learn of corporate actions with which they disagree. If rebuffed, they have been able to respond quickly and powerfully with effective campaigns (Tapscott et al., 2003)

The tricky and frustrating thing for CEOs on the receiving end is that the sphere encompassing corporate citizenship or corporate social responsibility (CSR) is incredibly wide. To be socially responsible, corporations are asked to: protect the environment in which they operate; adhere to strict standards of governance; take care of their employees; support their communities; promote health and wellness; and support education – and likely more (Moon et al., 2003).

On top of that challenge, the standard required for being considered socially responsible in each of these diverse areas is ambiguous at best. There is no widely accepted standard for CSR performance. Some standards are emerging, such as the Global Reporting Initiative, the Global Compact, or the OECD Guidelines for Multinational Enterprises. However, none has gained anything close to wide acceptance, let alone widespread understanding of what each really means.

Finally, the commentators, customers and employees calling for enhanced corporate citizenship have little or no advice for CEOs as to how they should trade off earning returns for their shareholders against performing acceptably well across this wide array of CSR areas. They just want social responsibility by their corporations – whatever that means exactly – and performance at less than acceptable standard will be punished. Whether for Royal Dutch Shell after the Brent Spar or Nike in the wake of Asian sweatshop allegations or Arthur Anderson after Enron, the punishment can be harsh indeed.

Because the CSR universe is broad, the standards high yet ambiguously defined, and the economics mysterious, it is extremely difficult for a corporation to rebut an allegation that it is being socially irresponsible. When Walmart is assailed for allegedly engaging in sexually discriminatory employee practices, it is difficult for it to defend itself as being socially responsible across its portfolio of activities. This one area tends to define in the minds of commentators, customers and employees Walmart's irresponsibility overall whether rightly or wrongly.

Corporations need a way of getting out ahead of the CSR issue or they will risk either getting irretrievably behind or failing to earn the appropriate rewards for their investment in citizenship – or both. Corporations need a tool for thinking about CSR and a process for developing a comprehensive corporate citizenship strategy that can be carried out throughout the corporation and communicated to the outside world.

This analysis addresses directly the question of how can we equip CEOs with an effective model that enables them to make a coherent set of choices that will result in their corporations being and being seen to be exemplary corporate citizens. This analysis takes the perspective of a corporate CEO who wants to do the right thing but does not know how.

In taking this perspective, the paper in no way suggests that all the many other facets of CSR are not useful and important. CSR work has many applications from helping governments and NGO's think about the role of corporations in society to providing ways for investors to think about investing in the interests of the social good to helping activists excoriate corporations for bad behavior. These and more applications are all interesting and legitimate. Many models of CSR were designed for these purposes and not the purpose which is the focus of this paper.

Several years ago, this author put forward a model for thinking about CSR (Martin 2002) that was designed to help senior executives, including CEOs, think through the practical task of being an exemplary corporate citizen. The creation of the model, the Virtue Matrix, was motivated by the apparent absence of thinking tools that could help the CEO think through the question of taking action on CSR. Its structure was informed by a set of design parameters that the author believed would be consistent with an effective model.

However, those design parameters were left largely implicit and the existing alternative models were not explicitly assessed against these design parameters. This paper seeks to accomplish three things in relation to this unfinished business. First, it seeks to make explicit the design parameters that would produce, if adhered to, an effective model for a CEO to use to pursue exemplary corporate citizenship. Second, it seeks to evaluate substantially all published CSR models against these design parameters to see whether any of the models substantially meet the design parameters for an effective model. This analysis will include application of the design criteria to the Virtue Matrix, which is fraught with moral hazard problems – i.e. the model author evaluating his own model against his own criteria. However, it has the value of making the evaluation explicit and opening it up to evaluation by others. Finally, the paper will suggest additional enhancements to the Virtue Matrix model to make it still more effective for the CEO who is trying to do the right thing.

Design Parameters of an Effective Model for Corporate Citizenship

What do we mean when we refer to an "effective model for corporate citizenship"? For purposes of this article, an effective model would be one that enables a well-intentioned CEO to take corporate actions that result in his or her corporation becoming an exemplary corporate citizen and be seen as an exemplary corporate citizen. There are several pieces of this definition that warrant further elucidation.

First, effectiveness is judged only in the hands of a well-intentioned CEO. The paper does not address the question of what model might have the effect of changing the mind of a recalcitrant CEO. While an important question it is more the subject of a public policy or regulatory analysis.

Second the terminology of the paper personalizes corporate citizenship in focusing on the CEO. This is arguably too narrow a focus. Indeed, the CEO is not the only decision-maker involved in CSR decisions. There are, for example, many corporations with executives in charge of corporate citizenship or CSR. However, in any corporation, the CEO must ratify any major decision made in respect of corporate citizenship and hence must have a decision-making model in his or her head that enables understanding and evaluation of those decisions. Hence it is not unreasonable to use the CEO as the ultimate focus of the evaluation of model effectiveness.

Third the focus of model evaluation is on action and nothing less. A model that only helps a corporation understand corporate citizenship is not effective in terms of this analysis. The standard for effectiveness is action that changes what the corporation would otherwise do. Inaction is equated to ineffectiveness.

Fourth, however, all action is not beneficial action. Effective action in the context of this analysis is that which results in a corporation being seen by relevant observers to be an exemplary corporate citizen. That is to say, observers understand that the corporation believes it should be a good corporate citizen and takes actions, which make that a concrete reality in the eyes of most observers. It is doubtful any corporation can please all observers because some will think, like single-issue voters, that by choosing not to take action on some particular issue, the corporation is by definition irresponsible.

