

CSR and Stakeholder Theory: A Tale of Adam Smith

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Abstract This article leverages insights from the body of Adam Smith's work, including two lesser-known manuscripts—the *Theory of Moral Sentiments* and *Lectures in Jurisprudence*—to help answer the question as to how companies should morally prioritize corporate social responsibility (CSR) initiatives and stakeholder claims. Smith makes philosophical distinctions between justice and beneficence and perfect and imperfect rights, and we leverage those distinctions to speak to contemporary CSR and stakeholder management theories. We address the often-neglected question as to how far a company should be expected to go in pursuit of CSR initiatives and we offer a fresh perspective as to the role of business in relation to stakeholders and to society as a whole. Smith's moral insights help us to propose a practical framework of legitimacy in stakeholder claims that can help managers select appropriate and responsible CSR activities.

Keywords Adam Smith · Beneficence · Corporate social responsibility · Justice · Perfect rights · Stakeholders

Introduction

For decades, scholars have discussed the relationship between business and society in the context of corporate social responsibility (CSR) (Carroll 1979) and stakeholder

theory (Freeman 1984). Many different philosophical approaches have been cited in this discussion, especially regarding the challenge of integrating the ethical perspective of CSR with the practical, managerial orientation of stakeholder theory (Mele 2008; Parmar et al. 2010; Windsor 2006). On the CSR side, these approaches have run the gambit from positivist/instrumental approaches (Jones 1995; Wartick and Cochran 1985) to normative approaches that are derived from a variety of deontological and teleological philosophies (Scherer and Palazzo 2007). On the stakeholder theory side, ethical components can be drawn from several sources including the Principles of Corporate Rights and Corporate Effects (Evan and Freeman 1988), pragmatism (Freeman et al. 2010), the normative viewpoint of businesses as moral agents (Donaldson and Preston 1995), and stakeholder applications like the Principle of Fairness (Phillips 1997). This article offers a different perspective through the lens of Adam Smith (circa 1759). Although Adam Smith's articles have primarily been used in economic theory, they also contain important ethical aspects that have broad implications for both CSR and stakeholder theorists. This article leverages insights from the body of Smith's works including two lesser-known manuscripts—the *Theory of Moral Sentiments* (Smith 1759) and *Lectures in Jurisprudence* (Smith 1762)—to shed light on how companies might use the concepts of justice and perfect rights to prioritize stakeholder claims from economic and moral standpoints to satisfy both business and society.

This is an important issue as CSR and stakeholder theorists sometimes do not agree as to both the nature and limits of business responsibilities owed to society. CSR scholars have long argued that companies have ethical and moral obligations to society that, while not required, are expected (Carroll 2004). Stakeholder theorists have argued

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that while there are normative, ethical elements to stakeholder theory beyond its managerial, social science applications, these are separate and distinct (Freeman 1984, 1994, 2002; Jones and Wicks 1999). In this regard, researchers on both topics are quick to point out that CSR and stakeholder theory are not the same thing. They are delineated by differences in the CSR obligations of businesses to society and the stakeholder responsibilities of businesses to their firm-specific stakeholders to create value (Berman et al. 1999; Freeman and Liedtka 1991; Freeman and Velamuri 2006; Mele 2008). The theoretical debates regarding the similarities and differences between CSR and stakeholder theory have arguably muddied the waters for practical applications of such theories to firm/stakeholder relationships. Consequently, researchers have called for additional empirical evidence of the effects of corporate social performance (Margolis and Walsh 2003; Orlitzky 2008; Schreck 2011) as well as a “names and faces” approach to stakeholder applications (McVea and Freeman 2005). Few studies actually address the limits of CSR and how far a company should be expected to go in pursuit of CSR initiatives.

We propose a post-positivist approach to CSR and stakeholder relationships (Scherer and Palazzo 2007; Wicks and Freeman 1998) through the philosophical lens of Adam Smith (1759). A post-positivist approach is one that emphasizes a normative, moral grounding for CSR based on the epistemology of the humanities and various philosophies. This approach differs from positivist approaches to CSR that are grounded in value-free scientific approaches to the study of organizations (Astley 1985; Wicks and Freeman 1998), but which have been criticized for focusing on power struggles between the firm and its stakeholders (Scherer and Palazzo 2007). While many readers of Adam Smith’s *Wealth of Nations* reference his pragmatic, market-approach to understanding division of labor and economic factors, his lesser-known works of the *Theory of Moral Sentiments* and *Lecture on Jurisprudence* offer moral messages that may be applied to stakeholder management. Much of Adam Smith’s philosophy relies on tenets of morality, justice, and beneficence. Under this approach, commutative justice, or fairness in exchange, and the concept of perfect rights provide insight into the potential limits of a company’s CSR activities and the firm-specific relationships necessary for a practical application of stakeholder theory. Additionally, in crossing ethical and legal boundaries, the tenets of Smith’s theory on perfect rights can assist companies as they grapple with competing and divergent stakeholder claims under the broader CSR definition of a business’s obligation to society.

