

# Corporate citizenship enacted as operating practice

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## Corporate Citizenship Enacted as Operating Practice \*

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## **Corporate Citizenship Enacted as Operating Practice**

### **ABSTRACT**

This paper explores values embedded in operating practices as they affect stakeholders, which underpin corporate citizenship. Fundamentally, the paper argues that corporate citizenship is embedded integrally in the day-to-day operating practices that companies develop to relate to their important stakeholders. This systems perspective incorporates not only the objective but also subjective and intersubjective aspects of human civilization, arguably provides a systems basis for thinking about the roles and responsibilities of the corporation in society.

## **Corporate Citizenship Enacted as Operating Practice**

This paper explores values embedded in operating practices as they affect stakeholders, which underpin corporate citizenship. Fundamentally, the paper argues that corporate citizenship is embedded integrally in the day-to-day operating practices that companies develop to relate to their important stakeholders. It is not and cannot be an afterthought or add on, as for good or for ill, how a company treats its stakeholders *is* its corporate citizenship. This integral systems perspective incorporates not only objective but also subjective and intersubjective aspects of human civilization (Wilber, 1998).

At a basic level, corporate citizenship is embedded integrally in the day-to-day operating practices that companies develop as a way of relating to their important stakeholders (which encompass but go well beyond the more discretionary activities sometimes dubbed corporate “social” responsibility). This integral perspective provides a progressive basis for thinking about the role of the corporation in society.

### **Corporate Citizenship: The Operating Practice Link**

Too often managers forget the reality of the power and the impacts they generate as they attempt to grow the bottom- or the top-line. Yet the fact is that corporations—all organizations, in fact—are built on the basis of the stakeholder relationships and no company can exist without stakeholders. Customers purchase the goods and services produced; employees do the production. Suppliers provide raw materials or, increasingly, actual production. Owners, we well know, provide financial capital.

Communities supply necessary infrastructure and governments provided the overarching system of rules and regulations that make economic activity feasible. It is in the context of relationships with these primary and critical secondary stakeholders and the way a company treats the natural environment,<sup>1</sup> which make or break a company in the modern world.

Corporate citizenship, a term emerging as synonymous with corporate responsibility, cannot be separated from the day-to-day operating practices that structure stakeholder relationships for companies. Otherwise, how are we to recognize responsible practice? Corporate citizenship is by this definition an integral part of the whole corporation as it exists in whole communities and whole societies, with whole people operating within. Corporations, as the last statement makes clear, are what philosopher-psychologist Ken Wilber (following Arthur Koestler) terms "holons," that is, both wholes in and of themselves and parts of something larger. As holons, they are embedded in and affect the web of relationships that constitutes societies, just as biological systems are also interrelated webs.<sup>2</sup> Corporations simply cannot operate independently of society and the rules of the game societies establish. It follows that corporations as citizens must recognize better and responsibly cope with the impacts they have on societies (broadly speaking), as well as the impacts societies have on them. Or as Chris Marsden and Jörg Andriof recently argued:

...Corporate citizenship needs to be perceived not as a bolt-on activity but as something, which pervades the whole of a company's operations. It should also be seen not always as a business cost, a trade-off against additional profits, but more often as a significant contributor to long-term business success and entirely coincident with the goal of profit maximisation [sic].<sup>3</sup>

The fact that corporations are inextricably embedded in their societies and that their existence as socially constructed holons in economic, political, and societal contexts means companies must understand themselves in all three holistic contexts, i.e., as global entities, as corporations, and as citizens. Specifically, many modern corporations combine:

*Global.* Corporations increasingly operate in diverse national and local contexts, cultures, and political landscapes, with a diverse array of people and societies—stakeholders--whose basic human dignity demands respect.

*Corporate:* Corporations are legal entities granted a social contract or charter by the societies within which they operate, which can (theoretically) be revoked by those societies if the "public" responsibilities of the corporation are not met.

*Citizenship:* As citizens corporations are members of a state or polity with explicit duties and responsibilities to the stakeholders that exist within its societal holon. These obligations need to be met if the corporation is to sustain its charter and retain its privileges and rights.

Corporate citizenship inherently includes significantly more than so-called discretionary responsibilities of philanthropy, volunteerism, and otherwise doing "social good" that some imply is the basis of citizenship, though of course it does include these things.<sup>4</sup> The major impacts corporations have day-to-day are hardly discretionary. The major impacts are the ones on stakeholders with whom it interacts on a regular basis: employees, customers, owners, suppliers, as well as on the natural environment, whose resources supply the necessities of human civilization in the first place. It is the operating practices that underpin these relationships that constitute the bulk of citizenship activity, not philanthropy, volunteerism, or other forms of community relations (though these are important signals to the outside world about a corporation's approach to responsibility).