At a Meta level, what features of a model would cause a CEO to lead in taking beneficial action on corporate citizenship? First, he or she would have to be able to use the model. Second, he or she would have to want to use the model. And third, when he or she takes action on the model, it should produce sufficiently beneficial results to warrant the continued use of the model.

These three broad features give rise to seven design parameters against which we will judge the effectiveness of CSR models for the purposes described above; three in the area of usability, one in desire and three with respect to ability to produce beneficial results.

The three design parameters with respect to usability are as follows:

1. ***Connectable***: A model must be connectable to other accepted managerial tools and models. If a model is not connected to the toolbox of models already used by CEOs to manage their businesses, CEOs would be faced with the requirement to jettison all the models they currently use to manage and accept a new model as their only guide. Given that the existing models for managing firms have grown up over centuries and act as the "operating system" for firms to make decisions on both what to and what not to do, we posit that CEOs will simply not abandon that operating system to adopt a new and unproven operating system. To be usable, therefore, the corporate citizenship model needs to be linked to existing managerial models in ways that give CEOs the comfort that they don't need to cut the umbilical cord to their previous decision-making system to adopt a new model.

2. ***Concrete***: A model must be sufficiently concrete for a CEO to be able to translate its inferences into action. If a model is highly abstract – i.e. the CEO should simply "do the right thing" – the CEO will not actually use the model to make decisions and take action on those decisions. Hence the test is whether a CEO who accepts fully the legitimacy of the model in question can take action on the basis of its logic.

3. ***Measurable***: In order to be useful, a tool needs to have the results that it produces be measurable. If the actual results cannot be measured against the desired results then the effectiveness of the tool can never be judged. A CEO who uses the tool in order to guide action will become frustrated with the inability to measure whether the tool has been used effectively or not and will not be able to improve and refine the use of the model.

The single design parameter with respect to CEO desirability is as follows:

4. ***Organic***: A model must be linked to the true world of the CEO as a human being, not a profit-maximizing automaton. Enough is known about executives to be able to say without reservation that they are imperfect agents, not simple tools of stockholders. Any model will have to take into account that CEOs have their own agendas that can well include having a desire to do good and be seen to be doing good – and thus to be connected to their communities in ways that do not adhere strictly to profit maximization. Any model that treats them as unthinking extensions of stockholders will be unrealistic and unlikely to be seen as desirably enough to be adopted by CEOs.

Three design parameters relate to the capacity of the model to assist the CEO in producing beneficial action given that the CEO sees the model as usable and desirable:

5. ***Particular***: A model must be able to provide decision-making assistance to CEOs across a wide array of particular situations. Each corporation faces a context with at least some unique characteristics, especially in the case of corporations that operate across geographies featuring distinct and different cultures. Hence a model that does not help the CEO make decisions based on the unique characteristics of the situation at hand but rather treats all situations (implicitly or explicitly) as generic, would not meet this design parameter.

6. ***Evolutionary***: Standards for corporate citizenship have not been and are unlikely to remain static over time. Thus to be effective a model needs to reflect evolution over time in the context for corporate citizenship. If it assumes no evolution than it will be a less effective decisionmaking tool for CEOs.

7. ***Communicable***: In order to be effective, the model must be understandable to the audiences involved. That is to say, the audiences must be able to understand why the corporation does some things and not others. Otherwise the model will be ineffective in having the corporation be seen to be operating as a good corporate citizen.

Together, these seven design parameters will be used to assess the effectiveness of CSR models from the point of view of the well-intentioned CEO. It should be noted that these comprise a difficult set of design parameters in that they embody a substantial degree of inconsistency and conflict. For example, a model that is excellent with respect to particularity is likely to be more complex, which is likely to make it less easily communicated at the same time. The need for connectability to existing models creates strains for making the model organic because the existing managerial models don't take into account the feelings and emotions of executives. So it should come as no surprise that CSR models currently in existence struggle to fulfill the design criteria set out.

Assessing the Existing CSR Models

We attempted to be inclusive in researching all published models of dealing with how corporations could conceptualize being better corporate citizens. The collection of models exceeded fifty and has continued to grow with every passing year. In order to assess the models against the design parameters for effectiveness, we grouped the models into similar clusters. There were five clusters of models, each with a number of individual models within the cluster as follows:

- Descriptive Models
- Process Models
- Hierarchical Models
- Stakeholder Models
- Social Contract Models

In addition, we chose to evaluate three additional single models as follows:

- Stockholder Model
- The Convergent Stakeholder Model
- The Virtue Matrix Model

We determined that it would be very important to evaluate the core managerial model, the stockholder model, against the design parameters to better understand the gap in the baseline managerial model in respect of meeting the needs of achieving exemplary corporate citizenship. For that reason, we discuss the stockholder model first. We then discuss the first two clusters of models (Descriptive Models and Process Models), which are not normative in their approach to CSR. Then we will discuss three classes of models (Hierarchical, Stakeholder and Social Contract) that are normative in that they propose certain CSR-oriented behaviors are better than others. Finally we discuss two individual models that warrant individual attention in order to compare them to the five model clusters: the Convergent Stakeholder Model, which shows more promise in meeting the design parameters than the five clusters of models; and the Virtue Matrix, which was created with these design parameters in mind.

Stockholder Model

Even though in essence it is a model not for CSR, the baseline stockholder-based model of corporate decision making should be evaluated against the seven parameters established above in order to establish if there is a meaningful gap in the baseline model that necessitates producing newer, more effective corporate citizenship models. If the baseline model is found to be reasonably effective, then we would conclude that there is not a great need for entirely new citizenship models. If it is judged wanting, then there is a stronger case for alternative models.