Our article makes two important contributions to the literature. First, we begin with a discussion of CSR priorities and the trade-offs that often must be made by

businesses in social performance decisions—not to highlight the broader tensions that are self-evident in CSR decisions along multiple dimensions—but rather to cast these tensions in specific stakeholder conceptions of how businesses should prioritize and limit CSR activities. While we concentrate on the tradeoffs between discretionary, philanthropic CSR and other CSR decisions, we show how Smith’s logic can apply to broader stakeholder claims. We focus on the concepts of commutative justice versus beneficence from Smith’s *Theory of Moral Sentiments* as well as from the *Lectures in Jurisprudence* to show that, in particular, the “perfect rights” element of commutative justice can facilitate prioritizing stakeholder claims. Second, we show how Smith’s concept of commutative justice embodies economic and moral components, complementing CSR and stakeholder theories while answering the call for business ethicists and CSR/stakeholder theorists to embrace the managerial challenges faced by practitioners (Parmar et al. 2010).

CSR and Stakeholders

Corporate social responsibility has been described as a paradigm that is in a “state of emergence” (Crane et al. 2008, p. 7). While broadly defined as the responsibilities of a business to society, researchers have been challenged both theoretically and empirically to provide clarity to this construct. Schwartz and Carroll (2003) presented a three-domain conceptualization of CSR that helped to define its elements, including economic, legal, and ethical obligations, collapsing the fourth dimension of philanthropy into the ethical component. Windsor (2006) denoted three different philosophical approaches along similar dimensions of ethical, economic, and corporate citizenship. Garriga and Mele (2004) mapped instrumental, political, integrative, and ethical theories to four dimensions of CSR that include a business’s obligations to pursue profits, accept social obligations, grow its business, and embed ethical values. Yet, while practitioners embrace different dimensions of these responsibilities, they still face the challenges of explaining to their stockholders why and how they choose to pursue social initiatives at a significant cost to those who invest in their companies (i.e., the self-evident nature of CSR tensions).

The business case for CSR argues that there are legitimate reasons for a corporation to invest in CSR activities. From an economic standpoint, there is theoretical logic and some (albeit inconclusive) empirical evidence that engaging in socially responsible activities can reduce costs and risks to the firm, build firm competitive advantage, enhance reputation and legitimacy, and create synergies (Salazar and Husted 2008). Scherer and Palazzo (2007) note,

however, that these approaches are decidedly positivist in nature—looking for cause–effect relationships that often serve to fit into an economic theory of the firm (Margolis and Walsh 2003). This business case reconciles to the stakeholder perspective that legitimate reasons to invest in CSR activities must encompass a “defensible normative core” while also supporting and generating economic value (Parmar et al. 2010, p. 410).

Beyond the business case for strategic CSR, however, there are altruistic and coercive motivations for pursuing CSR (Baron 2001; Husted and Salazar 2006). Altruistic CSR projects are pursued without regard to economic benefits. Coercively motivated projects are those that are undertaken to provide social benefit, but with the goal of minimizing costs and with the hope of reputational effects. However, the downside to these CSR motivations are the agency costs that take place when managers make the decision to invest in these activities without any observable consequences, so that moral hazard and other agency costs can emerge, even in seemingly charitable projects (Husted and Salazar 2006; Laffont and Martimort 2002). Nevertheless, empirical studies of philanthropy have used an instrumentalist logic as well to make the case that, regardless of motivation, discretionary CSR can satisfy moral and economic components of the business/society relationship (Navarro 1988).

Some stakeholder theorists argue the business case from an instrumentalist perspective—that managing firm-specific stakeholder relationships is good for value-added bottom line to the company (Margolis and Walsh 2003). However, under stakeholder theory, CSR is said to “exacerbate the problem of capitalism and ethics” (Parmar et al. 2010, p. 413) when it is added to the financial commitments and responsibilities of a firm. While stakeholder theorists acknowledge a blend of financial and moral consequences to CSR, their emphasis is on value creation and trade through stakeholder relationships that necessitate trade-offs in the managerial issues faced by practitioners. The practical melding of CSR and stakeholder theories remains arguably embedded in the instrumentalist approach to stakeholder theory that posits that CSR activities will result in financial gain (Jones 1995). This is also echoed in the Habermasian perspective of CSR that integrates moral and economic components through “a broader analysis of a corporation’s connectedness to public discourses” by encouraging CSR practices that respond to “political co-responsibility” (Scherer and Palazzo 2007, p. 1110). Under this deliberate approach to CSR, the moral components are also political, related to corporate citizenship and taking responsibility for actions that affect others with transparency and accountability. The economic rationale is still present in this argument, however, from a global market perspective.

There has been some progress on blending CSR and stakeholder theories with models and frameworks that encompass economic and moral arguments. For example, Mitchell et al. (1997) introduced a stakeholder salience model with dimensions of legitimacy, power, and urgency designed to determine “definitive stakeholders” and rankings below, all the way to “dormant” stakeholders. Moral elements may be found in each of the dimensions to provide some normative applications. In another example, Phillips (2003) introduced the notion of “stakeholder legitimacy” and identified the conditions for normatively legitimate claims of stakeholders on the organization. Similarly, stakeholder engagement models, which are seen as a way to reduce risks and increase opportunities (Strand 2008), and partnership ballots (Lindgreen and Swaen 2005) rely on stakeholder impressions through survey instruments that can provide insight into what stakeholders expect of businesses, including moral components. However, despite such attempts to reconcile the economic and moral components, companies are still faced with the managerial challenges of deciding how much CSR they should engage in, and, when facing a cadre of legitimate stakeholders, to whom are they responsible?

