Business Ethics, Stakeholder Management and related fields in Entrepreneurship: an analysis of concerns, perceptions and inconsistencies

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DISSERTATION

SUBMITTED TO THE FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION OF GHENT UNIVERSITY (BELGIUM) IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR IN THE APPLIED ECONOMICS

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PREFACE

Point n’est nécessaire d’espérer pour entreprendre,
ni de réussir pour persévérer

Willem van Oranje

In memory of my grandfather Charles Fassin (Ghent, 1890-1986) — engineer, self-made man and a real gentleman, an example of dedication, modesty and integrity — who transmitted to me the virus of entrepreneurship and innovation, as well as a passion for research and a love for the arts and for our beloved city of Ghent.

In memory of Professor André Baron Vlerick (1919-1990), my first employer and the founder of our Vlerick Management School, who stimulated so many of his former students to take up entrepreneurship and academic research. Long before it was fashionable, he integrated corporate responsibility into his general management course, in the sessions on de finaliteit van de onderneming, la finalité de l’entreprise.

Also in memory of the Vice-Chancellor Leon Baron De Meyer (1929-2006) — my second ‘grand patron’ in my career, a great vice-chancellor of the Ghent University and a man with charisma and a vision that reached far beyond his own area of specialization — for his support of pioneering initiatives that I launched as a director of the University–Industry Liaison office, an innovation in a rather bureaucratic environment and unfortunately in turbulent times.

The process of scientific discovery is, in effect, a continual flight for wonder

Albert Einstein

This doctorate has not had the traditional trajectory of a classical PhD. It was not planned but was developed gradually over the years, with reflection on ethical aspects observed in my professional activities over a few decades. These various ideas and experiences were analysed and compared with the academic literature. They were written down, as a hobby begun during my first job as an assistant to Professor André Vlerick. Several articles were published in international journals. Meanwhile, I continued to develop my role as a liaison officer, forging a bridge between university and practice, the missing link that is emphasized by so many academic and journalistic observers, but also from political sides. Consequently, as a faculty professor recently mentioned, I actually started my PhD some 20 years ago, but nobody was aware of this, not even me, until Marc Buelens sent me an innocent e-mail proposing that I consolidate my years of amateur research into a PhD.

I owe an acknowledgement to my supervisor, Professor Marc Buelens, who slowly convinced me to undertake this challenge, with thanks for his excellent advice, feedback and counsel, and for his brilliant idea to put me in contact with Dr Annick Van Rossem, the Belgian expert in repertory grid technique, and to form the interdisciplinary team for the empirical study. Annick deserves all the credit for computation of the repertory grid study, which saved me several months, for which I remain thankful. Thanks to Annick for her input on methodological rigour and for the excellent collaboration that we will pursue in the near future.

I am indebted to the dean of the Vlerick Leuven Ghent Management School, Professor Roland Van Dierdonck, another example of dedication and integrity, who brought our Vlerick School
to an international level and who supported me with valuable advice at several steps in my career. My gratitude goes to Professor emeritus Jos Van Acker, for his discreet encouragement: he served as my first reader and English copywriter of several of my papers.

To the dean of the Faculty of Economics and Business Administration, Professor Roland Paemeleire, and to the members of the Vakgroep Management en Organisatie, especially the chairman, Aimé Heene, and Derrick Gosselin, of the Marketing Department, who also inspired in me the confidence that a PhD was an attainable goal. To the other members of the jury, Herman Van den Broeck, Lutgert Van den Berghe, Domenech Melé (IESE Barcelona) and Laura Spence (Brunell University).

Thanks also to the librarians and the secretariat of the Vakgroep and the Vlerick School.

A special word of acknowledgement for my friends in the European Business Ethics Network (EBEN) for their valuable input on various occasions, particularly Heidi Hoivik-von Weltzien (Norwegian School of Management), André Nijhof (Universiteit Twente), Carmen Valor (University Madrid), Alain Anquetil (ESSCA, Angers), Luc Van Liedekerke (Universiteit Antwerpen, KU Leuven), Henk Van Luijk (Nyenrode), and also Edward Freeman (Darden School, University of Virginia) and Patricia Werhane (Darden and DePaul University).

Thanks to the editors Gary Weaver (University of Delaware), Chris Cowton (Huddersfield University), the anonymous referees, the conference chairpersons Tom Donaldson (Wharton Business School), Linda Trevino (Penn State University), Goeff Moore (University of Durham Business School) and Michaela Haase (Freie Universität Berlin), and Tom Dodd of the European Commission.

A special thanks to Jacqueline Fendt (Basel, Leiden, EAP Paris), Anne Barraquier (Université de Nice), and Derrick Gosselin (Suez and Ghent University), for their inspiring example to undertake the challenge of a PhD at a mature age, and for their warm encouragement. They persuaded me to pursue this effort, as the transfer of practical experience adds another dimension of value to scientific knowledge. Thanks also to my other fellow researchers in Ghent, Xavier Baeten, Nikolay Dentchev, Wim Vandekerckhove, Jan Lepoutre, Céline Louche and her colleagues in the Belgian Governance Institute, for the fruitful exchange of ideas.

*The only source of knowledge is experience*

Albert Einstein

As this dissertation is also the result of many experiences and exchanges over many years, I am indebted to many good people whom I have encountered during the several stages of my career: researchers in Ghent University, members of the European Venture Capital Association and fellow entrepreneurs.

This work is especially dedicated to all my colleagues and friends, partners in the Vlerick School, professors and alumni. It has been a privilege as an alumnus partner of the school to participate, in a modest way over many years, in the development and internationalization of our Management School, continuing and developing the pioneer work of Professor André Vlerick. I address this work to my alumni friends, especially Louis Verbeke, Luc De Bruyckere, Erik Dejonghe and Philippe Vlerick. Their benevolent dedication to an ambitious project such as the Vlerick School is clear proof that there are other values in life besides shareholder value.
I am grateful to my entrepreneur friends in the SME committees of the Belgian Federation of Industries and Agoria, and colleagues in the engineers’ associations AIG and KVIV, for their valuable experience and assistance in providing case studies. Thanks especially to entrepreneurs Paul Meyvaert, Pieter Van Roosendael, Fabienne Bister, Pierre-Louis Van Hentenrijk, and so many others, for their discussions and exchange of experiences.

Thanks also to the small business entrepreneurs who agreed to collaborate in our study through interviews. I also owe acknowledgement to Tony Vandeputte and Philip Verstraeten of the VBO, to Bert Twaalfhoven, president of the European Foundation for Entrepreneurship Research (EFER), and to Shizuka and Morimasa Takano (Keio University), my guest family in Tokyo.

Special thanks to my friends in the Rotary Club Gent-Zuid, who would never have thought that the theme of ethics that I chose during my year of club presidency, the Rotarian theme by excellence, would have had such unintended consequences. Thanks for their unspoken but inspiring encouragement, particularly to Professor emeritus Henri Muller and Honorary Vice-Chancellor Daniel Vandepitte, and to my friends Luc Vakaet, Pascal Verdonck, André Berkvens, Pierre Colman and Thierry Heirbrant.

This dissertation would not have been possible without modern technology. I am indebted to the thousands of anonymous engineers and inventors who have developed computers, communication technology, the Internet and so on. Having done research for nearly 30 years, I have witnessed significant evolution in this area. Without a personal computer and without direct access to the academic literature from home, I would never have been able to perform the literature searches necessary for my research.

Last but not least, I thank my parents for the values they transmitted to me, and especially for giving me the opportunity to complement my civil engineering studies with a management degree at Vlerick, a year that changed my life and destiny, and one to which I still owe my best friends, Emile, Anne and Marc.

Finally, this PhD is dedicated to my dear wife Sabine, for her unspoken support and patience, which allowed me to work on this PhD in a serene atmosphere. This work is addressed to my adorable son Laurent. It should teach him that one has to make use of the talents that one receives, that ‘Plus est en vous’ (Gruuthuse), that challenges can be realized, and that the important thing is to make the effort, ‘als ich can’ following the motto of Jan Van Eyck. L’important, c’est de participer (Pierre de Coubertin). God does not require us to succeed, he only requires us to try (Mother Theresa). It should help to make him aware that in life, just as in business, values are more important than wealth, and that dedication to a good or great cause and giving something back to society may be rewarding as well, with esteem, respect and friendship.

Yves Fassin

Gent, 17 March 2007
**Business Ethics, Stakeholder Management and related fields in Entrepreneurship: an analysis of concerns, perceptions and inconsistencies**

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2 Reworked paper in second review in *Business Ethics Quarterly*
3 Reworked paper in second review in *Entrepreneurship, Theory & Practice*
4 Reworked paper in second review in *Business Ethics A European Review*
7 Part of this chapter has been presented at the Annual Conference European Business Ethics Network EBEN, “Organizational Ethics in and of Global Institutions”, Wien, 21-23 September 2006, “The ethics of pressure groups and regulators” and accepted for the Annual Conference of the Society for Business Ethics, Philadelphia, 2-5 August 2007: “The ethics of pressure groups or stakeholder reciprocity”.
8 Other part of this chapter has been presented at the Annual Meeting of the International Association for Business and Society, Florence, 30 May- June 3, 2007 : “Hypocrisy in “corporate governance & CSR” communication and ethics”
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Business ethics, stakeholder management and related fields in entrepreneurship: An analysis of concerns, perceptions and inconsistencies

The disciplines

The theme of this dissertation is at the intersection of two disciplines: entrepreneurship and business ethics. The disciplines belong to the wider domains of management and ethics, two apparently opposed disciplines contiguous with the even wider scientific areas of economics and philosophy, respectively.

Many characteristics set the two disciplines in opposition. Entrepreneurship is about action, initiative and creating added value, whereas business ethics is about reflection. Entrepreneurship is doing, whereas the emphasis in business ethics is on thinking, an intellectual activity. “Management is getting things done, through a community of people” (Sir Charles Renold, 1949). Ethics is about “the moral principles that govern a person’s behaviour or the way in which the activity is conducted” (Oxford English Dictionary, 2005).

Entrepreneurship is a relatively recent discipline in the management and organizational fields, and is an important growing field in the social sciences. Business ethics is also a relatively young subdiscipline of ethics, but one with roots in ancient philosophy. Both business ethics and entrepreneurship developed as independent disciplines during the last quarter of the twentieth century.

Although issued from different pathways, the two opposing disciplines have joined. Ethics is omnipresent. Business ethics has applications in all economic fields, and in management and entrepreneurship (Hannafey, 2003). New related issues have arisen alongside new theories, such as the stakeholder theory. On all sides, there has been increased questioning of corporate responsibility in recent decades. All these issues are studied in the business and society fields, and are called social issues in management.

The application of business ethics in entrepreneurship and management

The business and society fields lie at the intersection of many disciplines: economics, psychology, sociology, philosophy, law, etc. They have applications in all management domains: marketing, finance, production, etc. All fields of all disciplines are confronted by
ethical dilemmas. Therefore, attention to business ethics is not the sole prerogative of philosophers.

However, the reaction from business—especially small business—to this increasing interest is somewhat mixed. Entrepreneurs are pragmatic, practical people; they do not like theory. The idealistic treatment of the topic in business and social literature has removed scholars far from the reality of daily life in business, and far from the practice of management. Moreover, entrepreneurs notice the dissonance between reality and theory. The discrepancy between what is done and what is proclaimed causes scepticism from small- and medium-sized enterprises.

We arrive at a paradoxical situation. On one hand, most managers seem uninterested in the theories of ethicists. Many small business entrepreneurs tend to associate business ethics with unworldly theory, be it theology or moralizing. Academic research is judged too idealistic, somewhat unrealistic and rather naïve.

On the other hand, many business ethics professors complain about the lack of impact of business ethical theory in the business world. However, many scholars are still in their ivory towers; lacking knowledge of economics, they still see the manager as the Homo economicus with a purely rational approach (Simon, 1947).

In recent years, the business and society field has gained importance. This process has followed several distinct paths. Business ethics, stakeholder management, corporate social responsibility (CSR), sustainable development, corporate governance and corporate citizenship “have developed as relatively separated streams, all underpinned in many ways by the growing emphasis on business ethics” (Waddock, 2004: 24).

A journey into business ethics in practice
This dissertation on business ethics covers a variety of areas in the practice of management. I successively studied business ethics in various situations, in relation to the successive steps in my own professional career. In charge of the relations between university and industry at Ghent University, we were confronted by problems of intellectual property in transfer and technology and in company start-ups, with the consequences of problems of conflicts of
interest (Fassin, 1991\(^1\); 1992\(^2\)). Later, in the venture capital business, additional ethical issues concerns appeared in the phases of raising capital and initial public offerings (IPO) on the stockmarket (Fassin, 1993\(^3\)). The investigation covered the entire field of innovation from an idea to a successful company (Fassin, 2000\(^4\)). This enlarged the scope of the studies and forged links with finance and law, engineering, innovation and entrepreneurship, marketing and communication. In fact, the whole gamut of management disciplines find themselves confronted with specific problems of business ethics.

Daily issues in traditional business are also affected by classical problems of ethics. Experiences of colleagues who were entrepreneurs led us to search for the reasons for nonethical behaviour in business (Fassin, 2005\(^5\)). This brought us towards new domains of sociology and psychology.

Issues in business ethics encompass more than the rather technical or operational problem areas. On a higher strategic level, many businesses are confronted by the responsibilities of business, entrepreneurship and the quest for transparency and accountability. From business ethics, we crossed into the adjacent areas of CSR, sustainable development, corporate citizenship and corporate governance.

At the interface between the academic world and entrepreneurship in practice, we were confronted by the unworldly attitude of many ethicists engaged in theoretical debates on issues that were definitely of no interest to the majority of the business world. An example that attracted our attention was a discussion of CSR reporting, a voluntary activity that many want to impose even on small companies. Invitations to a few conferences to present the practitioners’ viewpoint resulted in a rather provocative plea for more realism in a debate. The

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position paper synthesizing experiences and opinions from entrepreneurs (chapter 3, Fassin, 2006) aims to counterbalance the incomplete but dominant view propagated by influencers and lobby groups—unaware of or disregarding their own conflicts of interest—and supported by ethicists hampered by a lack of knowledge of the world they analyse. Faced with this lack of realism, we were happy to finally find some support for a contrary view in some recent critical articles of a few more enlightened academics.

The practical implementation of issues of CSR, corporate governance and business ethics brought us to stakeholder theory. Again, this is a new area that developed over several overlapping domains of strategy and philosophy, and one that was diversified and introduced into other areas, such as political sciences. We have devoted the conceptual part of this dissertation to this topic. Our innovative approach was to study the stakeholder model from the perspective of Freeman’s graphical model (chapter 1). A few suggestions for improvement of the graphical representation are made, which may counter some criticism of the stakeholder model (chapter 2).

Our analysis of the various concepts left us with an increasing sentiment of confusion. The more we read on business ethics and corporate social responsibility, the more conferences we attended and the more difficult it was to notice the differences between the various concepts, which were presented as interchangeable notions.

“Essential to the pursuit of science is the development of classification schemes and principles which allow like elements, objects or phenomena to be grouped together” (Schick et al., 1985: 37). Informal discussions with academics and members of the European Business Ethics Network provided the research question: the challenge for us as academics—in the words of IESE business ethics professor Melé—is to clarify this.

One of the ambitions of the present work is therefore to emphasize the need for a more realistic approach with attention to the reality of practice, taking into account the experiences of entrepreneurs. It is also intended as a modest contribution bringing some light to this vague and ambiguous domain. If academics have difficulties in differentiating the notions of the

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6 Part of this chapter has been the object of an article: Fassin, Y., 2006. De Essentie in MVO en MVO-rapportering, Accountancy & Bedrijfskunde, February 2006, pp. 26–29.
business and social fields, how would one expect business people, and more particularly small business entrepreneurs, to see the differences?

That was the principal motivation for engaging in an exploratory study of the perceptions of small business leaders in corporate responsibility and business ethics-related concepts. This study investigates a perceived disconnect between academics and practitioners (chapter 6). This exploratory study made use of the repertory grid technique (RGT) and constitutes a primary in the business and society fields. It has benefited from fruitful cooperation with Dr Annick Van Rossem, the Belgian expert on RGT. The credit for applying RGT to our research question belongs to our supervisor, Prof. Dr Marc Buelens. This chapter brought us into new fields of cognitive psychology, particularly entrepreneurial cognition, and also to statistics.

In the concluding remarks, we discuss some thoughts on work in progress and suggestions for future research: some thoughts on the disconnect between reality and practice, especially concerning so-called CSR rhetoric and corporate governance ethics. We also introduce the concept of stakeholder reciprocity. Finally, we place business ethics and its related concepts in a strategic perspective.

**Objective of the dissertation**

This dissertation is about entrepreneurship, business ethics, stakeholder management and related fields. It studies the various concerns of several management fields, the perceptions of entrepreneurs on diverse issues, and indicates inconsistencies.

The successive chapters on different ethical issues in management and entrepreneurship are intended to contribute from different viewpoints to a more realistic approach to business ethics and corporate responsibility issues. Rather than individual notions, the various concepts in these fields are interrelated and contribute from different perspectives to reinforce each other. In a more pragmatic and realistic way, and making use of different complementary methodologies, we hope to contribute to better sensemaking and reflection about these crucial issues in management. We hope to place business ethics and corporate responsibility in the place where it should be handled: at the strategic level of the corporation.
The approach

The result of this programme is of course not a classical dissertation devoted to a specific subdomain of a particular field of science. On the contrary, there are few domains that were not included, to however small an extent. From the list of faculties of our Alma Mater, we find that it was only the faculties of medicine and veterinary medicine that we did not visit (and some disciplines of the faculties of sciences, such as geography), although there were also applications for spin-offs in these fields. Finally remains the faculty of arts and philosophy. Whereas business ethics stems from ethics and thus from philosophy, we basically consider business ethics from an applied perspective: as an applied science in management and economics. Arts is thus the missing discipline in our wide gallery of research. Not for this reason, but because of the breadth of the research domains, we borrowed a technique stemming from my favourite painters, the Impressionists: to work with small individual brushstrokes that put together form a whole picture and combine the individual touches to an agreeable impression of reality.

The disconnect between academics and practitioners

Some authoritative observers have expressed concerns about the evolution of research in a range of applied disciplines, especially in the management and business fields. They notice an increasing divide between academics and practitioners, which calls into question the validity and relevance of many academic studies (Pettigrew, 1997; Buckley et al., 1998; Abrahamson and Eisenman, 2001; Hodgkinson et al., 2001; Huff and Huff, 2001; Simmonds et al., 2001; Starkey and Madan, 2001).

Academics and practitioners belong to separate communities. They have developed different values and ideologies in separate universes that evolved in parallel (Starbuck and Mezias, 1996; Rynes et al., 2001; Waddock, 2004). The practical and pragmatic orientation of entrepreneurs is at odds with the theoretical and methodologically driven approach of scientists. While academic research often consists of data supported with limited generalizability, practitioners accept case studies as examples of practice. They “collect data in a more qualitative fashion and use logic to generalize the evidence they observe” and rely on common sense (Buckley et al., 1998: 33).
Management research

Das (2003) insists on the necessity to improve the competence of academics engaged in management research. They should have a minimum understanding of the business world and become reasonably conversant with managerial practice before undertaking any empirical research. The danger indeed is that “Research being turned out by business schools is largely trivial and irrelevant. It can be safely ignored with little loss to the manager or executive” (Porter and McKibbin, report 1988: 168, cited in Das, 2003).

The same observation can be made of business ethics and related fields. The ‘socially constructed’ research on CSR has developed in a cloisonné fashion, disconnected from the practice of management (Aucquier and Gond, 2006). “The remedy is not just to exclude moral philosophers, but to insist that those who practise it have mastered at least the rudiments of the fields in which they apply their ideas” (Litzinger and Schaefer, 1987). Therefore, management studies and entrepreneurship should “meet the imperatives of theoretical and methodological rigour on the one hand, and applied relevance on the other hand” (Hodgkinson et al., 2001: S42).

Much research tends to be very specialized and too limited to narrow parts of specific social issues of management disciplines. “Because these topics tend to be pursued in isolation from one another by specialists in different subfields of business study, the connections among them have rarely been noticed” (Paine, 2003: 102).

Other observers plead for a more interdisciplinary approach of such themes (Spence and Rutherford, 2003). Information gathered through different viewpoints and complementary methodologies may help to reveal different facets of a phenomenon (Denzin and Lincoln, 2003; Patton, 2002). Reputable business ethics scholars such as Frederick of the Katz School at the University of Pittsburgh several years ago insisted on having practitioners involved in business ethics at business schools, following the example of the late Prof. Max Clarkson, who after a brilliant career as an entrepreneur devoted his time to research on ethics and entrepreneurship at the University of Ottawa. However, such examples remain exceptional.

Methodologies

Some authors also criticize the dominance of some methodology over others, leading to emphasis on form rather than substance (Bygrave, 1989). Some authors even question the
value of some methodologies, based on personal preferences and anecdotal evidence rather than on solid empirical data (Rynes et al., 2001).

In his canonical development approach to the choice of methods in new fields, Hindle contends that in dynamic fields new discoveries and new ways of discovering often challenge the ‘state of the art’: “It then become a key issue to combine respect for the current state of knowledge with the openmindedness to accommodate new perspectives on the knowledge discovery process” (Hindle, 2004: 576). He argues for a larger variety of methods, so strongly displayed in social sciences, as qualitative methods are underrepresented in both entrepreneurship research and entrepreneurial cognition.

In the different papers addressing various topics in this dissertation, we have made use of different complementary approaches. They include analytical and conceptual papers, complemented with empirical exploratory research, applied to several aspects of the vast domain of business ethics and corporate responsibility-related concepts in entrepreneurship. The first and second papers are conceptual–analytical critiques (chapter 1) including proposals for amelioration of the stakeholder model (chapter 2). They include the specific issue of graphical representation in cognition. The third paper (chapter 3) is an empirical study involving data gathering and analysis, with the creative application of a methodology more frequently used in other disciplines: the RGT. The fourth paper (chapter 4) addresses a more specific problem (CSR reporting) from an analytical perspective. It brings a different view into the debate: the view from the practice; opposed to the dominating idealistic articles on CSR reporting, it is based on the collection of input from the small business practitioners, an important stakeholder group whose advise was seldom asked in the whole discussion. As our previous research, it was based on practical experience and testimonials from fellow entrepreneurs. Their approach is analytical. A first article published in the Journal of Business Ethics described various problems encountered at different stages of innovative projects from an idea to a successful business and an initial public offer. A second article, supported with case studies, analysed the reasons for nonethical behaviour in business an entrepreneurship.


Throughout these papers, we made use of previous literature. Additionally, we used content and citation analyses, case studies, narratives and informal interviews. The empirical paper uses the RGT and more classical descriptive statistical analysis.

**Specific problems of methodology and deontology**

We encountered two specific problems: the bias that is often observed in sensitive business and social areas, and the situation of the researcher active in the observed target group.

*Experience versus independence*

For the paper on CSR reporting, as for a portion of our previous research, the methodology is principally qualitative, based on participative observation, where the researcher is fully part of the observed society. The researcher, an entrepreneur himself, collected information, experiences and case studies of ethical issues and CSR during formal and informal discussions over more than five years with entrepreneur colleagues from different circles: in industrial federations, in chambers of commerce, in engineering associations, as well as with business school alumni. This field research was supported by data collected on business ethical issues in business newspapers, and in a literature study on CSR and related topics.

Being a member of the observed society, the researcher-entrepreneur benefited from experience and cognizance of the field. Some scholars accord huge credibility to this privileged combination, while others, on the contrary, will attack this biased perspective. “*The investigator’s contribution to the research setting can be useful and positive rather than detrimental*” (Locke et al, 1987, cited in Creswell, 1994: 163). In similar cases, “*the onus upon a researcher is to inform the reader, succinctly and clearly, about the key ingredients of philosophical stance that have influenced his or her approach to the problem and the choice of methods*” (Hindle, 2004: 592). Besides acknowledgement of the researcher’s bias, triangulation with a.o. soliciting feedback from others or group feedback analysis can be advised.

*The bias of socially accepted response*

In a very sensitive area such as business ethics and corporate responsibility, classical interviews and surveys present a significant risk of bias toward socially acceptable responses. Hence, in the study on perception (chapter 3), the methodology employed for elicitation of mental models is the RGT. It has been argued that the RGT is very appropriate for analysing the composition of mental models (Hodgkinson, 1997), and that the primary strength of the RGT lies in its inherent flexibility, both from the point of view of data collection and from
that of data analysis (Tan and Hunter, 2002; Hodgkinson, 2005). The repertory grid is a proven technique that minimizes researcher bias compared with other cognitive mapping techniques (e.g., Ginsberg, 1989; Easterby-Smith et al., 1996).

In the analytical papers, data-gathering was actually facilitated by the fact that the researcher belonged to the same community. As such, entrepreneurs exchanged information with colleagues during informal discussions without the threat of the academic taking notes. The entrepreneurs (and incidentally the entrepreneur-researcher himself) were not aware of the fact that some information was used for the data collection of case studies and experiences. Observation as complete participant, a data collection type where the researcher conceals his role, offers the advantage that the researcher has firsthand experience with informants (Creswell, 1994: 150; Patton, 2002: 277). “The researcher (who has access) enters the informants world and through ongoing interaction seeks the informants’ perspectives and meanings” (Creswell, 1994: 161). The deontology of covert research was respected in that no individual names were used, and case studies were disguised, combined and changed. In some other cases, confirmation and authorization were requested.

Definitions
In the following papers, different business ethical and related concepts will be discussed. Most of these concepts cover a large number of distinct although related issues in the business and society field: business ethics, corporate social responsibility, stakeholder management, sustainable development, corporate citizenship, corporate governance. Although many of these social issues in management have different definitions as they can be interpreted narrowly or more broadly, we propose, for each concept, a definition, selected from authoritative handbooks or reports.

Business Ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed (Crane and Matten, 2004: 8).

Corporate Social Responsibility (CSR) involves the standards and the conduct that an organization sets itself in its dealings within an organization and outside with its environment (Lynch, 2006: 367). CSR encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time (Caroll and Buchholz, 2006: 35).
Stakeholder management is the management of the relations with the various stakeholders, “any group or individual that can affect or is affected by the achievement of an organisation’s objectives” (Freeman, 1984: 46).

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987).
Sustainability refers to the long term maintenance of systems according to environmental, economic, and social considerations (Crane and Matten, 2004: 24).

Corporate citizenship is the contribution a company makes to society and the environment through its core business activities, its social investment and philanthropy programmes, and its engagement in public policies (World Economic Forum, 2007).
Corporate governance refers to the method by which a firm is being governed, directed, administered, and controlled and to the goals for which it is being governed. Corporate governance is “doing the right things, and doing the things right” (Tim Melville Ross, 1996).
Corporate governance is concerned with the relative roles, rights, and accountability of such stakeholders groups as owners, board of directors, managers, employees, and others who assert to be stakeholders (Carroll and Buchholtz, 2006: 609).

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CHAPTER 1

IMPERFECTIONS AND SHORTCOMINGS OF THE STAKEHOLDER MODEL’S GRAPHICAL REPRESENTATION

Abstract

The success of the stakeholder theory in management literature as well as in current business practices is largely due to the inherent simplicity of the stakeholder model - and to the clarity of Freeman’s powerful synthesised visual conceptualisation. However, over the years, critics have attacked the vagueness and ambiguity of stakeholder theory.

In this paper, rather than building on the discussion from a theoretical point of view, a radically different and innovative approach is chosen: the graphical framework is used as the central perspective. The major shortcomings of the popular stakeholder framework are systematically confronted with the graphical scheme to illustrate their visual impact.

The graphical illustrations of the imperfections help explain the sometimes-oversimplified generalisation inherent to every graphical model. They also make some interrelationships easier to understand. The analysis demonstrates that, with the tacit but implicit acceptance of simplification of the discussed explanatory elements, Freeman’s framework remains a rather good approximation of reality. Only a few minor changes to the stakeholder model are consequently proposed.

Keywords: stakeholder, stakeholder model, stakeholder theory, strategy, graphical framework, Freeman’s model
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Introduction

The stakeholder model, supported by its powerful synthesised visual presentation, has profoundly influenced management literature as well as current business practices. The very simplicity of its scheme has undoubtedly contributed to the success of the model but has, at the same time, fanned heated debate in academic literature and business circles. Few management topics have generated more publications in recent decades than the underlying notion, the model and the theories surrounding stakeholders (Donaldson and Preston, 1995; Gibson, 2000; Wolfe and Putler, 2002; Friedman and Miles, 2006).

