

What Ethics? Economizing the Carroll Pyramid of Corporate Social Responsibilities (CSR)

Abstract

This paper analyzes the conceptual foundations of an economic ethics debate that can ground CSR research and practice. I utilize Carroll's framework of a pyramid of corporate social responsibilities (CSR) as my base point: All of Carroll's four domains of CSR – of economic, legal, ethical, and philanthropic responsibilities of the firm – are reconceptualized through institutional economic theory that grounds itself in and continues Smithsonian economics. Significantly, economic reconstruction is ethically argued for through the concept of 'economics as ethics', directed at all domains of the Carroll pyramid. Implications are spelled out which economic ethics debate has for empirical research on the much debated link between CSR and corporate financial performance (CFP, or 'profitability').

Key Words:

Corporate social responsibility; Carroll pyramid; economics as ethics; instrumental rationality; instrumental stakeholder management; corporate financial performance.

What Ethics? Economizing the Carroll Pyramid of Corporate Social Responsibilities (CSR)

It may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community. ... There is a strong temptation to rationalize these actions as an exercise of 'social responsibility'. ... [These] expenditures ... are entirely justified in its [the corporation's] own self-interest. It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window-dressing since it harms the foundations of a free society. ... I can express admiration for those ... corporations who disdain such tactics as approaching fraud. (Friedman 1970/1993, p. 253)

We need to put business into the core of our ideas about ethics. (Freeman and Moutchnik 2013, p. 8)

Introduction: In Search of Ethics for CSR Economics

Carroll's (1979, 1991) concept of a pyramid framework of CSR distinguishes four domains of responsibilities of the firm; economic, legal, ethical, and philanthropic / voluntary (see also Carroll 1999; Buchholtz and Carroll 2008; Carroll and Shabana 2010). Although a debate on social corporate responsibilities of the firm dates back to well before Carroll's work (at least to Mayo 1933, 1949; Bowen 1953; or Drucker 1954, pp. 37, 381-383; see also Wartick and Cochran 1985; Carroll 1999; Schwartz 2007; Chong 2013), it was his framework that ignited and drove the field of CSR research from the 1980s onwards. Many subsequent publications on CSR have explicitly drawn on his concepts (e.g. Wartick and Cochran 1985; Wood 1991;

Swanson 1995, 1999; Snider et al. 2003; Dentchev 2004; Garriga and Melé 2004; Igalens and Gond 2005; Windsor 2006, pp. 98-99; Graaf and Herkströter 2007; Galbreath 2010, pp. 511-513; Orlitzky et al. 2011, p. 8).

Interestingly, some forty years after Carroll's work conceptual calls have flared up for a 'levelled approach' to CSR (e.g. Aguinis and Glavas 2012; similarly Windsor 2006, p. 94; Aguilera et al. 2007). I agree with such debate that conceptualizations of CSR do greatly matter; or to speak with Aguinis and Glavas (2012) that a multi-level approach is needed that synthesizes CSR concepts. However, I keep my approach paradigmatically focused within one research program (or 'discipline') that is economics: spelling out meta-theoretical foundations of economic CSR research in ethics. I ground a multi-level approach to CSR in social contract economics, conceptually reconstructing all domains of the Carroll model from within economics and an economic ethics debate.

CSR Unification Programmes, 'Paradigm Soup' and an Economic Approach to CSR

A first thesis is that the approaches that have tried to integrate CSR across 'disciplines' into a single model contributed to the definitional and conceptual confusion that still plagues the field today (such confusion being attested by McWilliams et al. 2006, pp. 8, 10; Schwartz and Carroll 2008, pp. 149-151; Galbreath 2010, p. 512; Orlitzky et al. 2011, p. 14; Aguinis and Glavas 2012, pp. 933, 948; Baden and Harwood 2013, pp. 615, 624; Jia and Zhang 2014, p. 1118; historically, such confusion is traced by Wartick and Cochran 1985; Carroll 1999, p. 272). I contest unfocused interdisciplinary, grand unification projects that integrate

‘everything’ into one CSR framework (and Windsor 2006, Schwartz and Carroll 2008, or Aguinis and Glavas 2012 seem to move into this direction of large-scale unification). In this respect, ‘paradigm soup’ is lurking in the background (an idea borrowed from Buchanan and Bryman 2009, p. 4). However, I do *not* question multi-paradigm research or the respective contributions that have been made by different ‘disciplinary’ approaches to CSR research. I only question grand unification projects.

I draw on Carroll’s (1979, 1991) four-pronged CSR approach but not for nostalgic reasons. I argue for retrospective historic grounding of CSR research in economic ethics in order to help make more transparent the ‘paradigm soup’ which CSR research could be said to be immersed in. I approach this clearing task through projecting all domains of Carroll’s framework simultaneously to economics and to ethics. Paradigmatic diversity or ‘incommensurability’ of CSR theories from different research traditions, having different meta-theoretical and ethical groundings, is endorsed in this way (as are such meta-theoretical clarifications generally called for in management studies by Hassard et al. 2013; Rowlinson et al. 2014).