In sum, the theoretical debates regarding CSR often peg stakeholder theorists against CSR researchers. Kurucz et al. (2008) provide a summary of these debates on three different levels: the level of justification (organization or society); the logic of justification (economic, ethical, political, and social); and the grounds for justification (positivist, anti-positivist, and pragmatist); all of which have debatable logics. In particular, the logic of justification implies that in the tradeoff between economic and ethical justifications for CSR, economic concerns are value-free and distinctly separate from ethical and broader social outcomes. This distinction is enhanced by grounds for justification that contrast descriptive and prescriptive logics for CSR (Swanson 1995, 1999), as well as applications of stakeholder theory that lack an ethical orientation and fall victim to what Freeman calls the Separation Thesis (1994). As a result, economic and ethical justifications for why businesses should engage in CSR are seen as separate and distinct, and the normative, moral elements of CSR are held out as contributing to the vague nature of the construct. Yet, we know that economic and ethical elements blend together in business decisions. Hence, managerial challenges arise in deciding how to manage stakeholder relationships for the maximum benefit of the firm as well as society.

Managerial Challenges and CSR

When a company has to make the tradeoffs among stakeholders, how far should the company be expected to go in

its pursuit of CSR initiatives? For example, after it was apparent that the drug Mectizan could treat river blindness, Merck realized that it had to make an ethical decision that would re-direct operating profits to help save peoples' sight, trading shareholder profits for philanthropy. Merck decided to help save the sight of some of the people who could not afford the medication and, consequently, donated millions of dollars of the drug to the poor in Africa (Levine 2007). Most would not dispute that Merck was behaving ethically, and some would say that the company, because it had the ability to help, had a moral obligation to help those most in need of assistance. However, how far should society expect a company to go? How much organizational effort should Merck commit to addressing the problem of river blindness? Would the company still have an obligation to take action if the costs were substantial? At what point would it be acceptable for Merck to decide *not* to donate Mectizan to the poorest victims of river blindness? In short, what are the limits to CSR, and what moral theory can help organizations decide how much it should commit to CSR initiatives and who the beneficiaries of those activities should be? Adam Smith provides some insight into these important questions by providing moral and economic grounding, not from an instrumentalist perspective, but from a normative one through the logics of commutative justice and perfect rights.

Adam Smith

Many are familiar with Smith's most popular work, *The Wealth of Nations* (*WN*), and a casual reading of that text likely has left many with the impression that Adam Smith principally wrote about economics and public policy. However, a broader reading of his works including, in particular, *The Theory of Moral Sentiments* (*TMS*) and *Lectures in Jurisprudence* (*LJ*) paints the picture of a man deeply concerned with morality and justice. *TMS* was the precursor to *WN* by 17 years and lays the moral foundation on which his economic theories in *WN* are erected. In fact, as noted by Coker (1990), Smith was very much attuned to the issues of morality, for "...even though Smith's economic man acts in his own self-interest, he never fails to recognize that his behavior should have consequences for others which are beneficial (1990, p. 141)." In addition, before *WN* was published, Smith expanded his thoughts on jurisprudence to include a more thorough treatment of justice and rights that form the bulk of *LJ*. In particular, Smith draws two distinctions that are very useful when thinking of stakeholder theory and CSR—Justice versus Beneficence and Perfect versus Imperfect Rights. These distinctions help form the basis of legitimacy for assessing stakeholder claims.

Justice and Beneficence

In the *Theory of Moral Sentiments*, Adam Smith lays out the ideas of justice and beneficence, and these ideas form the foundation for his thoughts on economics and the Invisible Hand, which are so widely quoted from his later work, *The Wealth of Nations* (1776). To Adam Smith, the virtues of justice and beneficence are symbiotic, but very different ideas. Beneficence flows from ideas of friendship, generosity, and charity, and results from the choice of the actor to others. He notes, "[b]eneficence is always free, it cannot be extorted by force, the mere want of it exposes to no punishment; because the mere want of beneficence tends to do no real positive evil" (Smith, *WN*, i.ii.1). Therefore, beneficence cannot be coerced and is motivated by the individual's sympathies. Additionally, the recipient of beneficence has neither obligation to the benefactor nor any right to demand beneficence. In contrast, justice is a virtue, which society must uphold.