The cognitive power of visual representations

It is widely recognised that schemata, diagrams, visual and graphical representations can help people comprehend their environments (e.g. Meyer, 1991). A single graph or scheme can be worth more than a thousand words: visual representations can simplify and aggregate complex information into meaningful patterns and they make sense of information, impose structure and highlight objects (Worren, Moore & Elliott, 2002; Sullivan, 1998). As a means for conceptualisation, they “allow for simultaneous perception of parts as well as a grasp of interrelations between parts” (Maruyama, 1986 cited in Meyer, 1991: 229). Schemata excel “at revealing the data at several levels of analysis, and in inducing the viewer to think about substance rather than about methodology” (Meyer, 1991: 232). A conceptual framework ideally provides an adequate description of observable phenomena (Key, 1999).

Many of the most popular management models are expressed or supported using a visual format; good examples being Porter’s Five Force framework, Mintzberg’s structuring of organization and Carroll’s four-part model of corporate social responsibilities. Research has demonstrated the preference for narrative and visual knowledge among practitioners over the prevailing prepositional mode in academia (Worren et al., 2002). The considerable impact of Freeman’s stakeholder model amongst practitioners may be explained by the cognitive power of its visual representations.

The framework of the stakeholder model illustrates visually the relationships among different group of actors in and around the firm. However, one should be aware that all synthesised representations, models and schemes are social constructions that inevitably simplify and
reduce reality. This remark is naturally valid for the stakeholder framework (Pesqueux and Damak-Ayadi, 2005). Recent literature on the subject proposes an impressive range of refinements and improvements, but legitimate criticism continues to insist on clarification and emphasises the perfectible nature of the model (see, for example, Jones and Wicks, 1999; Lépineux, 2005).

**Critique of stakeholder theory**

Criticisms of stakeholder theory from philosophical and theoretical standpoints have been thoroughly analysed and widely commented upon in the scientific literature (Donaldson and Dunfee, 1994; Donaldson and Preston, 1995; Weiss, 1995; Sternberg, 1996; Key, 1999; Moore, 1999; Gibson, 2000; Kaler, 2003; Gond and Mercier, 2004). There have also been serious attempts to integrate theory with research from disparate areas to further develop the stakeholder theory (Jawahar and McLaughlin, 2001; Andriof et al., 2002; Venkataraman, 2002).

In this paper, a different and innovative approach has been chosen: rather than building on the discussion from a philosophical or theoretical point of view, the graphical framework will provide the central perspective. The major shortcomings of the popular stakeholder framework will be systematically confronted with the graphical scheme to illustrate their visual impact. Following this analysis, a number of changes to the stakeholder model will be proposed.

**Shortcomings and imperfections in the stakeholder model’s graphical representation**

Besides the discussions on the identification and selection of specific stakeholders, the stakeholder model has been attacked for other flaws. Indeed, some of the original hypotheses have never been fully justified: reality is far more complex than the simplified graphical presentation provided by the model. In the following systematic analysis of the model’s shortcomings, certain imperfections will be discussed: the heterogeneity within stakeholder groups, multiple inclusion or *double appartenance*, the variability in the dependence among stakeholders, the variability in salience and the impact of the various stakeholders, the
existence of a central place within the model, the multiple linkages and the network relationships.
The impacts of these various imperfections on the graphical model will be systematically illustrated in an attempt to enhance the explanation. Curiously, and paradoxically, although the success of the stakeholder model can largely be attributed to the visual power of its graphical presentation, most of the later research and criticisms of stakeholder theories seem to have ignored or at least partly neglected the graphical framework.

1. Heterogeneity within stakeholders and pressure groups

Although the stakeholder model does propose a differentiation into distinct categories or segments within each class, many inconsistencies will strike the observer (Freeman, 1984: 56). The members within a category are not at all homogenous; often quite the contrary, and, so far, stakeholder theory has largely ignored intra-stakeholder heterogeneity (Harrison and Freeman, 1999). Stakeholder groups and subgroups may also have multiple interests and multiple roles (Winn, 2001). As Wolfe and Putler expressed it, “stakeholder group homogeneity focuses on heterogeneity across rather than within stakeholder groups” (2002).

Shareholders, for example, are “far from being a monolithic, homogeneous group, differing widely in terms of interests, involvement and influence capacity” (Winn, 2001). They represent a vast array of subgroups such as financial partners, institutional or private controlling shareholders or marginal small individual investors, with or without representation on the board, long-term or short-term investors and day traders. They are all bundled in one group as they have a common stake, but they do not necessarily share a common objective.

Similarly, other categories of stakeholders are far from homogeneous (Argenti, 1997). For instance, the group labelled employees includes managers, blue- and white-collar workers, production and administrative staff, all with different responsibilities and educational levels. They may have conflicting interests, with both personal and group interests clashing, and they may pursue different agendas and priorities. The supposedly homogenous character of some external stakeholder and pressure groups is similarly at odds with reality. Naturally, within each constituency and pressure group, some communality does exist as well as shared objectives within subgroups and they may well have more in common than what divides them. This situation is represented in Figure 1 below.
Figure 1. Heterogeneity within stakeholders

2. Multiple inclusion\(^2\) or *double appartenance*

Besides the heterogeneous character of stakeholders (or the lack thereof), some specific cases of *double* (or multiple) *appartenance* require attention. Most individuals are likely to belong to more than one stakeholder group at the same time (see Figure 2) (Jansson, 2005). They may simultaneously occupy several roles (Freeman, 1984: 58; Post, Preston and Sachs, 2002: 23; Pesqueux et al., 2005). Stakeholders typically form groupings which are subsets of the clusters noted earlier, or may even cut across them (Avgeropoulos, in Cooper and Argyris, 1998: 610). A manager is an employee, but can also be a shareholder; an employee is usually also a member of the local community. A stakeholder may well be active as a member of a pressure group; the employee as a member of an action committee, association or school board in the local community, or a member or supporter of an NGO such as the Red Cross, Greenpeace or Amnesty International. The government is also a complex stakeholder since it provides infrastructure and levies taxes while simultaneously enacting laws and imposing regulations.

It has been argued that the analysis of stakeholder positions should be organised in terms of the specific stakeholder role being played at any given moment in time (Pesqueux et al., 2005).
3. Differences in dependence among stakeholders

Carroll and Buchholz (2006: 65, 73, 83) stress the two-way interaction between stakeholders and the company. The stakeholder model graphically represents the relationship between a stakeholder and the firm by means of a bi-directional arrow. These arrows not only show a relationship, they also express dependence and reciprocity. The “stakes of each are reciprocal, since each can affect the other in terms of harms and benefits as well as rights and duties” (Evan and Freeman, 1988: 101). However, all relationships are not equal: the intensity of the interaction may differ in each direction, depending on power and sensitivity to influence (Post, Preston and Sachs, 2002: 22-24; Phillips, 2003: 166). The intensity can be viewed as a point on a continuum, and this could be expressed by differences in the width of the arrow - just as in a sociogram – with, in addition, the possibility of different widths in either direction (see Figure 3).
4. The variability in salience and the impact of the various stakeholders

In a comment on the basic stakeholder model it was observed that “all stakeholder relationships are depicted in the same size and shape and are equidistant from the “black box” of the firm in the centre” (Donaldson and Preston, 1995: 68). However, the impacts of the various stakeholders are not equal: not all carry the same weight, and stakes and risks may vary considerably. There are various categories of stakes and different degrees of risk (Clarkson, 1994: 7). The stakeholders also vary in their power or influence. The density of interconnectedness varies (Rowley, 1997). The presence of some stakeholders represents a real asset, whereas others will be seen as a constraint. Mitchell et al. (1997) viewed stakeholder salience as a matter of multiple perceptions, and others see a constructed reality rather than an ‘objective one’ (Neville et al., 2004).

One of the interpretations of the stakeholder theory incorrectly sees it as arguing that a firm should take into account the aspirations of all its stakeholders and that they must all be treated equally irrespective of the fact that some clearly contribute more than others to the organisation (Gioia, 1999; Marcoux, 2000; Phillips, 2004). However, stakeholder management does not imply that executives have to direct equal amounts of attention to all their constituents (Dentchev and Heene, 2003): within the stakeholder categories, the level of attention and obligation can vary with each attribute operating on a continuum, or series of continua, rather than as a binary, present or absent, term (Phillips, 2003a; Mitchell et al., 1997; Neville et al., 2004).

The original graphical representation of the stakeholder model may be at the root of this misinterpretation since, for reasons of simplicity and clarity, it allotted to each stakeholder category an identical oval. Perhaps, to better reflect reality, one should represent the model with ovals of different sizes and intensities that reflect the relative importance of the various stakeholder categories. In Figure 4, the size of the oval reflects the size of the group, while the salience of the stakeholders is indicated by the intensity of the shading: large ovals have more members than the smaller ovals; the dark ovals are more salient than the light ovals.
5. The firm’s central place in the model

The firm lies at the hub of Freeman’s stakeholder model and, as a consequence, the stakeholders appear to have relationships with the firm but, in reality, they deal with representatives of the firm: with its management. Managers form the main group of stakeholders who enter into contractual relationships with most or all stakeholders (Jansson, 2005). Their position lies “at the centre of the nexus of contracts” (Hill and Jones, 1992). However, their situation is, due to agency problems, seemingly paradoxical (Goodpaster, 1991) since their mission is to manage the firm in the interests of the stockholders: “the manager is both identifier and interpreter, thus the crucial mediator of stakeholder influence” (Winn, 2001). Their responsibility is “to reconcile divergent interests by making strategic decisions and allocating strategic resources in a manner that is most consistent with the claims of the other stakeholder groups” (Hill and Jones, 1992). As a consequence, the central hub of the model should more logically contain the senior management of the company and not the firm itself. This calls for a modification of Freeman’s model: the central oval should represent management rather than the firm, a variant already envisaged in the functional application of the stakeholder model in Freeman’s original book.

Further, besides the managers, other important subgroups can be identified in this core category: these being the CEO and the board members who, in large companies, clearly play distinct and central roles. To visualise the concept, a third dimension could be added to the
model, to form an atom-like model. The management takes the central place with, above them, on a second layer the CEO. Multiple arrows show the CEO’s relationships with most of the stakeholders. Above the CEO, on a still higher third level, are the board members, who principally have relationships with the shareholders, but often also with other stakeholders. In some cases, they will even represent them as ‘independent’ directors.

![Diagram of the expanded hub of the model](image)

Figure 5. The expanded hub of the model

To simplify the graphical representation, the three levels could be reduced by placing the CEO in the centre of the central oval with the management. Depending on the situation, the central oval could also contain the board of directors or, if they are sufficiently important, they could be represented as a distinct stakeholder (Figure 5b). In this way, the format of the framework would remain as a manageable two-dimensional scheme. The key change is the replacement of the firm in the central oval of Freeman’s model by a combination of management and the CEO.
6. Multiple linkages

The original graphical scheme represented the firm as a nexus of contracts with bilateral relationships emanating from the centre (the hub company) to the various stakeholders (Hill and Jones, 1992; Post, Preston and Sachs, 2002a). “It is not usual to draw links between stakeholders” (Waxenberger and Spence, 2003). This simplified representation suggests that the stakeholders have no relationships with one another. In reality, there are a series of multilateral contracts among the stakeholders as indicated by Figure 6 (Williamson, 1985; Key, 1999). Both the network model and the new stakeholder view of the firm, respond to this criticism (Rowley, 1997; Post, Preston and Sachs 2002). Insights from other disciplines and theories such as modern Darwinism reinforce the multilateral, interconnected web of relationships (Radin, 2004: 301). Many external stakeholders, such as the media and competitors, are seen as having important and direct influences on other stakeholders of the firm (Phillips, 2003: 127).
7. A network model of stakeholder theory

It is also important to note that every stakeholder has its own subset of stakeholders, with associated obligations and influences, and, since this will influence its relationship with the company at the centre of the hub, these in turn become stakeholders of the hub company. This gives rise to a network model of stakeholder theory as shown in Figure 7 (Rowley, 1997; Key, 1999). A stakeholder of one firm can also be a stakeholder of other firms, with its own stakeholder network. A good example is a supplier who delivers to several competitors. A company can also come under different categories in its relationships with other firms: a supplier of one firm can be a customer of another. Stakeholders can also operate at different levels and sub-levels. A stakeholder of the hub firm can have its own sub-stakeholders such as subcontractors at lower levels in the supply chain, plus there are distribution agents and wholesale organisations as well as the final customer. Other examples of such ‘indirect’ stakeholders include individual investors in pension funds, donors to NGOs and even the families of employees.
Figure 7. The network model of stakeholder theory - source: Rowley (1997)

**An integrated model**

The above review of the common criticisms levelled at the alleged shortcomings of the original stakeholder model would enable us to develop, through gradual adaptations, a new framework. A revised model could be developed by superimposing the various graphical outlines discussed above. This would result in a scheme that should be closer to reality. However, its complexity would make it opaque and confusing, and the model would lose its pedagogical value. Indeed, the success of the stakeholder model has been largely due to its visual simplicity and power.

The analysis demonstrates that, albeit with the tacit and implicit acceptance of the simplifications outlined above, Freeman’s framework still stands as a rather good approximation of reality. The only change that I would explicitly introduce is the replacement of ‘the firm’ at the hub by its management and, if appropriate, with the board of directors as a distinct stakeholder. Although this is only a minor change in form, it constitutes a major change in content as it affects the fundamentals of the model: if the central oval contains the management at the nexus of contracts, then the firm envelopes all the stakeholders. In this approach, the firm encompasses the whole framework. This view is closer to those definitions
that see the corporation as a system of primary stakeholder groups or as a complex network of
constituencies (Clarkson, 1995). It is also more coincident with the definition of organizations
as coalitions of individuals and organized sub-coalitions (Cyert and March, 1963: 27).

The above review has also clearly demonstrated that the basic model can act as a universal
framework for analysis. Given that the stakeholder approach is about concrete “names and
faces” (Freeman and McVae, 2001), its application to any individual company is specific to
that particular situation. With such a specific and detailed graphical scheme, completely
different pictures will emerge for various types of companies. With a multinational company,
pressure groups such as unions, consumer groups and environmental activists, and also
shareholders’ representatives, will play a more determinant role than in a small or medium-
sized enterprise. Conversely, in a small family company, its employees, its banker and the
local community will play more important roles than the wider world.

Other shortcomings of the stakeholder framework

Besides the imperfections of the graphical representation of the stakeholder framework
illustrated in the previous section, the stakeholder model is seen as having a few other
shortcomings.

1. The levels of a firm’s environment
Stakeholder theory is seen as inadequately addressing the environment surrounding a firm
(Key, 1999). The model suffers a problem of delimitation with the various levels not clearly
defined. Stakeholders around the firm, especially those in the immediate business
environment and those in the broader environment, are somewhat confused. Post, Preston and
Sachs (2002) have reacted to this criticism by proposing a new graphical model, the new
stakeholder view of the firm, referred to here as the PPS view, with three concentric rings
around the corporation representing, successively, the resource base, the industry structure
and the social political arena (ibid: 8). This PPS view extends the graphical display of the
interface between a business and selected stakeholders with which it has social relationships
(Carroll and Buchholtz, 2006: 9, Figure 1.2).
2. The ambivalent position of pressure groups and regulators

Pressure groups belong to the set known as derivative stakeholders. The legitimacy of derivative stakeholders is derived from their ability to affect the organisation based on obligations owed to others (Phillips, 2003: 125-126). Sometimes, pressure groups have been collectively represented as a separate, fully-fledged stakeholder in an additional oval, or sometimes even in individual additional ovals. In reality, pressure groups vary in nature, size and importance. They represent a number of distinct categories of stakeholders. Some have evolved into “institutional structures that serve the function of monitoring and enforcing the terms of the implicit or tacit contracts” (Hill and Jones, 1992). Although they do not have a real stake, they can have a negative influence on a company through their actions. They do not enjoy a real relationship with the firm, and in most cases are independent of it. Their pressure is exerted in one direction, whereas the essence of the original stakeholder model was mutual interdependence. This is the main reason why they have been, over time, presented differently: in a separate circle, on a second layer, with unidirectional arrows, or outside the box as in Freeman’s latest adaptation. A detailed analysis clearly shows that pressure groups impinge on various functional areas of the firm. Their impact is generally channelled through one of the more obvious ‘genuine’ stakeholders of the firm. Investor funds represent shareholders, auditors monitor and control the accounts on behalf of the shareholders and unions represent the employees. They can all assume the role of proxy or intermediary for pressure groups.

A category often closely linked to pressure groups is made up of regulators who, although they are mostly situated outside the company, can exert a significant influence. The regulator par excellence is the state and the law, with its agencies, commissions and other authorities. Regulators are often independent, and tend to be seen as a constraint rather than as a pressure group. Many observers prefer to consider them as non-stakeholders and suggest placing them in a separate group.

3. The dynamic aspect of stakeholders

The model in the form of a diagram gives a static impression of the situation. It can create a false illusion that the categories are fixed. Many scholars seem to have overlooked the fact that Freeman warned about this important ‘simplification’ of the stakeholders’ map in his seminal book (1984: 57). Relationships between a firm and its stakeholders change over time with every stakeholder role being “situation and issue specific, and thus temporary” (Winn,
2001; Kochan and Rubinstein, 2000; Friedman and Miles, 2002; Phillips, 2003a) or, put in other words, pressures, threats and opportunities in a corporation’s environment vary with the lifecycle stages (Jawahar and McLaughlin, 2001). Stakeholder status is thus subject to change as it reflects the urgency of the claim (Phillips, 2003a). Press coverage and the media can suddenly highlight a claim - as a serious incident, a demonstration or a boycott - from a specific pressure group in such a manner that a secondary stakeholder can, overnight, become a primary stakeholder (Carroll and Buchholtz, 2006: 71).

Conclusions

It is interesting to see that while the graphical representation of the stakeholder model has generally been adopted by most researchers and has contributed to the acceptance of the stakeholder concept by the business community, it has hardly been used in most of the extensive debate and critique to be found in academic literature. The systematic confrontation of most of the existing criticisms with the graphical model has provided an insightful extension to the existing stakeholder literature. This innovative approach has helped to clarify many of the misunderstandings and misinterpretations that have threatened to undermine the model. The graphical illustrations of the imperfections help explain the inevitable simplifying generalisations inherent to every graphical model. They also make some of the interrelationships easier to understand.

Keeping these clarifications in mind, Freeman’s model can still be seen as a good approximation to reality. The proposal for minor adaptations to his graphical representation can hopefully contribute to silencing a number of the criticisms and objections, and so bring the focus back to the stakeholder concept’s essence: the managerial implications. Nevertheless, the stakeholder view of the corporation in the model proposed by Post, Preston and Sachs brings a valuable and complementary insight into the corporation in its wider environment, and one that is more in line with the traditional theory of the firm.

Future work on the stakeholder framework should attempt to integrate the issues surrounding the level of the firm’s environment in Freeman’s model, and should concentrate on the ambivalent position of pressure groups and regulators. However, in order to retain clarity, the synthesised representations of the stakeholder model, and of the stakeholder view of the firm, need to be preserved. Further, any modifications to the stakeholder framework to bring it
closer to reality should involve only minor amendments and minimal changes in its design if
the visual power of the widely-accepted framework is to be maintained.

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2 The term ‘multiple inclusion’ was provided by an anonymous reviewer as an alternative to the French ‘double appartenance’.

3 The suggestion to combine size and salience came from another anonymous reviewer.

4 The central hub in Freeman’s model (1984:55) is the firm. Curiously, when one goes back to his in-depth analysis leading to the implementation of the stakeholder approach for strategic management, this central place is filled by the manager for the traditional business disciplines of management (p.218), by the marketing manager for marketing (227), by the financial manager for finance (229), etc., while the CEO fills the central place in the illustration of the role of the CEO (241) (Freeman, 1984, Chapter VIII).
CHAPTER 2

THE STAKEHOLDER MODEL REFINED

Abstract

The popularity of the stakeholder model has been achieved thanks to its powerful visual scheme and its very simplicity. Stakeholder management has become an important tool to transfer ethics to management practice and strategy. Nevertheless, legitimate criticism continues to insist on clarification and emphasises the perfectible nature of the model. Here, rather than building on the discussion from a philosophical or theoretical point of view, a different and innovative approach has been chosen: the analysis will keep the graphical framework clearly in focus. Following a brief review of the criticisms found in the literature, the various definitions and the different categorisation criteria are analysed. The ambiguity and the vagueness of the stakeholder concept are discussed from managerial and legal approaches. Then, the impacts of two major shortcomings of the popular stakeholder framework are examined: the level of the firm’s environment, and the ambivalent position of pressure groups and regulators. Working pragmatically, with a focus on the managerial and organisational perspective, an attempt is made to clarify the categorisations and classifications by introducing new terminology. The analysis will finally lead to a proposed upgraded and refined version of the stakeholder model.

Keywords: stakeholder, stakeholder model, stakeholder theory, strategy, graphical framework, Freeman’s model, pressure groups, stakeholder critique, business ethics.
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**Introduction**

Few management topics have generated more debate in recent decades than the underlying notion, the model and the theories surrounding stakeholders (Donaldson and Preston, 1995; Gibson, 2000; Wolfe and Putler, 2002; Friedman and Miles, 2006). Stakeholder theory can be seen as “a genuine theory though a perfectible one” (Lépineux, 2005). The visual power of the stakeholder model and its very simplicity are seen as contributing to the success of the stakeholder concept (Author, 2007). Stakeholder ‘management’ has become an important discourse in the translation of business ethics to management practice and strategy (Waxenberger and Spence, 2003: 242).

The criticisms of stakeholder theory from philosophical and theoretical standpoints have already been thoroughly analysed and widely commented upon in the scientific literature (Donaldson and Dunfee, 1994; Donaldson and Preston, 1995; Weiss, 1995; Sternberg, 1996; Key, 1999; Moore, 1999; Gibson, 2000; Kaler, 2003; Gond and Mercier, 2004). There have also been serious attempts to integrate theory with research from disparate areas to further develop the stakeholder theory (Jawahar and McLaughlin, 2001; Andriof et al., 2002; Venkataraman, 2002).

**Methodology and structure**

In this paper, a different and innovative approach has been chosen: rather than building the discussion purely from a philosophical or theoretical point of view, the analysis will keep the graphical framework firmly in perspective.

A brief review of the criticisms levelled at the model is followed by a definition of stakeholders and their categorisation. Then, a discussion of the cognitive power of visual representation leads on to a description of Freeman’s stakeholder model. The ambiguity and the vagueness of the stakeholder concept are explored from managerial and legal standpoints. Next, the impact of two perceived major shortcomings of the popular stakeholder framework are examined: i.e. the level of the firm’s environment, and the ambivalent position of pressure groups and regulators. Working pragmatically, with a focus on the managerial and organisational possibilities, an attempt is made to clarify the categorisations and classifications by introducing new terminology. The analysis finally leads to a proposition for
an upgraded and refined version of the stakeholder model. The advantages of the new model are explained.

A review of the criticisms: confusion surrounding stakeholder definitions and models

An overview of the literature on stakeholder theory creates the impression that the concepts surrounding the stakeholder are referred to in confusing ways (Stoney and Winstanley, 2001; Lépineux, 2005; Egels, 2005). Indeed, there are clear ambiguities in the literature on the basic concepts of the stakeholder model, the stakeholder theory, the stakeholder approach, stakeholder analysis and stakeholder management. The stakeholder approach has even been seen as “a powerful heuristic device, intended to broaden management’s vision of its roles and responsibilities beyond the profit maximisation function to include interests and claims from non-stockholding groups” (Mitchell, Agle and Wood, 1997).

There is even a lack of clarity and consistency in the definition of a stakeholder, and indeed of a stake (Waxenberger and Spence, 2003). Further, there are some fundamental inconsistencies between some definitions and the graphical representation of the model. Finally, there is insufficient rigour in applying the framework to managerial, organisational and strategic issues: “much of stakeholder literature is prone to magnifying, blurring and/or neglecting” (Wolfe and Putler, 2002).

The stakeholder theory, as with any new theory, suffers from numerous shortcomings and imperfections “owing in part to vagueness, ambiguity and breadth of the stakeholder theory itself” and in part to its “wide-ranging intuitive appeal, critiques are often implicit” (Phillips, Freeman and Wicks, 2003). Similar sentiments were expressed by Orts and Strudler (2002), while Hall and Vredenburg (2005) note that “stakeholder ambiguity is difficult to manage because it is idiosyncratic and context-specific”.

In their discussions, some scholars have also widened the range of applications. Several authors have treated the stakeholder construct as the foundation for a theory of the firm, and as a framework for use in the field of business and society (Rowley, 1997). Not only philosophers and jurists but also political scientists have entered the debate, broadening the theory to cover issues for which it was never intended and in so doing providing ammunition
for its detractors (Freeman and Evan, 1990; Langtry, 1994; Weiss, 1995; Argenti, 1997; Stoney and Winstanley, 2001; Freeman, 2003; Kaler, 2003). Some scholars argue that the stakeholder theory, as it has been presented, has no solid basis: neither in the economic theory of the firm (Key, 1999) nor in traditional ethical theories (Dunn, cited in Argandona, 1998). Others consider “it is lacking in its normative foundations” (Waxenberger and Spence, 2003), and therefore see it as a weak theory (Lépineux, 2005), or merely as “a science tradition” (Weaver and Trevino, 1994).

The debate has also introduced confusion concerning the implications for management and governance (Frooman, 1999). It is seen as important to recognise the limitations of the stakeholder theory so as “to prevent the theory [being] threatened with meaninglessness” (Phillips, 1999). Notwithstanding the academic debate, which will hopefully provide further clarifications and delimitations, there has been a fairly general consensus that the stakeholder concept has the potential to deliver a theory of the organisation with practical usefulness for management (Donaldson and Dunfee, 1994; Orts and Strudler, 2002; Jones and Wicks, 1999; Freeman, 1999; Preston and Donaldson, 1999; Key, 1999; Harrison and Freeman, 1999; Attas, 2004).

The definitions of stakeholders and their categorisations

A stakeholder refers to any individual or group that maintains a stake in an organisation in the way that a shareholder possesses shares. From the numerous definitions, two dichotomous views emerge (Kaler, 2002) - the ‘claimant’ definition and the ‘influencer’ definition of what it is to be a stakeholder - plus the combinatory definition: any group or individual that “can affect or is affected by the achievement of an organisation’s objectives” (Freeman, 1984: 46). This, now classical, definition has become the most accepted of the definitions of a stakeholder, and has greater precision than the shorter version “those who can affect or can be affected by the firm”.

The literature includes many attempts at classifying stakeholders using various criteria, (Frooman, 1999; Winn, 2001; Phillips, 2003a; Pesqueux et al., 2005): primary versus secondary, direct or indirect, generic versus specific, legitimate versus derivative, strategic and moral, core, strategic and environmental stakeholders, etc.
Phillips (2003a) distinguishes normative stakeholders, derivative stakeholders and dangerous or dormant stakeholders. Normative stakeholders are those stakeholders to whom the organisation has a moral obligation: an obligation of stakeholder fairness (Phillips, 2003a). Derivative stakeholders are those groups or individuals who can either harm or benefit the organisation but to whom the organisation has no direct moral obligation as stakeholders: these include competitors, activists, terrorists and the media (Phillips et al., 2003), and also ‘dangerous’ or ‘dormant’ stakeholders such as blackmailers or thieves (Jensen, 2002). These final categories can affect the corporation but have no legitimate relationship with it (Mitchell et al., 1997; Savage et al., 1991; Phillips, 2003a).

An additional compelling basis for classification considers the level of the environment: the resource base, the industry structure and the social political arena (Post, Preston and Sachs, 2002).

The cognitive power of visual representations

Stakeholder theory has been complemented by a graphical framework: Freeman’s stakeholder model. Schemata, diagrams, visual or graphical representations, are “data structures for expressing knowledge” (Lohse et al., 1994: 37). A single graph or scheme can be worth a thousand words. A conceptual framework ideally provides an adequate description of observable phenomena (Key, 1999). Schematic graphical representations make sense of information, impose structure and highlight objects (Sullivan, 1998). Whereas the complexity and subtlety of some meanings can be near impossible to put into words (Meyer, 1991; Kress and van Leeuwen, 1996), visual representations can simplify and aggregate complex information into meaningful patterns (Worren, Moore and Elliott, 2002). Diagrams can help people comprehend their environments (Anderson, 1980; Meyer, 1991). Schemata excel “at revealing the data at several levels of analysis, and in inducing the viewer to think about substance rather than about methodology” (Meyer, 1991: 232). Visual representations as a means for conceptualisation “allow for simultaneous perception of parts as well as a grasp of interrelations between parts” (Maruyama, 1986 cited in Meyer, 1991: 229).