By discussing Carroll’s work on CSR, I aim for a synthesis of ethics and economics *from within economics*. The task is to spell out economic ethics for CSR economics; what ethics, if any, can normatively ground an economic, strategic instrumental ‘business case’ approach to CSR research and practice? I sympathize with economic paradigms of CSR (such as Jones 1995; McWilliams and Siegel 2000, 2001; Husted and Salazar 2006; also Fry et al. 1982). The question is: how to attribute ethics to an economic theory of CSR? Through addressing these questions I also comment on earlier economic CSR research: for instance, what ethics does an agency theory or transaction cost approach to CSR yield (Jones 1995); or what is essentially ethical about applying a demand-and-supply model of CSR to the firm (McWilliams

and Siegel 2000, 2001; also Husted and Salazar 2006; Orlitzky et al. 2011, p. 10)?

This leads to a further thesis on the ethical nature of economic ethics reconstruction.

The Hypocrisy Accusation against CSR Economics

I argue that all four domains of Carroll's CSR pyramid framework can on the one hand be viewed as reflecting economic concept and economic rationality, and ethics on the other hand. This goes further than what earlier economic paradigms on CSR had in mind. For example, as much as Friedman (1970/1993) can be projected to the bottom domains of Carroll's pyramid (economic and legal responsibilities), he explicitly rejected an economic CSR program for the top domains (which many consider the 'core essence' of CSR; see McWilliams et al. 2006; Carroll and Shabana 2010): This is implied when he brandishes the 'self-interested exercise of [corporate] social responsibilities' by firms, such as donations, as 'hypocritical window dressing', 'fraud', and as 'nonsense', in other places (Friedman 1970 /1993, p. 253, as quoted above). Here, I later question his apparent lack of economic-ethics understanding of CSR concepts regarding Carroll's top domains of 'ethical responsibilities' and 'philanthropic/voluntary responsibilities'.

My main challenge to suggestions such as these is whether we have to agree that economizing regarding the top two levels of the Carroll pyramid could *not* reflect ethics any more – because of its economizing approach, so critics argue; but indeed would mirror 'fraud', 'hypocritical window-dressing' and 'nonsense' as even Friedman postulated. Research which spans a surprisingly wide spectrum from critical management research on CSR (e.g. Roberts 2003; Fleming et al. 2013, pp. 338-339)

through to research on the economic strategic business case for CSR, sometimes explicitly, at other times more implicitly aligns itself with Friedman's critique. A void is apparent regarding what ethics could amount to in an economic approach to CSR that economizes all domains of the Carroll model.

Has the CSR concept, as an economic paradigm, really lost the battle to set out 'an [ethical] imperative for the justification of business practice' and a business case for CSR, as suggested by Baden and Harwood (2013, p. 616) and similarly by Jensen (2002), Margolis and Walsh (2003), Windsor (2006), or Scherer and Palazzo (2007)? Clearly, if ethics for CSR economics is not substantiated from within an economic perspective, then the accusation can become valid that any instrumental strategic 'business case' approach to CSR, which in one way or another connects to the theory of the firm, may merely reflect ethically void 'trash talk' (Bansal and Clelland 2004; also Roberts 2003, p. 250; Fleming et al. 2013, pp. 340, 342). As noted, even Friedman may sympathize with this 'trash talk' indictment. Such findings and allegations pose a serious challenge regarding the ethical foundations of economic approaches to CSR, as to the legitimatization of management and the market economy in general once they draw on instrumental strategic stakeholder management and the 'business case' argument.

Economics Ethics for Grounding CSR Economics

So, how can we align ethics with CSR economics that draws upon Carroll's pyramid framework? The kind of ethics I utilize is 'economics as ethics' as this ethics emerged from the Scottish Enlightenment, specifically Smith's (1776/1976) studies on the

Wealth of Nations. This ethics has been further developed by contemporary research at the cusp of constitutional / institutional economics and (business) ethics, connecting to a utilitarian, social contract economics. There are different yet complementary perspectives that attribute a concept of CSR to Smithsonian economics: in terms of (1) mutual gains/societal welfare (‘public good’; ‘wealth of nations’) as an unintentional outcome of potentially merely self-interested business activity; (2) the systemic codification of morality in institutional frameworks of the market economy (e.g. business laws); and (3) the generation of ethical capital in market transactions, inside capital exchange processes in the market economy. On this ground, I argue for the comprehensive economizing of the Carroll pyramid through a normative ‘economics as ethics’ that continues Smith; but does not aim to infuse Smith and the *Wealth of Nations* with behavioral, non-economic ethics, such as virtue ethics, religious ethics, duty ethics, communicative ethics, or communitarian ethics, to name but a few. These latter types of ethics could even include Smith’s own version of virtuous, sympathy-based ethics (Smith 1759/1966); as there have been attempts to link approaches connecting to virtue ethics CSR or communitarian ethics CSR to Smith (e.g. Wilson 1989; Bassiry and Jones 1993; Werhane 2000; Windsor 2006; critically on this project Wagner-Tsukamoto 2013).

