Development Path of Corporate Social Responsibility Theories

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Abstract: This paper is conducted to describe the development of Corporate Social Responsibility (CSR) theories. It purposes to generate a mapping of CSR theories by applying a descriptive qualitative approach and literature review of some previous studies. This conceptual paper shows the evolution of theories in CSR field by finding the linkages and the gaps among them. CSR concept was firstly derived from criticisms of Shareholder Theory. The criticisms then brought out Stakeholder Theory as the root of CSR concept. Along with the development, then some new theories emerged within 1980s until 2000s as the improvements of CSR concept. The result of this study is an evolution model of CSR theories which is useful to conduct further research in building some novel theories of CSR which are relevant with current situations. So that the concept of CSR will be continuously developed to answer the challenges of dynamic business world in order to achieve sustainability.

Key words: Corporate Social Responsibility • Shareholder Theory • Stakeholder Theory • Sustainability

INTRODUCTION

Since the nature of business is profit oriented, every business in the world aims to obtain financial gain as its main objective. However, as a part of communities, a company is also demanded to take a role in efforts of increasing social welfare. Financial achievement and social matter then become contrary issues in business world. Hence, there is a notion that takes those two matters into an integrated concept which is called as Corporate Social Responsibility (CSR). In this concept, all business activities must comply with the objectives and values demanded by the society [1].

Currently, CSR takes important parts in businesses. CSR is not only a sideline activity of a company, it is considered as an obligation rather than an option. CSR is the commitment of a corporate to thrive the wealth of a community through business activities and subscription of corporate resources [2]. It is stated by Solomon [3] that the current perception of business has grown to acknowledge that the companies achieving well performances in the social, ethical and environmental fields will also perform well in financial matters.

CSR program will not only bring benefits for the community, but also can be an effort to evolve the corporate wealth. Some previous studies have proven that CSR is not simply a cost center of a company, but also can be a profit center if it is managed properly. The results of studies done by Saleh, et al. [4], Chen and Wang [5], Boesso and Michelon [6] show that the relation between CSR performance and Corporate Financial Performance (CFP) is positive and significant.

Conceptual theories of CSR refer to original constructs built by some previous studies based on the evolution of CSR basic theories and models. Claydon [7] states that the most commonly theories referred in CSR studies are Stakeholder Theory [8], The Pyramid Model of CSR [9], Model of Sustainable Development [10] and CSR 2.0 [11]. However, this study will show the evolution of CSR theories in wider range. The four mentioned theories are actually developed from basic theories of the firm, i.e. Shareholder Theory [12] and Agency Theory [13]. The result of this study is an evolution model of CSR theories which describes the further developments of those theories within the last five decades. By exploring the linkages and the gaps among them, this study purposes to find potential alternatives for future research to formulate a novel model of CSR which can be more relevant with current situations.
The Evolution of CSR Theories: This study describes the development of CSR theories and models within the last five decades, consisting of Shareholder Theory [12], Agency Theory [13], Stakeholder Theory [8], Sustainable Development [14], The Pyramid Model of CSR [9], Stewardship Theory [15], Triple Bottom Line [16], Sustainable Development Theory [10], The DNA of CSR 2.0 Model [11], A Practitioner-Based Model of Societal Responsibilities [17], Value Creation Model of CSR [18] and The Model of Consumer Driven Corporate Responsibility [7].

![Fig. 1: The Pyramid Model of CSR](source: Carroll (1991))

**Shareholder Theory:** Shareholder Theory is basically related to Theory of The Firm. It explains the reasons why a company exists. A company is established and operated to achieve profit as the main goal. As profit is the most important thing, then the objective of business is merely to be responsible for the increasing of shareholders’ wealth [12]. Shareholder is the most important party of a company, so that the performance indicator of a company is solely based on the achievement of shareholders’ interest of financial gains. The Shareholder Theory then reaped a lot of criticisms that create new theories and models of Corporate Social Responsibility (CSR). The several theories emerged from the criticisms are Agency Theory [13], Stakeholder Theory [8] and The Pyramid Model of CSR [9].