In this model in which, as famously stated by Milton Friedman, "the business of business is business," corporations and their CEOs should not think about anything but that which is in the interests of producing profits for shareholders (Friedman 1970). If shareholders want to be socially responsible, they should take the dividends they receive individually from the corporation and use those proceeds to fund their charitable activities. This frees the CEO from having to think at all about CSR.

In essence, this model is the ultimate in connectedness. There is no need to connect this model to something else because it is the baseline model for business. Profit-maximization guides decision making in managerial theory generally. It is also concrete in that any corporate decision can be weighed against a return on equity criteria in a very concrete way. Results are very easily measurable by a host of criteria that are well-understand and accepted – e.g. ROE, EPS growth, ROIC, etc. Finally, since it is the baseline model it is well-understood as an operating system and decisions and performance are readily communicated.

However, the stockholder model is challenged in a couple of very important ways. First, it is not organic. Very few executives conceptualize themselves as nothing but shareholder value maximizing vassals of the stockholders with no interests in society and community broadly. That is not to say that no such CEO exists; that would hardly be the case. However, most CEOs have a desire to fit into their communities in some meaningful way and to feel that their lives have meaning over and above serving stockholders' interests. Hence while the stockholder model simplifiers their decision making lives, many CEOs would not see strict adherence to the stockholder model as deeply connected to their inner being – hence the model underperforms with respect to the organic criteria.

In addition, the model has limitations with respect to particularity and evolution. For example, as a decision making model, it did not help Royal Dutch Shell understand what was so particular and unique about the trial of Ken Sara Wiwo in Nigeria or the sinking of the Brent Spar that rendered the strict stockholder model incapable of producing optimal decisions for Shell in any respect. That is to say, when Shell was picketed and boycotted, costing it millions, it had made the choices with respect to Nigeria and Brent Spar that were supposed to be shareholder value maximizing. Their model didn't help them predict that both would be shareholder value destroying. In fact these decisions had particular elements to them that blindsided Shell and their model did nothing to help them.

Linked to the particularity problem is an evolutionary shortcoming. Nothing in the core stockholder model produces an understanding for executives of the evolutionary nature of the context. Perhaps 20 years earlier, Shell could have gotten away with sinking the Brent Spar out at sea to get rid of it "cost-effectively". But attitudes and customs had evolved to be point that the action by Shell was considered beyond the pale and the action of corporation without heart or sensitivity.

Hence while the stockholder model has all the advantages of a model that enjoys dominant market share, it has meaningful shortcomings in helping the well-intentioned CEO, which argues for the importance of assessing other models to determine whether better models exist.

Descriptive Models

The first set of models is descriptive in nature. These models describe ways of seeing, understanding, measuring and reporting on CSR. The first descriptive models appeared to have come into existence in the late 1970s/early 1980s and then proliferated after 2000.

Zenisek (1979) got the descriptive model ball rolling by describing the Social Responsibility Continuum. Wartick et al. (1985) followed up by describing CSR in terms of Principles, Processes and Policies. His categorization system was later modified by Wood (1991) into Principles, Processes and Outcomes. Trevino (1990) identified a category of CSR-inspired decision making as Ethical Decision Making.

In due course, these early efforts spawned all sorts of models for describing, accounting for and reporting on CSR. There emerged:

- Categorization schemes: Preston (1975) categorizing by "Institutionals", "Organizationals", and "Philosophicals"
- Matrices: Locke (nd) and Hemingway et al. (2004)
- Graphical representations: Schwartz et al. (2003), Lenssen (2002), Zadek (2002), World Bank Institute "CSR Diamond" (2001)
- Acronym models: AKSP and STEAG (Antal et al., 2002)
- Goal characterization: "Triple Bottom Line" (Elkington 1998)
- Measurement Systems: Global Reporting Initiative (2002); Good Corporation Standards (2001); Linowes Model (1972); SustainAbility (2002)

With respect to the design parameters, these models are perfect for measurability. Essentially, that is the purpose for which they were designed. In varying degrees, they are reasonably strong on communicability. For example, tools like the Triple Bottom Line gained quick popularity in CSR circles because of the allusion to the well-understood bottom line concept in the baseline model.

However, on most of the criteria, the descriptive models come up short. They are not connectable to managerial models. In fact, they are notable in that no real attempt is made to make the connection. These models simply describe and measure what corporations actually do in relation to CSR. They don't help CEOs actually make decisions or trade-offs because in large part they are more abstract than concrete.

The models perform decently with respect to the organic parameter because they involve tracking and measuring things that CEOs care about relative to their broad community. However, the models don't help him or her to make those decisions in the first place and they don't embody a view of the CEO to which the CEO can easily relate.

These models are largely silent on the question of evolution and in general describe CSR performance in essentially static terms. In terms of particularity, it is hard to judge for certain. In one respect, since the models are designed to describe whatever they happen to see, they are particular. However, it is hard to see how these descriptive models treat different contexts differently rather than force each context into a fixed model.

Overall, while these models undoubtedly serve other useful purposes, it is clear that they have little utility for a CEO who is trying to make decisions concerning corporate citizenship. He or she would be able to find out on the basis of the various categorization and measurement schemes how those decisions were viewed ex post, but would find little help in making the necessary trade-offs ex ante.

Decision Process Models

Beginning in the 1990s, many models were offered that lay out complex and rigorous decision processes for managers to make CSR decisions. At first blush, it would appear that these models would represent and advance in meeting the effectiveness criteria over the descriptive models of the previous section.