Many of the most popular management models are expressed as, or supported by, a visual format; reputed examples being Porter’s Five Forces framework (Worren et al., 2002) and Mintzberg’s structuring of organization. Research has demonstrated a preference for narrative
and visual knowledge among practitioners over the prevailing prepositional mode found in academia (Worren et al., 2002). The considerable impact of Freeman’s stakeholder model amongst practitioners may to a certain extent be based on the cognitive power of visual representations.

**Freeman’s stakeholder model**

The framework of the stakeholder model illustrates visually the relationships among the various groups of actors in and around the firm. Based on the expansive literature on organisation theory and corporate strategy, and on a vast amount of research and observation, Freeman conceptualised his view of the firm in a new and rather simple concept: the stakeholder model expressed through a powerful visual synthesis.

The model was possibly inspired by a method drawn from the sociological sciences, the sociogram, which visualises the frequency of interactions between individuals or groups. The design of the stakeholder model was influenced by the traditional input-output model of managerial capitalism in which the company is related to only four groups: suppliers, employees and shareholders providing the basic resources for the company; which are transformed into products or services for the fourth group, namely clients. Freeman added other constituencies that are affected by the firm’s activities and saw the corporation as the centre of a series of interdependent two-way relationships (Crane and Matten, 2004: 50-52). Freeman originally presented the stakeholder model as a map in which the firm is the hub of a wheel and stakeholders are at the ends of spokes around the rim (Frooman, 1999). It consisted of one central circle, or oval, representing the firm, surrounded by a variable number of other circles or ovals with bi-directional arrows towards and from the central oval, each oval representing a group of stakeholders. Freeman’s original framework included eleven stakeholders on a non-exhaustive basis (Freeman, 1984: 25). The most common version of the model – as represented in Figure 1 - includes seven stakeholders. To the elements of the managerial capitalism model - shareholders (or financiers), customers, suppliers and employees - Freeman added competitors plus two important external stakeholders: the government and the communities.

**FIGURE 1.**
The original stakeholder model – Freeman (1984)
Later, Freeman and others added further groups of stakeholders, most notably pressure groups. In a later version of the model, Freeman (2003) reduced the scheme to five internal stakeholders: financiers, customers, suppliers, employees and communities (dropping competitors), placed a box around these five stakeholders, and introduced six external stakeholders: governments, environmentalists, NGOs, critics, the media and others, without arrows linking these to the central hub. The adapted version is represented in Figure 2.

**FIGURE 2.**
The adapted version of the stakeholder model – Freeman (2003)
The ambiguity and vagueness in the scope of the stakeholder concept

However, one should be aware that all synthesised representations, models and schemes are social constructions that inevitably simplify and reduce reality. This remark is naturally valid for the stakeholder framework (Pesqueux and Damak-Ayadi, 2005). Recent literature on the subject proposes a range of refinements and improvements, or at least implicit explanatory assumptions, to enable the correct interpretation of the framework to be made (Author, 2007). Nevertheless, legitimate criticism continues to insist on clarification and emphasises the perfectible nature of the model (see, for example, Jones and Wicks, 1999). The stakeholder model is seen as suffering from vagueness in scope and ambiguity due to the possible interpretations of the basic stakeholder concept in either narrow or broad senses (Mitchell et al., 1997; Orts and Strudler, 2002; Phillips, 2003:120; Hansen et al., 2004). The different understandings are founded in the differences between managerial and legal interpretations of the stakeholder concept. They have imperceptibly been introduced through the various underlying definitions of a stakeholder from a claimant definition “those without whom the organisation could not survive” to an influence definition “those who can affect the firm or be affected by it”. Even the latter, now classical, definition includes a certain ambiguity: those who can affect a firm are not always the same as those who can be affected by it.

The legal interpretation - reinforcing the philosophical analysis - rests upon rights and contracts: stakeholders have claims, firms have obligations and duties. Conversely, the managerial approach, originating from organisation theory and sociology, is more pragmatic and emphasises the relational aspects between stakeholders and the firm (Pesqueux et al., 2005). These two opposing visions of the stakeholder concept reflect totally different issues. The continuously evolving mix, juxtaposition and combinatory use of both definitions (Kaler, 2002) has increased the perception of vagueness in the model - with considerable consequences.

The definition of a stakeholder using the broad view, as any individual or group that can “affect or be affected”, leads to the need to pay attention, care and respect to all such stakeholders who then have to be taken into account. The legal interpretation - with a more abstract focus - leads to a narrower view of the stakeholder concept, with a selected number of legitimate stakeholders linked through a contractual relationship, and all such relationships having a comparable degree of intensity. Moreover, the claimant and influencer definitions
are not mutually exclusive: a stakeholder that affects, or that can be affected by, can also have a claim; while a stakeholder that has no claim can still affect or be affected. There is no implication of, or necessity for, reciprocal impact (Mitchell et al., 1997). Using the claimant definition, competitors, for instance, would have to be excluded as stakeholders whereas, on the basis of the influence definition, they should be integrated since they can harm or benefit the firm (Phillips, 2003:133; Spence et al., 2001). From a strategic perspective, it is essential to include them in a strategic analysis.

The managerial interpretation implies multiple relationships with a much greater degree of variation in the intensity of their influence or power. It is a broad view of the stakeholder concept, with a pragmatic focus on strategic analysis and management implications. However, as some opponents like to point out, the evolution in the definition of stakeholders represents a dramatic increase in the number of stakeholders (Sternberg, 1996). Due to globalisation and technological evolution, with improved communications and information systems, virtually everyone and everything, everywhere, can “affect or be affected” by the decisions and actions of a business enterprise (Sternberg, 1996; Metcalfe, 1998; Orts and Strudler, 2002). Consequently, virtually everyone and everything should be considered as a stakeholder. This view adds little value to the theory (Phillips, 2003:121); and, in any case, managerial time constraints and limited cognitive capacity force a simplification and reduction that counterbalances the comprehensiveness and usefulness of the theory (ibid.:129).

The ambiguity and vagueness in identifying stakeholders has largely resulted from the mixing of two interpretations. This ambiguity, and also a certain ambivalence, has been amplified by a combinatory use of stakeholder definitions (Kaler, 2002) taking elements of the broad view with characteristics of the narrow view, and vice versa. What happened was that, in the academic discussion, many theorists argued with the claimant definition in order to reduce the number of stakeholders on a theoretical basis, but used the influence definition to extend the list on pragmatic arguments from a strategic perspective. The narrow view attempts “to define relevant groups based on their direct relevance to the firm’s core economic interests”, while the broad managerial view’s purpose is to collect “knowledge of actual and potential claimants in the firm’s environment” (Mitchell et al., 1997). The major outcome of this somewhat artificial debate has been to increase ambiguity and confusion and so undermine the whole stakeholder concept. With the introduction of a distinction between normative and derivative legitimacy, Phillips was able to reconcile “the two often opposing streams of
stakeholder research” and to “bring together both moral philosophical and strategic conceptions of stakeholder theory” (Phillips, 2003:123).

Table 1 summarises the differences, and at the same time the complementarities, between the managerial and legal approaches to the stakeholder concept.

TABLE 1.
The managerial versus the legal approach to the stakeholder concept

<table>
<thead>
<tr>
<th>Interpretations</th>
<th>MANAGERIAL</th>
<th>LEGAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis</td>
<td>Sociological</td>
<td>Philosophical</td>
</tr>
<tr>
<td>Basis of definition</td>
<td>Relation</td>
<td>Right</td>
</tr>
<tr>
<td>Definition</td>
<td>Influencer</td>
<td>Claimant</td>
</tr>
<tr>
<td>Characteristics</td>
<td>Attention</td>
<td>Claim</td>
</tr>
<tr>
<td></td>
<td>Care</td>
<td>Contract</td>
</tr>
<tr>
<td></td>
<td>Influence</td>
<td>Duties</td>
</tr>
<tr>
<td>Respect</td>
<td></td>
<td>Obligations</td>
</tr>
<tr>
<td>Focus</td>
<td>Pragmatic</td>
<td>Abstract</td>
</tr>
<tr>
<td>Number</td>
<td>Many stakeholders</td>
<td>Select number</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>Derivative</td>
<td>Normative</td>
</tr>
<tr>
<td>Relevance</td>
<td>Knowledge of firm’s environment</td>
<td>Firm’s core economic interests</td>
</tr>
<tr>
<td>Scope</td>
<td>Broad View</td>
<td>Narrow view</td>
</tr>
<tr>
<td>Perspective</td>
<td>STRATEGY</td>
<td>THEORY</td>
</tr>
</tbody>
</table>

The analysis of the graphical stakeholder model scheme

Numerous articles have been written on stakeholder identification and categorisation. However, very few scholars go on to link their analysis to the graphical scheme, and thus avoid analysing the inconsistencies that may exist between their definitions and the graphical model. The present analysis focuses on this overlooked aspect of stakeholder theory.
Confronting Freeman’s graphical scheme with the two definitions – narrow versus broad, or rights versus relationships – leads to interesting developments. The number of stakeholders in the original scheme is not restricted, although it is generally kept low for reasons of clarity. The outlaying ovals are linked to the firm with bi-directional arrows symbolising a relationship, or by a unidirectional arrow representing a claim. Only Phillips (2003: 127) has introduced a distinction between the legitimate and derivative stakeholder relationships in the graphical representation.

Much of the vagueness and ambiguity vanishes when one combines the definitions of a stakeholder with the graphical representation since they were designed to go hand in hand. Freeman had deliberately chosen a broad view, one based on relationships with many stakeholders, in full concordance with his definition as those who “can affect or can be affected by the firm”. His approach was essentially managerial (Freeman, 1984: 43), whereas much of the subsequent discussion originates from an opposing legal approach and its narrow view. Seemingly, many philosophical theorists have neglected the link between definition and scheme. They seem also to have neglected the origins of the theory and the fact that stakeholder identification was never proposed as any more than the first step in a strategic analysis.

The strategic and management origins of the stakeholder model
The stakeholder model was originally conceived as a strategic instrument for organisations to broaden their vision of management and to turn their attention to the participants in the organisation beyond the shareholders and to take into account the interests of the surrounding business community and the socioeconomic region (Freeman, 1984; Mitchell et al., 1997). Stakeholder theory is seen as “a theory of organisational strategy and ethics” (Phillips, Freeman and Wicks, 2003). A few articles (Waxenberger and Spence, 2003; Gond and Mercier, 2004; Heene and Dentchev, 2006) have recently recalled attention to the instrumental rationale for stakeholder management from a strategic perspective, regardless of the moral or ethical considerations.

Shortcomings and imperfections in the stakeholder model’s graphical scheme
Besides the discussions on the identification and selection of specific stakeholders, the model has been attacked for other flaws. Indeed, some of the original hypotheses are not fully justified: reality is far more complex than the simplified graphical presentation provided by
the model. A systematic analysis of some of the model’s major shortcomings has been illustrated using the graphical model (Author, 2007). The discussed imperfections are: the heterogeneity within stakeholders groups, the multiple inclusion or double appurtenance, the variability in the dependence among stakeholders, the variability in salience and the impact of the various stakeholders, the central place within the model, the multiple linkages and the network relationships.

The survey concluded that, with the implicit acceptance of simplification along the aforementioned explanatory elements, Freeman’s model could still be accepted as a valuable approximation of reality. The analysis suggested only one change: the central oval should represent the management, including the CEO and the board of directors, rather than the firm. Although a minor change in form, it represents a major change in content, as it reaches to the fundamentals of the model. If the central oval contains the management at the nexus of contracts, the firm encompasses all stakeholders. In this approach, the firm encircles the whole framework. This view corresponds more closely with definitions of the corporation as a system of primary stakeholder groups (Clarkson, 1995) or as a complex network of constituencies. It also better coincides with the definition of organizations as coalitions of individuals and organized sub-coalitions (Cyert & March, 1963: 27).

Additional imperfections of the stakeholder model

Further, the stakeholder model can be seen as presenting a few additional shortcomings. The different levels of the environment are not addressed as they are in other models. The ambivalent position of pressure groups and regulators raises other concerns (Author, 2007). Finally, the model, if it is to be a useful tool, needs to offer greater help in identifying and selecting stakeholder groups.

The levels of a firm’s environment

Stakeholder theory is seen as inadequately addressing the environment surrounding a firm (Key, 1999). The model suffers a problem of delimitation with the various levels not clearly defined. Stakeholders around the firm, especially those in the immediate business environment and those in the broader environment are somewhat confused. Post, Preston and Sachs (2002a: 55, Figure 2.1) have responded to this objection by proposing a new graphical model, the new stakeholder view of the firm, referred to here as the PPS view, with three
concentric rings around the corporation, representing successively the resource base, the
industry structure and the social political arena. This PPS view is an extension of the
graphical display of the interface between a business and selected stakeholders with which it
has social relationships (Carroll and Buchholtz, 2006: 9, Figure 1-2).

The ambivalent position of pressure groups and regulators
Pressure groups belong to the set of derivative stakeholders. The legitimacy of the derivative
stakeholders is derived from their ability to affect the organisation and is based on obligations
owed to others (Phillips, 2003: 125-126). Sometimes, pressure groups have been collectively
represented as a separate, fully-fledged stakeholder, in an additional circle, or sometimes even
in individual additional circles. In reality, pressure groups vary in nature, size and importance.
They represent a number of distinct categories of stakeholders. Some have evolved into
“institutional structures that serve the function of monitoring and enforcing the terms of the
implicit or tacit contracts” (Hill and Jones, 1992). Although most pressure groups do not have
a real stake, they can negatively influence the company through their actions. They do not
enjoy a real relationship with the firm, and in most cases are independent of business. Their
pressure is exerted in one direction, whereas the essence of the original stakeholder model
was interdependence. This is the main reason why they have been, over time, presented
differently: in a separate circle, on a second layer, with unidirectional arrows, or outside the
box as in Freeman’s latest adaptation. A detailed analysis clearly shows that pressure groups
operate in various functional areas of the firm. Their impact is generally channelled through
one of the more obvious stakeholders to the firm. Investor funds represent shareholders,
auditors monitor and control the accounts on behalf of the shareholders, and unions represent
the employees. They can all assume the role of proxy or intermediary for pressure groups.

A category closely linked to pressure groups is the regulators. Although these are mostly
situated outside the company, they exert a significant influence. Regulators are often
independent, and their impact tends to be seen as a constraint as is the case with a pressure
group. Many observers prefer to consider them as non-stakeholders and suggest placing them
in a separate group. The regulator *par excellence* is the state and the law, with its agencies,
commissions and other authorities (author, 2007).
The identification and selection of stakeholder groups

Stakeholder theory is “mainly utilized to operationalize the question of to whom businesses have a responsibility” rather than for what (Egels, 2005). Strategic stakeholder management involves much more than the identification of groups and deciding whether they should be integrated in the model as separate stakeholders.

Curiously, it is precisely the identification of individual stakeholders that has become one of the central themes of the discussions in academic and management literature on stakeholding (Mitchell et al., 1997; Clarkson, 1998: 7; Post et al., 2002; Phillips, 2003a; Cappelen, 2004). In an analysis of the literature referring to stakeholder selection, I found about one hundred stakeholder groups and subgroups. I have attempted to logically regroup common and related subgroups, and identify any common elements in the various selections. A detailed list of the subgroups so identified is included as Appendix A.

The literature is unanimous on the three major stakeholder groups: financiers, employees and customers. As competitors have been eliminated in various versions of the model (Spence et al., 2001; Post et al., 2002a:53), it may be reasonable to group them with suppliers in one larger group called ‘business’. There is also a general recognition of two further groups, namely ‘communities’ and ‘civil society’, and to include a number of external constituencies and influencers as surrounding external stakeholder groups: in particular the government and state, pressure groups, regulators and the media. As argued by Clarkson, “the public is a stakeholder in all corporations” (1994). Along with the general public, some more abstract groups such as the environment, technology, and future generations can be included within the communities (seen as somewhat local), or in civil society and the wider world. Notably, this selection respects the logic and the history of stakeholder theory.

**Stakeholders, stakewatchers and stakekeepers**

The range of definitions of the stakeholder, and the widening of the term to include all kinds of external bodies, has created confusion and diluted the concept. For this reason, in the current analysis, the potential list of stakeholders has been divided into three distinct categories: the internal constituents and stakeholders who have a real stake in the company, the pressure groups that influence the firm, and the regulators who impose external control...
and regulations on the firm. Real stakeholders have a claim on the firm, pressure groups as indirect stakeholders only an indirect claim, while regulators have no claim. In Table 2, the three categories are confronted with different elements of the typology of Mitchell, Agle and Wood (1997): legitimacy and power, and to the responsibility.

TABLE 2:
Differences between the three categories of stakeholders

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Pressure group</th>
<th>Regulator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legitimacy of the claim</td>
<td>normative</td>
<td>derivative</td>
</tr>
<tr>
<td>Power/influence dominance of the firm</td>
<td>on the firm</td>
<td>on the firm</td>
</tr>
<tr>
<td>Responsibility</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

STAKEHOLDER   STAKEWATCHER   STAKEKEEPER

The three categories above have substantially different profiles. For the real stakeholders, who possess a legitimate claim, power and influence are reciprocal; the firm has responsibility for them. The firm has little power on and no responsibility for indirect stakeholders, whose legitimacy is derivative (Phillips, 2003: 120). The legitimacy of the claim of pressure groups is of mixed origin. They have considerable power over the firm, while the firm can hardly influence them. The firm has no responsibility for pressure groups and regulators. They are totally independent of the firm but, indirectly, regulators can externally impose responsibilities.

In an attempt to disentangle the confusion in the existing terminology, I have introduced a new terminology that clearly distinguishes these categories and which - I hope - will overcome many of the misinterpretations found in the stakeholder literature.

First of all, there are the real stakeholders, essentially the classic stakeholders in the original narrow approach - those who have a concrete stake: the dedicated stakeholders with a real positive and loyal interest in the firm.
Next, there are those stakeholders, such as pressure groups, who do not really have a stake themselves but who protect the interests of real stakeholders, often as proxies or intermediaries. I label these *stakewatchers*. The group encompasses those stakeholders who look after a stake with care, attention and scrutiny, just as watchdogs do. Good examples are unions guarding the stake of employees and workers; consumer associations defending the stake of consumers; investor associations protecting the shareholders; and activists watching the stake of the community and the environment.

Then there is another group containing those who are even further removed from the active, real stakeholders: the independent regulators, who have no stake in the firm but have influence and control. They impose regulations and constraints, while the firm has little reciprocal impact on them. I call these the *stakekeepers*, in an analogy with the term of gatekeeper in innovation literature. A stakekeeper keeps a stake for a stakeholder. Governments tend to be the major generic stakekeeper. Specific stakekeepers include courts, regulatory agencies, auditors, certification organisations, independent evaluation bodies and laboratories. The press and the media form another important grouping of stakekeepers. The actions of stakekeepers find their expression in laws, norms, codes, analyses etc., and in publications.

This categorisation thus includes three distinct groups: stakeholders who hold stakes, the stakewatchers who watch over a stake and the stakekeepers who keep the stake.

For completeness, one should add the false and uncontrolled influencers, the activist groups and terrorists who do not want the good of the firm, and who can harm it through unjustified and unfair actions or by spreading false information. They may pursue a hidden agenda and often act without warning. Although these groups are sometimes referred to as stakeholders, a more appropriate term might be ‘stake impostors’.

**The triangular relationship**

By so classifying the list of stakeholders, triangular relationships appear. For each major constituency there is a corresponding main pressure group. For each stakeholder there is a corresponding stakewatcher, and these are labelled *associated stakeholders*. Finally, for each
group of associated stakeholders there is also at least one corresponding specific stakekeeper, while the generic stakekeepers have impact on many stakeholders. Figures 3a and 3b represent the triangular relationship between the various groups of stakeholders.

FIGURE 3a and 3b.
The triangular relationship among stakeholder groups

Constituency      Pressure Group       STAKEHOLDER STAKEWATCHER

or

Regulator

or

STAKEKEEPER

For shareholders (stakeholders), the corresponding pressure groups (stakewatchers) are the institutional investment funds and analysts, and the regulators (specific stakekeepers) comprise the regulator’s office of the stock exchange, the SEC, other regulatory agencies and rating agencies, accreditation offices, professional associations of directors and a sophisticated financial press (Van den Berghe, 2002:158). The corresponding regulatory framework is laid down in specific laws, corporate governance codes, etc.

Employees have their unions as their stakewatchers, while the government through the law and the courts are the stakekeepers. The stakeholder group of clients or customers includes wholesalers, retailers and final customers (Ferrell, 2004). Pressure groups, such as consumer associations, act as stakewatchers, whereas regulators such as the Food and Drug Administration (FDA) in the USA, control laboratories and other agencies play roles as stakekeepers.

Organisational boundaries are becoming fuzzy through new forms of cooperation in research and innovation, involving co-development, customer involvement in design and product testing, and new alliances established to enter new or foreign markets (Harrison and St. John, 1996). Therefore, suppliers have been increasingly integrated into a larger stakeholder group called ‘business’. This group comprises the suppliers and competitors from the original
model. The business group also includes joint venture and strategic alliance partners, consultants, advertisers, trade associations and professional associations. Competitors represent a special case, originally seen as a stakeholder but later rejected (Freeman, 1994; Attas, 2004) as they do not strive for the wellbeing of the firm. However, there are increasing numbers of cases involving co-operation with competitors, as for instance in joint-research programmes with the support and funding of the European Union. Generally, however, the main effects of competitors are influential in nature and, therefore, they should have their place in any strategic analysis (Spence et al., 2001). Competitors and new entrants with substitute products (from Porter’s model) are thus stakewatchers and fit within the business group. In this business group, competitors form the associate stakeholder, corresponding to the suppliers as the classic stakeholder.

In addition to the four economic stakeholders, communities and civil society are identified as a separate group of associated stakeholders, predominantly of the stakewatcher type. Civil society is represented by actors from the general public outside the immediate economic realm of the corporation and outside the public sector. Civil society organisations include a plethora of pressure groups, non-governmental organisations, charities and religious groups (Crane and Matten, 2004: 345). The communities provide the infrastructure, impose local regulations and levy taxes. In reality they represent the local component of the state, with a predominantly stakewatcher role, while the regulatory part of their function is classified within the stakekeeper group of government.

Some stakekeepers have specific influence over one stakeholder, but most of them have common elements and can be grouped in a few common generic groups: the government for the public sector, and the ‘wider world’ as another sector. These represent the citizens’ interests, the general public, society as a whole, the interests of the wider world and the environment. They operate through official control and regulation. They have more than influence since they exert a coercive power through laws, norms and codes, and control mechanisms. The government, for instance, as a generic stakekeeper, has general laws applicable to all companies, but also has specific laws for each sector, such as the control institutes and the FDA in the food sector.

The media - including the press - have been classified as a distinct stakekeeper, and not as a stakewatcher. The choice was made for three main reasons: their general character that
embraces all activities, their independence of the corporation, and their power. The press can counterbalance the power of business and relay the demands of the various pressure groups. It is considered to be a fourth power, and one of which the business community should be constantly aware. The press has a generic appeal but can also address specific subgroups through the specialised press. It is not unusual for serious and justified requests from consumers, employees and other pressure groups of stakeholders to be conveyed by the press and then gradually adopted by the authorities and eventually enshrined in the law (Dentchev, 2005).

To complete the picture, one should also note that the government does not have a monopoly on regulation. There is also self-regulation, where the business community itself creates a code on a voluntary basis. Examples are the codes of corporate governance, launched by industrial associations, or individual company codes of conduct. Another instance of successful voluntary regulation is adoption of ISO certification in the field of quality control.

Figures 3c and 3d represent the triangular relationship as applied to the stakeholder groups of financiers and customers respectively. Beneath the stakekeepers, the form of their expression is indicated.

FIGURES 3c and 3d.
Triangular relationships as applied to the group of financial stakeholders (3c) and as applied to the customer stakeholder group (3d).

shareholders investor funds consumer consumer organisation

Auditor SEC Press

Press

Law

Law

Code of corporate governance

FDA health agencies

Expression

FDA Norms
The refined stakeholder model: the ‘stake model’

The proposed systematic categorisation of stakeholders should lead to a new graphical representation that integrates the concepts of stakewatchers and stakekeepers. A first model has been built on the earlier concept of the stakeholder view of the corporation by Post, Preston and Sachs\textsuperscript{11}. The superiority of the PPS view over Freeman’s model is that it clearly indicates the three levels of operation - the resource base, the industry structure and the social political arena - in four concentric ovals. Conversely, an advantage of Freeman’s model is the way it represents the relationships between stakeholders, something that is less apparent in the PPS view. Further, and more importantly, the major advantage of Freeman’s model over the PPS view is the widespread and general acceptance of the framework, both in academic literature and, essential from a pragmatic point of view, in business circles. “Freeman’s conceptualisation has become the convention from which the stakeholder theory has developed” (Frooman, 1999). Further reflection, in an attempt to move the model closer to the original concept of Freeman’s stakeholder model, has led, after a number of redesigns, to a new graphical representation that integrates the notions of stakewatchers and stakekeepers. It keeps close to Freeman’s adapted model without losing the completeness offered by the PPS view. I have called this enhanced and refined version the stake model of the corporation.

The hub-spoke concept of the original model is retained, as well as the later addition in the adapted version, of a box encompassing all its internal constituencies. The management of the firm is placed in the central oval core; the box is replaced by a single large circle or oval, referred to as the ring. The ring partly encompasses the ovals representing the stakeholders, and splits them into two unequal parts. The larger of these parts is in the inner circle for the four major stakeholder groups (i.e. the economic stakeholders: financiers, employees, customers, business) and outside the inner circle for the community and civil society groups. In this scheme, the ovals do not simply represent the stakeholders: the stakeholders are represented by the part within the ring with their associated stakewatchers in the part beyond the ring. The hub-spoke model is thus gradually transformed into a kind of solar system with a central oval sun and surrounding planets. The ovals fully outside the ring represent the stakekeepers in much the same way as the external ovals in Freeman’s adapted version. In this new stake model, the firm (or corporation) encompasses the core and all stakeholders within the ring. The hub is the management rather than the firm.
Since most of the stakekeepers exert influence on the firm through multiple stakeholders, their relations can be represented by multiple arrows from the specific stakekeepers to their associated stakeholders, and from the generic stakeholders to various stakeholders of the firm. Figure 4 shows the conceptual view of the new outline framework, highlighting the firm with its stakeholders around the management at the core, and surrounded by stakewatchers and stakekeepers.

For reasons of simplification and clarity, the triangular relation will not be explicitly drawn (as in the right upper corner), but replaced by the dotted unidirectional lines pointing towards the ring of the firm (as at the foot in the right). This view builds further on one idea of Phillips’s stakeholder map (2003:127), but retained only for the stakekeepers (the media in Phillips’s example), not for the stakewatchers (activists in the example). The dissimilarity is that in the present view, activists are not considered as a generic group, but as clearly identified specific groups with generally a single issue focus and mainly concerned with a single primary set of stakeholders; the specific activist is then positioned adjacent to its associated stakeholder: consumer defence organisation close to the consumers, shareholder activist next to the financiers, unions besides the employees, competitors next to business, NGOs for the civil society, special interest groups next to the communities.

**FIGURE 4.**
The triangular relation between stakeholder, stakewatcher and stakekeeper transposed on the new framework as a solar system.
Figure 5 illustrates this new graphical representation of the refined *stake model* of the firm and details the major stakeholders, stakewatchers and stakekeepers.