This broad conceptualization of corporate citizenship and associated responsibilities means that companies wishing to be good citizens must pay attention to

their day-to-day operating policies and practices not just the traditional “do good” stuff. Companies operating as citizens are responsible for monitoring the outcomes and impacts of their activities, and developing a "lived" set of policies, procedures, and programs—practices—that help them achieve their vision and values as the following definition illustrates:

Good corporate citizens articulate and live up to clear positive visions and core values, by treating well through operating policies and practices the entire range of stakeholders who have risked their capital in, have an interest in, or are linked to the firm through its primary and secondary impacts.

Having said this, it is clear that good corporate citizens are *also* involved, through their community, environmental, and employee relations activities, in philanthropic, voluntary, in-kind giving, social partnerships, or other community-based programs. Such activities are an essential part of their mutual interactions in support of locally healthy communities. But they know that their primary impacts are where they need to focus their energies is in fostering responsible operating practices, and where, from an instrumental perspective, where they will also get the best long-term returns).

### **Corporate Responsibility and Citizenship**

Taking this stakeholder perspective on corporate citizenship seriously alters the approach to the firm and its responsibilities, broadening understanding of to whom a firm is accountable. It also enlarges the conception of what corporate responsibility is significantly beyond the economic responsibilities advocated by free market theorists such as Milton Friedman. Indeed, it makes the very term “social responsibility” somewhat meaningless as stakeholder-related practices, while they may have social implications, are not social in the traditional sense but integral to daily corporate life. Based on the late Max Clarkson definition of the corporation as consisting of a system of

primary stakeholder groups,<sup>5</sup> it can be argued that customers, employees, owners, and suppliers are primary stakeholders for almost all companies.<sup>6</sup> Notably, without any one of these stakeholders, the corporation would cease to exist; therefore we can assume companies are inextricably embedded in this web of what can only be called relationships.<sup>7</sup> Corporate leaders who understand the critical importance of sustaining healthy and positive relationships with all of these stakeholders, as well as others specific to the individual organization, can readily make the link to understanding corporate responsibility readily. Certainly, they can do so more broadly than do neoclassical economists, who chose to focus predominantly on the owner stakeholder and maximization of wealth.

Becoming a good corporate citizen thus means defining, and achieving, responsible operating practices fully integrated into the entire corporate strategy, planning, management, and decision-making processes. Such practices need to give due consideration of the impacts of all operating and policy decisions on each of the corporation's stakeholders. Responsibility to all these constituents *in toto* constitutes responsibility to society, especially as government and community are critical secondary stakeholders. Add in responsible environmental practices and the gamut of important relationships generalizable to most firms is covered. Corporate responsibility is fundamental not only to the corporation's citizenship as we define it, but perhaps more importantly also to its economic viability long-term, particularly as demands for accountability and transparency of corporate action increase globally.

Business operating in society is, as with other ecological systems, in a symbiotic relationship.<sup>8</sup> The long-term viability of the corporation depends upon its health of the

society of which it is a part. Conversely, societies cannot thrive without a healthy economic system. In other words, responsible leaders and managers cannot operate with blinders on with respect to the impacts that their actions have on any and all of their stakeholders, especially if they hope to do well over the long term. Gaining the respect and commitment of employees, customers, suppliers, communities, and relevant government officials, as well as owners, is essential to productivity and performance. Maintaining positive stakeholder relationships involves establishing constructive and positive relationships and practices with them. Respectful relationships, then, are the essence of corporate global (or local) citizenship taken from a whole system perspective, which is arguably necessary for a comprehensive understanding of stakeholder relationships.

### **Systems Thinking: The Argument for Reciprocity**

Systems thinking focuses on wholes, or more accurately, holons--whole/parts--and the interrelationships and interdependencies among them.<sup>9</sup> Thus, for example, a neutron is an entity, a whole, and it is also a part of an atom. A hand is an entity in itself and also a part of an arm, which is part of a body, and so on. In social systems, an individual (whole) is part of a family (whole) that is part of a community, and so on. In organizations, individuals are part of departments, which are units of divisions, which are parts of the corporate entity, which are part of their industry whole, which in turn are part of society. And so on. Holons, whole/parts, cannot be separated from the other holons of which they are a part.