**Agency Theory:** Agency Theory was firstly coined by Jensen and Meckling [13] as a response to Shareholder Theory. This theory states that there are always gaps between shareholders, as the principals and managers, as the agents. The interests of shareholders and managers do not align each other. This conflict of interests is called as agency problem. A company is about a complex contractual system that is called as nexus-of-contracts. It consists of different interests of many parties which are related to business activities. Thus, the agency problem should be solved by reaching an equilibrium point of those interests.

Megginson [19] defines Agency Theory as a classic problem that there is a different manner between managers and investors in terms of risk taking on investment strategy. Managers prefer much lower risk than investors as investors can diversify their treasure into many kinds of financial assets while managers take full risk on their human capital with their current employers. The unsolved agency problem can lead to the failure of a company to achieve its performance. Agency Theory then brought out Stakeholder Theory [13] and Stewardship Theory [15] to answer the agency problem.

**Stakeholder Theory:** Stakeholder Theory emerged as the next response to Agency Theory. Stakeholder Theory is the main theory that contrasts Shareholder Theory. The early notion of Corporate Social Responsibility (CSR) comes from Stakeholder Theory. Stakeholder Theory is asserted by Freeman [8]. The word “stakeholders” refers
to all parties involved in the contract who affect or are affected by corporate actions. Stakeholder Theory asserts corporate accountability towards broad range of stakeholders’ interests. Stakeholder Theory is a denial of Shareholder Theory with the reasons that there are a lot of parties other than shareholders who are legally engaged in the contract with the company, they are employees, suppliers, customers, community and environment. The company’s policies also have multiplying effects to the surroundings Freeman [8].

March and Simon (1985) figure out that the relationship pattern between a company and its stakeholders is reciprocal. The stakeholders deliver contributions for the company to meet their interests and the company should reward them some benefits. According to Solomon [3], stakeholders are not simply influenced by a company, but they can influence the company as well. Stakeholders of a company consist of shareholders, employees, suppliers, customers, community, government and also competitors.

The satisfaction and fulfillment of all stakeholders’ interests can support the improvement of a company’s performance not only for current, but also for the next future. The Stakeholder Theory is then referred by several authors to create some new CSR models and theories for companies’ long-term developments, they are Sustainable Development [14], Stewardship Theory [15], Triple Bottom Line [16], The DNA of CSR 2.0 Model [11], A Practitioner-Based Model of Societal Responsibilities [17], Value Creation Model of CSR [18] and The Model of Consumer Driven Corporate Responsibility [7].

**Sustainable Development Theory:** Stakeholder Theory is then developed further for a long-term perspective in Sustainable Development Theory. Sustainable Development is defined by World Commission on Economic and Development [14] as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This definition emphasizes the concept in the balance between present and future dimensions.

This concept considers both of short-term and long-term developments [20]. Maples [21] defines Sustainable Development as a combination between innovation and conservation. It is about doing innovation to respond the recent prompt changes while conserving socio-economical systems to get the balance of ecosystem. Sustainability is an important indicator of a company’s performance in a long-term dimension. Sustainable Development Theory starts the notion of important relationship between business and environment. Hawkin [22] aligns this theory with his argument that business can harm the environment, but on the other hand, business is also crucial to solve sustainability problem of environment. The Sustainable Development Theory is then developed further into some new models, i.e. Triple Bottom Line [16], Sustainable Development Model [10] and The DNA of CSR 2.0 Model [11].

**The Pyramid Model of CSR:** The Pyramid Model of CSR is asserted by [9] based on Shareholder Theory which states that the basic objective of a company is to earn profit, but economic aspect is not the only one responsibility of a company. This model corroborates the responsibility of business towards four layers, i.e. economic, legal, ethical and philanthropic aspects. Economic aspect becomes the most important bottom line of this model. Through this aspect, Carroll confirms the notion asserted by Friedman [12] that business has the most responsibility to deliver profit to its shareholders. Only if the economic aspect has been fulfilled, then the next layers of responsibility can be met. Legal aspect is the second layer, this is the responsibility of business to comply with rules and regulations. The next layer is ethical aspect, this is the responsibility of business to do the right things to its stakeholders. The last layer is philanthropic aspect, this is how the business is responsible to deliver contributions to the community as a good citizen. The Pyramid Model of CSR then inspires some new novel models, such as Triple Bottom Line [16], Value Creation Model of CSR [18] and The Model of Consumer Driven Corporate Responsibility [7].