The models have many steps and complicated flow charts, including Rands (1991), Jones (1991), and EFQM (1992). Swanson (1995) laid out a decision process that moved from macro principles to micro principles to corporate culture to social impacts. Spiller (2000) created the "four P" model, McWilliams et al. (2001) the supply and demand model and the World Economic Forum (2002) the "Framework for Action".

The fundamental problem with these models from the perspective of usability for the CEO is that the models start from a place unconnected to managerial models. Executives are supposed to walk through a rigorous, logical process without having addressed the fundamental linkage to every other managerial system in their business. This feature renders these models abstract, not concrete. The models may be able to provide some measurability of results but that is not certain from an initial analysis of the models.

From the perspective of desirability or lack thereof, most of the models view managers as rational automatons who can weigh moral issues rationally and optimize their answers to sophisticated moral questions. It is unlikely that CEOs would find these models appealing in this respect.

It is somewhat unclear the degree to which the models can be customized to particular situations. It would appear that at least some of the processes are sufficiently granular [e.g. Jones (1991)] to create specific analyses of individual issues. None of the decision process models has a view of the evolution of the context or practice of CSR, but rather looks at the context as essentially static. Finally, the models vary in the degree to which they can be clearly communicated.

Overall, the fundamental problem with this set of CSR models is the lack of connection to managerial models at the very front end. They fail entirely to help the CEO think about how he or she should trade off profit maximization for CSR, if such trade-offs are required. As with the descriptive models, this class of models does not appear to hold much promise for CEO actionability on corporate citizenship.

Hierarchical Models

Another broad class of models can be characterized as hierarchical models. Their essential form is a hierarchy from low levels of corporate social responsibility to high levels. They differ somewhat from the descriptive models in that all have a normative bent in implying that to be higher on the hierarchy is morally superior and/or more enlightened than to be lower on the hierarchy.

Eells (1956) got the ball rolling for the hierarchical model class by suggesting there exists a spectrum from minimum corporate attention to social responsibility to maximum attention. He used the evocative terms “traditional” and “metro” to describe the two ends of the spectrum respectively. Walton (1967) built on Eells’ model by dividing the hierarchy further from Eells’ minimum to maximum into: austere; household; vendor; investment; civic; and artistic. Still later Wilson (1974) defined, again hierarchically, four stances a corporation can adopt toward issues of social responsibility: reaction, defense, accommodation, and proaction. Sethi (1975 and 1978) preferred three levels: social obligation; social responsibility; and social responsiveness; Frederick (1978) two levels: CSR1 and CSR 2.

Another influential step occurred in1979 when Carroll utilized Wilson’s stance hierarchy and combined with own to create a double hierarchy: economic responsibility, legal responsibility, ethical responsibility and discretionary responsibility. Later his model became a pyramid (1991) and finally Carroll et al. (2000) added the notion of stakeholders, about which we will speak further in the next section.

It is fair to say that these models all had overtones of Maslow’s self-actualization hierarchy, but it wasn’t until Tuzzolino et al. (1981) that the linkage was made explicit, again reinforcing the normative stance that higher on the hierarchy is better than lower. The proliferation of CSR hierarchies has continued unabated to the present:

- Reidenbach et al. (1991): amoral, legalistic, responsive, emerging ethical, and ethical
- World Business Council for Sustainable Development (1997): shareholder, stakeholder, and planetary
- Kok et al. (2001): ad hoc, studied, planned, reviewed
- Googins (2002): philanthropy, strategic philanthropy, and integration
- Moon et al., (2003): liberal minimalism, civic republicanism, developmental democracy, deliberative democracy

They all take a similar stance: lower is worse, higher is better. However, the models are simply not connectable to management practice and theory. The concreteness is limited by the abstract nature of the goal “go higher”: How high should a particular corporation go at a particular time? When should it stop? How would it know when it should stop? What resources should it devote to the effort? None of these questions is answered, nor is there a method provided for the CEO to answer these questions utilizing the hierarchical model. On the other hand, these models are positively oriented toward measurability in that every corporation could be positioned on the hierarchy in question.

The most positive feature of these models in that to the extent that Maslow is correct, they are organic because they are linked to fundamental human aspiration. That is to say, if Maslow is correct that individuals seek to self-actualize by moving up his hierarchy, then as CEOs they will be inspired to lead their corporations up the hierarchies posited by the many hierarchy modelers.

The wide range of models suggests that the CEO would have a number of different hierarchical models to pay attention to given the particulars of a given context. However, there is a question as to whether individual situations are treated uniquely within each given model. Most have no reference to evolution of the context or corporate responses with the exception of Carroll (Carroll et al., 2000), who posited an evolutionary view of his hierarchical model. The models vary in their simplicity and straightforwardness of communicability with some more communicable than others.

While a step up from the descriptive and decision process models in terms of the evocative linkage to the human aspirations of executives, the hierarchical models are still very limited in their utility to a CEO attempting to make CSR-oriented decisions by the lack of connectability to other managerial processes and the consequent lack of concreteness. As with the descriptive models, the CEO could categorize his or her corporation on the hierarchy of choice after making his or her CSR choices, but it is difficult to see how the hierarchical models would help him or her make those choices in the first place. So while the hierarchical models may have rich descriptive clarity and value, they don't provide meaningful help toward the desired goal.

Stakeholder Models

Another rich vein of models is represented by stakeholder models. The essential theory is that a corporation has multiple stakeholders, not just stockholders and that in order for a corporation to be socially responsible, it needs to act in ways that promote the interests of all of its stakeholders.