The arguments of the paper are arranged into four sections. First, I discuss how Carroll’s framework can be economized and ethically reconstructed at the same time; through ideas of mutual gains/societal welfare; institutional economic-legal rules; and ethical capital creation. This economizing project aims at all four domains of Carroll’s pyramid, and it examines in what respect each domain reflects ethics, i.e. ‘economics as ethics’. Second, I raise questions and ask why an economic reconstruction of Carroll’s pyramid is important and meaningful for a debate on the

viability of CSR programs in a market economy context. Third, I return to the hypocrisy accusation against an economic approach to CSR. Fourth, I inquire how an economic re-conceptualization of Carroll's work can clarify research on the empirical link between CSR and corporate financial performance (CFP; or 'profitability'). Previous empirical research yielded ambiguous findings and I argue that empirical research on the CSR–CFP link can be advanced towards a different understanding by drawing on a CSR pyramid that reflects economic-ethics concepts. In a final part of the paper, I offer conclusions.

1. Economizing the Carroll Pyramid: Where is Ethics?

Carroll's (1979, 1991) pyramid framework distinguishes four responsibilities, each coming with normative expectations (See also Buchholtz and Carroll 2008). Figure 1 summarizes.

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Figure 1: Carroll's Model of CSR



Carroll's CSR Pyramid
(adapted from Carroll 1991, and
Buchholtz and Carroll 2008)

At the bottom level, Carroll locates 'economic responsibilities'; the firm is meant 'to be profitable'. What potentially remains underexplored in this respect is the justification of this normative expectation: Why should a firm stay profitable, and how can this idea be restrained to the 'bottom domain' of the pyramid only? Can ethics be drawn upon to justify such a recommendation, and if so, which kind of ethics? One level higher, Carroll discusses legal responsibilities, again normatively: The firm is expected 'to obey laws'. As with the bottom domain the critical question here is why? Why should a firm obey laws, and what ethics could be drawn upon to ground this argument, and how would economic considerations, if any, come into play? One level higher again, Carroll placed 'ethical responsibilities', which reflect in his reading the ethical expectations of society as to how a firm should behave when going beyond the fulfilling of laws. One could speak of ethical expectations of society

that have not yet been laid down in laws. At the top of the Carroll pyramid are ‘philanthropic responsibilities’: the normative recommendation to the firm is ‘to be a good corporate citizen’ and to behave charitably and altruistically in society, through making donations, engaging in charitable acts, etc. As it was for the bottom domains, once again for the top domains the question is why would a firm be required to fulfil such responsibilities, and can economics play any role here?

In the following, I approach all CSR responsibilities of the firm from the paradigmatic view of economics ethics reconstruction. This reconstruction is grounded in a model of self-interested behavior of the firm (McWilliams and Siegel 2001; Husted and Salazar 2006). In a second step, this leads on to the question; how can we not only economize all domains of the Carroll pyramid but also simultaneously keep maintaining claims towards ethics?

An Economic-Ethics Model for Reconstructing the Carroll CSR Programme

To re-construct the Carroll pyramid in economic-ethics terms, I draw upon an economic model that up-dates Smith’s understanding of ‘economics as ethics’ (Wagner-Tsukamoto 2005; 2007; 2012). Smith’s or similarly Friedman’s understanding of ‘economics as ethics’ extended to two domains of the Carroll model only: A systemic one, which concerns the market economy system; and an institutional-legal one, which captures the idea that business behavior in a market economy is constrained by ethical expectations of society: with such expectations having been laid down in constitutional and institutional-legal structures, such as business laws. Friedman’s (1970/1993) final verdict is that it is a social responsibility

of a firm to maximise its profit within the boundaries of legal rules (Husted and Salazar 2006, p. 77; Wagner-Tsukamoto 2007). These two aspects reflect the more conventional elements of an ‘economics as ethics’ that underpin a market economy system. They translate (with specifications and modifications) to Carroll’s bottom domains of the pyramid; of ‘economic responsibilities’ and of ‘legal responsibilities’ of the firm, as discussed in detail below.

Even so, my argument contends that these are not the most important aspects of ‘economics as ethics’ for many contemporary market economies. As noted, in the classical understanding of Smith as upheld by Friedman (1970/1993) or Arrow (1973), ‘economics as ethics’ is restrained to the unintentional effects of systemic ethics, public good being a ‘side-effect’ of profit-making in a market economy (‘bottom level’); and to the institutional-legal framework of the market economy (‘one level up in the pyramid’). The market process itself, and firms and their stakeholders are not moralized; ethics does not work its way through capital exchange processes as such. Conceptually their theories do not account for this – one could speculate that this was practically and empirically of no relevance to the market economies they observed.