It [beneficence] is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of nature, must in a moment crumble into atoms. (Smith, *TMS*, ii,ii,iii.4)

Justice is concerned with "[a]ctions of a hurtful tendency, which proceed from improper motives..." and "...deserve punishment; because they alone are approved objects of resentment..." (Smith, *TMS*, ii, ii, i.2). When justice is violated, the ones that are harmed have the right, even the duty to expect and seek recompense. Smith writes:

There is, however, another virtue, of which the observance is not left to the freedom of our own wills, which may be extorted by force, and of which the violation exposes to resentment, and consequently to punishment. The virtue is justice: the violation of justice is injury... (Smith, *TMS*, ii,ii,i.7)

This sentiment has often been summarized and oversimplified as a negative harm principle—that individuals should do no harm to others, and if they do, they will pay for it. However, as pointed out by Werhane (1994, 2000), Smith's justice arguments in the later *Lectures in Jurisprudence* are based in the concept of commutative justice; that of fairness in all agreements and exchanges between individuals or private social groups. This contrasts with distributive justice, which is concerned with the just allocation of goods in a society. Smith anchors the concept

of commutative justice in fair contractual exchanges that belong to natural jurisprudence, rather than a “*system of morals (that) do not fall under the jurisdiction of the laws,*” which Smith attributes to the unfairness of distributive justice (Smith, *LJ(A)*.15). Thus, Smith’s declaration of commutative justice principles goes beyond negative harm principles and the endorsement of beneficence to respecting the rights of others and playing fairly.

Smith’s delineation between commutative justice and beneficence can be extrapolated to distinctions of CSR legitimacy for managers evaluating competing CSR stakeholder claims (see Table 1). In their article on stakeholder identification and salience, Mitchell et al. (1997) identify four bases for legitimacy in stakeholder relationships, including: (1) the contractual relationship, (2) the stakeholder claim on the firm, (3) the stakeholder risk in the relationship, or (4) the moral claim, i.e., benefit, harm, or rights violation. Mapping these bases for legitimacy against Smith’s concepts of beneficence and commutative justice establishes philanthropy as a desirable, but optional CSR choice with less legitimacy than other claims under commutative justice. While this serendipitously reconciles with industrialists’ interpretation of Smith as a free market advocate and utility-conscious economist, it is not that simple. The foundation for this distinction lies in Smith’s belief that commutative justice is a virtue, a decidedly moral stance that is also enforceable. Therefore, for example, when a company is deciding whether or not to fund a local community scholarship or subsidize a supplier who has been hard hit by a hurricane, Smith would opt for subsidizing the supplier under the “positive notion of fair play” (Werhane 2000, p. 194). Under commutative justice principles, the supplier has claim on equal opportunity, while the community does not have a claim on benevolence. Alternatively, as stated by Werhane in her interpretation of Smith’s principles, “While other virtues such as benevolence are desirable, they are not enforceable since one need not be benevolent to be moral.” (Werhane 2000, p. 194).

Smith’s *LJ* concept of commutative justice therefore comprised economic and moral components that are grounded in the contractual relationships between a business and its stakeholders—the same arguments that stakeholder researchers use to reconcile the legitimate economic and moral obligations of businesses to society. Additionally, like many CSR researchers, Smith appears to believe that distributive laws of justice cannot be fair to everyone and cannot be reconciled under jurisprudence (Werhane 1994).¹ Therefore, Smith complements both stakeholder

and CSR theoretical streams through commutative justice concepts that work well with instrumentalist aspects of stakeholder theory, while also taking into account the normative moral components of CSR. However, he contrasts with critical strategy researchers who advocate that all reference groups of a firm must be taken into account when developing a socially responsible strategy (Ulrich 1996). Instead, Smith further delineates stakeholders based on claims of imperfect and perfect rights, as noted in the lower section of Table 1.

Perfect and Imperfect Rights

In addition to justice and beneficence, Smith also emphasizes the distinction between perfect and imperfect rights. The most salient contractual stakeholder relationships are those that carry “perfect rights,” which are defined as those “...which we have a title to demand and if refused to compel another to perform....” Under commutative justice, perfect rights are embedded in the contractual duties of an exchange, rather than in the distributive justice claims that confound personal and property rights (Smith, *LJ(A)*.14). Additionally, perfect rights come with perfect duties that are enforceable. Smith makes clear in *LJ* that the right to property is a perfect right of the utmost importance:

The first and chief design of every system of government is to maintain justice; to prevent the members of a society from encroaching on one another’s property, or seizing what is not their own. The design here is to give each one the secure and peaceable possession of his own property. {The end proposed by justice is the maintaining men in what are called their perfect rights}.(Smith, *LJ(A)*.1)

To Smith, encroachments to liberty violate perfect rights. They “... are all evidently encroachments on the right one has to the free use of his person and in a word to do what he has a mind when it does not prove detrimental to any other person” (Smith, *LJ(A)*.12). This language also echoes Smith’s belief in the primacy of one’s right to private property. Smith views the right to private property as one that stems from the fact that its value is created through the action of people, and if someone were to impinge on that right, he/she would be stealing the person’s labor. This line of reasoning is in line with Locke’s moral justification of private property:

Though the Earth...be common to all Men, yet every Man has a Property in his own Person. This no Body has any Right to but himself. The Labour of his Body, and the Work of his Hands, we may say, are properly his. Whatsoever then he removes out of the State that

¹ Interestingly, CSR researchers Donaldson and Preston (1995) make this same argument centuries later when they argue that stakeholder theory becomes a normative model when property rights are considered under principles of distributive justice.