We can think of whole/parts or holons as being nested within each other when they part of the same system. Each holon is nested within the next level of holon,

encompassing and going beyond smaller and more numerous holons that are less complex,<sup>10</sup> assuring both the interconnectedness and interdependence of each to the other. What this means in system terms is that anything that affects one part of the system also affects (at some level and in some way) the whole system.

When we begin to think about systems in this way, it changes our perspective on the corporation: no longer can we consider that a company operates independently of its impacts on stakeholders, even if those impacts are emotional, aesthetic, or otherwise not readily quantifiable. No longer can we say business *and* society; we must recognize that business is a holon of the larger holon society, thus the correct terminology is business *in* society. Because the company and its stakeholders are part of the larger holon of the communities, societies, and global village in which they are nested, they must, by this way of thinking, impact each other reciprocally.

The general approach in the Western world has been to look for data, empirical evidence, and the facts that are believed to comprise reality, that is, to focus on "objective" data.<sup>11</sup> Rather than looking for more subjectively (or in collective settings, inter-subjectively) experienced realities, the typical western approach is to focus on the material evidence that can be gathered to support any given situation. But thinkers like Senge (and ecologists like Gladwin, physicists like Capra, and management thinkers like Wheatley, among many others)<sup>12</sup> propose that is important to incorporate not only the *objective* data and facts that can be observed when we consider, e.g., individual or company behaviors, or individual or societies as systems. It is also essential to focus on the nonmaterial, that is, *subjective* elements of consciousness and conscience, of emotion and feelings, of meaning and meaningfulness, of culture and community, of spirit and

indeed of spirituality if the work of enterprise is to be approached holistically. In part, notably, this is what the activists in Seattle were apparently seeking: inclusion in decision-making, recognition of corporate impacts on the quality of their lives, not just economic gains.

Taking this thinking into the societal domain, to completely understand relationships between corporations as citizens and the individuals—and societies—with which they are interdependent, then, we need to understand not only the objective “facts,” but also the more subjective aspects involved in developing relationships. And, as Wilber<sup>13</sup> points out, we can only know these subjective and inter-subjective aspects of individuals and cultures through dialogue because to know what someone is thinking, feeling, or sensing, we have to ask him or her. Dialogue, by its nature, respects the integrity of stakeholders and does not presume to dominate, but rather involves mutually interactive and interdependent relationship building, exactly what is at the core of the present argument for corporate citizenship.<sup>14</sup>

### **Dialogue-Based Stakeholder *Relationships*, Not Management**

What is at the heart of dialogue? I believe that for individuals a fundamental value is one of valuing and respecting the "other" in the relationship, as well as valuing the relationship itself. Respect is equally at the heart of good stakeholder relations. Recent research shows that when companies score highly in *Fortune's* reputational ratings, they are also consistently high performers with respect to their primary stakeholders as well. Further, companies that are more responsible also appear to perform better financially, thus creating a virtuous circle.<sup>15</sup>

Companies' stakeholder relationships can evolve in one of three ways: reactively, proactively, or interactively.<sup>16</sup> Reaction puts the company and its managers on the defensive, rather than in a more positive mode. Better, but probably still insufficient to establish truly positive stakeholder relationships is the proactive stance that companies sometimes take when they work to proactively anticipate issues arising from external stakeholders. They may do this by establishing one of any number of what are called "boundary-spanning functions" to cope with their external relations.

Boundary-spanning functions, such as corporate community relations, public affairs, employee relations, shareholder relations, and customer relations, inevitably create internal practices with respect to the stakeholders they deal with. Typically, however, the view is that the company holds the power to "manage" its stakeholders, rather than respecting the mutuality of the relationship. "Managing" stakeholders, I believe, is a misguided concept because in its attempt to dominate it lacks fundamental respect for stakeholders as separate and independent actors who should be treated as (as the philosopher Immanuel Kant would have said) as ends and not means. Albeit that economizing and power aggrandizing are the significant values that "naturally" underpin corporate life,<sup>17</sup> it is still the reality that an ethical perspective demands that all "others" be treated with dignity and respect.

Stakeholders necessarily exist in or in relationship to the firm, embedded in a network that makes them interdependent with the firm and the firm interdependent with them for its success. The stance that best allows for the firm to show on-going respect for its stakeholders is a mutual and interactive one, where both sides give and both get, where each learns from the other. Interactive relationships are built upon a framework

that values mutuality, interdependence, mutual respect, and dialogue, a more egalitarian approach than "management" or dominance.