To a degree, this could even be projected to Carroll’s (1979, 1991) work, especially so in regards to his CSR concept as a pyramid and the arguments he used for the top domains of the pyramid – apparently implying that they should only be attended to if corporate slack resources were available to attend to them. The implication to deduce from this is that the apparent scope for CSR gets more and more restrained when moving up the pyramid, and ultimately ‘ethical responsibilities’ and ‘philanthropic responsibilities’ merely seem to be some slack-based social responsibility of the firm (rather explicit is here Carroll 1989, p. 5), which is only

hypothetically entertained if ‘profits’ were somehow left over for the top two levels (regarding slack-based argumentation, see also Reinhardt and Stavins 2010; Harwood et al. 2011).

Later works of Carroll, e.g. Schwartz and Carroll (2003, p. 503) or Schwartz and Carroll (2008) also did not push an economic lens over all domains of social responsibilities of the firm either (for sociological or political theory positions that similarly do not economize the top domains, see Buono and Nichols 1985; Carroll 1989, pp. 15-18; Windsor 2006, p. 95; Scherer and Palazzo 2007). Then, a sociological or behavioral political approach to the social contract becomes apparent (explicitly so, e.g. Carroll 1989, pp. 15-18; also Donaldson and Dunfee 1999).

Here, Schwartz and Carroll (2003) left ethical responsibilities and legal responsibilities to a large extent outside of economic reasoning and they subsumed philanthropic responsibilities of the firm under ethical and economic responsibilities, which I would not subscribe to. Terminology and conceptualization remained in their study one of corporate ‘obligations’ regarding ethical and philanthropic responsibilities (Schwartz and Carroll 2003, p. 505-506, 515; Carroll and Shabana 2010).

Interestingly, in some respects, Friedman (1970/1993) seemed to share this understanding, when he characterized charitable acts of companies as self-imposed ‘unwelcome taxes’ on a company. Such understandings imply that the top domains merely yield costs for the firm, making them ‘constraints’ on profitability. I challenge Smith and Friedman in this regard, and Carroll and those who directly or indirectly connect to his framework, by suggesting that economic ethics inside market interactions is feasible, involving ethically active stakeholders and the generation and trading of ‘ethical capital’ with the firm: through the market. This extends particularly

to what Carroll referred to as the top domains of the pyramid, although my subsequent discussion aligns ‘economics as ethics’ to all domains. Profitability considerations and strategic instrumental behavior of the firm are in this way projected to the entire pyramid, profitability translating into ‘economics as ethics’ in different ways. I briefly introduce this economic model at this point, and then subsequently apply it in depth to all four domains of Carroll’s CSR framework.

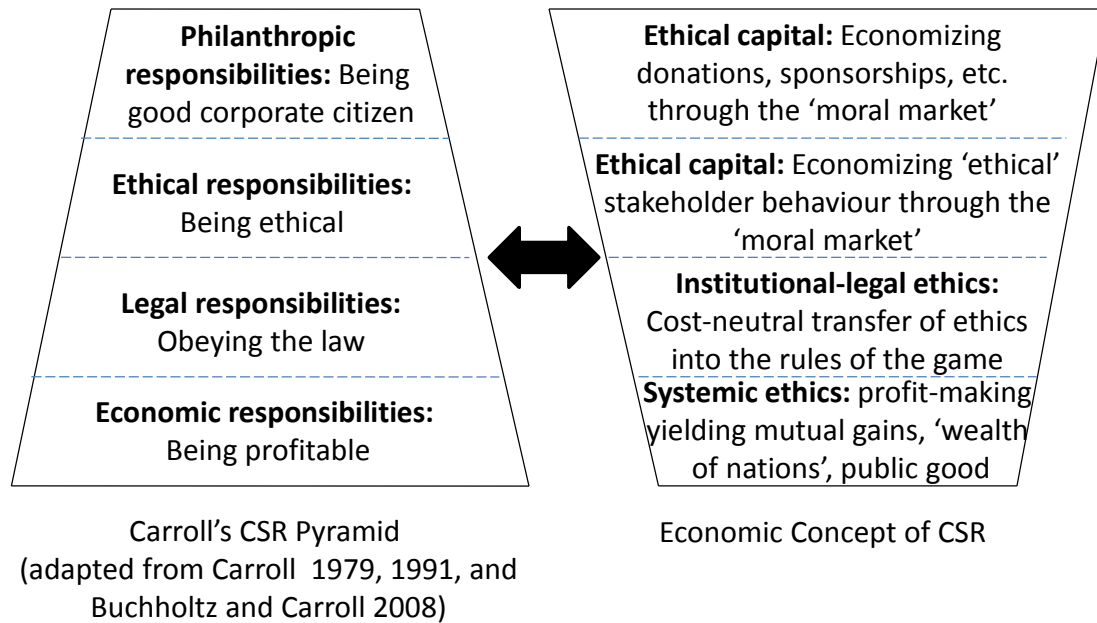
When recasting the Carroll pyramid in economic terms, we do not necessarily encounter a tailing off concept of CSR when moving up the levels and we do not necessarily end up with a ‘pyramid’. The top domains of the pyramid can essentially drive profit-making of the firm; then, gains from a CSR program can more than compensate a firm for the extra costs incurred when engaging with ‘ethical responsibilities’ and ‘philanthropic responsibilities’. In consequence, the scope for what Carroll termed ‘ethical responsibilities’ and ‘philanthropic responsibilities’ increases, on grounds of instrumental, economic rationality. To figuratively capture this, an inverted pyramid could be used to depict an economic concept of CSR (a three-dimensional sphere with ‘economics as systemic’ ethics encircling inner layers and other ‘domains’ of CSR may be more appropriate). Figure 2 presents this economic translation of Carroll’s pyramid concept (which I specify in detail in the sections that follow).