**FIGURE 5.**
The stake model of the firm

Through these adaptations, an attempt has been made to achieve the best of both worlds: the superiority of synthesised value, visual power and the general acceptance of Freeman’s model; plus the valuable and complementary environmental levels taken from the PPS view. Again, it has to be pointed out that the adapted, refined stake model, as every model, is a simplification. The stake model when applied in detail should therefore show the necessary nuances in function of each specific situation. A more detailed application to each specific firm can present variations of different degrees. Stakeholders have a dynamic aspect (Post et al., 2002a:26), “situation and issue specific, and thus temporary” (Winn, 2001). Pressures, threats and opportunities in a corporation’s environment vary over time (Jawahar and McLaughlin, 2001; Phillips, 2003a). Some pressure groups as specific interest groups can be very cooperative with the company and can merit the status of a stakeholder rather than a stakewatcher; some shareholder activists may have more of a stakewatcher approach than a stakeholder one, while it is hard to see daytraders as genuine stakeholders. The media can be helpful on some occasions and aggressive on others, and can, in turn, present characteristics
of stakekeeper, stakewatcher and stakeholder. The government is also a complex stakeholder since it provides infrastructure and levies taxes, while simultaneously enacting laws and imposing regulations. Through its tax administration role, government is even considered by some observers as a ‘silent’ shareholder – one that imposes taxes of up to one-third or even one-half of the firm’s profits before dividends. Government can indeed present the characteristics of stakeholder, stakewatcher and stakekeeper, in line with its multiple functions. Regulation originating from law, government and administration, belongs to the stakekeepers, while self-regulation that generally emanates from the industrial sectors or from professional associations, as voluntary actions, has to be located in the appropriate stakewatcher group.

For the sake of simplification, but keeping these clarifications and nuances in mind, the figure as presented here (Figure 5) places the stakeholder groups in the appropriate oval section for their most-likely dominant function. For the same obvious reasons of clarity, the multiple linkages between stakeholders (Phillips, 2003:127) and the network relations between the various stakeholders, as quite rightly addressed by Rowley (1997), are not represented on the graph (by superposition), but have been tacitly and implicitly accepted (Author, 2007).

**Justification of the stake model**

This section will attempt to validate the proposed stake model. Starting from Freeman’s stakeholder model, the following criticisms levelled against it are considered: the identification and selection of stakeholder groups, the position of pressure groups and regulators and the different levels of the environment. The extent to which the various adaptations to the stake model proposed here respond to them are explored. The analysis concentrates on pragmatic managerial and organisational implications.

The identification and selection of stakeholder groups.
In a stakeholder approach, the first critical phase consists of identifying the stakeholders. A differentiation between stakeholders, stakewatchers and stakekeepers will facilitate the identification phase. The model visibly distinguishes between internal and external stakeholders. It underlines the tripartite nature of stakeholders, making a clear distinction between real stakeholders, pressure groups and regulators. In so doing, it also better separates
the ‘legitimate’ stakeholders from the rest. The new graphical representation better visualises this more realistic categorisation of stakeholders. This ‘solar system’ scheme corresponds more closely with Clarkson’s (1995) definition of the corporation as a system of primary stakeholder groups, or as a complex network of constituencies. It also better coincides with the definition of organizations as coalitions of individuals and organised sub-coalitions (Cyert & March, 1963: 27).

In selecting individual stakeholder groups, choices have to be made, and choices imply a degree of arbitrary decision-making. The selection here was based on an analysis of the major papers in the literature on the subject. The various stakeholders were grouped on the basis of a thorough review in order to select and retain an acceptable number of them, and to end up with something comparable to the classical stakeholder model. The original constituencies have been accepted as ‘real’ stakeholders. This process resulted in the following categories of stakeholders: shareholders, employees, customers, business, communities, and the wider world - each with an associated stakewatcher. The government, civil society, the media, ‘others’ and non-stakeholders act as stakekeepers and orbit in the outer ring. The stake model thus integrates virtually all of the classical stakeholders and pressure groups found in the existing models.

The different levels of the environment
Following the PPS viewpoint, the new stake model better visualises the three levels of the company, the business environment and the social political arena. The stakeholders within the ring represent the firm; the adjacent segments of the associated stakewatchers largely cover the business environment; and beyond the ring and segments is the wider environment of the social political arena with its stakekeepers. The various economic levels are included in the model: the firm at the microeconomic level, the broader economic community and the world on the macroeconomic level. Beyond the economic world, the model also integrates the public sector, the general public and society, largely outside of the ring.

The ambivalent position of pressure groups and regulators
The new stake model better illustrates the status of the various stakeholders and stakewatchers, and reflects their attributes. Within the firm-level circle, the power and influence of the firm dominates the stakeholders, whereas the stakewatchers outside the firm generally have the greater influence in their relationship with the firm. In this stake model, it
is mainly the stakeholders that can be heavily affected by the firm, whereas the firm is mainly
affected by the stakewatchers and the stakekeepers. The firm has a moral obligation towards
the stakeholders - to care about them - but has no moral obligation to attend to the wellbeing
of the stakewatchers who hold power over the firm. Since both stakewatchers and
stakekeepers can exert both beneficial and harmful influences on a firm (Phillips, 2003a) they
should be considered in a strategic perspective.

The refined stakeholder model as a strategic instrument

The similarity to Freeman’s stakeholder model
Originally a different visual presentation had been envisaged, one closer to reality and more
reflective of certain criticisms. However, this is seen as deviating too far from Freeman’s
widely accepted stakeholder model whose powerful visual value is recognised and
acknowledged. Freeman started from a strategic and managerial approach. Therefore, the new
model was further developed such that it did not lose the familiarity of the accepted basic
scheme while absorbing the logical evolution based on stakeholder research. Indeed, the new
model fits the logic of the evolutionary line that started with Freeman’s original version,
includes his later adaptation and continues to beckon future research.

The essentials of the graphical presentation are preserved. The major elements of Freeman’s
model remain unchanged: the central oval with a number of surrounding ovals, plus a number
of external ovals. The desire for clarity has, however, required a few minor but essential
modifications. The three principal differences are the adjacency of the stakeholders and their
associated pressure groups in a single oval for each group, the ring that cuts the various
associated stakeholder groups, and the replacement of the firm at the core by its management.

The strategy for managing stakeholders
In order to be useful, “stakeholder theory must provide an account of how stakeholders try to
act to influence the firm’s decision making and, ultimately, the firm’s behaviour” (Frooman,
1999:192). The proposed refined model clearly offers some benefit in terms of more efficient
stakeholder management (as recommended by Caroll and Buchholtz, 2006: 75-89). Following
the identification phase, threats and opportunities can be evaluated while taking into account
the responsibilities of the firm towards each group of stakeholders. “Who is dependent on
whom and by how much will determine the type of influence strategy” (Frooman, 1999: 201).
The assessment of a stakeholder’s capacity and willingness to threaten or cooperate will allow the firm to elaborate the appropriate response - in either an offensive or a defensive way. The nature of their interdependency and the influence on the environmental uncertainty facing the firm will help determine the priorities (Harrison and St. John, 1996).

“Stakeholder theory is about managing potential conflict stemming from divergent interests.” (Frooman, 1999: 193). The relationships with the majority of stakeholders will be seen as a potential for cooperation, whereas the relationships with most stakewatchers will be considered as a potential threat (Freeman, 1984; Savage et al., 1991). Applying the typology of strategies put forward by Savage et al. (1991) will help in developing a strategy for action with respect to each stakeholder: accommodate, negotiate, manipulate or resist. For the majority of supportive stakeholders, a strategy of involvement will be preferred. Non-supportive stakewatchers will be handled with a defensive strategy, or through monitoring in the case of marginal stakewatchers. Depending on their potential for cooperation with the firm, the strategy for stakekeepers will be one of collaboration, or monitoring, often expressed in lobbying. “Stakeholders who are strategically important should be managed as partners” (Harrison and St. John, 1996: 51). The refined stakeholder model helps in better understanding organizations and thus facilitates both the strategic analysis of assessing stakeholders and the elaboration of the appropriate strategy for managing stakeholders.

Conclusion

The conceptualisations in Freeman’s original stakeholder model and in its revised version have been widely accepted as a management tool for developing corporate strategy. However, over the years, the uncontrolled broadening of its scope and applications, coupled with the parallel multiplication of stakeholder definitions, has created confusion. Critics have attacked the vagueness and ambiguity of the underlying theory. A strong need for clarification and a clear delimitation of the stakeholders was thus urgently needed.

Curiously, while the graphical representation of the stakeholder model has generally been adopted by most scholars and has contributed to the acceptance of the stakeholder concept by the business community, the graphical model has hardly been used in most of the extensive debate and critique in academic literature. Confronting the dichotomy of definitions with the graphical representation has been both innovative and revelatory. It has contributed to
clarifying many of the misunderstandings and misinterpretations that have threatened to undermine the model. The systematic, graphical analysis of the major criticisms levelled at the model leads to modest adaptations that provide a new and insightful extension to the existing stakeholder literature.

Drawing on the various criticisms and suggestions, a new, refined stakeholder model is proposed, the *stake model*, incorporating minor changes but respecting the logical line of evolution initiated by Freeman’s first conceptual stakeholder model and its subsequent adaptation. The ambition was to adapt Freeman’s framework, but with as little alteration as possible, so as to retain the visual power of its familiar scheme.

To help in clarification, the new concepts of *stakewatchers* (mainly pressure groups) and *stakekeepers* (largely regulators) have been introduced. This view better reflects the distinct activities of stakeholders in one of three groups: *the stakeholder who holds a stake, the stakewatcher who watches the stake and the stakekeeper who keeps the stake*. This clear delimitation should enhance understanding. Graphical models can help in this aspect. The simple graphical representation of the adapted *stake model*, as a solar system, will hopefully contribute to silencing a number of criticisms and objections, and so enable the focus within the stakeholder discussions to return to its essence: the managerial implications. With its integrated visualization of the categorization options, the refined stake model will facilitate the strategic analysis needed to better manage stakeholders. This neatly brings us back to Freeman’s strategic view that saw stakeholder theory as “managerial, intimately connected with the practice of business and of value creation” (Freeman, 2000; Freeman, 1984: 43), with the concept of fairness and the notion of the common good as the core underlying themes and values.
Appendix A. List of stakeholder groups, as identified in the literature and regrouped

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>STAKEWATCHER</th>
<th>STAKEKEEPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>management</td>
<td>special interest groups, activist groups</td>
<td>Legislator, Regulator, Court</td>
</tr>
<tr>
<td>FINANCIERS</td>
<td>owners, institutional investors, shareholder activist</td>
<td>Financier, pension funds, auditors</td>
</tr>
<tr>
<td></td>
<td>shareholders, shareholder activist</td>
<td>Security &amp; Exchange Commission (SEC), rating agencies, securities analysts, sophisticated financial press</td>
</tr>
<tr>
<td></td>
<td>bondholders, pension funds</td>
<td>shareholders, shareholder activist</td>
</tr>
<tr>
<td></td>
<td>financiers, auditors</td>
<td>sophisticated financial press</td>
</tr>
<tr>
<td></td>
<td>professional associations of directors,</td>
<td>professional associations of directors, managers</td>
</tr>
<tr>
<td></td>
<td>corporate secretaries and managers</td>
<td></td>
</tr>
<tr>
<td>EMPLOYEES</td>
<td>employees, unions</td>
<td>Equal Employ. Opportunity Com. (EEOC), Occupational Safety and Health Administration (OSHA)</td>
</tr>
<tr>
<td></td>
<td>safety and health groups</td>
<td></td>
</tr>
<tr>
<td>CUSTOMERS</td>
<td>customer, customer advocate group</td>
<td>FDA, customer protection journals</td>
</tr>
<tr>
<td></td>
<td>client, customer association</td>
<td></td>
</tr>
<tr>
<td></td>
<td>buyer, control laboratories</td>
<td></td>
</tr>
<tr>
<td></td>
<td>distributors, consumers</td>
<td>Consumer Product Safety Com (CPSC)</td>
</tr>
<tr>
<td>BUSINESS</td>
<td>business partners, suppliers, competitors</td>
<td>industry observers, critics, business press</td>
</tr>
<tr>
<td></td>
<td>trading partners, new entrants</td>
<td>television, news</td>
</tr>
<tr>
<td></td>
<td>trade associations, substitutes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>supply chain associates, substitutes</td>
<td></td>
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<tr>
<td></td>
<td>joint venture partners and alliances</td>
<td></td>
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<tr>
<td></td>
<td>advertisers, &quot;big business&quot; groups, GRI</td>
<td></td>
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<tr>
<td></td>
<td>consultants, academic commentators</td>
<td></td>
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<tr>
<td></td>
<td>laboratories</td>
<td></td>
</tr>
<tr>
<td></td>
<td>financial community, bankers, creditors</td>
<td></td>
</tr>
<tr>
<td>COMMUNITIES</td>
<td>local communities, public interest groups</td>
<td>General public, private organisations, citizens, NGOs</td>
</tr>
<tr>
<td></td>
<td>local government, neighbourhood</td>
<td></td>
</tr>
<tr>
<td>WIDER WORLD</td>
<td>the arts, political groups</td>
<td>National government, congress, cabinets</td>
</tr>
<tr>
<td></td>
<td>religious groups, single-issue groups</td>
<td>Governmental agencies</td>
</tr>
<tr>
<td></td>
<td>the military, technology process</td>
<td></td>
</tr>
<tr>
<td></td>
<td>academic institutes, think-tank/research groups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>non human species, animal welfare organisations</td>
<td>Environmental Protection Agency (EPA)</td>
</tr>
</tbody>
</table>

65
environment  environmental groups  NGOs
nature  watchdog groups  human rights associations
employees’ family  NON-stakeholders  terrorists
students  blackmailers  thieves
future generations  world issues

BIBLIOGRAPHY


This leads to critical distortions and management misinterpretations involving “well-meaning, but perhaps overzealous commentators who stretched the theory beyond its proper scope” (Phillips et al., 2003). The stakeholder theory has also invaded public management (Bingham, Nabatchi and O’Leary, 2005) and other areas than management (Stoney and Winstanley, 2001). Its terminology has been claimed by political parties. In New Labour campaign communications and in debates around the ‘Stakeholder Society’, Blair introduced the term stakeholder capitalism as against shareholder capitalism (Post, Preston and Sachs, 2002:7; Wheeler and Sillanpää, 1997; Kay in Kelly, et al., 1997; Metcalfe, 1998), and the concept has become one of the cornerstones of industrial democracy in Scandinavia. For more information on the Scandinavian development of industrial democracy see Nasi (1995). (source: Blackwell Encyclopedia, p.612).

Research on stakeholder theory has proceeded along three, often confused, lines: the descriptive, the normative and the instrumental points of view (Donaldson and Dunfee, 1994; Donaldson and Preston, 1995; Hendry, 2001). To these three interpretations, Freeman has added “a fourth dimension, the metaphorical use of ‘stakeholder’” (Freeman, 1994) which depicts the idea as “a figure in a broader narrative about corporate life” (Freeman, in Cooper and Argyris: 612). A few comprehensive overviews of current thinking can be found including Frooman, 1999; Freeman, 2000; Donaldson, 2002; Freeman, 2004; an overview of definitions is included in Mitchell et al., 1997.

The resulting ‘separation thesis’ engendered an intellectual debate between partisans and opponents of the theories, separating the business from the ethics discourse (Freeman, 1994; Wicks, 1996). Some scholars have justified stakeholder theory (Freeman and McVea, 2001, Hansen et al., 2004) using legal arguments such as property rights (Donaldson and Preston, 1995; Blair, 1998); others on a Rawlsian social contract argument (Rawls, 1971; Freeman and Evan, 1990; Child and Marcoux, 1999; Phillips, 2003); on economic arguments involving fiduciary relationships (Goodpaster, 1991; Boartright, 1994; Marcoux, 2003); on agency theory (Shankman, 1999); on moral grounds (Gibson, 2000) with the principle of fairness (Phillips, 1997; Metcalfe, 1998), on Kantian theory and the right to be treated as an end (Evan and Freeman, 1993; Bowie, 1999) or using the concept of the common good (Argandona, 1998).

In some views, the importance of ‘having a stake’ is emphasised, in others it is ‘power or influence’, bi-directional or one-way, that is decisive. In other cases, the notion of a ‘relationship’ is central. Some researchers and practitioners argue that stakeholders who have a relationship but lack an element of risk do not hold a stake in the company (Clarkson, 1994: 6; Attas, 2004). While some groups or individuals do indeed bear a risk (Williamson, 1985; Freeman and Evan, 1990), or express loyalty or add value (Post, Preston and Sachs, 2002: 8); others claim a share in the organisation’s benefits, or seek to have a voice (Phillips, 2003:159) or to participate in the firm’s decision-making or governance through representation (Kochan and Rubinstein, 2000; Harrison and Freeman, 2004; Phillips, 2003:160).

Other scholars prefer terms such as ‘constituency’ (Mitnick, 1980, cited in Freeman, 1984: 40; Argenti, 1998), ‘claimant’ or ‘influence’ (Mintzberg, 1983: 27). For some authors, stakeholders are groups for which a “firm’s decisions to act or not to act are responsible for their level of well-being” (Langtry, 1994); for others they are “any individual or group that is the legitimate object of managerial attention” (Phillips, 2003a), or any party “on which the organisation is dependent for its continued survival” (Freeman and Reed, 1994). Some define stakeholders as groups to whom the company should be concerned or from whom they need loyalty (Campbell, 1997).

It is precisely this variation in the definition of a stakeholder (Gond and Mercier, 2004) that leads to confusion and, by the same token, demonstrates the urgent need for a clear identification of a stakeholder. Some elements come back in number of definitions of a stakeholder. The early vagueness in the definition of a stakeholder led a number of scholars to define the concept in slightly different ways with variations in emphasis, interpretation and scope. From Mitchell, Agle and Wood’s (1997) extensive analysis of twenty-seven definitions of stakeholders one can distil a number of elements: stakeholders are groups that have a ‘stake’ or an interest in the firm, that is they bear a risk; groups that have a claim, a
contract, ownership or right; or groups that have a relationship with the firm, affect or are affected by, influence or are influenced by the firm. Some scholars incorporate responsibility in the definition.

A major classification is based on priority. Proponents classify stakeholders into primary and secondary stakeholders (Clarkson, 1995), where primary stakeholders refer to those actors who enjoy a direct and contractually determined relationship with the company, while secondary stakeholders refer to actors at the border of the firm who may be impacted upon by its actions without having any contractual connection (Collier and Roberts, 2001; Carroll, 1991). Prior to stakeholder theory, some authors had already referred to the different constituencies as claimants and influencers. Claimants are groups with a legal, moral or presumed claim on the firm, whereas influencers are groups that have an ability to influence the firm’s behaviour, direction, process or outcomes (Mintzberg, 1983: 27; Donaldson and Preston, 1995; Mitchell et al., 1997).

The popularity of Michael Porter’s model of industrial competition at the beginning of the 1980s may well be responsible for the incorporation of competitors as a distinct stakeholder group. Both models also see the firm holding the central position in the stakeholder model.

Some of these ideas were already intuitively present in Dodd’s earlier view that corporate powers were held in trust for the community rather than in trust for just the shareholders, as was the then prevailing view of Berle (Dodd, 1932; Goodpaster, 1991, quoting Ruder, 1985). Stakeholder theory explicitly encompasses corporate responsibility and business ethics, thereby enlarging strategic thinking to include the role of business in society. Stakeholder theory fits into a logical evolution of previous theories of organisation and management from individual disciplines in this area. In fact, in revealing the interconnectedness between the owners and the other constituents, Mary Parker Follett, was, in 1918, the first author to develop the stakeholder concept, although without using the term (Post et al., 2002a:18). One of the world’s most widely quoted statements of business ethics, the Four-Way Test of Rotary International, also implicitly implies the notion of stakeholders within its questions: “Of the things we think, say or do: Is it fair to all concerned?” and “Will it be beneficial to all concerned?” (created in 1932 by Herbert J. Taylor).

Marketing management was quick to emphasise the importance of listening to customers and to potential customers (Kotler, 1967). Subsequently, innovation management focused on the need to pay attention to external elements of information coming from the firm’s wider environment (Allen, 1966). The influence of the environment on management had already been acknowledged much earlier (Dill, 1958) while the public affairs and public relations literature had recognised the concerns of the wider world surrounding the company (Argenti, 1998). The impressive work of Henry Mintzberg (1979, 1983) on the structure of organisations, and the well-known model of industrial competition in Michael Porter’s approach to competitive strategy, have emphasised the importance of both internal and external factors to a company (Porter, 1980, Fig. I-2, xviii). These statements have been supported by the literature on Japanese management (Ouchi, 1981; Pascale and Athos, 1981) and in the descriptions/narratives on the characteristics of successful companies in Peters and Waterman’s bestseller ‘In Search of Excellence’ (1982), and later in ‘Built to Last’ from Collins and Porras (1994). Finally, the need to inform all stakeholders is also stressed in Fombrun’s work on reputation (1996).

The central hub in Freeman’s model (1984:55) is the firm. Curiously, when one goes back to his in-depth analysis leading to the implementation of the stakeholder approach for strategic management, this central place is filled by the manager for the traditional business disciplines of management (p.218), by the marketing manager for marketing (227), by the financial manager for finance (229), etc., while the CEO fills the central place in the illustration of the role of the CEO (241) (Freeman, 1984, Chapter VIII).

The proposed systematic categorisation of stakeholders led to a new version of the stakeholder model (Figure 6). This was built on the earlier concept of the stakeholder view of the corporation by Post, Preston and Sachs. The superiority of the PPS view over Freeman’s model is that it clearly indicates the three levels of operation - the resource base, the industry structure and the social political arena - in four concentric ovals. Unlike the PPS view which did not delimit the various stakeholders but instead lumped them together within the appropriate level, and in line with Carroll and Buchholtz’s (2006: 9) graphic display, it was decided to divide the pie into a number of distinct segments, that start from the corporation, cross the resource base and the industry structure, and flow into the social political arena where the delimitation will stop. The shareholders are positioned in the resource base in this approach, the associate stakewatchers within the industry structure level and stakekeepers are found within the social political arena.
FIGURE 6.
The adapted PPS view
CHAPTER 3

A SMALL BUSINESS LEADER’S PERCEPTION OF CSR AND BUSINESS ETHICAL CONCEPTS
an application of RGT in management and social sciences

in collaboration with

Dr. Annick Van Rossem and Prof. Dr. Marc Buelens

ABSTRACT

Recent academic articles point to an increased vagueness and overlapping of the concepts around business ethics and corporate responsibility. However, the perception of these notions in the entrepreneurial world can differ from the original academic definitions. This paper focuses on entrepreneurial cognition, a research stream which is increasingly being recognized as a perspective for understanding entrepreneurship related phenomena. Given the impact of the entrepreneur as owner of his venture, corporate responsibility and ethical issues can take a different breadth in SMEs. The entrepreneur has the possibility to shape the corporate culture and to enact values other than profit.

This paper centres its attention on the cognitive study of a specific topic of management and entrepreneurship: the process of how CSR and business ethics related concepts are perceived or interpreted. For this research, the Repertory Grid Technique (RGT) is used, a method with limited applications in the business and society field.

Our findings partially reject the confusion in terminology noticed in the academic literature. Entrepreneurs, pragmatically and rather clearly differentiate the various corporate responsibility and business ethics related concepts. These findings add to a better understanding of how entrepreneurs think and integrate corporate responsibility and ethical issues into their decision-making.

Key Words
CHAPTER STRUCTURE

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INTRODUCTION

The majority of academic research in management has been realized within larger corporations. This observation also applies to the domains of corporate social responsibility (CSR) and business ethics. Whereas entrepreneurship research has emerged as an independent discipline (Shane & Venkataraman, 2000; Stevenson & Jarillo, 1990), important issues have not yet been addressed in this young academic discipline (Baron & Ward, 2004). Amongst those, the issue of corporate responsibility and ethics in small and medium-sized enterprises (SME) has only received limited attention in the literature (Spence, 1999).

Business ethics and corporate responsibility have indeed be given increased consideration from both academics (e.g., Carroll & Buchholtz, 2006; Epstein, 1987; Vogel, 1991) and practitioners in the last decades. Over a hundred concepts have been proposed describing how ethical issues in business should be defined (Egels, 2005; van Marrewijk, 2003). This explosion of concepts and definitions lead towards an increased vagueness and ambiguity (van Marrewijk, 2003). With an unclear semantic and special terminology, concepts are continuously mixed up in terms of context, content and perspectives (Attarça & Jacquot, 2005; Epstein, 1987; Fisher, 2004; Wheeler, Colbert, & Freeman, 2003).

The objective of the present analysis is to achieve clarity and distinctiveness in the perceptions of the small business leader on concepts in this important field of business and society. Hence, we focus this article on entrepreneurial cognition, a research stream which is increasingly being recognized as a perspective for understanding entrepreneurship related phenomena. Studying which unique knowledge structures (or mental models) entrepreneurs have and how these develop in order to process information adds to a better understanding of how entrepreneurs think and make strategic decisions. It may add credence to the assumption that
entrepreneurship concerns itself with distinctive ways of thinking and behaving (Mitchell et al., 2007) and may give fruitful insights in the thinking-doing connection of entrepreneurship. The highly economic orientation of strategy research led many studies to equate entrepreneurial motive with desire for profit (Mitchell et al., 2004). A better understanding of how small business leaders interpret CSR and business ethics related topics, might give a better insight in how other motivations than profit maximization influence their decision-making.

This paper develops as follows. The first section introduces the theme of the confusion about the different concepts around business ethics and corporate social responsibility and to the lack of consistency in the use of these concepts. The second section elaborates on the theme of entrepreneurial cognition. The research question formulated in section three points to the objective of this exploratory study, i.e. a study of entrepreneurial cognition of CSR and related topics addressed in a combined qualitative and quantitative approach. Next, the fourth section deals with the methodological issues, the research design and sample. The empirical results are summarized in the following section. The results of our research are discussed in the sixth section, followed by limitations and perspectives for further research. Concluding remarks are made in the final section.

THE CONCEPTS AROUND BUSINESS ETHICS AND CORPORATE RESPONSIBILITY

A number of recent articles in the business and society literature have drawn attention to the lack of consistency and incoherence in the definitions on the one hand, and to certain similarities in the use of the concepts on the other hand (Dentchev, 2005; Egels, 2005; Fisher, 2004). “… there exists different but most of the concepts are fairly similar” (Vogel, 1991: 104).
For example, business ethics has become “a healthy discipline full of controversy, rich intellectual discussions, and the beginning of several research traditions” (Werhane & Freeman, 1999: 1). CSR has evolved from a vague to a confused notion. The term is utilized in different interpretations, with different breadth and scope (Garriga & Melé, 2004). Several authors analysed the differences between major concepts such as stakeholder theory, corporate social responsibility, corporate citizenship, corporate social performance, sustainable development and business ethics in terms of context, content and perspective and pointed out how these different concepts relate to each other (De Bakker, Groenewegen, & Den Rond, 2005; Egels, 2005; Valor, 2005). Especially two concepts, corporate social responsibility and business ethics manifestly showed an overlap and tended to be used almost interchangeably in the academic literature (Epstein, 1987; Ferrell, 2004; Vogel, 1991). Other authors conceived rather corporate responsibility, sustainable development and stakeholder approach as interwoven concepts (Wheeler et al., 2003). Also sustainability and CSR have converged to very similar concepts in recent years (Staurer, Langer, Konrad, & Martinuzzi, 2005; Waddock, 2004). The interrelation between these concepts is also illustrated by the central place of ethics in CSR and in the stakeholder concept (Garriga et al., 2004: 61).

Besides these major concepts, additional related concepts with a broad scope as triple bottom-line, corporate governance and accountability have emerged, while many fragmented and more specific notions such as safety, product liability, human rights, codes or charters, philanthropy have developed as sub-domains (Carroll et al., 2006; Crane & Matten, 2004). Philanthropy is included as the fourth stage in Carroll’s pyramid of Corporate Social Responsibility, after the economic, legal and ethical responsibilities (Carroll, 1991; Crane et al., 2004; Porter & Kramer, 2006). In the European Commission vision (EC, 2001), philanthropy was
explicitly excluded from CSR (Luetkenhorst, 2004) while the real objective of CSR was sustainable development (Eberhard-Harribey, 2006).

Many of these social issues in management have numerous different definitions as they can be interpreted narrowly or more broadly. For the major concepts, Table 1 proposes a definition, selected from authoritative handbooks or reports. A brief selection of articles of authoritative scholars in organization and management, grouped in Annex A, leads to the obvious conclusion that there exists a lot of confusion in this area with vagueness and ambiguity between the concepts: “no core in terms of content is to be found in any of the concepts and even less among the six different concepts” (Egels, 2005: 25).