This line of thinking was kicked off in 1995 by Clarkson and Donaldson et al. (1995). Clarkson picked up the Wilson (1974) hierarchy (reactive, defensive, accommodative and proactive) and argued that it applies to multiple stakeholder groups. He appears to be most responsible for coining the term stakeholder management. Donaldson et al. (1995) suggest there are four types of or elements to stakeholder theory: descriptive, instrumental, normative and managerial. Rowley (1997) picks up on the stakeholder theme and discusses networks of stakeholders and their implications. The Caux Roundtable and AccountAbility take on the stakeholder perspective in their promotion of CSR.

Stakeholder models have echoes of other classes of models. Dowling (2001) maps stakeholders into four groups in a descriptive typology: normative groups, customer groups, functional groups and diffuse groups. While Waddock (2001) takes a quasi-hierarchical approach to stakeholder theory by arguing that there are three ways stakeholder relationships can evolve in a normative range from bad to good: reactively, proactively and interactively.

In the end, none of the stakeholder theories has an implicit or explicit theory for how a CEO can balance the interests of stakeholders and stockholders – just that he or she should. They specify the stakeholders and how they should be treated, but not how to make those critical decisions. As such, they are not useable for CEOs. There is no connectedness to traditional managerial theories and the level of abstraction is too high for CEOs to see them as sufficiently concrete to use. In addition, it would be hard to measure the impact on stakeholders. These represent a great number of weaknesses for stakeholder theory from the perspective of the CEO taking real action.

On the positive side, the theories link with the human desire to be a valued member of a community or communities. Stakeholder theory identifies the natural communities of a corporation and its executives and points out that those communities are very important. CEO's would agree and for this reason, an aspect of stakeholder theory would resonate with CEOs.

The stakeholder models are relatively strong on particularity in that they explicitly recognize that different contexts have differing stakeholder compositions. However, the models are not evolutionary and are not particularly easy to communicate.

Unfortunately, while elegant, stakeholder models do not yet provide much utility for senior executives in empowering their decisions. While they may agree entirely with the goal of helping stakeholders, they receive little practical help from the theory as to how to make those choices. Some of the shortcomings with respect effectiveness of stakeholder theory for CEOs are addressed by convergent stakeholder theory (Jones et al. 1999), discussed later.

Social Contract Models

Social contract theory is anchored in the view that by giving the corporation its limited liability operating structure, government – representing society – implicitly enters into a social contract with the firm, which the firm, by accepting the benefits of limited liability also accepts. Social contract models hold that the firm has an obligation to avoid harming, being unfair to or unjust with members of society.

This view was promoted earlier by Dalton (1982) and probably most importantly by Donaldson et al. (1994) who, in another link with the hierarchical models of CSR, posit that there is a hierarchy of norms – with global " hypernorms" being the highest form – to which firms must comply.

The most important global manifestation of the social contract approach is the Global Compact (2000) promoted by the United Nations with an initiative sponsored personally by Kofi Annan, which specifies ten broad areas in which corporations have a social contractual obligation to perform.

A further argument made in support of social contract theory is that it is necessary for firms to step up and fill the void caused by the retreat of governments from social welfare-building activities (Moon et al., 2003).

However, like stakeholder theory and perhaps even more so, social contract models create overly abstract goals for managers – fairness and justice are abstract notions with no agreement among parties on definition let alone the ability of managers to take action on them.

In addition, these goals are not connectable or connected in any way by the theorists to managerial models. Existing managerial models do not even attempt to argue for how to create fairness and justice in society generally. Since there is no definition of fairness or justice, the outcomes of CSR efforts in this respect can't be measured.

However, these models probably meet the parameter of being organic in that it feels good to managers to think that they are honoring a social contract of some sort.

Since fairness and justice are highly general and abstract notions, the general models based on them are not particular. Nor is there anything in the theory that suggests an evolutionary path for the nature of the social contract, so it comes up short on that criterion as well. Finally, as the relatively rocky road thus far of the UN Social Compact demonstrates, it is not a particularly easy concept to communicate either.

In the end, the social contract models have more utility for opposition of corporations – anti-business NGOs and governments – who can use it as a legitimizing framework to criticize corporate behavior. However social contract models appear to be of little utility to CEOs in attempting to go beyond basic stockholder oriented behavior to be better corporate citizens.

Convergent Stakeholder Model

Jones attempted to overcome the shortcomings of standard Stakeholder theory with instrumental stakeholder theory (Jones 1995). In particular it addressed the connectability gap which drives the fundamental usability problem in stakeholder theory. Jones suggests that altruistic, trust-oriented behavior is instrumental and not a wedge between altruistic and stockholder-motivated behavior

Jones further develops thinking (Jones et al., 1999) with convergent stakeholder theory. The convergent stakeholder model asks what kinds of stakeholder relationships are both morally sound and practicable – i.e. normatively sound and practically viable
In doing so, it makes an important attempt and lays out groundwork by which the stakeholder model can be connected to traditional "instrumental" models used by executives

As such the model is organic: it explicitly treats managers as imperfect agents with feelings and desires to do the right thing. It is also particular: it assumes different situations and different responses. Finally, it provides some promise of being measurable. The potential measurability is discussed in the context of descriptive theory aspects of the model.

With respect to its potential utility for intrinsically motivated CEOs to make decisions to beneficially shape corporate citizenship, convergent stakeholder theory has challenges in three areas:

- First, at this point in its development, it puts forward a way of potentially creating models for action, but it is still abstract and not concrete enough to ensure action by a CEO even if the CEO subscribes fully to the model;
- Second, it doesn't attempt to be evolutionary or show how CSR migrates over time;
- Third, it is unclear as to how readily communicable this is as a model.