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Insert Figure 2 about here

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Figure 2: Two Models of Ethical Capitalism/CSR



Economics-Ethics: Economic Responsibility and the Re-conceptualized Carroll Pyramid

Carroll has 'economic responsibilities' at the bottom of the pyramid. Here, a concept of economic ethics clarifies the systemic nature of economic ethics. At a foundational level, the market economy can be thought of as being morally legitimized because this system, drawing on potentially merely self-interested behavior of firms and of those with whom firms interact and trade, yields larger societal benefits. Such benefits to society result unintentionally from the point of view of the firm; such as the creation of employment; economic growth in society; taxation payments to governments; the efficient coordination of economic activity in society; rising living standards over time; the wider benefits of the innovation of products and services to society; etc. An

unintentional mutual gains program is in this respect normatively constitutive for the market economy. Smith referred to such outcomes as the ‘wealth of nations’ and Mandeville spoke of ‘private vice, public good’. Goodpaster and Matthews (1982) captured this insight when suggesting that the market economy encouraged ‘deliberate amorality’ of firms in a market economy system in order to reap the benefits of ‘systemic morality’ of the invisible hand in such societies. Already in this regard, I can question suggestions such as Scherer and Palazzo’s (2007, pp. 1096-1098) that an instrumental economic theory of the firm that aims to connect to CSR has no normative conception of ethics.

The concept of systemic ethics explicitly aligns both societal welfare goals and self-interested, profit-maximizing behavior of the firm. It therefore specifies the ethical, societal quality of profit-generating management of the firm. This is not clearly set out by Carroll (1991, pp. 40-41), Schwartz and Carroll (2003) or Buchholtz and Carroll (2008, p. 40) when discussing economic responsibilities of the firm; and this systemic dimension of ethics is left merely implicit by much CSR research that connects to economic paradigms.

A further specification of the idea of a moral quality of self-interested, economic behavior comes into play when looking at interactions between a firm and stakeholders. It is not only the firm that needs to gain something (profit) in order to develop and maintain an exchange interaction but the same applies for the stakeholder, such as a consumer, employee, investor, etc. If there is no gain on their side, an interaction with a firm could not materialize from an economic point of view. An intentional ‘mutual gains from trade’ program is constitutive in this regard. The idea of profit-making by the firm cannot in this respect be isolated from mutually advantageous interactions with stakeholders and any sort of gain they are aspiring to

(Homann 1997, 1999; Lütge 2005). A social contract economics is normatively specified in this way that reflects the ethical ideal of negotiated mutual gains at the interaction level (in addition to unintentional ‘mutual gains’ effects at the systemic level; see above).

Although Carroll and Shabana (2010, p. 100) review ‘win-win’ outcomes and link it to the business case for CSR, or Schwartz and Carroll (2008, p. 170) speak of the firm ‘balancing benefits’ for society, they do not explicate the ethical nature of ‘balancing win-win’ outcomes from an economic ethics perspective, which could connect to a social contract economics, such as Buchanan’s. Social contract economics has here both an instrumental concept of ethics and a normative expectation of ethics. Both these aspects I assess much more positively and constructively than Scherer and Palazzo (2007) as far as their critique of an economic approach to CSR is concerned.

Economics-Ethics: Legal Responsibility and the Re-conceptualized Carroll Pyramid

I re-approach legal responsibilities of the firm, as located a level higher up in the Carroll pyramid, from a constitutional and institutional economic point of view. The works of constitutional and institutional economists are illustrative (e.g. Buchanan and Tullock 1961; North and Thomas 1973; Buchanan 1975, 1976, 1987a, 1987b; North and Weingast 1989; North 1990; Williamson 1985, 1996, 2000; in degrees, also Friedman 1962). The conventional place of morality in a market economy is in this understanding of the constitutional and institutional-legal framework that sets up and

frames a market economy. Through an institutional ethics and order ethics, moral norms are legally enacted on market participants (Homann 1997, 1999; Lütge 2005).