Building an interactive, dialogue-based relationship is not a state of being, a one-time thing, but rather a long-term evolving process. This process requires commitment, energy, a willingness to admit mistakes, and capacity to change when problems arise, as well as attention to the softer, more subjective aspects of relationship building; it requires attention to operational practices that impact these stakeholders day-to-day. It requires organizational as well as individual learning.<sup>18</sup>

Stakeholder-related practices can be embedded in programs, such as total quality management, re-engineering, or the learning organization approach, where values of openness, engagement, transparency, and accountability predominate.<sup>19</sup> They are also enacted in the ways that companies treat stakeholders, e.g., through employee relations policies and benefits, customer relations activities such as product quality, return policies, and warranties, which actually operationalize the perspectives taken on each stakeholder group. Arguably, the more that companies engage in interaction with stakeholders around these practices to determine their needs and interests and the ways in which they can mutually benefit, the better relationships they will develop—and, ultimately, the better off they will be.

### **Conclusion**

Corporations, we have argued, are unavoidably embedded in a network of stakeholder relationships within the societies where they operate. Corporate citizenship needs to be understood not as discretionary activities that demonstrate what in the past has been called "corporate social responsibility," but as the core of daily management practice. Respectful treatment of stakeholders means developing positive and

constructive corporate practices with respect to each stakeholder group, i.e., positive policies, processes, and procedures guided by the constructive vision and values, practices that treat each stakeholder with respect and dignity. Companies intent on treating their stakeholders with respect have moved away from reactive postures and developed proactive boundary-spanning functions to engage with stakeholders interactively.

An interactive, dialogue-based approach to stakeholders elevates the role of what are called boundary-spanning functions within the firm to serious and on-going *relationships* that need to be managed effectively if the organization is to be successful. And, of course, all of this necessitates self-aware and highly developed leaders, who are well aware of the stakeholders' points of view and able to take them into consideration without being threatened.

None of this is easy, nor do many companies yet engage with stakeholders interactively to the extent that is advocated in this article. But several companies, among them British Petroleum and Shell Oil, have moved considerably along this path as they have begun to recognize the import of corporate citizenship to their long-term success. Shell, for example, possibly in reaction to stakeholder activism associated past decisions that got them into significant reputational difficulties, as well as recognizing that long term, they are in an inherently unsustainable fossil fuels-based industry, recently published a major report on corporate citizenship. This report, entitled *Profits and Principles: Does There Have to Be a Choice?* is directed to Shell's stakeholders.

On the first page of Shell's report are the words: "We care about what you think of us. We want you to know more about how we work and how we strive to live up to

our principles. This report is part of a dialogue, and we will continue to seek your view.”<sup>20</sup> The introduction states clearly “This report is about values.” And the critical values, as is obvious in the quote above, are those we have elaborated above: respect for stakeholders, interactivity, mutuality, dialogue, and principled operations.

Notably, Shell also recognizes that it is far from perfect and will need to constantly seek to improve, constantly seek stakeholder input and feedback in a mutually engaged conversation, and become more accountable publicly through transparency. It is through exemplary operating practices, based in these fundamental and respectful values, such as those articulated by Shell (although it remains to be seen how long-lived these practices are) that values-based corporate citizenship begins become reality.

## Endnotes

<sup>1</sup> The classic reference is R. Edward Freeman's *Strategic Management: A Stakeholder Approach*, New York (Basic Books, 1984), and also Evan, William M., and R. Edward Freeman (1988). A Stakeholder Theory of the Modern Corporation: Kantian Capitalism. In *Ethical Theory and Business*, edited by T. Beauchamp and N. Bowie. Englewood Cliffs, NJ: Prentice-Hall. Max Clarkson identifies stakeholders as primary and secondary, depending on the level of risk they have taken with respect to the organization. See Max B. E. Clarkson, A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance. *Academy of Management Review*, 1995, 20: 1, 92-117. For the distinction between primary and critical secondary stakeholders see Sandra Waddock, *Leading Corporate Citizens: Meeting the Business in Society Challenge*, forthcoming, 2002.

<sup>2</sup> See the works of Ken Wilber, for example, *A Brief History of Everything*. Boston: Shambala Publications, 1996; *Eye of the Spirit: An Integral Vision for a World Gone Slightly Mad*. Boston: Shambala Publications, 1998; and *The Marriage of Sense and Soul: Integrating Science and Reason*. New York: Random House, 1998. For a discussion of the web that constitutes life and the ways in which all matter is interrelated see Fritjof Capra, *The Web of Life*. New York: Anchor Doubleday, 1995.

<sup>3</sup> Marsden, Chris and Joerg Andriof (1998). Towards an Understanding of Corporate citizenship and How to Influence It," *Citizenship Studies*, 2 (2), 329-352, p. 330.