**Stewardship Theory:** The Stakeholder Theory is developed further by Davis, et al. [15] into Stewardship Theory. Stewardship Theory is also a respond to Agency Theory [13] to answer the agency problem. Stewardship Theory states that the managers are no longer the agents, but they are the stewards. The equilibrium of relationship can be reached when managers’ goals are in accordance with the interests of all stakeholders. They can attain their goals by serving well for the achievement of company’s performance and satisfying all stakeholders. Corporate performance can be achieved by achieving individual performance that is in accordance with company’s goals. Stewardship Theory leads to some new CSR models, i.e. Sustainable Development Model [10] and The Model of Consumer Driven Corporate Responsibility [7].
Triple Bottom Line: The concept of Triple Bottom Line - coined by Elkington [16] – is also a further development of Stakeholder Theory. It figures the synergy of three aspects, i.e. profit, people and planet, in business activities. The point of this concept is that every business must be oriented in economic achievement to gain profit but the efforts of attaining profit must be in accordance with its responsibility in social matters to respect people in society around the business takes place. It must concern with the sustainability of ecological environment in this planet as well. Corporate responsibilities to the three aspects mutually depend each other.

The three aspects can be defined further into the company’s stakeholders, as follow: (1) Profit deals with the interest of a company’s shareholders in which they expect to gain wealth as the return of their investment in business run by the company; (2) People deals with society inside and around the business, including employees, customers, suppliers, creditors, competitors, communities and government; (3) Planet deals with ecological environment where the company operates and takes natural resources for its production. Triple Bottom Line concept leads to the development of Sustainable Development [10], The DNA of CSR 2.0 Model [11] and A Practitioner-Based Model of Societal Responsibilities [17].

Sustainable Development Model: Aras and Crowther [10] define sustainability as “life will just carry on unchanged”. They then developed the Sustainable Development Theory of Environment and Development [14] into a further model. This model is also influenced by Stewardship Theory [15] as Aras and Crowther state that in achieving corporate performance, management of an organization must concern with stewardship of financial and environmental resources. The stewardship of both resources of society and organization is an effort to ensure the sustainability. Aras and Crowther [10] adopt Triple Bottom Line concept into their model for the synergy of financial, social and environmental aspects. They state that sustainability does not merely focus on environment. Social and financial matters can also take important parts for the sustainability. Environmental and financial performance are mutually exclusive rather than dichotomy [23, 24]. Related to sustainability, Aras and Crowther [10] focus on internal and external interests of a company by asserting four aspects of CSR, i.e. (1) Economic aspect, to be the reason of the company’s existence; (2) Social aspect, to eradicate poverty and safeguard human rights; (3) Environment, to preserve the nature for future generations; (4) Organizational culture, to align the corporate and social values with individual values. This model is then developed into some new models, i.e. The DNA of CSR 2.0 Model [11] and The Model of Consumer Driven Corporate Responsibilities [7].

The DNA of CSR 2.0 Model: This model is a development of Stakeholder Theory and Sustainable Development. It is asserted by Visser, et al [11]. CSR 2.0 combines the concept of Connectedness for “C", Scalability for “S", Responsiveness for “R", Duality for “2” and Circularity for “0”. Connectedness is to explain that a company has relations with multi-stakeholders. Scalability is to explain that CSR programs must be carried out by a company for a big scale and for a long-term duration. Responsiveness is to explain that a company must be responsive to deliver the needs of community. Duality is to explain that a company is not only responsible to economic aspect, but also to both economic and social aspects. Circularity is to confirm the concept of sustainability. The DNA of CSR 2.0 Model adopts the model of sustainability and responsibilities included in Triple Bottom Line concept. Visser, et al. [11] states that, “The DNA of CSR 2.0 can be conceived as spiralling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labour responsibility; social sustainability and community responsibility; and environmental sustainability and moral responsibility.”