The challenges notwithstanding, it represents for the purposes of this analysis a substantial leap forward from stockholder models, hierarchical models, stakeholder models and social contract models in getting closer to effectiveness for CEOs and can serve as an important contributor to the way forward.

Virtue Matrix Model

The Virtue Matrix attempts to take the thinking on CSR an additional step in the direction of usability, desirability and capacity for generating beneficial action. In addition, it takes an evolutionary perspective that assists in a corporation's attempt to build the environment in which it operates.

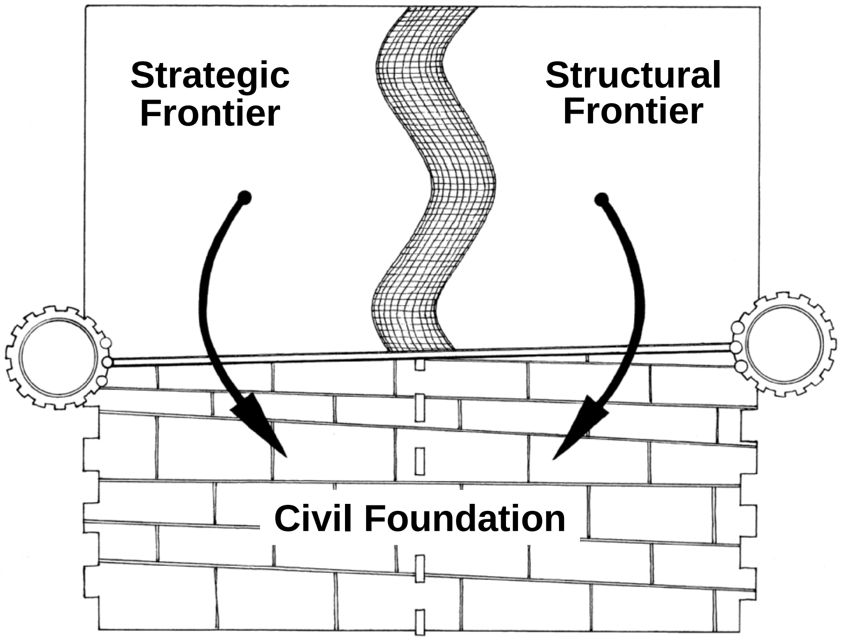
The Virtue Matrix consists of four quadrants (Figure 1), and provides a framework for evaluating civil, governmental, and stakeholder claims, while encouraging business leaders to be as innovative in enriching society as they are in increasing wealth for their shareholders.

The bottom pair of quadrants makes up the "Civil Foundation", a depiction of the historical development of CSR. The right quadrant, Civil Foundation – Compliance, is the accumulation of laws and regulations to which firms must comply or risk being fined or prevented from continuing in operation. These laws and regulations tend to build up over time as the economy advances. In advanced economies, the legal and regulatory environment tends to be deep and robust, while it is often fragile in less developed nations.

In the lower left quadrant of the Virtue Matrix, Civil Foundation – Choice, are the customs and norms to which firms tend to adhere. Lack of adherence to the customs and norms in an industry or economy can result in a firm being ostracized other firms in the industry, lowered customer loyalty, or greater difficulty in attracting and retaining employees.

Figure 1

The Virtue Matrix



The top left quadrant of the Virtue Matrix, the Strategic Frontier, encompasses activities whose motivation is largely intrinsic – i.e. it feels like the right thing to do – and whose impact on shareholder value at time of launch is ambiguous. However, when launched, the activity produces sufficiently positive reactions from customers, employees or other stakeholders that the activity turns out to be a positive contributor to shareholder value creation.

The upper right quadrant of the Virtue Matrix, the Structural Frontier, houses activities that are both intrinsically motivated and contrary to the interests of shareholders. The benefits of corporate conduct in this quadrant accrue principally to society – i.e. there are substantial externalities – rather than to corporations, creating a fundamental barrier to corporate action. The most effective weapon against inertia in the Structural Frontier is collective action among corporations, governments, and non-governmental organizations.

The model is connectable to traditional managerial perspectives in that it distinguishes between activities that are required to stay in business (i.e. in the Civil Foundation), versus those that provide opportunities for both economic gains and moral purpose (i.e. in the Strategic Frontier) and those that are at odds with economic gains (i.e. in the Structural Frontier).   The model is concrete in that it maps out specific approaches and actions for each quadrant, however it could be improved to make it still more concrete, which will be discussed below. The model also has the promise of being measurable, though an audit technique, also discussed below, which needs to accompany the original model.

It is organic in that it assumes that managers are, to varying degrees intrinsically motivated to operate in ways that are broadly beneficial to society.

The Virtue Matrix model is highly particular in that it recognizes that each decision is unique and particular to the context of the corporation and its stakeholders. It also includes an explicit and important evolutionary element. It posits that the Civil Foundation builds over time, which both makes the world a better place and also puts pressure on laggard firms as behaviours migrate from the Frontier to the Foundation. In this way, it alerts the CEO to the need to monitor movements in the Civil Foundation on an ongoing basis in order to guide decisions with respect to CSR. Finally it holds the promise of being communicable. By explaining its behaviours in the context of the four quadrants, a corporation can communicate clearly its citizenship strategy. A format for communicating a corporation's citizenship strategy is also discussed below.