Table 1 Adam Smith: distinctions of legitimacy in stakeholder claims (quotes from *Lectures on Jurisprudence* and the *Theory of Moral Sentiments*)

Nature of legitimacy (Mitchell et al. 1997)	Smith's moral distinctions	
	Benevolence	Justice
Contractual relationship	"Benevolence is always free" (Smith, <i>TMS.ii.i.3</i>)	"The main pillar that upholds the whole edifice" "Not left to the freedom of wills" (Smith, <i>TMS.ii.iii.4</i>)
Stakeholder claim	"It cannot be extorted by force" (Smith, <i>TMS.ii.i.3</i>) "No right to demand beneficiaries" (Smith, <i>TMS.ii.i.3</i>)	"...under the jurisdiction of laws" (Smith, <i>LJ(A).8</i>) "(what) could justly demand from others" (Smith, <i>LJ(A).9</i>)
Stakeholder risk	"The mere want of it exposes to no punishment" (Smith, <i>TMS, ii.i.3</i>).	"...actions deserve punishment (when violated)" "...the violation of justice is injury..." (Smith, <i>TMS,ii.ii.3-5</i>)
Moral claim	"Motivated by individual sympathies" (Smith, <i>TMS.ii.i.3</i>)	"A virtue" (Smith, <i>TMS, ii.ii.i.7</i>)
	Imperfect rights	Perfect rights
Contractual relationship	"...those duties which ought to be performed to us but which we have no title to compel them to perform" (Smith, <i>LJ.(A)13</i>)	"...those which we have title to demand and if refused compel another to perform" (Smith, <i>LJ. (A).9</i>)
Stakeholder claim	"...they have it entirely (<i>sic</i>) in their power to perform them or not" (Smith, <i>LJ(A).9</i>)	"...what one can justly demand from others" (Smith, <i>LJ. (A)7</i>)
Stakeholder risk	"Imperfect rights refer to distributive justice...not belonging properly to jurisprudence" (Smith, <i>LJ.(A).15</i>)	"Justice is violated when one is deprived of what he has a right to" (Smith, <i>LJ. A).9</i>)
Moral claim	"(belonging) to a system of morals as they do not fall under the jurisdiction of laws" (Smith, <i>LJ.(A).9</i>)	"Rights that belong to 'man as a man...in his person or in his reputation on his estate'" (Smith, <i>LJ.(A)8</i>)

Nature hath provided, and left it in, he hath mixed his Labour with, and joyned to it something that is his own, and thereby makes it his Property (Locke 1689, II, 27)

In a sense, both Smith and Locke are saying that the natural right of a person to control his/herself and work in a chosen task extends to the objects he/she chooses to improve and create. Therefore, the right of a person to own that which he/she has created is a foundational right akin to the very right of liberty on which it is based. Smith sums up the importance of the perfect right to property when he states, "*The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable.*" (1776, *WN.x.ii.4*) Additionally, the violation of property rights is akin to indentured servitude as it is essentially taking of another's productive efforts and hence also his/her liberty. We may think of property rights today as bundles of rights, some of which are taken away through contractual or government action, but with ownership being the claim to the residual property rights remaining after other claims have been made. Smith would likely agree with this conceptualization as he discusses many examples of how various governments have usurped some rights of the individual. His philosophy,

however, links the ideas of justice, property, and perfect rights closely together such that a discussion of one is best understood in the context of the others (Young 2008a, b). We now turn to the prominence perfect rights and justice play in his ethic.

While advocating the salience of claims under perfect rights, Smith also advocates action when these rights are violated because action is called for and necessitated by justice. "*Justice is violated whenever one is deprived of that he had a right to and could justly demand of others, or rather, when we do him any injury or hurt without a cause...*" (Smith, *LJ(A), 9*). In this respect, Smith's central tenet that a person's perfect rights must be protected through a system of justice is an arguably moral stance. Smith outlines three ways in which a person's perfect rights could be violated: (1) in person, (2) in reputation, and (3) in estate. Some examples of violations of perfect rights cited in *LJ* are the attempt on another's life, bodily harm, false imprisonment, restricting free commerce or marriage, slander (unjustly depriving one of his character), and theft (unjustly depriving one of his property) (Smith, *LJ(A), 5-9*). Each of these violations of rights is a moral offence that calls for justice to be enacted.

Extending these concepts to contemporary CSR, violations of perfect rights might include excessive executive compensation (violation of shareholder rights), poor working conditions and unfair pay (violation of worker rights), censored information (violation of user rights), release of personal information (violation of privacy rights), graft (restriction of free commerce), to name a few. All of these violations are enforceable and embedded in exchange; thus, they are examples of perfect rights that must be maintained by managers in business.

Since they are grounded in his conception of the moral primacy of private property, in many ways Smith's notion of perfect rights rests on the foundations of liberty and personal accountability. He clearly believes in the natural right of liberty and by extension property, and thus advocates governmental intervention to prohibit the violation of these (and other) perfect rights. He sees the primary duty of government, "... to preserve justice amongst the members of the state and prevent all incroachments [sic] on the individuals in it, from others of the same society" (Smith, *LJ(A)*.1). According to Smith, the prevention of encroachment is to ensure that each person's "perfect rights" are not violated.