The confusion between CSR-Business Ethics related concepts

The confusion between CSR and business ethics related concepts increases when academic literature is copied into business daily life and in the press (De Wilde, 2007; Verbeke, 2007). The vast CSR literature offers little practical guidance to corporate executives (Porter et al., 2006). Many CSR and business related concepts have evolved in parallel universes of companies and academy, sometimes overlapping but sometimes separately (Waddock, 2004). “Management literature treats these concepts in one way and business ethics literature in another way” (Fisher, 2004: 391). References to CSR, sustainable development and corporate governance in corporation’s mission and value statements are increasingly are muddled up. The numerous press articles on the introduction of the various codes of conducts on corporate governance (e.g., Cadbury in the United Kingdom, Tabaksblatt in the Netherlands, Lippens in Belgium) engender, explicitly or implicitly, the liaison between ethics and corporate governance. After the financial scandals of the recent years, the (reduced) message launched with reasonable success was: “we
Table 1: Definitions

**Business Ethics** is the study of business situations, activities, and decisions where issues of right and wrong are addressed (Crane and Matten, 2004: 8).

**Corporate Social Responsibility (CSR)** involves the standards and the conduct that an organization sets itself in its dealings within an organization and outside with its environment (Lynch, 2006: 367). CSR encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time (Carroll and Buchholz, 2006: 35).

**Stakeholder management** is the management of the relations with the various stakeholders, “any group or individual that can affect or is affected by the achievement of an organisation’s objectives” (Freeman, 1984: 46).

**Sustainable development** is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987).

**Sustainability** refers to the long term maintenance of systems according to environmental, economic, and social considerations (Crane and Matten, 2004: 24).

**Corporate citizenship** is the contribution a company makes to society and the environment through its core business activities, its social investment and philanthropy programmes, and its engagement in public policies (World Economic Forum, 2007).

**Corporate governance** refers to the method by which a firm is being governed, directed, administered, and controlled and to the goals for which it is being governed. Corporate governance is “doing the right things, and doing the things right” (Tim Melville Ross, 1996). Corporate governance is concerned with the relative roles, rights, and accountability of such stakeholders groups as owners, board of directors, managers, employees, and others who assert to be stakeholders (Carroll and Buchholtz, 2006: 609).

**Shareholder value** is the management principle that puts forward the interests of the shareholders to increase the value of the company, calculated as the net present of future cash-flows plus non-operating assets minus future claims.

**Philanthropy** all those issues that are within the company’s discretion to improve the quality of life of employees, of social communities, and ultimately society in general; it includes charitable donations, the building of recreation facilities for employees and their families support for local schools, or sponsoring of art and sports events (Crane and Matten, 2004: 44)

**Safety** concerns all the measures to be taken to prevent injury of employees, harm of customers and damage of environment.
have corporate governance, so the company is ethical again”; or ”we have a CSR policy, so our company is ethical” (X, 2003, 2004). Brochures and websites of large companies refer ever more to these notions making use of the terminology in the most varying forms (Schlegelmilch & Pollach, 2005). A succinct look at the websites of the largest stock-quoted companies of the Brussels stock market did not distinguish a single pattern. The same observation is confirmed by a survey on CSR in the European Banking Sector (Rare, 2006). It was also demonstrated that most companies emphasize one or two major overall concepts. In this, practice does not differ from theory where scholars from different disciplines put their own diverse emphasis on the sub-policies encompassed by the CSR concept. In addition, consultants who promote new concepts and programs sometimes launch new products as a variation upon the same theme, but with a new fashionable name (e.g., Berglund & Werr, 2000; Gill & Whittle, 1992; Huczynski, 1993; Scarbrough, 2003). This selectivity in choice of emphasis raised the confusion.

Moreover, some inconsistency and ambiguity stem from language problems (van Marrewijk, 2003), terminology or semantics, translation and also from cognition (e.g., Barnes, 1984; Grandori, 2001; Mitchell et al., 2002b; Schwenk, 1984, 1986, 1995; Starbuck & Mezias, 1996; Winter, 2003). “Terminological emphasis reflects not merely semantical quibbling but substantive differences cross-culturally in management thought and practice”(Epstein, 1989: 583). In addition, perception of concepts and interpretation varies according to the entrepreneur’s or manager’s education, experience and training as well (Van Rossem, 2005).

**The dissemination of concepts**

Also the different ways of dissemination of the various concepts concerning business ethics and corporate social responsibility adds to inconsistency and confusion. In the academic world, dissemination generally occurs through conferences and peer-reviewed journals.
(Abrahamson & Fairchild, 2001). But these concepts have also been conveyed to the industrial and business world through various other channels. For example, professionals such as consultants and professional organizations use their own channels such as business conferences, books and specialized business press in order to disseminate these concepts (Fincham, 1995; Fineman, 2001; Scarbrough, 2003). The general press and media transmit these new concepts, increasingly since the regained interest from the media in business and entrepreneurship after the series of scandals at the end of the 20th Century (Buelens, 2002; Elliot & Richard, 2002; Fassin, 2005). This involves popularisation of such concepts (Abrahamson, 1996; Alvarez, Mazza, & Strandgaard, 2005; Berglund et al., 2000; Mazza & Alvarez, 2000; Scarbrough, Robertson, & Swan, 2005). Especially, mass media can account for mass popularization (Mazza, 1998; Mazza et al., 2000). Each channel puts its own spin and emphasis on the concerned concepts (Abrahamson, 1996; Abrahamson et al., 2001). Moreover, just as in the field of product development or innovation, the dissemination of concepts does not always occur in the same pace in different countries (Hansen, Bode, & Moosmayer, 2004; Schlegelmilch et al., 2005).

**ENTREPRENEURIAL COGNITION**

Incorporating a cognitive perspective into entrepreneurship may help in explaining specific phenomena within the entrepreneurship domain (Baron, 1998; Mitchell et al., 2004), since entrepreneurs who live within different contexts and environments, think differently than non-entrepreneurs (Baron, 1998; Busenitz & Barney, 1997; McGrath & McMillan, 1992). Over the years researchers such as Simon (1947) and Weick (1995) have advocated cognitive perspectives in management that have coexisted with economic views. Cognitive psychology emerged to explain the mental processes that occur within individuals as they interact with other
people and the environment around them (Mitchell et al., 2002a). The term **cognition** refers to knowledge **structures** or mental models (mentally presented concepts and relationships) and to the cognitive **processes** whereby these mental models are constructed, manipulated and used in decision-making (Swan, 1997: 184). According to several authors (e.g., Daft & Weick, 1984; Forbes, 1999; Weick, 1995), organizational sensemaking proceeds from scanning of information sources, through interpretation of data to action. Mental representations or models then guide cognition and action relative to strategic choices (Daft et al., 1984; Stubbart, 1989). Herein lies what is called the thinking-doing link (Mitchell et al., 2007). In addition, it has been argued that managers shape their environment through “enactment”, which assumes a reciprocal influence between subjects and objects by constructing interpretations and than acting as if such interpretation is true (Daft et al., 1984; Porac, Thomas, & Baden-Fuller, 1989; Weick, 1995). Entrepreneurial cognition then focuses on “**how entrepreneurs acquire knowledge about the environment and how knowledge is processed in the minds of the entrepreneurs**” (Busenitz & Lau, 1996: 28). Hence, “**Entrepreneurial cognitions are the knowledge structures that people uses to make assessments, judgements, or decisions involving opportunity evaluation, venture creation, and growth**” (Mitchell et al., 2002a: 97). Continuous reciprocal interactions occur between the context and the cognitive perceptions and behaviour of entrepreneurs (Bandura, 1986; Corbett & Hmieleski, 2007). Here, entrepreneurial expertise, which posits that entrepreneurs develop unique mental models and process information differently than non-entrepreneurs, can be considered a key concept. Entrepreneurs can be seen experts in the entrepreneurial domain and possess and acquire through deliberate practice mental models that enable them to use information significantly better than non-entrepreneurs (Krueger, 2007; Mitchell et al., 2007).
This paper focuses then on the cognitive study of a specific topic of management and entrepreneurship: the process of how CSR and business ethics related concepts are interpreted. Interpretation involves the development or application of ways of comprehending the meaning of information once it has been gathered (Thomas, Clark, & Gioia, 1993). This paper is especially concerned with the individual cognitive factors that precede or accompany decisions dealing with CSR and business ethics issues. It emphasizes the content of individuals’ mental models or knowledge structures or termed differently, this research considers the entrepreneur as unit of analysis. Content of mental models plays an important role, since it is argued that individuals’ beliefs influence entrepreneurial intentions (Ajzen, 1991) and action (Mitchell et al., 2007). As contended, there is evidence for the existence of entrepreneurial cognition, which is often seen as a distinctive set of thought processes that entrepreneurs use to interpret data (Busenitz et al., 1996). Research suggests that mental models play a critical role in enabling entrepreneurs to structure behavior in their organizations (Forbes, 1999). Hence, cognition research has the potential to shed new light on many aspects of how CSR and business ethics related topics are perceived including the initial identification and interpretation of such topics and the processes by which representations become templates for structuring and engaging in business activity.

**RESEARCH QUESTION**

Owing to the recent development of theories and methods for the study of managerial cognition (Huff, 1997), researchers have the potential to improve understanding of entrepreneurial thinking. Hence, it may be stated that the central question of entrepreneurial cognition is “How do entrepreneurs think?” (Mitchell et al., 2007).
If academic researchers are not able to delimitate CSR and related concepts, how can one expect the business community to understand the real meaning and the differential characteristics of these concepts and how can journalists with a non-specific education comprehend all nuances? No wonder then, that these notions once conveyed by non-specialists such as general business authors and journalists, give raise to more vagueness, ambiguity and confusion (Abrahamson et al., 2001; Meyer, 1996). CSR and related concepts have first gradually been introduced in the larger companies not without any difficulty. Now, various initiatives at European, national and regional level, tend to introduce and disseminate these notions in the smaller organization. But if the large companies with better informed executives and higher educated managers experience difficulties in understanding and adopting these concepts, how can we imagine that the SME leader is able to distinguish the precise impact of the various concepts? Or stated inversely, is it possible that contrary to the academic confusion, there is some degree of sensemaking and pragmatism amongst entrepreneurs (Weick, 1995)

Most ventures have only one or a few key managers at their core and relatively few levels of hierarchy. Thus, their beliefs and decision-making processes are likely to become more concentrated than those of large organizations. A lower number of hierarchical levels permit a closer contact with all personnel. The effects of managerial cognition are likely to be more directly in venture settings than in the context of larger, more established organizations (Forbes, 1999) and the impact of the SME leader on his organization is extremely important, maybe even more important than in large organizations (Bucar & Hisrich, 2001). Often as sole or major decision-maker, the SME leader has the possibility to shape the corporate culture and to enact values other than profit. Constraints and pressures differ along size and context of the company. Whereas executives in larger corporations may experience more internal pressures to realize
short-term results, the owner of a family company in his perspective of continuity, may strive for a more long term approach. The combination of risks of the owner in terms of his/her personal financial investment, his/her job security and his/her status, may lead to psychological pressures of different kinds, where conflict of interests cannot be excluded. Subject to rationalization, he/she may therefore be tempted to save his/her firm with unethical means. This is more likely than a manager who has only his job to save (Bandura, 1986; Fassin, 2005). Corporate responsibility and ethical issues consequently take a different breadth in SMEs.

The aim of this study then, is to uncover how the small business entrepreneur understands the notions of corporate responsibility, business ethics and other related concepts. What is his/her perception of the different concepts around business ethics and CSR? How does he/she differentiate the various notions? Which concepts does he/she associate with each other? The purpose is to examine whether small business entrepreneurs possess a mental model about CSR and business ethics related concepts. Particularly, the inquiry will determine whether entrepreneurs see business ethics and CSR as interchangeable concepts, and whether in their mind CSR and sustainability cover similar issues. A better knowledge of these issues will add to a better understanding of how entrepreneurs think and make strategic decisions. As contended, it may add credence to the assumption that entrepreneurship concerns itself with distinctive ways of thinking and behaving (Mitchell et al., 2007). The relation between business ethics and other concepts such as corporate governance, stakeholder management and sustainability will determine the (degree of) interwovenness of those concepts in the entrepreneurs' mind. In addition, the analysis will verify how entrepreneurs position philanthropy in relation to CSR and business ethics related concepts.
This complex issue is addressed by using a combined qualitative and quantitative approach: through the application of the Repertory Grid Technique (RGT), mental models of the small business leaders will be drawn. These mental models will be discussed and confronted to the recent academic literature.

**METHODODOLOGY**

**Cognitive approach**

As pointed out, a cognitive approach will be used offering the advantage of well suiting the general research question addressed. In line with the cognition theory as set above, entrepreneurs’ mental models about CSR and related concepts will be drawn and compared.

As contended above, mental models are mental representations created to help to process information, make sense and make decisions (Walsh, 1994). They guide the attribution of meaning and significance to organizational events (Isabella, 1990) as they mirror reality as perceived through the senses by reducing information-processing demands and structuring experience (Walsh, 1988). Mental models emerge from social construction processes such as (in)formal communication processes (Porac et al., 1989) and exposure to common environments such as associations, consultants (Gill et al., 1992; Reger & Huff, 1993) and the press (Lamertz & Baum, 1998). Mental models may change over time. It has been argued (e.g., Denison, Dutton, Kahn, & Hart, 1996; Dutton, Walton, & Abrahamson, 1989; Dutton & Webster, 1988) that mental models make that the same stimuli are interpreted differently in different organizations.

**Repertory Grid Technique**

Methods that are used to elicit and represent these mental models on various levels are known as *cognitive mapping techniques* and the resulting representations as cognitive or *mental maps*. Fiol & Huff (1992: 267) defined a map as “a graphic representation that provides a frame
of reference... for what is known and believed”. The intention in drawing a cognitive map is to describe an individual’s or collectivity’s conscious perception of reality with sufficient detail to capture the idiosyncratic world view, while filtering out the myriad of details (Langfield-Smith, 1992).

Several methods for eliciting maps co-exist such as classic interviews and surveys. In a very sensitive area as business ethics and corporate responsibility, classic interviews and surveys present an important risk of bias of socially acceptable response. Hence, in this paper, the methodology employed for elicitation of mental models is the Repertory Grid Technique. It has been argued that the RGT is very appropriate for analyzing the composition of mental models (Hodgkinson, 1997) and that the primary strength of the RGT lies in its inherent flexibility, both from the point of view of data collection and of data analysis (Hodgkinson, 2005). The repertory grid is a proven technique minimizing researcher bias compared to other cognitive mapping techniques (e.g., Easterby-Smith, Thorpe, & Holman, 1996; Ginsberg, 1989). In addition, RGT allows eliciting dimensions that should be lost using other methods (Huff, 1997) and is useful for participants who are not likely to fill in surveys such as directors and senior managers (Brown, 1992). RGT has many applications within different disciplines, especially in management research (Daniels, Johnson, & de Chernatony, 1994; Reger & Palmer, 1996), but very limited utilization in the business and society fields (e.g., Bendixen & Thomas, 2000).

Three essential features are generally discerned within repertory grids (Easterby-Smith et al., 1996): (1) elements that are “things or events which are abstracted by a construct” (Kelly, 1955: 137); (2) constructs or dimensions that are the qualities of the elements and that are used to differentiate; and (3) linking mechanisms or different ways how elements and constructs are linked.
Design of the study

The elements were supplied, since the intention was to learn more about a given set of elements, to test hypotheses and to compare responses of respondents (Reger, 1990b). The elements, i.e. all concepts related to CSR and business ethics since this is the topic of research, were chosen on the basis of importance in the academic literature and of degree of acceptance of the concept in the broader business society.

Figure 1: Quantitative Literature Overview (Citation analysis) of CRS- and Business Ethics Related Concepts between 1975-2005 (Umi-Proquest database)

The initial selection contained 20 elements that included the six major concepts from Egel’s (2005) analysis, some additional sub-domains and some opposite concepts as shareholder value. Elements that were close to each other were combined to one single element (e.g., CSP, corporate social responsiveness and corporate citizenship were combined into CSR; sustainable development and corporate sustainability were combined into sustainability). At this stage, 13
elements were retained covering a mix of business and society related subjects, and practical and strategic topics. A test case with these 13 elements was carried out. Due to the time needed and difficulties when supplying 13 elements for RGT purposes and since it is argued when using triadic combinations the number of stimuli (in our case elements) may be relatively small (Bijmolt & Wedel, 1995), it was decided to continue with 9 elements\(^1\). These 9 elements were selected from the list of 13 elements by consultation with three independent researchers. It was taken care of that the list of 9 elements was representative and provided adequate coverage of aspects being examined (Easterby-Smith, 1980; Easterby-Smith et al., 1996). The retained elements included the five central elements, in alphabetical order: business ethics, corporate governance, CSR, stakeholder management and sustainability. In addition, the list included the notion shareholder value as opposed to stakeholder management (Hendry, 2001) which allowed better differentiation, and two sub-domains ethical code or charter and safety. Finally, the notion of philanthropy was explicitly retained in order to investigate its relation to CSR, since the classical view conceives philanthropy as an element of CSR (Carroll, 1991) versus the European Commission view which excludes this concept from CSR (EC, 2001). As the study was realized in the Dutch-speaking part of Belgium, all elements were supplied in the Dutch (Flemish) translation completed with the English terminology. Corporate citizenship was not retained by the independent experts as a central concept to be included in the nine concepts, since it has been introduced quite late in management literature (see the citation analysis) and is focused on the larger corporations. Corporate citizenship is regarded being related to CSR, also by academics. This term of corporate citizenship, although included in most of the recent comparative studies, has only been partially

\(1\) A suggested guideline for stable Weighted Multidimensional Scaling solutions is to have more than four times as many objects as dimensions desired in the perceptual map (Hair et al, 1998).
introduced in the Belgium business world, and definitely not in SME circles. Until now, there is no general accepted Dutch translation.

The constructs were elicited using the random triad elicitation and difference instruction forms (the minimum context form) (for a detailed description of various options see Neimeyer, 2002). This method yields higher levels of differentiation and less opposite poles, and is used in many management studies (e.g., Aranda & Finch, 2003; Daniels et al., 1994; Dutton et al., 1989; Pavlica & Thorpe, 1998; Reger, 1990a). Six constructs (relevance for my company/not relevant; practical concept/theoretical concept; opportunism, marketing or public relations/sincere, genuine conviction; ethical concept/has nothing to do with ethics; decency of governance/has nothing to do with decent governance; fashion or hype/classic concept) were supplied after elicitation of the constructs, as far as the respondent did not give this construct\(^2\). Rating as linking mechanism was selected as it allows the most flexibility of responses (Reger, 1990b; Tan et al., 2002), making use of a seven point Likert scale.

\(^2\) Easterby-Smith (1980) suggested to proceed in this way in order to avoid influence on type of constructs that the respondent is thinking of. Constructs with emergent and implicit poles (bipolar constructs) were elicited till the interviewee dried up. There is no formula which indicates the right number of construct to be elicited from an interview (Easterby-Smith et al., 1996: 11). Since Easterby-Smith and colleagues (1996) cautioned against bad recording of constructs, constructs were recorded on pre-printed sheets. In order to assure consistency (sequence, interview structure, timing, etc.) between RGT interviews, a proceedings paper was drawn containing amongst others the definition of elements, the proceedings, the questions asked and the example for triading given.
Content Analysis

Content analysis was employed for comparing the constructive systems across individuals. A construct inventory was conducted by listing constructs named by a group of participants and plotting their relative frequencies or identifying the set of constructs held by the majority of the members of the group. First, a category system was carried out following the procedure as set out by Janckowicz (2003). Two researchers independently repeated the categorization procedure. After this exercise, both researchers negotiated and obtained 100% accordance. This agreed coding by the two researchers was used in subsequent analyses.

Weighted Multidimensional Scaling

Statistics which assume conformable dimensions may not be used for parallel analysis of data which have been aggregated across the different individual grids, since the dimensions (constructs) of each individual repertory grid tend to differ as is the case with the 23 elicited RGT matrices (Dunn & Ginsberg, 1986; Ginsberg, 1989). Hence, in order to draw actors’ mental models, RGT was used in conjunction with a method of exploratory statistical analysis, three-way scaling or Weighted Multidimensional Scaling (WMDS). The purpose of WMDS is to draw a multidimensional space. This allows the researcher to determine the perceived relative image or key dimensions of a set of objects (such as for example CSR and business ethics-related concepts) (Hair et al., 1998). The assumption is that a given group of actors share a common set of underlying dimensions in their mental models of a particular domain, which can be compared with constructs in the sense of Kelly’s personal construct theory (Kelly, 1955). Using WMDS, a group space (i.e. a kind of master or reference) is formed by the union of all the dimensions that the subjects use, spanned by a fixed set of shared common dimensions, but there are critical differences. Each subject differentially weights or attaches a relevance to each of the fixed
dimensions. This differentially weighting is expressed in individual source weights ranging between zero and unity. The pattern of these subjects’ (individual) source weights is represented in the subjects’ space.

Sample

As mentioned, the target group for the study was small business leaders or entrepreneurs-owners of small or medium-sized companies. Given the variety of SMEs (Longenecker, Moore, & Petty, 1996), it was necessary to further delimit the target group. Only SMEs that possessed a certain organizational structure were withheld. The organizations should at least cover three functional areas and should possess a minimum of hierarchy with different functional staff collaborators. In addition, except for one or two recent starters, the owners should have gained an experience of at least five years running their business and enjoy a certain degree of professionalism. The entrepreneurs should be owners or major shareholders of their company that should be located in four Dutch-speaking provinces of Belgium. In addition, since the research topic relates to business ethics, corporate responsibility and related fields, certain knowledge of the management jargon was considered as a minimum requirement. A sample size of 15–25 interviewees within a population generates sufficient constructs to approximate the universe of meaning surrounding a given situation, and is therefore sufficient for RGT (Easterby-Smith, 1980; Ginsberg, 1989; Kaish et al., 1991; Stewart & Stewart, 1981). The group was recruited via a database of 200 entrepreneurs who had followed a short general management course at a local business school. It was first verified that the entrepreneurs fulfilled the conditions as described above and then at random 30 entrepreneurs were selected and invited by a letter to participate to the RGT interviews. 15 entrepreneurs reacted positively. To obtain a sufficient variety of sectors represented, four additional entrepreneurs were selected out of the committee of the national
federation of industries and four additional SMEs were added through referral by the first group. Hence, we RGT interviewed 23 highly diversified small business leaders.

More than half of the 23 interviewees took over the family business, which half of them seriously transformed. A few entrepreneurs started their own company, five of them acquired their business or did a management-buyout. Nearly half of the SMEs are production firms, one third owns pure distribution activities, and twenty percent of them are in services business. Except for the construction business (4) and IT sector (3), the sample counted no more than two representatives per sector. Employee size varied from 5 to 170 employees, with the vast majority between 15 and 50 employees. Only four SMEs exceed 50 employees, and four counted less than 10 employees. Half of the interviewees obtained a university degree. Their age varied between 35 and 60, with a majority around 40-45. Of the 23 interviewees, there were two female entrepreneurs.

**DATA ANALYSIS**

In total, 226 constructs were elicited by the 23 respondents, such as for example strategic/operational, essential/nice to have, manipulative/neutral. The rating process resulted in 23 (being the number of interviewees) two dimensional matrices of numerical values (Grice, 2002:338). Each individual $9 \times n$ matrix, where 9 is the number of elements and $n$ is the number of constructs, was subjected to a content analysis and to calculation of basic and explorative statistical analysis. The number of constructs produced per interviewee varied between 6 and 14 ($M = 9.26; Me = 10; SD = 2.12$).

**Content analysis**

The content analysis was carried out as described above. Based on the categorization of the two raters, a reliability table was drawn following Janckowicz (2003). Analyzing the
reliability table, following figures were obtained: Total elicited constructs: 226; Total of common constructs: 165; Number of constructs that have been allocated to categories agreed on by both researchers: 221; Number of constructs outside the agreed categories: 61. Following measures of agreement were computed: Agreement as a percentage of all constructs (165/226*100) = 73.0 %; Agreement as a percentage of the constructs that have been allocated to categories both agreed on (165/221) = 77.8 %. These findings indicate that the content analysis may be considered being reliable.

The agreed coding by the two researchers resulted following categories as shown in Table 2 indicating construct category names, the number of constructs within each category, the percentage of constructs within the corresponding category, the number of interviewees mentioning constructs in this category and the percentage of interviewees mentioning constructs within this category.

Table 2: Content analysis indicating category names, category description, examples of best fitting constructs (N=23)
<table>
<thead>
<tr>
<th>Construct Category</th>
<th>Nbr. of Constructs within category</th>
<th>% of Total Nbr. of Constructs</th>
<th>% of Interviewees mentioning constructs in this Category</th>
<th>% of Interviewees mentioning Constructs within this Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance for the own situation</td>
<td>19</td>
<td>8.41</td>
<td>17</td>
<td>73.91</td>
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<tr>
<td>Essentiality</td>
<td>18</td>
<td>7.96</td>
<td>14</td>
<td>60.87</td>
</tr>
<tr>
<td>Degree of Voluntariness vs Compliance</td>
<td>17</td>
<td>7.52</td>
<td>14</td>
<td>60.87</td>
</tr>
<tr>
<td>Profitability vs. Values</td>
<td>17</td>
<td>7.52</td>
<td>14</td>
<td>60.87</td>
</tr>
<tr>
<td>Goal vs. mean</td>
<td>15</td>
<td>6.64</td>
<td>13</td>
<td>56.52</td>
</tr>
<tr>
<td>Operational vs. strategical</td>
<td>14</td>
<td>6.19</td>
<td>12</td>
<td>52.17</td>
</tr>
<tr>
<td>Degree of Formality</td>
<td>13</td>
<td>5.75</td>
<td>12</td>
<td>52.17</td>
</tr>
<tr>
<td>Ratio materiae: broad vs. narrow</td>
<td>12</td>
<td>5.31</td>
<td>12</td>
<td>52.17</td>
</tr>
<tr>
<td>Single vs. multiple stakeholders</td>
<td>12</td>
<td>5.31</td>
<td>12</td>
<td>52.17</td>
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<tr>
<td>Internal vs. external</td>
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<td>5.75</td>
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<td>47.83</td>
</tr>
<tr>
<td>Short vs. long term</td>
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<td>11</td>
<td>47.83</td>
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<tr>
<td>Ethical content</td>
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<td>4.87</td>
<td>11</td>
<td>47.83</td>
</tr>
<tr>
<td>Practical vs. theoretical</td>
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<td>9</td>
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<tr>
<td>Private vs. businesslike</td>
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<td>34.78</td>
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<tr>
<td>Opportunism vs. conviction</td>
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<td>7</td>
<td>30.43</td>
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<tr>
<td>Clearness</td>
<td>7</td>
<td>3.10</td>
<td>6</td>
<td>26.09</td>
</tr>
<tr>
<td>Fashion vs. classic concept</td>
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<td>Decency of governance</td>
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<tr>
<td>Degree of solidity (vs. deviability)</td>
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<td>Positive vs. negative</td>
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<td>13.04</td>
</tr>
<tr>
<td>Total (N=23)</td>
<td>226</td>
<td>23</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Weighted Multidimensional Scaling**

We used WMDS procedures (ALSCAL in SPSS 12) enabling a comparison of the elicited grids from the 23 respondents. Based on the individual RGT matrices for every interviewee Euclidean distances for elements were calculated. This was the input in the WMDS analysis (Hair et al., 1998; Hodgkinson, 2005). For ALSCAL, the routine was set to compute solutions from five down to two dimensions. Various levels or transformations were computed: level = ordinal (untie), level = ordinal (tied) and level is interval. Level = ordinal (tied) demonstrated the best results.

Figure 2 shows the screeplot indices of fit for different dimensions of the group model of all elements for all interviewees.
In the screeplot one can see that a two- or three dimensional common space can not ideally
capture the mental model of the 23 interviewees of the CSR and business ethics related concepts,
although a two-dimensional space explains 34 % of the variance accounted for. A three-
dimensional space increases the variance accounted for to 43 %. In the screeplot it is shown that
there is especially improvement in goodness of fit when the number of dimensions is increased
from two to three. Hence and for reasons of clearness, a three-dimensional solution will be
withheld; nonetheless this solution does not optimally represent how the 23 interviewees mentally
capture CSR and business ethics related concepts.

*Group space configuration*

The aggregated judgments of the 23 interviewees with respect to each management
concept are plotted in Figure 3 along three dimensions of the group space configuration.