A corporation with a great commitment to social responsibility has internal processes for choosing its focus areas and invests prudently in projects to overcome deficits in the Civil Foundation and break new ground in the Strategic and Structural Frontiers. When asked why it doesn't do x or y, it can explain authoritatively that x and y are not its CSR focus areas, but a, b and c are its three foci and this is why they are more critical to pursue than x or y.

Donaldson et al. (1995) discuss four characteristics any CSR model can possess: instrumental, normative, descriptive and managerial. Using their categorization scheme, we can see that the Virtue Matrix is both instrumental – i.e. it shows where socially responsible activity leads to stockholder benefit – and normative – i.e. it shows that managers have the opportunity to be altruistic if they wish. From a descriptive standpoint, it suggests that with intrinsically motivated managers we would expect to see more attempts at activity in the Frontiers. Finally, it is a managerial model in that it provides managerial processes by which management can take action. The Virtue Matrix model suggest that a corporation with a great commitment to social responsibility: 1) Puts mechanisms in place that ensure that it is in strict compliance with the letter and spirit of all laws and regulations in the Civil Foundation – Compliance; 2) Is in the lead of adopting the norms and conventions of its industry rather than a laggard in the Civil Foundation – Choice; 3) Has several chosen Strategic Frontier projects under way across the spectrum of CSR areas that are of particular relevance to its stakeholders; and 4) Is leading several chosen structural frontier projects for which it is active in building coalitions for change and overcoming the externalities associated with new initiatives.

In being instrumental, normative, descriptive and managerial, the Virtue Matrix has the promise of being an effective model for CEOs to use in leading their corporations to be exemplary citizens. However, more is needed to ensure full effectiveness of the Virtue Matrix model. Enhancements in concreteness, measurability and communicability would be of great value in enhancing the model and are discussed below.

Summary Assessment of the Eight Models

Figure 2 summarizes the assessment of the eight models of CSR using the seven design parameters for effectiveness in use by corporate CEOs:

Figure 2

	Stockholder	Descriptive	Decision Process	Hierarchical	Stakeholder	Social Contract	Convergent Stakeholder Theory	Virtue Matrix
Connectable	**Y**	**N**	**N**	**N**	**N**	**N**	**Y**	**Y**
Concrete	**Y**	**N**	**N**	**N**	**N**	**N**	**?**	**?**
Measurable	**Y**	**Y**	**?**	**Y**	**?**	**N**	**?**	**?**
Organic	**N**	**?**	**N**	**Y**	**Y**	**Y**	**Y**	**Y**
Particular	**N**	**?**	**?**	**?**	**Y**	**?**	**Y**	**Y**
Evolutionary	**N**	**N**	**N**	**?**	**N**	**N**	**N**	**Y**
Communicable	**Y**	**Y**	**?**	**?**	**?**	**?**	**?**	**?**

Improving the Virtue Matrix

To the extent that the above relative assessment of the models has validity, the Virtue Matrix model shows promise as a potential too for assisting CEOs in crafting a corporate citizenship strategy for their corporations. In order to improve its effectiveness, enhancements in three design parameters are needed: concreteness, measurability and communicability. Concreteness and measurability can be enhanced with a methodology for assessing a corporation's current performance with respect to CSR. Concreteness and communicability can be enhanced with a methodology for creating a citizenship strategy based on the Virtue Matrix.

The Virtue Matrix Assessment

The Virtue Matrix can be used as a framework for measuring CSR for a corporation and thereby provide a foundation for citizenship strategy. The assessment can be organized by stepping around the Virtue Matrix quadrants clockwise from the lower left.

Civil Foundation – Compliance

The key question for this quadrant is whether the corporation is in full compliance with all the laws and regulations pertaining to its jurisdiction and its industry. To be thorough, the compliance assessment should cover laws and regulations related to the broad areas of CSR. For the purposes of this discussion, we group them into six broad areas, but further work can be done to improve the categorization.

- *Environmental Protection:* The stewardship a corporation can and should show related to the environmental impact of its operations
- *Business Standards:* The governance and business morality standards to which the corporation holds itself
- *Employee Relations:* The standards by which the corporation takes care of its employees and their families
- *Community Relations:* The ways in which a corporation can contribute to the well-being and prosperity of the communities in which it operates
- *Health and Wellness:* The ways in which a corporation can contribute to the health and wellness issues in its workforce and communities
- *Education and Leadership Development:* The ways in which a corporation can contribute to education and the development of future leaders in its industry or operating environment

In order to assess its performance in the Compliance quadrant, the corporation should ask itself the following set of questions:

- What are all the laws and regulations pertaining to the six core CSR areas that apply to your corporation?
- To what extent does your corporation seek to be in full compliance with each of the above laws and regulations?
- How does your corporation ensure that it meets all laws and regulations?
- Is your corporation 100% compliant with the laws and regulations?
- How does/can your corporation demonstrate and communicate compliance?

Civil Foundation – Choice

The key question for this quadrant is to what extent the corporation is a leader or a laggard in adhering to the norms and customs in its jurisdiction and its industry.
In order to assess its performance in the Choice quadrant, the corporation should ask itself the following set of questions:

- What are the industry's norms and customs across the core CSR areas?
- Who is the leader in setting norms in the industry? That is, who demonstrates above-average commitment and a comprehensive action plan?
- To what extent is your corporation a leader or a laggard in adopting norms?

- How does your corporation choose to adopt norms that emerge in the industry? Does it look to a leader inside the industry? Does it look outside the industry?
- Is your corporation a member, signatory, or supporter of any voluntary international conventions, such as the Global Compact?