A Practitioner-Based Model of Societal Responsibilities: Pedersen [17] focuses his study on managers’ perceptions of CSR and the results of his study show that some of the managers still view CSR in narrow perspectives. They only focus on people, products and planet rather than people, profit and planet. For this instance, Pedersen takes Triple Bottom Line concept of Elkington [16] into his model, i.e. Practitioner-Based Model of Societal Responsibilities. However, there are differences in managers’ view of CSR. Some of them concern with CSR in the reactive approach that CSR is carried out merely to comply with responsibility and avoid risk, while the others take the proactive approach to perceive CSR as an effort to make wider changes in society. Through this model, Pedersen shows
Fig. 2: Sustainable Development Model  
Source: Aras and Crowther [10]

Fig. 3: A Practitioner-Based Model of Societal Responsibilities  
Source: Pedersen [17]
that in overall, managers take CSR as about producing good-quality products without doing harm to environment to create value for the company and community. The responsibilities of a company for products, people and environment are not only taken as its internal operations, but also meant to create value for the stakeholders rather than only for shareholders. It shows that Pedersen adopts Stakeholder Theory (Freeman, 1984) into his model. However, this model does not take all stakeholders’ interests as equally important. The managers perceive that employees and customers are more important than the other stakeholders. This model also takes CSR as a part of integrated core business activities of a company.

**Value Creation Model of CSR:** Value Creation Model of CSR is asserted by Gholami [18]. This model emphasizes on value creation for an organization and society as there is a mutual dependence between them. This model considers that the main elements of a value cycle are strategy, resources and processes, business propositions and interactions with stakeholders. It shows that Value Creation Model of CSR is a further development of Stakeholder Theory. Gholami [18] formulates this model by considering the linkage between CSR and corporate performance including financial and non-financial performance. Gholami [18] adopts four CSR dimensions of Carroll’s Pyramid Model – economic, legal, ethical and philanthropic – as responsibilities must be delivered by a company to create value for organization and society. However, economic aspect is still considered as the fundamental matter for the company. Personal saving rate, business saving rate, inflation rate and manufacturing lead time are the indicators of economic dimension according to Value Creation Model. Indicators of legal aspect proposed by Gholami are anti-trust law, labor training law, taxation law and human rights. Ethical aspect deals with codes of conduct, corruption and money laundering matters. Gholami suggests donor acquisition, donor attrition, stewardship calls and gift processing time as key indicators for philanthropic aspect. Gholami [18] proposes economic, legal, ethical and philanthropic aspects as independent variables in his Value Creation Model. Organizational dimensions of culture, technology, centralization and training are the control variables. Financial corporate performance including Return on Investment (ROI), Return on Equity (ROE), Return on Asset (ROA), Operating Income (OI) and non-financial corporate performance including access of capital, business value, business savings, social value are considered as dependent variables.

**The Model of Consumer Driven Corporate Responsibility:** The Model of Consumer Driven Corporate Responsibility is coined by Claydon [7]. This model is influenced by Carroll’s Pyramid Model of CSR for the reason that economic is inevitably the main aspect of a company. This model adopts Sustainable Development Theory [10] for the sustainability concept. To be sustainable, a company must remain profitable. Sustainable profitability can be achieved by ethical manner and responsible behaviour to stakeholders. This model adopts Stakeholder Theory as well, but it takes consumers as the most important stakeholders whose interests must be fulfilled well. Recently, consumers demand more for CSR and the demands must be met to maintain the profitability and to get good reputation of the company. This model explains that CSR can be adopted by a company if its customer base is not yet established to attract more customers from its competitors. When the customer base is already established, the existing customers will keep demanding CSR from the company. Therefore, the company must respond to meet the demand in order to be more reputable and remain profitable.

This model shows a cycle that CSR adopted by a company will lead to the increased customer base. It means that the profitability of the company can be achieved. The profitability from CSR then leads to greater reputation which can increase customer base. The increased customer base leads to the increased consumer demand for CSR, then it increases CSR adopted by the company.