*Figure 3: Three-dimensional Group Space representing the 9 Elements for the Full
Sample of Interviewees (N=23; Stress =0,21; RSQ =0,43) (ALSCAL Level = ordinal)*
Figure 4 shows the first two dimensions of the three-dimensional solution.

Figure 4: Two first Dimensions of the Three-dimensional Group Space representing the 9 Elements for the Full Sample of Interviewees (N=23; Stress =0.21; RSQ =0.43) (ALSCAL Level = ordinal)
The maps representing the group spaces do not demonstrate a degenerate solution which is characterized by either a circular pattern in which all objects or elements are shown to be equally similar, or a clustered solution, in which the objects are grouped at two ends of a single dimension (Hair et al., 1998). Degenerate solutions are most often caused by inconsistent data, which may imply that objects (elements) and/or attributes (constructs) offered have no meaning for the respondents (Hair et al., 1998).

Table 3 shows the stimulus coordinates associated with the three-dimensional solution. The stimulus coordinates of the common space are analogous to factor loadings in a conventional principal component analysis, in the sense that the greater the magnitude of a given dimension weight, the greater the relevance (negative or positive indicating the applicable pole of the dimension) of the associated element.

Table 3: Stimulus Coordinates associated with the Three-dimensional Group Space representing the 9 Elements for the Full Sample of Interviewees (N=236; Stress =0.21; RSQ =0.43) (ALSCAL Level = ordinal)
The first dimension of the three-dimensional common space for the 23 interviewees seems to represent “abstract vs. concrete” dimension as reflected by high stimulus coordinates for corporate governance (1,22), ethical code (1,01) and business ethics (0,94) at one side of this dimension, and for stakeholder management (-1,29), shareholder value (-1,26) and philanthropy (-1,41) at the other side of this dimension. The second dimension appears to reveal “the corporate vs. societal” dimension as demonstrated by high stimulus weights for philanthropy (1,35) and business ethics (0,95) at one side of this dimension, and for shareholder value (-1,49), safety (-1,35) and corporate governance (-1,16) at the other side of this dimension. The third dimension seems to indicate the “general vs. specific” focus. This is demonstrated by high stimulus coordinates for CSR (1,33) and sustainability (1,33), stakeholder management (0,81) at one side of this dimension, and high stimulus coordinates for safety (-1,34), ethical code (-1,12), business ethics (-0,88) and philanthropy (-0,79) at the other side of this dimension. Shareholder value (0,09) seems the most neutral concept on this dimension.

The common space of the nine elements for the 23 interviewees as revealed in Figure 4 showing the two first dimensions of the three-dimensional solution, demonstrates that the elements CSR and sustainability are found relatively close together indicating that these elements are interpreted in the same way. Table 3 showing the stimulus coordinates associated with the
three-dimensional common space indicates as well that these elements are considered to resemble, since their respective stimulus coordinates are similar. Both concepts are considered being “abstract-societal” since they load on the abstract-side (respectively 0,22 and 0,58) of the “abstract vs. concrete” dimension and on the societal side (respectively 0,63 and 0,30) of the “the corporate vs. societal” dimension. The Euclidean distance within the three-dimensional space between CSR and sustainability amounts to 0,49. In the same way, business ethics and ethical code are found close together as well. The Euclidean distance within the three-dimensional space between these concepts is 0,44. Both concepts are also revealed in the “abstract-society” quadrant.

Safety is found at the high end of the corporate side of the “corporate vs. societal” dimension (-1,35). Safety scores neutral on the abstract side of the “abstract vs. concrete” dimension (-0,02). Corporate governance is positioned in the “abstract-corporate” quadrant loading high on the corporate side of the “corporate vs. societal” dimension (1,22) and on the abstract side (-1,16) of the “abstract vs. concrete” dimension. Shareholder value and stakeholder management are both considered as concrete elements, loading respectively (-1,26) and (-1,29) on the concrete side of the “abstract vs. concrete” dimension. However, what the second dimension is concerned, these concepts are different. Shareholder value is definitely corporation oriented (-1,49), whereas stakeholder management is rather neutral (0,19).

Business ethics is positioned at an approximately equal distance of CSR and corporate governance (see Figure 3). The Euclidean distance within the three-dimensional space between business ethics and CSR is 2,35 and between business ethics and corporate governance is 2,59. The difference between business ethics and CSR is mainly due to differences within the third dimension (“general vs. specific” focus), while the difference between business ethics and corporate governance stems from the second dimension (“the corporate vs. societal” dimension).
The Euclidean distance between CSR and corporate governance amounts to 2.18, also stemming from the second dimension. The Euclidean distances between at one hand stakeholder management and at the other hand business ethics, corporate governance and CSR are respectively 2.90; 2.86 and 1.66.

Philanthropy seems to be the einzelganger as this concept is found standing alone in the “concrete-societal” quadrant, with high stimulus coordinates (-1.41 in the concrete dimension and 1.35 in the societal dimension). Philanthropy shows also a high load (-0.79) on the specific side of the “general vs. specific” dimension. Philanthropy presents the highest Euclidean distances compared to the preceding concepts.

Subject’s space map

In addition, a subjects’ space map was drawn which portrays subjects, not stimuli (elements). In this subjects’ space map, the interviewee’s position is determined by his/her weights (individual source weights) for each dimension and measures the importance of each dimension to each subject. Figure 5 shows two dimensions of the subjects’ space map, since the three-dimensional figure is rather hard to read.
Figure 5: Interviewees Source Weights of the Two-dimensional Solution representing all elements (N=23; Stress = 0.31; RSQ = 0.34) (ALSCAL = Level ordinal)

The points in the subjects’ space map (Figure 5) representing individuals must strictly be seen as a vector from the origin (Hair, Anderson, Tatham, & Black, 1998; Hodgkinson, 2005) and has therefore implications for the psychological significance (Hodgkinson, 2005). The distance of the individual from the origin (i.e. the length of the vector) is the proportion of variance accounted for in the private cognitions of a given source by the group space (Hodgkinson, 2005). The longer the vector, the better the group space accounts for this person’s data. It is clear that points float around in this subjects’ space map indicating that each individual has a different mental model about all nine elements.
Since the 45 degree diagonal line signifies the general orientation of interviewees attaching equal importance to both dimensions, hence follows that the closer a given participant is located to the X axis, the greater the importance of dimension 1 relative to dimension 2 in accounting for his/her judgment of the stimuli. Conversely, traveling away from the diagonal of equal weighting towards the Y axis the greater the dimension 2 relative to dimension 1 in accounting for the individuals’ judgment of stimuli. By studying Figure 5 it is demonstrated that most respondents are situated in the direction of the X axis, indicating that they tend to be more thinking in terms of the abstract-concrete dimension than the respondents who figure at the other side of the diagonals of equal weighting.

**Descriptive statistics of constructs**

Table 4 exhibits the descriptive statistics of ratings per element-construct combination for the six supplied constructs and for the elicited constructs mentioned by the most interviewees.
Table 4: Descriptive Statistics of Ratings per Element-Construct combination of the supplied constructs (N=23)

| Dimension                                      | Supplied/elicited construct | n Respondents | n Constructs | M   | sd  | M   | sd  | M   | sd  | M   | sd  | M   | sd  | M   | sd  | Average sd |
|------------------------------------------------|----------------------------|---------------|--------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------------|
| Relevance for the own situation                | Supplied                   | 23            | 23           | 6.30| 0.82| 5.04| 2.06| 4.61| 1.53| 5.04| 1.72| 4.74| 1.86| 3.52| 2.15| 2.04        |
| Ethical content                                | Supplied                   | 23            | 23           | 6.57| 0.66| 4.52| 1.73| 5.13| 1.49| 4.04| 1.94| 5.17| 1.56| 4.13| 2.26| 2.04        |
| Decency of governance                           | Supplied                   | 23            | 23           | 5.65| 1.43| 6.61| 0.58| 5.04| 1.49| 5.35| 1.11| 5.13| 1.46| 2.35| 1.58| 2.04        |
| Practical vs. theoretical                      | Supplied                   | 23            | 23           | 5.48| 1.38| 4.65| 1.82| 3.83| 1.56| 4.39| 1.85| 4.87| 1.79| 4.00| 2.30| 1.84        |
| Opprowmus vs. conviction                        | Supplied                   | 23            | 23           | 2.52| 1.65| 2.61| 1.64| 3.36| 1.45| 3.04| 1.43| 2.87| 1.46| 3.65| 1.90| 1.68        |
| Fashion vs. classic concept                     | Supplied                   | 23            | 23           | 2.70| 1.99| 3.57| 2.11| 4.09| 1.62| 2.83| 1.56| 3.52| 1.95| 2.83| 1.70| 1.80        |
| Essentiality                                    | Elicited                   | 14            | 18           | 5.56| 1.46| 5.39| 2.03| 4.61| 1.29| 5.17| 1.29| 4.50| 1.58| 2.67| 1.53| 1.64        |
| Degree of compliance vs. voluntariness          | Elicited                   | 14            | 17           | 3.12| 2.20| 3.53| 2.12| 3.41| 1.94| 3.71| 2.08| 4.06| 1.60| 3.00| 2.32| 2.05        |
| Goal vs. mean                                   | Elicited                   | 13            | 15           | 4.20| 2.43| 4.00| 2.30| 4.67| 2.23| 4.13| 2.20| 4.27| 2.34| 3.27| 2.34| 2.24        |
| Strategic vs. operational                       | Elicited                   | 12            | 14           | 5.00| 1.62| 5.14| 2.38| 5.00| 1.52| 4.79| 2.19| 4.64| 1.91| 4.36| 2.21| 2.02        |
| Values vs. profitability                        | Elicited                   | 14            | 13           | 5.69| 1.32| 4.69| 1.49| 5.00| 1.22| 4.00| 1.47| 4.92| 1.44| 4.38| 2.40| 1.90        |
| Internal vs. external                           | Elicited                   | 11            | 13           | 4.46| 1.81| 5.23| 1.36| 3.92| 1.32| 4.15| 1.77| 3.85| 1.21| 2.46| 1.39| 1.56        |
| Degree of formality                             | Elicited                   | 12            | 13           | 3.15| 2.38| 5.31| 2.02| 3.69| 1.93| 4.08| 1.80| 4.38| 1.85| 2.54| 2.07| 1.55        |
| Broad vs. narrow                                | Elicited                   | 12            | 12           | 5.92| 1.08| 5.25| 1.36| 5.30| 1.62| 5.17| 1.27| 5.08| 1.51| 3.08| 2.35| 2.04        |
| Multiple vs. single stakeholders                | Elicited                   | 12            | 12           | 4.50| 2.02| 4.42| 2.35| 4.17| 2.08| 4.75| 1.82| 4.83| 1.85| 2.92| 2.07| 2.39        |
| Long vs. short term                              | Elicited                   | 11            | 11           | 5.09| 2.02| 5.27| 2.00| 5.36| 1.50| 5.73| 1.10| 5.55| 1.21| 3.09| 1.92| 1.95        |
| Businesslike vs. private                        | Elicited                   | 8             | 8            | 4.13| 2.36| 5.88| 1.89| 6.00| 1.07| 5.63| 1.19| 5.88| 0.99| 1.75| 1.39| 1.66        |

Average sd per Element                          |                            | 1.68          | 1.84          | 1.58          | 1.64          | 1.62          | 1.99          | 1.68          | 1.73          | 2.04        |
Comparing the nine concepts, table 4 shows the most extreme means for shareholder value, philanthropy, safety and business ethics. Shareholder value is considered the most strategic (M=5,43), goal-oriented (M=5,13) and internal concept (M=5,31). Safety is regarded as the most formal (M=5,69), practical (M=5,87), operational (M=3,36) and less voluntary (M=4,88) concept. Philanthropy is perceived being the most voluntary (M=3,00), informal (M=2,54), narrow (M=3,08) and less essential element (M=2,67). Business ethics is considered as the broadest (M=5,92), value-oriented (M=5,69) and most ethical element (M=6,57).

CSR is conceived as the most theoretical of the nine concepts (M=3.83) as opposed to safety (M=5,87), business ethics (M=5,48) and shareholder value (M=5,17) being perceived as being “very” practical. Shareholder value (M=2,58) and philanthropy (M=2,92) address to one single stakeholder, while the other concepts address to various (multiple) stakeholders.

Business ethics (M=6,57), ethical code (M=5,43), sustainability (M=5,17) and CSR (M=5,13) are believed being very ethical concepts. All concepts, except for philanthropy (M=2.35), are considered to highly relate with decency of governance, especially corporate governance (M=6,61), business ethics (M=5,65) and stakeholder management (M=5,35). Most concepts are believed being pursued by conviction and not by opportunism or marketing reasons, since for all concepts “the conviction pole” applies (M<4). Most concepts are perceived as rather classical notions, except for CSR which is regarded as the most fashionable (“buzz’word) of the nine concepts (M=4,09).

Additional analysis of average standard deviations of the nine concepts and constructs brings further information on how meanings of interviewees converge or diverge. Opinions about
CSR (sd=1.58), sustainability (sd=1.62) and stakeholder management (sd=1.63) disclose the lowest average standard deviations, indicating that perceptions about these concepts are in accord.

On the contrary, ethical code and philanthropy display the highest divergence in perception, since they reveal the highest average standard deviations (respectively sd=2.05 and 1.99). As far as the dimensions or constructs are concerned, most interviewees agree on the practical vs. theoretical dimension since this dimension shows the lowest average standard deviation (sd=1.42), followed by the internal vs. external dimension (sd=1.55) and values vs. profitability dimension (sd=1.56). On the other hand, interviewees disagree more on the goal vs. mean dimension (sd=2.24), on the degree of compliance dimension (sd=2.05) and on the strategic vs. operational dimension (sd=2.02).

Figure 6: Construct comparison for the five central concepts
When considering only the five central concepts out of the nine concepts (business ethics, corporate governance, CSR, stakeholder management, sustainability) (see Figure 6), an important delimitation of the various constructs is noticed. The differences between maximum mean and the minimum mean of the five concepts were calculated. These differences between means range from 2.5 for ethical content to 0.50 for strategic character. High differences between means are noticed for the following dimensions: the degree of formality, businesslike or private character, values vs. profitability, relevance of the own situation, practical vs. theoretical aspect, and decency of governance. Low differences between average means are noticed for strategic content, the long term approach, goal vs. mean, multiple stakeholders’ attention, conviction and breadth of the concepts.

Of the five central concepts, business ethics shows the most extreme means for the dimensions values (vs. profitability) (M=5.69), essentiality (M=5.56), breadth (5.92), voluntariness (vs. compliance) (M=3.12). CSR exhibits the most extreme means for businesslike (M=6.00), goal-oriented aspect (M=4.67) and corporate governance shows the most extreme means for formality (M=5.31), internal orientation (M=5.23), strategic oriented (M=5.14) and mean (vs. goal) (M=4.00). Sustainability is regarded as the less strategic (M=4.64), most external (M=3.85) and less essential (M=4.50) element of the five concepts. Stakeholder management is perceived as the most long term (M=5.73) and most profitability oriented (M=4.00) of the five major concepts, but attains a middle range score on all other dimensions.

The five central concepts all exhibit high means for the dimensions long term orientation (M>5.09) and strategic importance (M>4.64). Business ethics is considered the most essential concept (M=5.56), followed by corporate governance (M=5.39) and stakeholder management (M=5.16). Small business leaders consider almost unanimously (sd=0.82) business ethics as being
very relevant for their company (M=6.30), followed by safety (M=5.57) and shareholder value (M=5.17). The radar graph (see Figure 7) better visualizes the differences in perception on the various constructs for the concepts business ethics and CSR. The radar view of Figure 8 illustrates the close association in perception between CSR and sustainability. This graph also visualizes the clear segregation between CSR and philanthropy.

**Figure 7: Business ethics versus CSR**
DISCUSSION

Since the above group space configuration does not show any degenerate solutions, it is demonstrated that entrepreneurs possess a mental model about CSR and business ethics related concepts. The small business entrepreneurs show to have a rather clear perception of the concepts concerning business ethics and corporate responsibility. Hence we may conclude that there is sensemaking amongst entrepreneurs and that there is less confusion than what academic theory feared as has been set out above. Within literature, the most frequently mentioned characteristics of entrepreneurs are locus of control, need for achievement and tolerance of ambiguity (Begley, 1995; Begley & Boyd, 1987). Since the concepts surrounding ethics and corporate responsibility are rather ambiguous as demonstrated by the academic scholars, the higher tolerance of ambiguity
of entrepreneurs might explain that they are relatively well able to distinguish differences between the concepts (Morris, Schindehutte, Walton, & Allen, 2002). The fact that entrepreneurs have a clear perception of these concepts may also indicate that small business entrepreneurs are pragmatic (Busenitz et al., 1997). Even with a limited knowledge of the theory, they are able to make a clear differentiation between these concepts. As a clear three-dimensional group configuration could be drawn, this finding corroborates previous research that revealed “significant” differences in cognition among entrepreneurs (Cooper, Folta and Woo, 1995; Forbes, 1999).

The general mental model (Figures 3 and 4) reveals that there is definitely more differentiation between the five central elements (business ethics, CSR, sustainability, stakeholder management and corporate governance) than the interwoven use by the press and other media lets presume.

The study illustrates that CSR and sustainability are very closely associated in the entrepreneur’s mind. The latter finding confirms that entrepreneurs consider that CSR and sustainability roughly cover similar issues, as illustrated in the radar graph in Figure 8. Both notions show high similarities and only differ on a few dimensions. Sustainability is perceived as more practical than CSR. In addition, sustainability possesses a longer term vision, is regarded as less voluntary, more operational and less goal axed, more formally oriented and addresses more stakeholders. This finding also confirms both the general academic and corporate discourse where the notion of CSR that was traditionally focused towards social issues, has gradually integrated societal and environmental issues. In fact, CSR encompasses sustainability. In view of this evolution, “
corporate responsibility” (without the term social or societal) seems the most appropriate term (Enderle, 2004).
The group mental model also clearly delineates CSR from corporate governance on the one hand, and from stakeholder management and business ethics on the other hand. This conclusion differs from the frequent arguments of vagueness and ambiguity of these concepts as proposed by many academic studies (cfr. introduction).

Figure 7 illustrates that the interchangeability of the terms such as business ethics and CSR is not perceived as such by the Flemish entrepreneurs. CSR is considered more external, more theoretical, more opportunistic, and more businesslike than business ethics, as shown in Table 4. Therefore, contrary to the statements of a number of recent articles, business ethics and CSR cannot be considered as interchangeable concepts.

When looking at Figure 4, representing the two first dimensions of the three-dimensional group space it seems that the Flemish entrepreneurs position business ethics at equal distance of corporate governance and CSR. Business ethics and corporate governance differ the most when the dimensions ethical content, formalism, and business orientation are concerned. Corporate governance also differs substantially from CSR as far as the dimensions ethical content, theoretical, conviction, internal orientation and degree of formalism are concerned (see Table 4). This finding emphasizes the distinction made between “the principles of governance” and “the practice of management”.

Contrary to the interwoven aspect of stakeholder management and CSR in literature (Wheeler et al., 2003), stakeholder management is not perceived by small business entrepreneurs to be as closely associated with CSR. Looking at Table 4, stakeholder management is found somewhere between CSR, business ethics and corporate governance, and is awarded the long term perspective.
Entrepreneurs seem to consider shareholder value as a stand alone concept and attach the most strategic importance to it. Contrary to the academic discussion between the stakeholder theory and the shareholder theory of the firm (Hendry, 2001), they do not perceive shareholder value and stakeholder management as totally opposite concepts. In their mental model, stakeholder management is more closely linked with shareholder value, at least for certain dimensions. This outcome corresponds to abundant press articles and consultants statements in support of the prevailing academic discourse that consideration for stakeholders leads to superior long term performance and as a consequence, also to shareholder value. This may indicate, that entrepreneurs in a pragmatic approach, still realistically recognize profit as an important prerequisite for social responsibility. The general mental model shows that ethical code is positioned close to business ethics and is seen as a tool to achieve ethical behaviour.

Safety and philanthropy are perceived in the mental model of the small business entrepreneurs as rather separate or being different from the other supplied elements. The singularity of philanthropy is demonstrated by the most extreme scores for most descriptive statistics of ratings per element-construct combination (Table 4), while safety has formal, operational and compliance characteristics. This observation was also made during the RGT interview, as these concepts were often indicated as being the implicit pole within the triad. The implicit pole is the element within the triad perceived as being different from the two other elements (Neimeyer & Hagans, 2002). Philanthropy is also considered to be distanced from CSR, as illustrated in Figure 8. Only the theoretical aspect and the voluntary approach seem somehow coincide. In the social environment of a Western-European continental country, philanthropy is considered as basically a private activity.
Several suggestions for explanation of our findings can be presented. First of all, the clear and differentiated views that the interviewees had even without deep theoretical knowledge may indicate that indeed entrepreneurship concerns itself with distinctive ways of thinking and behaving (Busenitz et al., 1997). In addition, this finding may question the practical added value of many academic discussions concerning CSR and business ethical related fields, especially for small and medium-sized firms. The fact that the small business entrepreneur has a relatively clear view concerning these concepts may also indicate that apparently the various concepts have been rather well introduced and disseminated in the business world by other channels than academic literature. It could possibly signify that practitioners form their cognitive models independent from academic research (e.g., Eric Abrahamson & Eisenman, 2001; Clarkson, 1995; Newell, Robertson, & Swan, 2001).

LIMITATIONS AND PERSPECTIVES

The present research of entrepreneurial cognition investigates the interpretation of small business entrepreneurs of corporate responsibility and ethical related concepts. Further comparative research should examine whether CEOs of larger companies or non-entrepreneurial groups would engender the same differentiation in their perception. It has been argued that entrepreneurs develop unique knowledge structures (Baron, 1998; Mitchell et al., 2007; Mitchell et al., 2002a) and show distinctive entrepreneurial mental processes such as for example alertness (e.g., Busenitz, 1996; Kaish et al., 1991) and effectuation which depicts entrepreneurs as change agents specialized in recognizing and exploiting opportunities available to them (Shane and Stuart 2002).
The generalizibility of the study is constrained by the nature of the sample. Although this sample was sufficient for the purpose of eliciting constructs reflecting the universe of meaning surrounding a given situation (Ginsberg, 1989), this sample is not amenable for general inference.

In addition, further research should investigate whether the conclusions of distinctive perception of the concepts can be extrapolated for all small business leaders in the various countries. Whereas the fragmentation between individual views will probably be confirmed, the degree of differentiation in the aggregated analysis can vary according national, regional or linguistic criteria. This presumption stems from the studies on the impact of language and terminology in the perception of concepts (Hansen et al., 2004). The results of the present study therefore cannot be extrapolated just like that to all European countries. The present study was conducted in the Flemish (Dutch) speaking part of Belgium. The translation of the original English terminology of new management terms in local languages always leads to slight differences and nuances, nonetheless for the present study the translation of the terms into Dutch have been agreed on by three independent experts and the original English terminology was added to the Dutch translation when performing the RGT interviews.

The clear link between CSR and sustainability and the clear delimitation from corporate governance and business ethics on the one hand, and from stakeholder management on the other hand may possibly have been influenced by the content and format of the terms in the Dutch language: CSR (Maatschappelijk Verantwoord Ondernemen or MVO) and sustainability (Duurzaam Ondernemen) are used in Dutch in the verb-form ‘ondernemen’ (to enterprise), while corporate governance (deugdelijk bestuur) uses the noun ‘bestuur’ (governance). Those three terms have received considerably market attention during the last years, from different sides such as professional associations and the press. The verb-form of CSR and sustainability compared to
the noun-form of the other concepts can also contribute to elucidate the perception of synonymous meaning between both concepts, hereby reinforcing the encompassing characteristic of CSR. This interconnection may be less pronounced in other languages.

Hence, we recommend an international comparison of interpretation of small business entrepreneurs of corporate responsibility and ethical related concepts involving different languages. Such an international comparison will make more clear whether or not the degree of differentiation between the various concepts is influenced by the language and the appropriate translation of the English terms. Furthermore, international research could investigate the effect of marketing and dissemination of concepts and terms in different countries and the influence of culture. In this vein, Mitchell and colleagues (2002b) observed in their study of entrepreneurial cognition and culture a universal culture of entrepreneurship, but also noticed differences among countries. Similar differences may be found in entrepreneurial cognition of CSR and business ethical related concepts. The dissemination process of the concepts also leads to different patterns of adoption and often delays reception (Newell, Swan, & Galliers, 2000; Sturdy, 2004). For example, the notion of stakeholder management “Anspruchsgruppe”, has only recently been introduced in Germany (Hansen et al., 2004) and in France under the term “les partis prenantes”. Both German and French terms have not yet reached the same popularity as the American term “stakeholder”.

The use of cognitive mapping techniques implies that general critiques on cognitive theory and cognitive mapping techniques are applicable to this research. Also more particular critiques using spatial techniques such as WMDS and the applied algorithm ALSCAL are relevant. The common space of WMDS is an aggregated map, which has been criticized to ignore the influence of group dynamics (Schneider & Angelmar, 1993). However, it was not our
Another limitation is the use in our research of the nine concepts as elements. It must be said that many more concepts have been developed in the academic and business sphere. Nonetheless we took great care in choosing the elements, it would be useful to repeat this study with other CSR and business ethics related concepts as well. It would be worthwhile to integrate the concept of corporate citizenship in a study in the U.K, where the concept is more knowledgeable.

CONCLUSION

Small business entrepreneurs are uninformed and ignorant of the discussion on vagueness and confusion that monopolize many research literature on CSR and business ethics. In fact, they are totally unaware of this academic debate, in which they actually do not participate. But, in a pragmatic manner, practitioners form their cognitive models independent of academic research, based on their own perception, even without a thorough theoretical knowledge. They receive information through other channels, mainly business associations and vulgarising articles in the business press. This repertory grid analysis on entrepreneurial cognition concludes that there is indeed sensemaking amongst entrepreneurs.
The study also illustrates a certain disconnect between academics and practitioners. A minimum understanding of the managerial world should be required for scholars engaged in management research, as well as cognisance of the specific issues in small business and entrepreneurship (Das, 2003).

The present research work based on the repertory grid technique— which can be considered an innovation in the business and society field - analysing the small business entrepreneurs’ perception, confirms the academic literature stating that there is a close link between CSR and sustainability, but rejects the interchangeability of the terms business ethics and CSR. The small business entrepreneur plainly embraces the distinction between three basic complementary concepts: corporate responsibility, corporate governance, and business ethics. This triad corresponds to three crucial dimensions: management, governance, and values.
## Annex A

**List of Articles Mentioning Overlapping Between CSR Be Concepts**

<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Concept 1</th>
<th>Concept 2</th>
<th>Concept 3</th>
<th>Comment</th>
</tr>
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<td>CSR</td>
<td>Business Ethics</td>
<td></td>
<td>interchangeable</td>
</tr>
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<td>CSR</td>
<td>Business Ethics</td>
<td>Corp. Soc. Responsiveness</td>
<td>related, conflicting &amp; overlapping</td>
</tr>
<tr>
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<td>2004</td>
<td>CSR</td>
<td>Business Ethics</td>
<td></td>
<td>interchangeable</td>
</tr>
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<td>Business Ethics</td>
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<td>Brinkman</td>
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<td>CSR</td>
<td>Business ethics</td>
<td></td>
<td>interchangeable</td>
</tr>
<tr>
<td>Eberhard-Harribey</td>
<td>2006</td>
<td>CSR</td>
<td>Business Ethics</td>
<td></td>
<td>inspired by</td>
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<tr>
<td>Trevino &amp; Weaver</td>
<td>2003</td>
<td>Business Ethics</td>
<td>CSR</td>
<td>sustainable development</td>
<td>clear overlap</td>
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<tr>
<td>Egels</td>
<td>2005</td>
<td>Corporate Responsibility</td>
<td>Sustainable development Corporate Citizenship CSP</td>
<td>overlapping</td>
<td></td>
</tr>
<tr>
<td>Wheeler et al.</td>
<td>2003</td>
<td>Sustainable development</td>
<td>CSR</td>
<td>Stakeholder Approach</td>
<td>interwoven concepts</td>
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<td>Sustainability</td>
<td></td>
<td>converge to similar concepts</td>
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<td>2005</td>
<td>CSR</td>
<td>Corporate Governance</td>
<td></td>
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<tr>
<td>Luo</td>
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<td>CSR</td>
<td>Corporate Governance</td>
<td></td>
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</tr>
<tr>
<td>Attarça &amp; Jacquot</td>
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<td>Corporate Responsibility</td>
<td></td>
<td>grille de lecture</td>
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<td>CSR/Corporate Citizenship</td>
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<td>presents a different perspective on</td>
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<td>CSR</td>
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<td>business ethics</td>
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<td></td>
<td></td>
<td>public responsibility</td>
<td>CSP CSR² Business citizenship</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>stakeholding company</td>
<td>sustainable company</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>triple-bottom approach</td>
<td></td>
<td></td>
</tr>
<tr>
<td>De Bakker, Groeneweger</td>
<td>2005</td>
<td>CSR</td>
<td>10 concepts</td>
<td>bibliometric study</td>
<td>Confusion with increased overlapping or</td>
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<td></td>
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REFERENCES


CHAPTER 4

THE FALLACIES OF FORMALIZATION OF CSR AND SMEs.