In contrast to perfect rights, Smith also outlines the idea of "imperfect rights." "... [I]mperfect rights are those which correspond to those duties which ought to be performed by us by others but which we have no title to compel them to perform; they having it in their power to perform them or not" (Smith, *LJ(A)*.14). Imperfect rights are similar to beneficence in that they *should* be upheld, but cannot be coerced. Adam Smith cites the example of an individual "...of bright parts or remarkable learning" who deserves to be praised but should not solicit this or allow others to be coerced into praising him. Similarly, he advocates that one *ought* to be charitable to a beggar, but that society has no right to force such charity (Smith, *LJ(A)*.15). He even goes as far to state that imperfect rights are secondary to perfect rights in that they do not belong to jurisprudence as do perfect rights, but instead to a "system of morals" (Smith, *LJ(A)*.15).

CSR Tradeoffs: Which Stakeholders Should Take Priority in CSR Initiatives?

Smith's distinction between justice and beneficence and the related distinction between perfect and imperfect rights can be very useful when we are thinking about what CSR initiatives companies should implement and the proper scope of those initiatives. Just as we now conceive of property rights as a collection, or bundle of related rights, Smith's moral stance on justice and beneficence is clear in that justice (a collection of perfect rights) should take priority over beneficence (a collection of imperfect rights),

and although beneficence should be encouraged, it could not be enforced. If a society were to enforce beneficence, it would be violating the perfect rights of some, in favor of the imperfect rights of others.

With stakeholder tradeoffs, Smith would likely advocate that managers think carefully about the consequences of their CSR activities to determine if those activities violate any rights (perfect or imperfect). Some CSR activities would benefit all stakeholders and therefore avoid violating any rights, but others might require tradeoffs between certain stakeholder groups. Regarding the former, an initiative to increase employee compensation might be able to increase employee well-being while at the same time helping the company (and its shareholders) by increasing employee productivity. Similarly, one could imagine that charitable contributions to help local charities could also bolster a company's community image and increase its sales. Or, as seen in the 1953 case of A.P. Smith Manufacturing, corporate donations to a local university could satisfy the fiduciary responsibilities of managers who see CSR as an "investment" in the future of the firm (Lawrence and Weber 2010). In all of these instances, Smith would likely applaud the initiatives up to the point when the returns from increasing benefits or contributions would take from one stakeholder group to give to another. However, the contribution of Smith's philosophical foundation is especially salient when CSR decisions involve tradeoffs among competing stakeholder groups. In those cases, Smith would likely advocate that managers should assess the legitimacy of each group's claims grounded in the distinction between justice and beneficence as well as the related moral difference between perfect and imperfect rights.

When evaluating competing stakeholder claims, Smith's primary concern would be to guarantee that the tenants of justice based on perfect rights are not violated. One example of a situation in which Smith's philosophy would be helpful to a manager is when that manager is considering whether or not to donate to a charity. If we assume that the donation to the charity will decrease shareholder wealth, we have a conflict between perfect and imperfect rights. In general, shareholders' primary claim to legitimacy is through their property rights as owners of a firm with legal and judicial claims to the property of that firm. Therefore, any willful removal of that property, or intent to lessen the value of that property, would impinge on owners' perfect rights. In contrast, charities may try to argue the right to beneficence by a company, but these are imperfect rights without legal recourse. In no instances, no matter the moral reasons, would Smith condone the violation of perfect rights, like those of shareholders, to avoid violating imperfect rights, like those of charities, under distributive justice principles.

While this argument reconciles easily to CSR decisions that involve trade-offs of philanthropic decisions versus other CSR activities (like sustainability initiatives, employee rights issues, product safety issues, to name a few), Smith's logic can also be applied to other CSR activities under the distinction of perfect rights. For example, the decision to move a plant from one location to another might involve competing claims from shareholders, employees, and community members, as was the case in 1999, when General Electric announced it was moving 1,400 jobs from its Bloomington, Indiana, plant to Mexico (Koenig 1999). While shareholder rights supersede other claims based on the legitimacy of ownership under perfect property rights, under Smith's logic, the company would need to justify the value to shareholders over and above the harm that is inflicted upon employees and the loss of jobs in the community.

Perfect rights are not a concept developed by Smith. No doubt influenced by other natural law theorists like Descartes, Grotius, Hobbes, Locke, and Pufendorf, Smith's concept of perfect rights extends beyond property rights to other enforceable rights, again under situations of commutative versus distributive justice, and, as noted by one Smith scholar, an "ordering logic of moral sentiments" (Lieberman 1999, p. 9). They also extend from Smith's idea that personal rights derive from contracts that, "*an impartial spectator would readily go along with*" to clarify expectations of performance and valid obligations under law that would also apply to perfect rights (Smith, *LJ(A)*.42–45). He also clearly establishes that contractual obligations rest upon expectation of performance and not "*from the will of the person obliged*" (Smith, *LJ(A)*.56–59). Hence, in a tradeoff of perfect rights, Smith would first distinguish between the consequences of *not* protecting one set of perfect rights while settling for another set (under his theory of moral sentiments); however, he would also assess the expectations of performance as seen through the eyes of the impartial spectator.