Strategic Frontier

The key question for this quadrant is what are the greatest opportunities across the core CSR areas in which the corporation could create great value for customers or employees by taking bold action of the sort that has never been taken before? In order to assess opportunities in the Strategic Frontier, the corporation should ask itself the following set of questions:

- How does your organization pursue and develop proposals for innovative activity in the Strategic Frontier?
- What activities that your corporation's customers, employers, shareholders, or suppliers want that you could provide if you chose?
- What are the impediments to putting such practices into action?
- What could be the business case for undertaking such new-to-the-world practices?

Structural Frontier

The key questions for this quadrant are what are the areas across the core CSR domains in which there is great need for customers, employees or society at large which cannot be tackled alone because of the great externalities and how could the corporation play an initiating role in creating a coalition for action that would take into account the externalities and ensure positive action happens? In order to assess opportunities in the Structural Frontier, the corporation should ask itself the following set of questions:

- What practices that are desired by customers/employees/shareholders/ stakeholders would require collective action among firms in the industry to make happen?
- How could a coalition of interested firms be pulled together for each potential practice?
- What governmental/non-governmental organizations might your corporation include in a coalition?

The Virtue Matrix Strategy

The corporation's Virtue Matrix Strategy pulls together the assessment from each quadrant of the Virtue Matrix to produce a comprehensive strategy.

Civil Foundation – Compliance

The Civil Foundation – Compliance portion of the Virtue Matrix Strategy should answer the following questions based on the assessment work above:

- What is your corporation's goal with respect to Compliance? Is it 100% Compliance or some other goal?
- What are two to three priorities, if any, for overcoming compliance issues?
- What new processes are required for ensuring compliance at the level of the stated goals on an ongoing basis?
- What is the plan for communicating your corporation's compliance goals, processes and performance?

Civil Foundation – Choice

The Civil Foundation – Choice portion of the Virtue Matrix Strategy should answer the following questions based on the assessment work above:

- What is your corporation's goal with respect to Choice? Is it to be an industry leader in adopting new norms and conventions? Or is it to be a fast follower or some other goal?
- What are two to three initiatives would be most important to our stakeholders to upgrade our performance in adopting norms and conventions?
- What new processes are required for ensuring adherence at the level of the stated goals on an ongoing basis?
- What is the plan for communicating your corporation's goals, processes and performance with respect to industry norms and conventions?

Strategic Frontier

The Strategic Frontier portion of the Virtue Matrix Strategy should answer the following questions based on the assessment work above:

- What is your corporation's goal with respect to the Strategic Frontier? Is it to be known inside and beyond the industry for making periodic breakthroughs that lead to the establishment of new conventions? Or is it to be a fast follower or some other goal?
- What are two to three new-to-the-world initiatives in the Strategic Frontier would be most important to our stakeholders?
- What is a plausible action plan for each of the priority initiatives?
- What is the plan for communicating your corporation's goals and performance with respect to these priorities?

Structural Frontier

The Structural Frontier portion of the Virtue Matrix Strategy should answer the following questions based on the assessment work above:

- What is your corporation's goal with respect to the Structural Frontier? Is it to be known inside and beyond the industry as an instigator in creating coalitions to break through in CSR areas fraught with externalities that prevent individual action by one firm? Or is it to be a fast follower or some other goal?
- What are two to three new-to-the-world initiatives in the Structural Frontier would be most important to our stakeholders?
- What is a plausible action plan for each of the priority initiatives? What is the structure and composition of the coalition that must be built?
- What is the plan for communicating your corporation's goals and performance with respect to these priorities?

Overall Virtue Matrix Strategy

With the four quadrant strategies in hand the corporation can articulate an overall Virtue Matrix Strategy as follows:

- What is your corporation's goal with respect to the overall Virtue Matrix? Is it to be known for being 100% compliant, leading in the adherence to norms and conventions, an innovator in the Strategic Frontier and an instigator of coalitions in the Structural Frontier? Or is it to be as compliant as necessary without getting into trouble, a fast follower on new norms and conventions, and an avoider of the risks associated with the Frontiers? Or is it some combination in between?
- Across the eight to ten possible initiatives across the four quadrants, what is the overall priority? Which are the top five that warrant the most urgent action?
- What is a plausible action plan for each of the priority initiatives? What are the next steps?
- What is the plan for communicating your corporation's overall Virtue Matrix Strategy and the individual initiatives?

With such a Virtue Matrix Strategy in place and well-communicated, the corporation will be well-positioned to fend off attacks from single issue CSR critics who ask: "Why aren't you doing the following for society? You would if you were a responsible corporation?" Rather than answering defensively as many corporations must today, it would be able to answer thoroughly and aggressively about what it is doing and why that makes the most sense for both the corporation and society. And it would be more likely not to get asked the question in the first place because its commitment to CSR, as well as shareholders, would be evident from the execution and communication of its Virtue Matrix Strategy.

Summary

In the current context, CEOs are under increasing pressure to run a socially responsible corporation that both is in fact and is seen as being an exemplary corporate citizen. The cost of not being seen legitimately as such is rising. Much has been written about corporate social responsibility over the past 45 years. However, the majority of models, as assessed above, fall well short of being effective tools for CEOs who want to lead a socially responsible firm. In particular, the models fall short on connectability to broader managerial models, concreteness, and attention to evolutionary elements. Two models show more promise for effectiveness in this context: convergent stakeholder theory (Jones et al., 1999) and the Virtue Matrix. This paper takes the Virtue Matrix model and adds further specificity to it to improve its concreteness with the goal of making it a model that well-intentioned CEOs can use to mold a comprehensive and concrete corporate citizenship strategy.

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