North's historic institutional economic research is exemplary in that it shows that outcomes like the 'wealth of nations' or 'public good' in a market economy rely on the establishment of constitutional and institutional-legal structures that frame a market economy system. This understanding of ethical standards being codified in rules and laws which enact morality through institutional-legal structures on firms brings an explicit normative ethical dimension to Carroll's 'legal responsibilities'. Laws reflect societal agreement on what is ethically demanded from firms; clearly this is 'no small agenda' for CSR research and practice (Novak 1996, p. 141). Indeed, this is at the heart of an institutional and constitutional economic approach to ethics. In this regard the works of Smith are seen to be rich in these institutional insights already (Viner 1927; Reisman 1989; Khalil 2002; Lütge 2005): namely that, in a market economy, unintended systemic ethics and a mutual gains program at the interaction level, as discussed above with regard to 'economic responsibilities' of the firm, needs to be enabled through and supported by a framework of rules that sets guidelines for those who interact in markets.

A firm takes on legal responsibilities because they are enacted (incentivized) on all firms in a competition-neutral manner: all firms face the same costs imposed by laws on respective national markets (but not necessarily in international perspective, which raises problems for 'globalizing capitalism'; see Vanberg 2001 in economic terms; also Reinecke and Ansari 2015 for a non-economic 'politicized' approach). Here, ideas like 'coercion' and 'imposing' are not fully appropriate when examining legal responsibilities in economic terms (as drawn upon by Husted and Salazar 2006; Matten and Moon 2008): From an economic point of view, costs for breaking a law

need to be set higher (e.g. through a firm expecting certain fines) than the gains that could be made from law-breaking. A framework of self-interested reasoning is not given up: Legal institutions and constitutions need to be ‘self-enforcing’ on grounds of self-interested behaviour already. North and Weingast (1989, p. 806) put this as follows:

The constitution must be *self-enforcing* in the sense that the major parties must have an incentive to abide by the bargain after it is made. Put simply, successful long-run economic performance requires appropriate incentives not only for economic actors but for political actors as well.

This economic-legal, institutional program for the societal contract can be transferred to the CSR and stakeholder approach of the firm. This is important when discussing competitive markets: With a view of social contract economics entering institutional structures, profitability in any discriminatory, comparative and competition affecting manner is not at stake (when within a national market, and assuming laws are being properly sanctioned) unless institutional regulation tampers with key ideas and key mechanisms of the market economy, such as market interactions that self-organize in the face of self-interested choice, or taxation laws that set excessively high standards.

Economics-Ethics: Ethical Responsibility and the Re-conceptualized Carroll Pyramid

Both of Carroll’s top domains of corporate social responsibilities – ethical responsibilities, and philanthropic responsibilities – can be economically reconstructed through ideas of instrumental economic rationality and strategic stakeholder management of the firm. Reconstruction would remain grounded in

ethics: in ‘economics as ethics’ in a wider sense (as already set out), and with regard to an ethical capital model that specifies a moral market. Many writers on CSR, including Carroll (1979, 1991, 1999), have not set out such an inclusive economic conceptualization of the top domains of the pyramid. Carroll (1991, p. 43), or Buchholtz and Carroll (2008, pp. 22, 43-44, 46) for instance, focus more on sociological than economic traditions, concentrating on ‘legitimacy’ and ‘power’ concepts to interpret corporate social responsibility in this respect; or to invoke in a duty ethics tradition ‘obligations’ (Carroll and Shabana 2010). This is particularly so regarding ethical and philanthropic responsibilities that aim at stakeholder management. Melé (2008, p. 66, 76) discussed in this manner, in a more idealistic vein, issues of human dignity and rights as such, or Reinecke and Ansari (2015) suggest humanitarian roles a firm should play, ultimately linking this to sociology rather than to economics.

Ethical responsibilities according to the Carroll model reflect the expectations of society with regard to good corporate behavior. Such expectations have not as yet been codified as laws in the Carroll model. I re-conceptualize such ‘ethical responsibilities’ in economic terms through ideas of ethical capital. In this understanding, a firm profitably markets or ‘commercializes’ ethics – at a price premium (see also McWilliams and Siegel 2001, p. 124; Bagnoli and Watts 2003, p. 420). A product or service is traded with stakeholders which exceeds the moral minimum standards laid down by laws (regarding ‘legal responsibilities’). In an economic reading, ‘ethical responsibilities’ of the firm therefore connect to stakeholder management that produces for and trades with ethically aware stakeholders: Products and services like environmentally-friendly ones; fair trade ones; organic ones; free-range ones; animal-friendly ones; etc. (Wagner 1997;

McWilliams and Siegel 2001; Baron 2001; Wagner-Tsukamoto 2005, 2007, 2013; Smith 2008; more abstractly touched upon by Marom 2006). These products and services live up to ethical standards that go beyond minimum legal requirements. Their trade is feasible because a firm can satisfy it profitably: ‘Ethical capital’ enables a firm to recoup additional costs for producing such products and services from stakeholders; with such stakeholders having to be resourceful and ethically committed.