Contemporary cases of executive compensation provide an example of this latter point. Smith would likely *not* agree with executive compensation plans that place employee claims for higher wages above shareholders' property rights in the eyes of the impartial spectator. However, Smith might agree to claims for higher compensation like that of former NYSE Chairman Richard Grasso (see Carroll and Buchholtz 2009), where, as a nonprofit organization, there are no shareholder rights involved and Grasso successfully argued that he had earned it. Similarly, Smith would *not* agree with Nike's controversial public relations campaign to promote a socially acceptable company image in the wake of negative public perceptions (DeTienne and Lewis 2005) if Nike compromised transparency (a perfect right) in trying to improve

public image (an imperfect right). As final example, when Google was faced with deciding whether to enter the China internet market in 2006, it had to weigh the implications of doing business under China's censorship regime (Lawrence 2009). Smith might have advocated foregoing this market under commutative justice principles of the fairness of the exchange and the premise that Google's contractual duties to its end users trumped its duties to the local government. Smith would likely have asserted that Google users' rights to uncensored information are "perfect rights" that are afforded to its users and therefore cannot be dictated by any government or regulator.

Linking back to beneficence and justice, Smith made it clear that beneficence is an example of one imperfect right and is voluntary while justice stems from perfect rights that should be coercively enforced. Under this philosophy, Smith would condemn companies that prioritize beneficent causes over primary justice concerns of its stakeholders. For example, in September 2010, the restaurant chain Hooters donated \$200,000 to breast cancer research. Although this beneficent act is certainly worthy of praise, it is overshadowed by the injustice done to Hooter's own employees. In that same year, Hooters was party to multiple weight discrimination, and wage and hour class action lawsuits filed by its employees.² If the lawsuits are upheld, Hooters will have violated the perfect rights of its employees while upholding the imperfect rights of a peripheral charity. Additionally, the charitable donation, unless offset by some rise in public sentiment or employee productivity, could also have violated the property rights of Hooters' shareholders as discussed in the previous section.

According to Smith, justice is required and can be coerced by law, and violations of such justice deserve "*violence employed to avenge the hurt*" (Smith, *TMS.ii.ii.1*). Beneficence, however, while good and worthy of praise, "*cannot be extorted by force, the mere want of it exposes to no punishment*" (Smith, *TMS.ii.i.3*). Under the laws of commutative justice, Smith is saying that beneficence is unenforceable and therefore a lower priority, given the distinction between imperfect and perfect rights. Therefore, despite noting that, "*those whose hearts never open to the feelings of humanity should, we think, be shut out, in the same manner, from the affections of all their fellow-creatures*" (Smith, *TMS.ii.i.10*), Smith would not support managers who interpret CSR as a completely altruistic practice. Smith therefore reconciles CSR's discretionary component of corporate philanthropy to that of beneficence, with the thought that companies should engage in philanthropy/beneficence if and only when it is economically feasible for them to do so. Under this logic,

² Summary of these suits can be found at http://www.gdblegal.com/Cases/Current_Cases/Wage_Hour/Hott_Wings.aspx

when managers in companies make decisions on how they should act toward society, and how to allocate their resources to the betterment of the good, they should focus first on questions of justice and only secondarily attend to matters of beneficence. This differs from the oft-cited Friedman debate (1962, 1970) that economic initiatives take priority over philanthropy under a shareholder-centric rubric, because Smith also believed that managers in an organization have a responsibility to adhere to the rules of society (inclusive, but also superseding those rules that are mandated by law).³ A company has a duty to treat its workers in a fair manner, to uphold the integrity of the community, to maintain appropriate fiduciary responsibilities to its investors and creditors, and to treat its customers and suppliers in a manner that does them no harm. Organizations need to be just but are not required to be charitable, and indeed, if charity comes at the expense of justice, Adam Smith would likely condemn that act as irresponsible.

Smith's distinction between justice and beneficence is useful in that it allows companies to determine which sorts of CSR actions take priority over other actions. His ideas of CSR proximity mirror those of moral intensity proximity (Jones 1991), such that proximity to a cause can inform business decisions regarding who should benefit from CSR-related actions. As noted above, the importance that Smith assigns to perfect rights aligns with contemporary research by Mitchell et al. (1997) on stakeholder legitimacy. However, these authors acknowledge the difficulty in delineating the legitimacy of some claims over others without consideration to the factors of power and urgency in assigning salience to firm/stakeholder relationships. Yet, Smith's concept of perfect rights begins with the ability to enforce these rights—acknowledging the concepts of power and urgency—as well as the commutative justice claims to fair exchange noted above. Hence, Smith's view of beneficence contrasts with his ideas of perfect rights in that beneficence has no contractual stakeholder claims and no stakeholder risk and debatable moral claim, while perfect rights are enforceable under all four criteria of legitimacy.

Additionally, while our arguments have been confined to CSR initiatives, Smith's logic may also be applied to business decisions where companies might need to correct harms to other stakeholders at the expense of shareholders. Within Smith's realm of justice, the perfect rights of shareholders may be subservient to those perfect rights of other stakeholders if it is the duty of a company to correct harm. As Smith notes, "*But though the ruin of our neighbour may*

affect us much less than a very small misfortune of our own, we must not ruin him to prevent that small misfortune, not even to prevent our own ruin" (Smith, *TMS*,ii.ii.2). In sum, when businesses are faced with choosing CSR initiatives or prioritizing stakeholder claims, Smith's logic can facilitate the CSR decision making for companies along commutative justice guidelines.