Abstract

There exists increasing pressure for small and medium-sized enterprises (SMEs) to engage in CSR practices. Curiously in this promotional programmes of CSR reporting the only group whose ideas are not sought in this debate are the SME leaders themselves. The present ethnographic field analysis, based on discussions within entrepreneur’s circles, tends to suggest that the argument for expanding formalization of CSR to SMEs rests upon several fallacies. It implicitly assumes that an apparent solution for large multinationals can be transposed to SMEs, and it underestimates the drawbacks of bureaucracy. Moreover many SMEs experiences inconsistency between the idealistic CSR communication of some large companies and their actions, especially in the supply chain.

The author concludes that reports do not constitute the validation for real corporate social responsibility, nor the proof of superior ethical behaviour. Conversely, the absence of social reporting does not imply that SMEs do not behave responsible. CSR in SMEs needs a specific approach, adapted to the informal and entrepreneurial character of the small business. The essence of CSR lies in its implementation. It lies in the right attitudes, in the corporate culture, not in formalization.
CHAPTER STRUCTURE

The revival of Corporate Social Responsibility
Corporate social responsibility in small and medium-sized enterprises
Intent and methodology

Misunderstandings and fallacies of formalization of CSR and SMEs
Fallacy 1 - CSR is worthless without formalization
Fallacy 2 - SMEs do not report on CSR and consequently have no CSR
Fallacy 3 - The CSR-approach of large companies can be transposed to SMEs

The irrelevance of CSR reports for SMEs
   The origins of reporting on CSR
   The characteristics of SMEs
   Philanthropy and publicity
   The administrative burden
   External versus internal communication
   Compliance and voluntarism
   Redefining the enterprise target group
   CEO vs. entrepreneurs

Additional fallacies of CSR and SMEs
Fallacy 4 - CSR reports are the proof of ethical behaviour
Fallacy 5 - The CSR engagement policy will automatically raise ethics in business
Fallacy 6 - CSR always implies absolute progress
Fallacy 7 - Increased regulation will deter all wrongdoing

Formalization of CSR and SMEs
Conclusion
Bibliography
The revival of Corporate Social Responsibility

Following the scandals of corporate fraud at the beginning of the twenty-first century, a revival of interest in Corporate Social Responsibility can be noticed more particularly in continental Europe. (Davis, 2005; Dejean and Gond, 2003; Gond & Mullenbach-Servaryre, 2004; de Woot, 2004). External pressure demanded ever more news on the CSR activities of companies (Fombrun and Foss, 2004). Consultants and evaluation bodies lobbied for audits and for greater formalization, even to the extent of an obligation to report in a standard format. Most multinationals responded very positively and gave special mention in their annual reports to their social activities and their actions for the environment (Perrini, 2006). Other companies, however, resented the need for more professionalization and the need to hire special consultants to produce extensive special reports on their CSR activities. Nowadays, press articles discuss CSR more than ever before, and convey statements from business leaders on this topic. Conferences such as the 2004 Davos World Summit (Economist, 2004) put CSR high on the agenda of business leaders. Official institutions support the concept: the UN Global Compact and the European Commission, and there are many private initiatives.

Now that an increasing number of large companies produce these CSR reports (Schegelmilch and Pollach, 2005; Ballou, Heitger and Landes, 2006), and that the practice is widely and positively accepted, many observers seem to see it is a good idea to stimulate medium-sized and even small companies to draw up social reports (Southwell, 2004). Academic research shows indeed that most jobs and job creation activities involve small and medium-sized companies (Green Paper, 2001; Longenecker, J., Moore, C., Petty, W., 1996; Thompson and Smith, 1991; Gibb, 2000). There are new initiatives to disseminate CSR and to report on CSR in small and medium-sized enterprises (SMEs). The European Commission is launching actions such as CSR Europe and stimulating academic studies on the issue since there is a serious lack of research on CSR in SMEs (Thompson and Smith, 1991; Spence, 1999; Gibb, 2000). The Global Reporting Initiative (GRI, 2004) set up a guide for small and not-so-small businesses, and this was followed by local initiatives in several countries.

Perhaps surprisingly, CSR has few overt critics (Henderson, 2001). Apart from a few sceptical articles in academic journals (Kapstein, 2001; Jenkins, 2004; Nijhof and Fisscher,
2005; Conley and Williams, 2005; Haigh and Jones, 2006) the most critical comments on the ambiguity and hypocrisy of CSR come from recent articles in the Economist (2005). In particular, it is the communications related to CSR that are criticised, especially when confronted with daily practice.

Corporate social responsibility in small and medium-sized enterprises

CSR activists, encouraged by the press, and specialised consultants promoting CSR concepts and tools, want to disseminate the practice (Southwell, 2004). There is increasing pressure for small and medium-sized enterprises (SME) to become engaged in CSR practices. The European Commission promotes this, as a part of the Lisbon policy to make Europe’s industry the most competitive in the world (Luetkenhorst, 2004).

Curiously, and worryingly, in most of the promotional initiatives from official or intermediary institutions, the only group whose ideas are not sought in this debate are the SME leaders themselves. Too many programmes are developed within the closed conclaves of bureaucrats, ministerial civil servants, local development agencies, officers from chambers of commerce and industry federations, sometimes admittedly with the support of academic and consultants, but without real entrepreneurs. Most of those involved are representatives of intermediary organisations, far away from the daily operations of an SME leader.

On raising the topic of CSR, and the new CSR initiatives for SMEs, during informal discussions with small business entrepreneurs in various economic circles, in industrial federations, in chambers of commerce, in engineering associations and within business school alumni, we found huge scepticism, serious reservations over methods intended for large companies, and strong opposition to administrative burdens without added value. However, if most entrepreneurs seemed to support the philosophy behind CSR, many of these small business leaders went on to express serious doubts about the sincerity of many large companies, a scepticism based on their practical experiences.

Intent and methodology
In this article, a few flaws and fallacies in the reasoning and the hypotheses behind the CSR engagement policy will be pointed out. Referring to the typical characteristics of SMEs, this paper will attempt to explain the reasons for the opposition by SMEs to this trend of imposing formalization of CSR through reports and audits: their fear of bureaucracy and the dissonance they see between theory and the reality they experience in the supply chain.

In addition to literature study and data collection on business ethical issues in the business newspapers, the methodology is, to a certain extent, comparable to that of ethnography, where the researcher is fully part of the observed society. The researcher, entrepreneur himself, collected information, experiences and case studies on ethical issues and CSR during formal and informal discussions over more than five years with colleagues entrepreneurs from different circles: members of the SME committees of federations, alumni or professional associations*. This data collection was followed by extended feedback group analysis: the conclusion were presented and discussed in a meeting of the SME committee of the Belgian Federation. In addition, a previous version of the paper has been adapted after comments from three entrepreneurs, one official of the federation, and two academics active in CSR.

Misunderstandings and fallacies of formalization of CSR and SMEs

The CSR discipline studies important aspects of the role of business in society (Carroll, 1991; Henderson, 2001). CSR refers to companies “integrating social and environmental concerns in their business operations and in the interaction with their stakeholders on a voluntary basis … not only fulfilling legal expectations, but also going beyond compliance” (European Commission, 2001). Some researchers and institutions advocate the business case for CSR. They attempt to establish the link between the social responsiveness and the financial performance of the firm and endeavour to demonstrate that CSR pays. However, other recent studies found that the evidence is at least uncertain and inconclusive (Post, Preston & Sachs, 2002: 27; Griffin and Mahon, 1997; McWilliams and Siegel, 2001; Castka et al., 2004; Vogel, 2005). The business case for CSR in SMEs is built on misunderstandings. Some authors even question whether there exists a case for CSR, particularly for SMEs (Castka et al., 2001). The definition of CSR is vague (Bridge, O’Neill, and Cromie, 1998, pp.101-104), as are the targets set for the SMEs. CSR has evolved from a vague to a confused notion. It has different interpretations, with varying breadths and scopes (Dejean and Gond, 2003; Garriga and Melé,
2004). Some confusion is also due to the semantics (Wartick and Cochran, 1985; Clarkson, 1995). CSR has a double aim, reflected in its name: both corporate and social responsibility. This definitional confusion increased with the new EU definition of CSR (Green Paper, 2001) with its explicit link to business operations, presented as a profitable activity. In this EU definition, CSR embraces the supply chain, but excludes corporate philanthropy. It also acknowledges the enlightened self-interest approach of CSR (Luetkenhorst, 2004).

Moreover, much communication surrounding CSR is subjective. Many press articles rely for a large extent on the self-written reports of companies or on manager’s perceptions and impressions, while also many academic studies do not go beyond official documents such as publications, websites and social reports. “Social and environmental reports tend to give a partial representation of the company’s CSR operations” (Perrini, 2006). One should bear in mind that just because a company has a policy does not always imply that it is implemented (Welford, 2005; Perrini, 2006).

The present field analysis tends to suggest that the argument for expanding formalization of CSR to SMEs rests upon several fallacies. The rationale includes a strong belief that reporting influences behaviour. It naïvely believes that nice reports from large companies are a guarantee of CSR and a superior ethical attitude. From the fact that SMEs do not report on CSR, it wrongly concludes that CSR is non-existent in SMEs. It implicitly assumes that an apparent solution for large multinationals can be transposed to SMEs, and it underestimates the drawbacks of bureaucracy. It starts with the illusion that CSR will be transmitted along the supply chain.

In the following sections, these fallacies of formalization of CSR and SMEs will be discussed and illustrated with some examples of inconsistency.

**Fallacy 1 - CSR is worthless without formalization**

The professionalisation of business in the last decades give rise to new developments in the governance of corporations. A common element of these movements is an expanding formalization. Mission statements are drawn, policies have to be written down and detailed. Corporate governance underwrites the increased responsibility and accountability of managers. Official codes of conduct and ethical charters are approved. The quality movement
has given the example of an increased formalization with systematic measuring, reporting, audits and evaluation. The same evolution has invaded the field of CSR. The proponents of CSR argue that reporting on social issues is essential. The obligation of reporting encourages reflection, helps to awaken the organization, makes the actions visible and to a certain extent measurable. The International Standard Organisation (ISO) proposes to introduce CSR standards alongside with those for product quality assurance and environmental issues in its compliance rules.

The escalating importance of communication has increased the impression that CSR is worthless without this reporting and formalization. Corporations have to show and to report to the public what to do in order to justify their license to operate. Reporting becomes the proof for this accrued need for justification.

But some authors notice an increasing gap between research and practice. The ‘socially constructed’ research on CSR has developed in a cloisonné fashion, disconnected from the practice of management (Aucquier & Gond, 2006). Moreover, new concepts and tools based on accounting and financial principles have been elaborated by consultants and service companies for the sake of a new lucrative market of reporting and audit. This has lead CSR into an evolution towards a logic of compliance and standardisation intended for external analysts rather than an internal tool for management. The gap increases between CSR that is “auditable à la Global Reporting Initiative” and the original concept of CSR developed on ethical concerns (Aucquier & Gond, 2006). The strategic intentions of CSR seem indeed much more difficult to implement in practice.

**Fallacy 2 - SMEs do not report on CSR and consequently have no CSR**

Small business entrepreneurs see some injustice in this oversimplified reasoning. The campaigns to disseminate CSR in small businesses are missing the point. Some proponents lack the requisite acquaintance with SMEs affairs. They seem to start from an incorrect hypothesis: the idea that SMEs, unlike large companies, have not taken up their social responsibility. This idea is inspired by the simplistic analysis that, because SMEs do not report on CSR, one cannot evaluate them on this issue; or worse that, because SMEs do not have CSR reports, they have not taken up their corporate social responsibilities. This view does not consider the fact that in many countries SMEs do already report separately on social matters and on various environmental issues such as water usage and gas emission to the
appropriate official instances in charge of monitoring. Many SMEs consequently find themselves subjected to unjustified attacks whereas, in fact, many SMEs leaders have a very social approach with their people, even if they do not use or even do not know the term CSR. They often have long-term continuity as their first priority: the survival of the firm, often with the objective of passing the business to their children (Bridge, et al., 1998, pp.129-131; Comte-Sponville, 2004, p.214). In order to attract and to keep staff and collaborators, who could earn more from multinationals, they attempt to create a positive climate with a friendly atmosphere.

**Fallacy 3 - The CSR-approach of large companies can be transposed to SMEs**

Some official organisations want to apply the rules and procedures for the multinational to SMEs in a bureaucratic way, without acknowledging their fundamental differences. The basic criticism of the European CSR agenda for SMEs is the fallacy behind the motivation. As Jenkins (2004) points out “CSR theory is based on the myth that large companies are the norm” and that the solution for the large company can just be transplanted into smaller firms. In fact, “CSR initiatives for SMEs need to take into account the variability of SME managerial characteristics” (Jenkins, 2004). The challenge is to adapt the process to the light structure of the SMEs (Murillo and Lozano, 2006). The present initiatives have not proposed adequate solutions for small businesses yet.

**The irrelevance of CSR reports for SMEs**

The initiatives reflect insufficient acquaintance with the characteristics of SMEs and a lack of consultation with the group concerned. SMEs see difficulties with the chosen approach. Their fear is that these initiatives will result in the formalization of specific CSR measures: in them having to have an official written policy, and in having to report on CSR activities. SMEs do not recognize any added value in what they experience as just one more administrative burden: ‘making reports that hardly nobody will read’ for the sole benefit of consultants, the statistics of officials or the intellectual curiosity of academic researchers. Imposing regulatory compliance costs on the business sector increases firms’ non-productive overheads (Haig and Jones, 2006). The administrative burden should be weighted against a
cost-benefit analysis (Kapstein, 2005). The original purpose of reporting on CSR and the characteristics of the SME should be reminded.

The origins of reporting on CSR

The CSR reports found their origin in the need for information and publicity on CSR activities of multinationals derived from the increasing demand from the public and the media to hold companies accountable for working conditions further down the supply chain (Jamison and Murdoch, 2005). The intention of this policy was primarily to stimulate those multinationals active in Asia and developing countries to install acceptable labour conditions for the workers in the manufacturing plants of their overseas subsidiaries and to avoid child labour in sweatshops (Klein, 2000; Roberts, 2003). Activists and NGOs also asked for accountability on the origins of their products. Social and environmental reports and pro-active communication on CSR have been developed as the appropriate response to these legitimate concerns. Many of the industries seen advocating CSR are precisely those that are most vulnerable to attack from NGOs on environmental issues: oil and chemicals, mining and cars (Jenkins, 2004), on child labour in foreign sweatshops (Klein, 2000) and on genetically modified seeds.

These are multinationals operating in a field with a limited numbers of global players. They have many shareholders and many stakeholders. They have a high visibility. CSR and communicating about CSR are appropriate tools for developing a response and constructive actions that will satisfy these critical groups, in a professional way using appropriate communications and public relations (Schegelmilch and Pollach, 2005). Small business leaders question the relevance of the same CSR tools, and more particularly of the communication side with reports, advertisements and press conferences, for SMEs that generally have a smaller number of key stakeholders, a much smaller number of employees and customers, and a restricted number of clearly identified shareholders.

The characteristics of SMEs

In general, small businesses are characterised by less formal structures and looser control systems, less documentation on transactions and fewer procedural hurdles (Longenecker, et al., 1989). SMEs are organised more informally, and they hate administrative burdens (Spence, 1999). They do not have specialised staff, nor time to produce special reports. Thus, there are substantial characteristic differences between SMEs and multinationals (Longenecker et al., 1996, p. 9; Bridge et al., 1998). SMEs social and community activities
are informal and fragmented (Maitland, 2002). CSR in terms of the SME employees will focus on creating a good spirit in the workplace, precisely the kind of atmosphere that multinationals are trying to re-establish with a lot of HRM techniques, such as empowerment, in order to compensate for the anonymity in a large group. Completely unnecessary in small businesses, given the direct contact between employees and the boss.

*Philanthropy and publicity*

The local aspect of philanthropic activities of SMEs leads to similar erroneous interpretations. Many proponents of CSR who still consider philanthropy as one of the pillars of classical CSR appear to ignore that many small business entrepreneurs take up responsibilities in the local community, and support local philanthropic actions or sponsor local cultural or sports activities. Many entrepreneurs do this using their private means, sometimes discretely, while CEOs of multinationals give their shareholders’ money to charities, which in itself can be ethically questioned (Friedman, 1970; Longenecker, J., et al., 1996, p. 556; Economist, 2004). But these small local actions do not need the visibility and the publicity that large companies expect from many of their philanthropic activities. The relative character should be underlined. For example, when a multinational spends one million Euros on a specific charitable action there is every chance that it will be covered by the media. For an SME, spending the same proportion of turnover will amount to a few hundreds Euros, which is of no real interest to the media. The action will hardly even have a local significance.

*The administrative burden*

In CSR there seems to be an emphasis on systems and certification (Jenkins, 2004). It appears that “very soon staffs are swamped with paperwork and procedures” (Freeman, 1984, p. 227). Administrative burden can work counter-productively (Castka et al., 2004). Formalization is inherent with larger organisations, but sufficient critical mass is necessary to justify the investment. One should consider the very practical issues of cost-benefit analysis and time constraints. Ethical standards developed for large firms may be inappropriate for SMEs (Enderle, 2004). It may be much more difficult for them to comply with standards such as the SA8000 for social accountability (Miles and Munilla, 2004). The costs of reporting are proportionally higher for an SME than for the large company, while the relevance is doubtful (Quairel and Auberger, 2005). Everything is relative, and has to be situated in its context. “Any attempt to impose burdens which are not-business-relevant, through regulation, is very risky indeed” (Robin, 2005).
In a small organisation, the administrative burden usually falls on the manager and perhaps on a very small number of staff, who will probably lack the specialisations available in large companies. It is always hard to overcome scepticism against administrative work, especially when there is no apparent added value (Longenecker et al., 1996, pp. 572-3). Moreover, in addition to the time constraints, it is very difficult for one person to focus on several issues at once, on quality, on productivity, on safety, and on CSR.

**External versus internal communication**

The other danger of any administrative measure is that the administrative work increases and “completing internal reports becomes an end in itself” (Freeman, 1984, p. 227). Staff, busy with creating reports, can become isolated from the rest of the company, as occurs in many bureaucratic organisations. Reports become primarily directed towards an external audience, whereas internal communication within the company is much more important. As in many other fields, such as innovation and quality, CSR is inherently a concept intended for everyone in the company, and not to be restricted to a specialised team based at headquarters. Given the flexibility of the SME, direct communications will allow quicker responses and informal actions far better than bureaucratic procedures.

**Compliance and voluntarism**

A more fundamental critique when it comes to environmental issues lies in the predominantly reactive character of many CSR initiatives. In many cases the programmes established are defensive tactics, provoked by actions from consumers or special interest groups such as NGOs. Too many actions are intended to manage the way out of a crisis situation. Sceptical critics of the bureaucratic administrative burden also suspect that the formalization with reports and audits is partly inspired by compliance purposes, a tendency reinforced by the Anglo-American dominance in business, with a strong emphasis on legal aspects. This tendency to formalization in order to comply to regulation and thereby decline further legal responsibility in case of problem is in total contradiction with the voluntary and genuine intentions of true CSR where the spirit should prevail.

**Redefining the enterprise target group**

There is thus no justification for transmitting what has arguably been found to be a solution for a problem with large companies to all companies, and especially to small companies that do not have this problem. It is consequently inappropriate to develop CSR strategies for SMEs
along the same lines as those for large corporations (Jenkins, 2004; Bridge et al., 1998). For SME leaders, who are inherently doers, doing the social activities is what is important, not writing or talking about them. Those who need to know what they do in the local community know it, and that should be sufficient.

For all these arguments, there is every reason to refocus the target group of the European CSR programme. The use of the general term SME in the promotional communications is misleading given that there are so many varieties in the businesses, the sectors and the types of SMEs (Bridge et al., 1998, Chapter 6). As in other European programmes aimed at SMEs, such as the programmes for innovation and risk capital, the target group is in reality limited to a small number of the more advanced medium-sized companies with above average ambitions. This needs to be made clearer in the communications.

**CEO vs Entrepreneur**

Finally, in the discussion on CSR, a fundamental aspect remains in the real differences between a CEO of a multinational and an entrepreneur (Gibb, in Bridge et al., 1998). The psychologies of the leaders of SMEs and of multinationals are very different (Hannafey, 2003). An essential difference is in the risk and reward structure (Longenecker and Schoen, 1975). The entrepreneur, the owner of an SME, is inherently obliged to have a long term view within restricted financial constraints. He is risking his savings and his income; the CEO, on the other hand, is a hired manager with the extreme advantages of a high salary (many times that of most SME owners), a bonus when it goes well, and a golden handshake if it goes wrong. Moreover, in recent years, many CEOs, approached by head-hunters or board members from other companies, do not hesitate to change employer, with as little loyalty as most football players. The exorbitant remuneration packages of CEOs have caused a profound upset in the public opinion in many countries in continental Europe. Coinciding with a number of fraud scandals, restructuring and delocalisation of companies, the golden parachutes of some CEOs became a very sensitive issue. Supported by many politicians and relayed by the press, this subject of apparently limited impact has attained a highly symbolic value. It heavily weights on the traditional dialogue approach of the negotiations between the unions and the industry organizations, largely dominated by representatives of large companies. The public opinion rightly questions how this matter can be reconciled with the social responsibility of the corporation, publicly promoted by the same CEOs. Small business entrepreneurs are driven by the need for achievement, where financial rewards are a measure of success rather than the prime motivator (Morris et al., 2002). The exaggerated emphasis on
shareholder value, exercised by the financial market during the recent years, puts an enormous pressure on CEOs to deliver profitability.

Additional fallacies of CSR and SMEs

Placed into a larger perspective, a few additional fallacies on CSR and SMEs exist in the supply chain and on a macro-economic level.

Fallacy 4 - CSR reports are the proof of ethical behaviour

The greatest fallacy in the rationale for expanding CSR coverage is the assumed success of CSR – now seen as widespread amongst large companies with their professional social reports - in increasing the ethical behaviour of business. Reality seems somewhat different. The idealistic normative framework developed by academics is not necessarily a realistic description of managerial practices (Mintzberg, Ahlstrand and Lampel, 1998). Literature on CSR appears predominantly as a prescription of moral considerations to businesses (Dentchev, 2005). However, critics remark that CSR reports drawn by the internal staff or with the help of consultants do not always give an objective view of the situation. Hooghiemstra’s research (2000) argues that corporate social reporting is predominantly used as a corporate communication instrument to influence people’s perception of the company and to gain legitimacy among the stakeholders. Those social reports have limited value if not they are sealed by an audit, just as for the financial statements (Haigh and Jones, 2006; Ballou et al., 2006). But, as the recent fraud cases have revealed, audits do not warranty absolute value, as most are based on self-assessment information or visits on site or carried out by NGOs (Jamison and Murdoch, 2005). Social audits are even more difficult to conduct due to time and costs constraints (Jamison and Murdoch, 2005). Given the disputable value of these formalized reports and audits, even when conducted with costly means, what is the relevance of the same CSR tools for SMEs?

CSR reports do not guarantee that the discourse is in congruence with practice throughout the whole company (Perrini, 2006). Many SME leaders have the feeling that the opposite is nearer the truth: all too often it appears that the positive sounding messages and the nice CSR reports from the large companies are in total contradiction with the reality they experience in practice. This is especially true when it comes to the supply chain, the most important CSR
aspect in terms of SME interaction with large companies. Except for overseas suppliers, ethical issues in buyer-supplier relationships have only recently reached the attention from the literature (Carter and Jennings, 2004).

The absence of ethical behaviour by buyers at many of the larger companies is at the bottom of the frustration felt by SME leaders. They experience large differences between what CEOs of large companies proclaim, and what their managers do. Many SMEs have a large company as their major client, and are dependant on them for a vital part of their turnover. They suffer from the power play of buyers from the larger companies (Quairel and Aubèrger, 2005). With the pressure increased due to the globalisation of the economy, relationships between larger firms and their suppliers are placed under increasing strain, with restructuring of the supply chain by reducing the number of suppliers (Wood and Brewster, 2005). This evolution in not seen as positive, but quite the opposite: the results are cost cutting and binding suppliers to fixed prices.

Many SMEs experience daily that despite, in recent years, business leaders talking more and more about CSR and stakeholder management, that shareholder value seems to be the only driving force in the business world. In other words, and for whatever reasons, ethical behaviour in business – the basis of a genuine CSR policy – is decreasing (Fassin, 2005).

Examples from various sectors that illustrate the contradictions between the theory and the practice of CSR in the supply chain (Wood and Brewster, 2005), the most overlooked area of CSR ethics, are countless. Especially flagrant case reported are the indecent treatment of suppliers in the food industries by supermarkets chains and the pressure on subcontractors in the construction sector. Also real cases in issues of globalisation, safety and personnel, are in total contradiction with the announced CSR policies. The biggest contradictions are experienced in mergers and acquisitions, which often have serious consequences for the personnel affected. Such measures often represent a breach of the word given in official statements and promises made during negotiations. This brutal attitude, with no regard or appreciation of the workers, is in total contradiction to the CSR policy proclaimed by management with statements about taking stakeholder management seriously.

The reported examples are - unfortunately - not unique, nor exceptional, cases of the absence of fairness in supply chain relationships. SME leaders from a range of sectors reveal the occurrence of similar cases with increasing frequency. A wide range of - deceitful or subtle -
questionable practices and dirty tricks are reported (Moberg and Speh, 2003; Carter and Jennings, 2004; Fassin, 2005). Pressures from elsewhere may explain this worrying evolution, but a major factor is the reward system focused on the bottom line, on performance, that fails to take the CSR elements proclaimed by top management into consideration (Kurland, 1995). Curiously, most CSR reports mention a partnership approach with supplier relations, but seem to ignore the unfair pressures on suppliers (Perrini, 2006). There is a clear mismatch between the external communication and the internal structural implementation of CSR policies.

**Fallacy 5 - The CSR engagement policy will automatically raise ethics in business**

Another fallacy presented as one of the beneficial outcomes of the increased use of CSR policies by large companies is their supposed imposition of similar ethical conditions in social and environmental issues on their subcontractors. This is supposed to create a snowball effect that will eventually raise the level of ethics in the whole business community, such as occurred in the area of quality with the ISO movement. The business case for CSR promotes the expansion of this to the ethical treatment of all suppliers, something that is far from being generalised.

Once again, the theory is sometimes far removed from reality. Many new policies covering quality and environmental issues require some investment in setting up a system. This needs time, sometimes the services of specialised consultants, and in some cases involves considerable costs for a small company. The imposition of these systems by large multinationals on their subcontractors often does not take into account the efforts and costs involved. More often, in practice, multinationals simply impose these new conditions without allowing any price change, or worse still put the local company in competition with cheaper foreign countries. Worse still, in some cases where new norms are imposed, one sees that some contractors simply declare that their company is working on the introduction of a new system in order to be accepted as a qualified supplier. This falsifies the competition.

Evaluation bodies often regard the imposition of new regulations and norms by multinationals on their smaller suppliers as a positive aspect of CSR. But they omit to check thoroughly how this is put into practice. The realities of fair play by multinationals are often at odds with their official policy. Rather than imposing new formalization and regulations, they could better help their subcontractors to gradually reach the norms. A better criterion for evaluation bodies
and screening agencies to use would be for them to assess how effectively large companies are helping their suppliers to reach the new norms.