To extrapolate Lütge (2005, p. 109): In competitive processes, ethics is then indeed no longer distributed through the benevolence or goodness of the firm but through a process of market exchange, which yields mutual gains for firm and stakeholders. However, regarding ethical capital creation this process differs from institutional ethics and order ethics (as discussed above for legal responsibilities) – because the market process itself is now moralized (by means of a mutual gains program).

At a behavioral level of stakeholder analysis, research on ethical capital can be opened up to behavioral economics, as for instance when scrutinizing the ethical behavior and commitment of stakeholders and how a firm most profitably can satisfy (‘commercialize’) such stakeholder demand and build ethical capital as ‘production capital’ (regarding CSR ‘transaction capital’, connecting to agency theory and transaction cost economics, see the early works of Jones 1995). This has also been called the creation of ‘public goods’ through the firm (Blomgren 2011), although this comparison does not do complete justice to the private interest-induced creation and private trading of these ‘public goods’ through the firm, and the mutual gains program that is pursued here.

Through ethical capital creation, ethical responsibilities of the firm are strictly linked to instrumental, strategic stakeholder management. This has a multiple ethical effect, not only with regard to moral standards being implemented that exceed laws but also with regard to profitability being maintained. Ethical responsibility of the firm then comes with ‘economics in mind’: It clearly furthers the interests of the firm, which McWilliams and Siegel (2001, p. 117) in their otherwise economic analysis of CSR seem to question when defining CSR as ‘being beyond the interest of the firm’ (restated by Orlitzky et al. 2011, p. 8). Seemingly contrariwise to this McWilliams and Siegel (2001) discuss a number of examples where companies apparently engaged in ethical green marketing which proved to be very profitable. This I reconstruct as ethical capital creation through the firm.

The CSR approach that emerges is grounded in normative ethics: A model of ethical capital creation specifies the substance of contracting in the tradition of a utilitarian, social contract economics. This yields, at the interaction level, mutual gains in multiple respects regarding the satisfying of stakeholder interests in general, and *ethical* stakeholder interests in particular. On the side of the firm, ethics concepts remain within a utilitarian means-oriented orientation to ground economics as ethics (as seemingly implied by Schwartz and Carroll 2003, p. 512; Windsor 2006, pp. 94-95). Nevertheless, a utilitarian ethics orientation alone is not sufficient: It needs to be embedded in social contract economics, and its constitutive normative ethical ideal of mutual gains for ordering exchange interactions. Both the firm and stakeholders need to benefit from CSR policies, this mirroring ‘economics as ethics’.

Economics-Ethics: Philanthropic Responsibility and the Re-conceptualized Carroll Pyramid

At the top, Carroll's pyramid has 'philanthropic responsibilities'. They essentially set out a corporate citizenship program. In economic terms responsibilities such as these do not carry a legal quality; neither do they reflect 'ethical' stakeholder management strategies as discussed above for free-range, organic, fair trade products and services, etc. Yet, as for level three, a firm can approach such responsibilities with profit in mind, differentiating a product or service through offering ethical capital to stakeholders. This is again grounded in instrumental strategic stakeholder management. I would in this regard clearly not disassociate social issues management or citizenship research from CSR (as altruistic, etc.; e.g. Windsor 2006, p. 98). I question that '...the economic perspective treats ... discretionary CSR as voluntary wealth transfer away from investors.' (Windsor 2006, p. 99) Rather, I argue for philanthropic responsibility of firms on economic grounds: For example, corporate donations to the local community for building a hospital, or for sponsoring a museum exhibition, are brought under economic reasoning through communicating the corporate donor's name to stakeholder groups, to the media and to the party which received the donation. 'Cause-related marketing' that communicates philanthropy to stakeholders is a prime example (early Fry et al. 1982). In this way, some economic 'pay-back' can be conceptualized for the firm, and a mutual gains program becomes both conceptually and practically feasible. An economic rationale of ethics is not given up.

Interpretations of CSR, such as Friedman's, need to be qualified in this respect: As much as he hinted at the economizing of 'philanthropic responsibilities' –

he singled out ‘donations to small, local communities’ – he did not take the step further to connect this to ‘economics as ethics’. Rather he projected such philanthropy to traditional ethics and traditional moral precepts approaches, e.g. virtue ethics or religious ethics (conventionally understood). Only on this ground could he argue for the ‘hypocrisies’, ‘fraud’, ‘window-dressing’ and ‘nonsense’ of philanthropic CSR that was seemingly driven by instrumental, economic rationality. I comment on this in more detail below when I assess hypocrisy accusations made against economic ethics.

These suggestions on how to realign Carroll’s concept of corporate social responsibilities both with classical economics and modern, economically oriented stakeholder ethics open up many avenues for possible future research. Such research on CSR can theoretically and practically bridge a gap to economics, through institutional and constitutional economics that foundationally grounds CSR research and practice in economic ethics debate.