<sup>4</sup> As, for example, Archie Carroll has argued. See "A Three-Dimensional Conceptual Model of Corporate Social Performance." *Academy of Management Review*, 1979, 4: 497-505; more recently, see Carroll's piece "The Four Faces of Corporate Citizenship," *Business and Society Review: Journal of the Center for Business Ethics at Bentley College*, 1998, No. 100-101, pp. 1-7 also David Logan, Delwin Roy, and Laurie Regelbrugge, *Global Corporate Citizenship—Rationale and Strategies*. Washington, DC: The Hitachi Foundation, 1997, which argues for a broad conception of citizenship, then focuses on philanthropic and community relations activities to operationalize the perspective.

<sup>5</sup> Clarkson, 1995, cited above, p. 110.

<sup>6</sup> Comments by both R. Edward Freeman and John J. Mahon, in separate presentations, at the 1999 International Association of Business and Society annual meeting, Paris, France, suggest that other stakeholder theorists are also thinking along these lines.

<sup>7</sup> See, for example, Sandra Waddock and Neil Smith, "Relationships: The Real Challenge of Corporate Citizenship," in *Business and Society Review*, Winter 2000.

<sup>8</sup> For example, see Maturana, Humberto R., and Francisco J. Varela (1998). *The Tree of Knowledge: The Biological Roots of Human Understanding*, revised edition. Boston: Shambala Press. For ecological thinking applied to business systems, see Moore, James F. (1996). *The Death of Competition: Leadership and Strategy in the Age of Business Ecosystems*. New York: HarperBusiness.

<sup>9</sup> The term holon is from Arthur Koestler and is extensively developed in Ken Wilber's work. Relevant works of Wilber include *Sex, Ecology, Spirituality: The Spirit of Evolution*. Boston: Shambala Publications, 1995; and *Eye of the Spirit: An Integral Vision for a World Gone Slightly Mad*. Boston: Shambala Publications, 1998; also *A Brief History of Everything*. Boston: Shambala Publications, 1996;

<sup>10</sup> See Wilber, *Sex, Ecology, Spirituality*, cited above.

<sup>11</sup> This tendency, of course, explains the constant emphasis in the business in society literature to seek a positive, instrumentally useful, relationship between corporate "social" performance and financial performance, of which the following are but two examples (albeit these articles contain an extensive literature review). See, e.g., Sandra A. Waddock and Samuel B. Graves, The corporate social performance-financial performance link. *Strategic Management Journal*, September 1997, 18 (4): 303-319; and Sandra A. Waddock and Samuel B. Graves, Quality of management and quality of stakeholder relations: Are they synonymous? *Business and Society*, 36 (3), September 1997, 250-279.

<sup>12</sup> Including, of course, Wilber. See Thomas N. Gladwin, James J. Kennelly, and Tara-Shelomith Krause (1995). Shifting Paradigms for Sustainable Development: Implications for Management Theory and Research. *Academy of Management Review*, October, 20 (4): 874-907; Capra, Fritjof. (1983). *The Turning Point: Science, Society, and the Rising Culture*. New York: Bantam Books; and Wheatley, Margaret J. (1992). *Leadership and the New Science: Learning about Organization from an Orderly New Universe*. San Francisco: Berrett-Koehler Publishers, Inc.

<sup>13</sup> See Wilber, various books, cited above.

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<sup>14</sup> See, e.g., Peter M. Senge, *The Fifth Discipline*. New York: Free Press, 1990.

<sup>15</sup> See for example, S.A. Waddock and S. B. Graves, "Quality of Management and Quality of Stakeholder Relations: Are They Synonymous?" in *Business and Society*, 36 (3), September 1979, 250-279, and "The Corporate Social Performance--Financial Performance Link in *Strategic Management Journal*, 18 (4), 303-319, by the same authors.

<sup>16</sup> See Lee E. Preston and James E. Post *Private Management and Public Policy*. New York: Prentice-Hall, 1975, for an discussion of this framework.

<sup>17</sup> William C. Frederick, in *Values, Nature, and Culture in the American Corporation*. New York: Oxford University Press, 1995, has best articulated this natural perspective on corporate values.

<sup>18</sup> Senge, 1990, cited above.

<sup>19</sup> See the compelling analysis by Jeanne M. Liedtka in *Constructing an Ethic for Business Practice: Competing Effectively and Doing Good*. *Business and Society*, 1998, 37 (3), September, 254-280.

<sup>20</sup> Profits and Principles—does there have to be a choice? Group External Affairs, Shell International, United Kingdom, 1998, p. 1.