**The Evolution Model of CSR Theories:** The theories can influence and be influenced each other. A new theory or model can emerge as a response to the previous theories. It might be a refutation and improvement of the existing theories and models. This study deals with the development of CSR theories and models from the forerunner of CSR concept until the current models of CSR within the last five decades. It tries to depict the evolution of CSR theories through some literature reviews. Figure 6 is the evolution model of CSR theories which provides a theory mapping of CSR. Figure 6 shows that the theories and models of CSR are derived from criticisms to Shareholder Theory coined by Friedman [12] which disagree with the concept of shareholders’ wealth as the central orientation of the business. The first response to Shareholder Theory is asserted by Jensen and Meckling [13] in Agency Theory that shows the conflict of interests between shareholders, the principals and managers, as the agents, which is called as agency problem. The main contrast of Shareholder Theory
is actually emerged by Freeman [8] which asserts that there are many parties involved and legally bounded in the contracts of a business, so that there are many interests must be fulfilled rather than only shareholders’ wealth. Those parties are not only influenced but also can influence the corporate actions in turn. Stakeholder Theory is then completed by Sustainable Development [14] which asserts the notion of long-term dimension of development and the relationship between business and environment. In 1990s the developments of CSR theories keep continued with some notions. Carroll [9] completes Shareholder Theory with The Pyramid Model of CSR which shows that economic orientation is the most important bottom line of a business, but it is not the only one aspect. If only the business has delivered the economic responsibilities, then it can deliver the next layers of responsibilities, i.e. legal, ethical and philanthropic responsibilities. As the root of CSR concept, Stakeholder Theory then inspires many theories and models as the further developments. Stewardship Theory coined by Davis, et al. [15] is one of the development of Stakeholder Theory. It is also the answer to agency problem emerged by Agency Theory. Stewardship Theory tries to find an equilibrium point by aligning managers’ goals with all stakeholders’ interests. Managers can achieve their goals by serving well to
achieve company’s performance in accordance with stakeholders’ interests. The other development of Stakeholder Theory, Sustainable Development and The Pyramid Model of CSR is Triple Bottom Line concept which is coined by Elkington [16]. This concept shows the synergy between three aspects of company’s responsibilities, i.e. profit (economic), people (social) and planet (environmental). Aras and Crowther [10] develop Sustainable Development concept into their Sustainable Development Model which also adopts Stewardship Theory in the focus of consumer as the most important stakeholder.

Potential Future Research: Based on the evolution model of CSR theories as shown in Figure 6, it is found that there are relationships that can bring similarities and differences among the existing CSR theories. The linkages and gaps within them are explored to find a potential future research in order to build a novel model of CSR to fill the gaps. Figure 7 shows some attributes which can explore the linkages and gaps among the existing CSR theories and models. The attributes are Focus, Aspect, Time Dimension, Scope, Impact to Corporate Sustainability and Responsibility. Pedersen [17] adopts Stakeholder Theory in A Practitioner-Based Model of Societal Responsibilities in terms of creating value for the stakeholders rather than only for shareholders. Pedersen’s model is inspired by Triple Bottom Line for its focus on people, products and planet. Gholami [18] also develops Value Creation Model of CSR as a further development of Stakeholder Theory. Gholami’s model adopts Carroll’s Pyramid Model for the perspectives of economic, legal, ethical and philanthropic responsibilities as the independent variables of value creation. Carroll’s Pyramid Model and Sustainable Development inspire Claydon [7] to develop The Model of Consumer Driven Corporate Responsibility which also adopts Stakeholder Theory in the focus of consumer as the most important stakeholder.

Fig. 6: The Evolution Model of CSR Theories
Fig. 7: The Gaps Among Existing CSR Theories

<table>
<thead>
<tr>
<th>Previous Studies</th>
<th>Scope</th>
<th>Impact to Corporate Performance</th>
<th>Integration to Corporate Strategies</th>
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<td>Potential Future Research</td>
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Term or Long Term development. Scope explains whether a theory includes its coverage to Internal Environment of Company, External Environment of Company, or both of Internal and External. Impact to Corporate Performance explains whether a theory shows the relationship between CSR and corporate performance. Integration to Corporate Strategies shows whether a theory includes CSR as a part of corporate strategies. The gaps among existing CSR theories as shown by Figure 7 are to be filled by some notions suggested by this study to build a novel model in potential future research.