How Far Should a Company Go in Supporting CSR Initiatives?

To this point, we have provided evidence from Smith that perfect rights under commutative justice principles trump imperfect rights like beneficence under the distinction of legitimacy. Additionally, we have provided examples of how some perfect rights can trump others in the "bundle" of perfect rights that fall under commutative justice principles. However, there is still the question of how far should a company go in supporting CSR initiatives? Under the *Theory of Moral Sentiments*, Smith provides an answer by noting that managers in companies should look to their own competencies to decide whom they should engage in CSR initiatives. For, as stated by Smith, "*Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than any other person, it is fit and right that it should be so*" (Smith, *TMS*,ii.ii.1). Under this theory, managers at Wal-Mart, for example, would be condoned for assisting in logistical support for hurricane victims (a function for which Wal-Mart is uniquely qualified to carry out), while they would be condemned if the company laid off its employees at the same time it made donations to charities unrelated to the company's operations. The trade-off of competing stakeholder claims is determined by the competency of the business in conjunction with elements of commutative justice and perfect rights noted above. While some may argue that a company is just to engage in CSR activities based on moral cost/benefit calculations and that some actions are justifiable if the violation of stakeholders' rights is minimal compared to the good that could be done, Smith's clear distinction allows us to say that he would likely condemn any violation of perfect rights, no matter how small or seemingly inconsequential, in the name of beneficence. As such, Smith's philosophy reconciles with the business case for CSR (Abrams 1951).

It is easy to see how this complements stakeholder theory arguments that CSR activities should be specific to firm/stakeholder needs. It also supports the "names and faces" approach of stakeholder theory (McVea and Freeman 2005, p. 61). In order to assess the landscape of justice and rights, Smith suggests that "*We must here, as in all other cases, view ourselves not so much according to that*

³ While a summary of Friedman arguments are beyond the scope of this article, we note that Friedman advocated shareholder-centric actions "as long as the firm stays within the rules of the game" (Friedman 1970, p. 1).

light in which we may naturally appear to ourselves, as according to that in which we naturally appear to others" (Smith, *TMS*, ii.ii.1).

Finally, the economic and moral aspects to CSR and stakeholder relationships are reconciled under Smith's logic in *LJ* and *TMJ* that perfect rights should be prioritized by businesses under commutative justice. Smith does not view economic and moral aspects in business as separate and distinct; rather, he states that in honoring contracts and conducting business fairly, natural jurisprudence should exist that allow for economic freedom and simultaneously do no harm to others.

Conclusion

We began this article with a discussion of how Adam Smith's *Theory of Moral Sentiments* and *Lectures on Jurisprudence* can provide insight into how companies might practice CSR in the face of competing claims. Decisions have economic and moral components, and this post-positivist approach derives from a focus on the tenets of justice and perfect rights and the belief that companies should seek to conduct benevolent activities only after justice and fairness have been secured for all of the company's primary stakeholders. Additionally, under Smith's concepts of commutative justice and perfect rights, businesses should evaluate competing stakeholder claims with priority to those perfect rights that are usually housed in shareholder property rights, but with the contingency that these become subservient to other claims when harm has been inflicted upon other stakeholders. We find that Adam Smith's doctrines regarding justice and rights provide practical guidance for businesses regarding the legitimacy of stakeholder claims, while also addressing economic and moral elements in the business/society relationship, complementing existing CSR and stakeholder theories and adding to the theoretical debate regarding the economic and ethical justifications for CSR.

While we posit that Smith can provide insights into understanding competing stakeholder claims in CSR, there is still much work to be done in reconciling CSR and stakeholder theories. As noted in the *2010 Academy of Management Annals*, while stakeholder theory has been "critical to helping CSR scholars identify and specify the 'social obligations of business'...the problem of value creation and trade does not fall into the scope of CSR." (Parmar et al. 2010, p. 412). Future research might use case studies like that of WalMart or Hooters or Parmalat to test how CSR trade-offs based on commutative principles affect value creation and trade over time, perhaps providing additional evidence from a justice perspective for the corporate social performance/corporate

financial performance causal debate (Orlitzky 2008; Waddock and Graves 1997).

Smith's insights may also be useful to practitioners as they look for supplemental management techniques to deal with multiple stakeholders' interests. Current approaches to CSR allocation management like the stakeholder salience model, stakeholder mapping techniques, and the stakeholder dashboard offer some potential to blend CSR and stakeholder management (Carroll and Buchholtz 2009; Frederick et al. 1996; Mitchell et al. 1997; Strand 2008). However, practitioners might supplement these techniques by examining their CSR practices for proximity, fairness of exchange (under justice and perfect rights), and obligation to correct past harm. The addition of these elements could help practitioners determine whether they need to take a moral stand under Smith's doctrines, or whether they can afford to be beneficent. However, Smith is very clear that the moral obligations of business to society begin with its obligations to uphold the perfect rights afforded in its stakeholder relationships, tempered by its obligations to correct for any past harms.

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