**Fallacy 6 - CSR always implies absolute progress**

CSR is often presented in terms of absolute progress without drawbacks (Nijhof & Fisscher, 2005). Large companies with a strong CSR approach that start a new factory or greatly expand their existing plants are highly valued because of job creation. However, this often has unnoticed downsides for the local area. A new multinational is likely to offer better salaries and working conditions than smaller businesses. This creates tensions in the local industrial community, and drains the best people from the smaller companies where the conditions are not so attractive. A new plant by a company with a good CSR policy can thus disrupt the regional economy by raising salaries. This may be beneficial for the employees, but has downsides for other stakeholders at various levels. This illustrates the mixed outcomes of CSR, too often presented as absolute progress.

The same problems occur when new supermarkets are erected, destroying other jobs in small local grocers. The projects creating new shopping centres always bring forward the creation of new jobs, ignoring the decrease elsewhere with the natural movement of clientele. The cheaper prices in the new supermarket may benefit the customer, but are harming the suppliers and employees of other grocers. Balancing contradictory stakeholder interests remains a difficult challenge with CSR.

In many West-European industries, salary increases are obtained through negotiations between the unions representing the workers and an employer organisation representing the companies. In most industrial federations representatives from big companies dominate and consequently have more influence in the decision-making than the SME leaders. As they are more engaged in lobbying, large companies tend to have the decisive role in these discussions, while the voices of the SMEs are rarely heard. Many CEOs from multinationals are focussed on their next quarterly results, and are therefore ready to give in to a salary demand if this will avoid a strike. In doing this they indirectly increase the salaries for the whole sector, making SMEs in the region less competitive against companies from Eastern Europe and Asia. In terms of fair play, and the consequent application of their CSR policy, they should then agree to proportionate price increases from their local subcontractors. However, too often, the contrary is seen, and their buyers pressure the local SMEs by putting
them in a harsh competition with producers from low-cost countries. The inconsistency in applying the logic of the CSR policy overlooks some macro-economic side-effects.

**Fallacy 7 - Increased regulation will deter all wrongdoing**

There is a danger in thinking that increasing the amount of regulation will deter all wrongdoing (Seglin, 2002). Regulation does have limitations, and overregulation can be as dangerous as underregulation (Jackman, 2004). Regulatory protections are often costly, controversial, and less than fully effective (Post et al., 2002: 12). “Laws can become counterproductive because when companies are over-regulated, they begin to gear the system to comply with the regulations in such a way that they are adhering to the letter of the law but the actual spirit of it has totally evaporated” (Seglin, 2002, quoting Garten, Dean of the Yale School of Management). The impact of regulation and legislation on management behaviour ushers to “some compliance but they also produce resistance, as regulated actors invest in finding loopholes and evading detection” (Anonymous, 2003, referring to Stunts, W., in review of McConnell, M). When regulation is seen as a tool to fix a problem, “greater compliance only constitutes an illusion of ethical progress” (Michaelson, 2006).

On the international scene, imposing common international standards, despite variable circumstances in different countries, can also have drawbacks effects on the employment and on the development of the poor countries if made without gradual transition. Regulations, made in the name of ‘social justice’ or ‘positive’ human rights, and boycott actions are not always the best solution for the local people (Henderson, 2001). Moreover, there is a growing concern that social audits fail to uncover the ‘hidden’ problems such as discrimination, harassment and freedom of association. Worse, witnesses notice that auditing does not always improve labour standards and may even have a negative effect on the life of the workers (Jamison and Murdoch, 2005; Kapstein, 2001).

**Formalization of CSR and SMEs**

From the discussion of the various fallacies of formalization of CSR and the hypocrisy of the CSR communication of some large companies, we can deduct that reports do not constitute the validation for real corporate social responsibility, nor the proof of superior ethical
behaviour. Conversely, the absence of social reporting does not imply that SMEs do not behave responsible. CSR in SMEs need a specific approach, adapted to the informal and entrepreneurial character of the small business.

From the discussions in SME economic circles, we can state that there is support from the majority of SME leaders for the philosophy behind CSR. Many of them have informally adopted social programmes, or are making efforts to create a good working atmosphere with a family character (Bridge et al., 1998, p. 129; Quairel and Auberge, 2005). However, this attitude is intuitive rather than formalised and, despite many SMEs leaders not even knowing the term CSR, their behaviour corresponds in practice to the philosophy of CSR (Murillo and Lozano, 2006). A positive aspect of the CSR business case drawn up by the European Community – even if one can question the appropriateness of the chosen name - is the explicit inclusion of the supply chain in the policy, thereby clearly linking the concept to business ethics.

However, there is strong evidence that the vast majority of SMEs are opposed to the formalization of CSR with obligatory reporting. Reports are of no use to them, on the contrary: they offer no added value for most SMEs while potentially consuming both precious time and money. The solution applied to large companies cannot simply be transferred to a small firm. CSR initiatives for small businesses need to take into account the specific needs and the informal and entrepreneurial characteristics of SMEs. In this respect, the initiative from the International Standard Organisation to introduce CSR standards is a contradiction in terms. Their working groups are dominated by lobbyists, consultants and representatives from federations and pressure groups as small business entrepreneurs have no time to invest in such meetings.

While the sensitisation of all companies towards CSR is important, formal reporting on CSR makes sense only for a very small number of the millions of SMEs. One can put forward a sound argument that only growing, medium-size enterprises with a global market, or SMEs in critical sectors, need a formal assessment and report. The voluntary aspect of many CSR actions should remain important (Henderson, 2001), and this is especially true with SMEs.

Given their experiences in doing business with large companies that proclaim their CSR credentials, SME leaders naturally take a dislike to what they see as the hypocrisy
surrounding the present promotion of CSR. They disagree with an opportunistic compliance approach of some multinationals and with the fallacy that a bureaucratic approach with reports works. Most SMEs consider their informal activities, which they may not even be aware come within CSR, to be normal, simply because they feel right, “because it is the decent thing to do and ought to be done” (Goodpaster, 1991). They do these things because they see it as good management (Economist, 2005, Wempe, 2005).

Conclusion

CSR is about the right attitudes, about mentality: reports may help to improve transparency and accountability, but reports alone are not enough unless there is a proper implementation of suitable policies. CSR reporting is only a tool, and published reports do not constitute a proof of corporate social responsibility. The essence on CSR lies in its implementation at all levels of the corporation; it lies in the corporate culture, not in formalization. While SMEs can often learn from bigger companies, perhaps the management of large companies, rather than impose their views, could also learn from the real social responsibility assumed by many small business leaders. By entrepreneuring and adding value, and as a consequence creating jobs, wealth and welfare in their region, they largely contribute to fulfil their share of social responsibility. Responsible SMEs do not need CSR ISO standards. They behave in a social and responsible way because that is the good way to do business. Doing the job properly is just seen as decent management. This does not need special reporting nor justifications: it should be the normal way of doing business.

Bibliography


CHAPTER 5

BUSINESS ETHICS AND RELATED CONCEPTS:
SOME THOUGHTS AND A STRATEGIC PERSPECTIVE
CHAPTER STRUCTURE

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Business ethics is at the frontier of different disciplines. Business ethics is omnipresent in business, at every stage and in every department of many fields. Attention to corporate responsibilities and business ethics has increased.

At the end of our journey around a variety of aspects of business ethics concepts and entrepreneurship, we would like to share a few thoughts on a number of issues revealed during this study, develop some ideas of work in progress and express some thoughts for future research. The following section discusses the topics below.

- An inconvenient truth for business and society scholars
- The dissonance between reality and practice
- A hypocrisy index
- Stakeholder reciprocity
- The selectivity of interest of business ethics and CSR scholars
- Ethics in a strategic perspective

An inconvenient truth

If businessmen can learn much from philosophers and scholars of other academic disciplines, then academics can also learn. They should remain modest, realistic and open-minded. The world is not perfect. Ideals are sometimes difficult to attain. Business ethics concerns the application of ethics in business, which is definitely not perfect. Entrepreneurs are pragmatic people. Academics should therefore be realistic, and should not limit their view to theory, but rather take daily practice into account when developing their analyses. They should not focus on one single facet of business ethics in their area of special interest. They should also go further than the ethical perspective and integrate other concerns of the corporation into a strategic perspective.

The analyses of some academics would achieve objectivity and credibility if they would enter into dialogue with entrepreneurs and managers with modesty and humility. Academics
engaged in the business and social fields should have a minimum understanding of managerial practice and the business world.

Business ethics is ethics applied to a very practical activity. The essence of business should never be forgotten. Much academic literature is too idealistic and does not sufficiently grasp the reality of business and management practice. The dissonance between theory and reality illustrates the unworldly approach of some philosophical academic research. Some areas of business ethics are totally overlooked. In other studies, critical analysis is limited because of the limited scope of the situation, or the limited scope of the researcher’s interest. It is strange to note that researchers have great interest in the treatment of personnel by subcontractors in underdeveloped countries, while overlooking the treatment of suppliers in their own region. It is worrying to see the huge amount of articles on stakeholder management that strongly urge consideration for the rights of the stakeholders, but ignore that those rights also imply duties. Stakeholder reciprocity seems to be a concealed area of stakeholder theory.

Finally, academics and business ethicists should take a broad view, inspired by universality and humanity. Rather than focusing on their specific areas of interest, they should not forget the broader context. Social science scholars should not restrict their view to one single facet of business ethics or CSR such as the safety of workers, human rights, fair trade or product liability. Whereas activists focus on single issues, such as the arms industry, human rights or opposing nuclear energy, one should expect a more nuanced and wider view from scholars, and in many cases greater objectivity. They are not blind conveyers of the viewpoints of activists or lobby groups, who forget about their own conflicts of interest. They should not jump to conclusions, as for instance in the debate about imposing a requirement to report on CSR on SMEs. Those management researchers that have taken the effort to talk with and meet small business leaders will have found that many small business entrepreneurs act in a socially responsible way, informally and unconsciously, even if they do not know the term CSR, just as in the French tale ‘M. Jourdain faisait de la prose sans le savoir’. They would understand the uselessness of imposing CSR reports, while at the same time realizing the essence of CSR.

Too many scholars seem to view the business world from the limited perspective of their speciality: corporate governance, CSR, business ethics, stakeholder management or
sustainable development. They tend to subordinate everything under the umbrella of their specialty.

If they want to contribute with respect, academics should take a broad view. They should situate corporate responsibility and business ethics in the right place, and not as the ultimate goal, thereby neglecting the first objective of business: creating value.

Dissonance between reality in practice: inconsistencies and hypocrisy

The unworldly, idealistic description of some scholars in the business and social fields contrasts with the reality that entrepreneurs experience daily. The dissonance that too often exists between reality and the theoretical discourse in ethical issues in management is worrying. Practice demonstrates too great a discrepancy between pleasant-sounding press communication on corporate governance and care for CSR and the numerous small cases of unethical behaviour that entrepreneurs in SMEs experience daily, particularly in the supply chain, the most overlooked area of CSR. This situation appears paradoxical. There seems to be a lot of hypocrisy, sometimes even a form of schizophrenia in business. The dissonance between discourse and reality in organizations is worrying (Brunsson, 1989).

Many unethical practices have been observed in companies with codes of conduct, ethical charters, corporate governance or CSR (Robin and Reidenbach, 1987; Peppas, 2003). Managers sometimes transgress the company’s own code of conduct. Curiously, the authors of the pleasant discourses on CSR and corporate governance are in many cases highly respected businessmen.

The disconnection between words and deeds brings into question the sincerity of the business world. When people notice the gap between the public pronouncements of top executives and the reality viewed ‘from the trenches’ inside the companies, problems of credibility arise (Thompson, 1992; Badarecco and Webb, 1995; Urbany, 2005). Employees lose their trust in the company when they notice a ‘gap between what is and what ought to be’ (Weaver, 2004). Customers lose confidence when they perceive the gap between ‘what business says and what it does when it promises much and delivers little’. However, other stakeholders also react to the dissonance between the expressed and true intentions of business people (Litzinger and
Reactions from special interest groups and NGOs relayed by the press will result in a loss of credibility, a weakened reputation and a decrease in stock price (Yadziji, 2004). In fact, any problem that affects perception affects the ethical reputation of the company, and subsequently the reputation of the whole business world.

**CSR rhetoric and corporate governance ethics**

The contradictions and inconsistencies in the various domains demonstrate that the positive impact of renewed attention to corporate governance and CSR is all but absolute. However, besides enthusiasm, there exists great scepticism, even sometimes cynicism (Bowie, 2005: 114). So the question emerges: is the restored attention to corporate governance and CSR genuine? Does it represent anything more than window dressing and cosmetics? If this is the case, it is only the rhetoric of CSR, or corporate governance, or what may be called *CSR rhetoric and corporate governance ethics*. However, this is not in harmony with what companies want to communicate. The real question is therefore: what is the part of reality, what is that of perception? What part is opportunism and what hypocrisy? Are these codes solely lip service intended to mislead the investor or to manipulate the customer and employees? Is there a genuine effort to comply with the prerequisites of stakeholder management? What is the essence of CSR: to be a responsible company or to be seen as responsible, or to give a good impression? CSR reports are instruments to show that the firm is taking its social responsibilities seriously. They help to create an image of a responsible company (Hooghiemstra, 2000).

If the sincerity of some business leaders can be questioned, generalization should be avoided. Most business leaders indeed have good intentions, although some may be hypocritical and others subject to rationalization (Hannafey, 2003). The same diversity is found at lower management levels, and in SMEs: most entrepreneurs and managers value integrity, are loyal and behave ethically; but—as in other areas of society—a minority of managers discredit the business world with their unethical practices.

**The essence of business ethics and corporate responsibility**
Many initiatives in CSR are reactive and defensive tactics rather than strategy. While attention to corporate governance or care for CSR can quite rightly be considered as essential components of an ethical business community, they are not sufficient in themselves. They are not proof of an ethical company or community.

Business ethics therefore requires more than CSR and corporate governance. The essence lies in genuine implementation in the whole organization. Ethical management cannot be confined to large strategic issues: it also concerns the small practical matters of everyday business life. This includes fair relationships with suppliers, respect for agreements and respect for one’s word. Besides CSR and corporate governance, business ethics assumes responsible business practices.

Business ethics requires more than communication. Ethics in management requires consistency between words and deeds, congruence between communication and action, congruence between theory and practice. Codes and reports are no guarantee in themselves. Social and environmental reports should reflect reality. “Trust grows from trustworthy behaviour, not from rhetoric” (Post et al., 2002). Positive mission statements and codes of conduct should be effectively implemented in the organization in order to corroborate a corporate culture with attention for values.

Communication versus reality: The continuum in company positioning

In modern society, communication has acquired an important place. This assertion remains valid for CSR and related business ethical issues. However, if communication diverges too far from reality, it turns into manipulation of communication, a pre-eminent form of hypocrisy. One of the most deceitful and unethical practices is the manipulation of ethical issues. Only if communication corresponds to the values that the company radiates will it enhance reputation. Sincerity and genuineness are the basis for a good communication policy in harmony with the company’s ethical policies grounded on fairness and integrity.

This situation of sincerity is close to the situation of idealism, which most academics describe in their mainly normative approach. Conversely, the situation of extensive communication without implementation leads to cynicism, the superior form of hypocrisy.
Our analysis contends that congruence between communication, reality and intent determines the degree of sincerity or hypocrisy in corporate governance and the CSR rhetoric of a company. Depending on the amount of dissonance or harmony between message and reality, the company can be positioned graphically on a continuum from idealistic about sincerity to opportunism, hypocrisy and cynicism (see Figure 1).

*Communication versus reality*

<table>
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<tr>
<th>Congruence</th>
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*Figure 1: The continuum in company positioning*

High correlations between message and practice will lead to a sincere communication policy, close to the idealistic presentation of mission statements. A dissonance between message and reality will end in a hypocritical communication policy, even cynicism.

While the business and social literature is often too idealistic, many business people experience hypocrisy from some companies. In many cases, the situation is closer to opportunism and scepticism.

This continuum from idealism to hypocrisy would allow the positioning of a company on a scale as a function of the degree of dissonance or congruence between communication and reality.

This position on the continuum could form the basis for an index, called the *sincerity index* (preferable to the opposite *hypocrisy index*). This index could be applied to the various business ethical sub-policies to give a complete view of the company.
The need for consistency and stakeholder reciprocity

An important area of interest in the business and society literature is stakeholder theory. The objective is to consider the needs of the various stakeholders of the corporation. This exercise is often complex, as it involves many very different stakeholders, including pressure groups. Stakeholder management is balancing conflicting needs and demands. Cyert and March (1963: 27 and 43) described organizations as coalitions of individuals and organized subcoalitions ‘with disparate demands, changing foci of attention and limited ability to attend to all problems simultaneously’. Pressure groups and the media play a special role in this debate, forcing corporations to pay more attention to specific stakeholders’ requests and for reporting and communication. However, just like other stakeholders, pressure groups should maintain realistic expectations. They cannot expect business to solve all the problems of society.

A corporation has duties to its stakeholders, but stakeholders should acknowledge that besides their rights and justified claims, they also have at least minimal obligations to the corporation. This reciprocity recognition would facilitate a semantic debate on who is a stakeholder and who is not.

To deserve the status of stakeholder, a real, genuine and fair stakeholder should also recognize the rights of the other stakeholders and remain loyal to the corporation. This does not mean that he/she cannot disagree or act, but that he/she has to search for constructive ways of dialogue and avoid unfair actions that could unnecessarily harm the corporation and other stakeholders. Hidden agendas, conflicts of interest and abuse of power should be avoided.

Our conclusion is a plea for consistency against the paradoxical situation that too often exists. Pressure groups should respect their own philosophies, the ethical ground on which they are based. Their raison d’être should be reflected in the way they act: with transparency, objectivity and fairness. Ethical management implies a need for congruence between words and deeds. Pressure groups—including government and administration—should not be an exception to this basic principle. On the contrary, they have the role of setting examples.
More than others, they should practise what they preach and what they want to impose on others: principles of dialogue and democracy and values such as fairness and honesty.

Special interest groups should respect codes of conduct. They need organizational social responsibility, just as corporations need corporate social responsibility. If they desire legitimacy, they should be transparent and be held accountable just like the organizations they attack; they should follow principles of corporate governance. Once they grow, their actions should also be evaluated and audited in the same way as they want to impose on others.

Stakeholder theory originated in the field of strategy (Freeman, 1984). It has gradually been adopted by scholars in the business and society fields. Stakeholder management has been utilized as the leading red thread in several recent handbooks on business ethics (e.g., Crane and Matten, 2004; Caroll and Buchholz, 2006). It has become the grille de lecture for the analysis of corporate responsibility (Attarça and Jacquot, 2005). The stakeholder approach therefore has been gradually presented as a theory of business ethics.

However, with its strategic origin, stakeholder management has mainly been used as an instrument to evaluate the influence of various stakeholders on a firm, and in an instrumental way, how to respond appropriately (Frooman, 1999). If stakeholder theory is to become a theory of business ethics, it must acknowledge the other side of the coin. Whereas stakeholders have rights, they also may have duties and obligations. If fair treatment of all stakeholders is imposed on a corporation, reciprocity can be considered a rightful request. Stakeholders have to treat the corporation in a fair way. Corporate responsibility should demand stakeholder responsibility. Stakeholders should also consider the impact of their actions on the other stakeholders of the corporation. This does not imply that they cannot be critical of the corporation’s management and its decisions, but that they should avoid harm as much as possible and pursue their goals by dialogue first. In some situations, it might be difficult, but just as the firm has to manage disparate and contradictory demands and has to balance stakeholder interests, pressure groups should proceed in the same ethical way. Corporate social responsibility should imply corporate stakeholder responsibility. This additional dimension of the stakeholder approach would complete the normative element beyond the essentially descriptive and instrumental applications of stakeholder theory (Andriof and Waddock, 2002: 32–34; Gond and Mercier, 2005).
If stakeholder theory aspires to be a theory of business ethics, the reciprocity of loyalty, fairness and ethical treatment should be confirmed. In this respect, the ethics of pressure groups and stakeholder reciprocity could be the missing link in stakeholder theory.

**Practice vs. academic theory: the small business experience**

Business ethics covers different overlapping fields. Corporate responsibility involves all disciplines. There is overlap, ambiguity and chaos in the numerous definitions of business ethics and corporate responsibility.

It was an agreeable surprise to discover in our study of perceptions of corporate responsibility and business ethics with managers (see the empirical study) that small business entrepreneurs are unaware and uninterested in the confused discussions on vagueness that monopolize much academic literature on CSR and business ethics. This might be another lesson in humility for academics. In a pragmatic manner, SMEs form their own view based on their own perceptions, even without thorough theoretical grounds, based on information through different channels such as professional and business associations and vulgarization articles in the business press.

Further research could investigate whether the same sensemaking also happens with CEOs of larger companies and with opinion leaders, whether they perceive the same differences between the concepts as the entrepreneurs of SMEs do. The internationalization of this exploratory study to other countries and other languages could be a valuable research project.

Our study on perception based on the RGT can be considered an innovation in the business and social fields. It confirms that every single entrepreneur construes his/her own mental model, with considerable fragmentation between these. Whether the analysis confirms the academic literature’s assertions of a close link between CSR and sustainability, it disagrees with the interchangeability of the terms business ethics and CSR. It clearly demonstrates that a small business entrepreneur clearly differentiates between three basic complementary concepts: corporate responsibility, corporate governance and business ethics. Within this frame, stakeholder management has been playing the role of facilitator. The triad corresponds
to three dimensions, management, governance and values, while stakeholder management represents the strategic dimension.

Concepts | Dimensions, role and impact
--- | ---
CR: corporate responsibility | Management
CG: corporate governance | Governance
BE: business ethics | Values
ST: stakeholder management | Strategy

Graphically, we could represent this as a triangle with the three concepts at the corners and stakeholder management in the centre (Figure 2). Depending on their insight, some scholars would put CSR on top as the major issue, while others would choose corporate governance; philosophers would probably put business ethics on top. However, the concepts are basically interrelated and interconnected. Each concept of business and society complements and reinforces the other concepts.

In a three-dimensional space, this can be illustrated by a tripod that links stakeholder management with the three major coordinates of corporate responsibility, business ethics and corporate governance.
Now, depending on their preferences, some will place corporate governance, business ethics and corporate responsibility as the central element. We can illustrate this graphically by turning the tripod, and placing the chosen central element on top. A corporate governance view will place corporate governance on top, a stakeholder approach would place stakeholder management on top, while business ethics and CSR scholars would place their respective favourites on top. Figure 3 illustrates the different approaches from the perspective of corporate responsibility, business ethics, corporate governance and stakeholder management, respectively.

Figure 3: The three-dimensional view from different dominant concepts

In an idealistic way, or at least in a normative way, some have concluded that with this triad (which includes the remaining ethical concepts), a stakeholder approach leads to shareholder value in the long term.
**Contribution to theory**

In the first stages of development of new disciplines, a number of sub-fields gradually emerge. Sometimes, new concepts brings clarification, while in other cases it enhances confusion, at least in an intermediary phase. This evolution has now occurred in the business and society fields. Our empirical study shed light on the discussion between progression and confusion of the concepts and sub-fields in the business and society field (De Bakker et al., 2005). Rather than an evolution to one unifying concept that will encompass all the others, we see the emergence of a number of complementary and interrelated concepts that co-exist and reinforce each other.

The descriptive part, partially based on previous research, brings an additional light to the debate on CSR and SMEs. By collecting case studies, opinions and views, taken at first hand, from the most concerned stakeholder group, the SME leaders, it contributes to a better understanding of the specific issues in SMEs. It adds the view from the practice to the academic literature, too often dominated by studies of second sources in large companies. It is only recently that a few researchers have taken up the specific concerns of the SME in matters of business ethics and CSR (Spence, 1999; Spence & Rutherfoord 2001; Spence, Habisch & Schmidpeter (eds.) 2004).

**Integrating business ethics and corporate responsibility from a strategic perspective**

Corporate responsibility and business ethics are important issues in business. They concern the role of business in society. However, many business and social scholars have had the tendency to treat this theme independently of other corporate concerns. By keeping business ethics and corporate responsibility separate from economic reality, ethicists have contributed to the scepticism of many practitioners. Managers and entrepreneurs are not interested in business ethics as a philosophical discipline, nor in theory. In order to be adopted by the business community, business ethics and corporate responsibility should be practical, pragmatic and embedded in practice. Entrepreneurs need tools.

The reality of business life should be respected. Corporations need to be profitable, because that is their primary objective, but it is also necessary for survival. Entrepreneurship is hard work in a difficult environment and will remain so. It is the pursuit of exploitation of opportunities within constraints and with pressure from various sources. Ethicists should have
realistic expectations. They should not expect business to solve all the problems of society. Neither CSR nor corporate governance is a panacea for all troubles. Ethicists have to accept that the ideal is not possible in business: entrepreneurs strive with their best efforts for continuous improvement.

The success of a company is not the result of a single action or program. CSR, as corporate governance, represents just one facet of a company. It has several complementary dimensions, which most business ethics and CSR literature underestimates. The performance of a company is the result of its overall strategy, innovation, quality, market position and long-term view. Corporate reputation will never result solely from business ethics and CSR philosophy. The success of a company is the result of a combination of factors, which reinforce each other. CSR and ethics have a complementary role in this debate. Just as stakeholders have contradictory expectations that must be balanced, different contradictory constraints have to be combined. That is a difficult exercise, but it is also a challenge for entrepreneurship and management.

Implications for research and business schools

Our study leads to some considerations with implications for business schools. How to teach ethics in business schools has been a subject of debate that has increased in recent years. The topic is not popular amongst students or executives, who seem to prefer technical and practical fields of knowledge application. This is probably due to the philosophical background of business ethics. Business school professors should not be moralizing. Teaching of business ethics should induce reflection, creating awareness that many decisions in business have an ethical aspect, as well as consequences for a broader group and for society. This demonstrates the psychological processes that make many people unaware of and not always able to detect ethical issues. It explains the role of rationalizations that people use to explain their non-ethical behaviour.

Business schools, and particularly researchers, should be aware of the negative tendency to give more credit to form over substance. There is a challenge for Europe to fill this area of social responsibility and to prevent an overemphasis on the Anglo-American priority on compliance. In business ethical issues, and in social responsibility issues, spirit should prevail.

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Europe should support a proper alternative to compliance. The essence should be preserved: the spirit rather than the letter of the law; making things happen rather than making reports.

Finally, the study demonstrates that business ethics and CSR are not to be separated from the rest of business life. They are not separate issues. They have to reinforce each other, and CSR is not an end in itself. They are tools to integrate into the strategy of the firm. “The business of business is the creation of sustainable value—economic, social and ecological” (Wheeler et al., 2003).

The apparent disinterest of SMEs in the theoretical aspects of business ethics should not lead to the wrong conclusion: SME leaders have the same concern as ethicists to strengthen responsible business practices; most of them recognize trust and fairness as a basis for doing good business. In fact, they deplore the unethical practices, which absorb too much time and energy. As pragmatists, they would like to be helped with practical solutions. Our analysis, with first hand information from the practice, also confirms some results from recent research in SMEs: many SME leaders have informally and implicitly integrated aspects of corporate social responsibility and sustainability in their companies (Spence & Rutherford 2003; Spence, Habisch & Schmidpeter (eds.) 2004; Murillo and Lozano, 2006). They did not wait for the promotion campaigns of CSR. They simply consider this as good management. And in this domains of corporate governance and CSR, that perhaps may have been focusing too much on communication in recent years, one should not forget that the biggest contribution of SMEs to society is the creation of jobs, sustainable jobs in the local community.

**Conclusion**

It is to the credit of business and social scholars that there has arisen concern, debate and reflection on this important societal issue. It is to their credit to have attacked the pensée unique of shareholder value. It is to their credit to have put business ethics and corporate responsibility on the agenda of corporate strategy. Whereas a few decades ago, strategy ignored CSR, corporate responsibility has become an integral part of a strategic approach, as a careful examination of the tables of contents of strategic handbooks illustrates. Kenneth Andrews (1989) already emphasized the moral component of strategy. Freeman and Gilbert (1988) understood that in order to move ethics further on from the stage of moralizing,
business ethics had to be linked to corporate strategy. “Stakeholder ‘management’ has become an important discourse with business ethics and in the translation of business ethics to management practice and strategy” (Waxenberger and Spence, 2003: 242). In fact, this view confirms the classical vision of strategy that has existed since Chandler: alignment with the environment. The right approach to business ethics, corporate responsibility and corporate governance is their effective and genuine integration into the overall strategy of the firm, not more, not less. This will contribute to achievement of the ultimate goal of business, creating wealth and value: value for the shareholder, value for all stakeholders and value for society.

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