From Figure 7 we can see that there are gaps to be filled in as potential alternatives for future research, as follow:

- There are only a few of existing CSR models that concern with ethical aspect.
- There are only a few of existing CSR models that concern with legal aspect.
- Lack of existing CSR models concerning with the impact of CSR to corporate performance.
- Lack of existing CSR models concerning with the integration of CSR programs with corporate strategies.

Within the existing theories, there are only three of twelve theories which focus on ethical aspect, i.e. The Pyramid Model of CSR [9], A Practitioner-Based Model of Societal Responsibilities [17] and Value Creation Model of CSR [18]. Therefore, there is an opportunity for future research to build a new model of CSR which is not only concerning with economic, social and environmental aspects, but also relevant to ethics and legal aspects. As CSR is one of subjects of business ethics, it is important to emphasize ethical aspect in a CSR model. Complying with ethical matter is about doing the right things and not being harmful to the surroundings. CSR activities also deal with legal policy, but within the existing theories, there are only four of twelve theories concern with legal aspect, i.e. Stakeholder Theory [8], The Pyramid Model of CSR [9], A Practitioner-Based Model of Societal Responsibilities [17] and Value Creation Model of CSR [18]. It is an opportunity for further research to include legal aspect into the new CSR model. The legal aspect includes regulations, rewards and sanctions of compliance with CSR programs. The new model is expected to be able to evaluate whether CSR can support to achieve the corporate performance as there are only six of twelve existing theories that discuss the relationship between CSR and corporate performance, i.e. Stewardship Theory [15], Triple Bottom Line [16], Sustainable Development Model [10], The DNA of CSR 2.0 Model [11], Value Creation Model [18] and The Model of Consumer Driven Corporate Responsibility [7]. Not only as a philanthropic program, CSR is an important part of business strategies, but only two of twelve existing theories that include CSR into corporate strategies, i.e. Stewardship Theory [15] and A Practitioner-Based Model of Societal Responsibilities [17]. Hence, the new model will no longer show the conflict of interests between shareholders and stakeholders as many of previous studies did, but it would rather explore the synergy between them. It shows that doing CSR means doing good things aligning with the efforts of achieving corporate purposes. The model takes shareholder as a part of stakeholders, then it will show that CSR is not only a cost center of a company, but it can be a profit center and a value creator as well to meet the interests of all stakeholders.
CONCLUSION

This study results an evolution model of CSR theories which can be a theory mapping of CSR that describes the further developments of CSR theories and models within the last five decades. By exploring the linkages and the gaps among them, this study finds potential alternatives for future research to formulate a novel model of CSR which can be more relevant with current situations. There are only a few of existing CSR models that concerns with ethical and legal aspects, instead of economic, social and environmental aspects. The existing CSR models also lack of concerning with the impact of CSR to corporate performance and the integration of CSR programs with corporate strategies. Accordingly, there is a potential alternative for future research to formulate a novel CSR model that can fill these lacks.

The new model should adopt Stakeholder Theory [12] that focuses on interests of many relevant parties which are called as stakeholders. This is a further development of previous studies of [9] for ethical and legal aspects and Elkington [16] regarding economic, social and environmental aspects. Although the new model refers to Carroll’s model, but it will put the perspectives into an integrative and simultaneous way, rather than hierarchical model of pyramid. Furthermore, it is also expected to sharpen previous study of Aras and Crowther [10] to take the orientation of CSR programs in a long-term time dimension and to include wide scope of CSR for both internal and external environments of a company. The new model is proposed to improve previous studies of Davis, et al. [15] and Gholami [18] as it will evaluate whether CSR programs are able to support the achievement of corporate performance and align with corporate strategies as studied by Pedersen [17]. In the new proposed model, CSR is no longer looked as a sideline program of a company, but it also takes an important part in strategic activities of a business.

REFERENCES