2. Importance of Economizing the Carroll Pyramid: Viability of and Capability for CSR Economics

An economic reconstruction of Carroll’s framework enables us to fundamentally inquire about viability of CSR in a market economy context. The underlying question is what kind of ethics and how can ethics thrive in a market economy. If the effects of the market process, i.e. competition, on the viability of CSR programs are ignored, a CSR program can only accidentally or sporadically succeed or it fails altogether. CSR case studies of religious owner-managers, both historic ones and more contemporary

ones, drawn from entirely different cultural contexts and times, illustrate this (e.g. Child 1964; Cheung and King 2004; Wagner-Tsukamoto 2008).

In Need of Economic Viability of CSR Programmes: Enabling Ethical Capability for CSR

The inverted pyramid (see Figure 2) reflects the increased economic viability of CSR, once the entire Carroll pyramid is economized. Regarding the practice of CSR, I argue that the economizing of the Carroll pyramid widens practical feasibility and viability of CSR. Following an economic-ethics reconstruction, both ethical responsibilities and philanthropic responsibilities are no longer drainers of or ‘constraints’ on profitability, as implied by Friedman (1970/1993), Carroll (1991, p. 45), or Buchholtz and Carroll (2008, p. 46), but are looked upon as sources of profit-generating management, representing ethical capital generation. In this vein of economic theory development on CSR, Porter’s (2003, p. 42) concern can be addressed regarding a need for ‘... tools and sound, persuasive argumentation for why corporate philanthropy matters to corporate competitiveness.’

Why would economic viability of CSR or even increased economic viability of CSR be so important? Here my thesis places importance on the need for competence and capability for CSR (as for normative ethics in general) to be assured before expectations are raised that the firm should engage in CSR. In one way or another, this is a fundamental concession of any ethics debate: That a normative moral ‘ought’ to be for responsible intervention implies practical capabilities and competence on the side of the agent (natural; or institutional), who is expected to

execute the moral ‘ought’ (Wagner-Tsukamoto 2005). At least, the agent must ‘survive’ the intervention; his/her intervention needs to be viable. The previous discussion of economizing the Carroll pyramid builds on this insight.

In a market economy context, a ‘practical can’ cannot ignore ‘profitability’, ‘economic survival’, ‘competition’, ‘financial performance’ or the ‘bottom line’ however these may be termed; or the ‘capitalist economic imperative ... of the firm to make surpluses’, as critical management theory puts this (Fleming et al. 2013, p. 340).

The question asking ‘how to’ economize CSR ethics is foundational here. Only subsequently can one argue for normative reasons as to why ‘economics as ethics’ could and should be valued and pursued by a firm: retrospective analysis having settled the argument that practical capability and competence for CSR on the side of the firm has been assured.

CSR Capability through Instrumental Stakeholder Theory

There is a considerable body of research that aims to instrumentally interconnect CSR concept with stakeholder management theory (e.g. early on, Clarkson 1995; see also Burke and Logsdon 1996; Husted 2000; McWilliams and Siegel 2000; Dentchev 2004; Husted and Allen 2004; Husted and Salazar 2006; Marom 2006; Galbreath 2010). Such an instrumental reading of stakeholder theory extends to Freeman (1984) who was comparatively ‘strategic’, instrumental, but less so Freeman’s subsequent studies, which, for instance, ventured into Kantian stakeholder management theory territory (e.g. Evan and Freeman 1995; also Freeman and Moutchnik 2013; more

examples are Desjardins and McCall 1990; Goodpaster 1991; Desjardins 1993; Windsor 2013).

The economized Carroll framework (a) clarifies a strategic, instrumental theory on stakeholder management; (b) it can instruct the practice of instrumental CSR management; and (c) it outlines their normative conceptual grounding in ‘economics as ethics’. So, why should we tolerate instrumentality of the proposed economic ethics approach to CSR and stakeholder theory? Why is it important? The economic approach, which was outlined above, leads to economic viability and practical competence for instrumental CSR. Principled ideas on ‘economics as ethics’ emerge and become, importantly, economically sustainable.

Clearly, CSR economics, as discussed above, ensures practical capabilities on the side of managers and the firm since it aligns itself with economics for all CSR domains. The above debate of economizing the CSR pyramid also moved to stakeholder management: How a firm can capably and viably approach stakeholder management at the various levels of the economized pyramid. The kind of stakeholder theory arrived at is an instrumental economic theory of stakeholder management; but not a Kantian, or virtue theory-based one (for references, see above); not one connecting to communitarian ethics (Fleming et al. 2013, p. 340); not to communicative ethics (Scherer and Palazzo 2007); or not ones that connect to idealistic stakeholder concepts, including religious ones (for example, Aßländer 2011; Brei and Böhm 2011). These latter theories aim to satisfy stakeholder claims (towards CSR) in their own right, as moral ends in themselves. Questions then urgently arise regarding the firm’s CSR capability and competence and the viability of CSR programs. In this respect, economic instrumentality may yield better normative ethics.

Galbreath (2010) advocates humanistic corporate culture to make CSR more profitable. In this respect, it has to be clearly explained that for any understanding of personalist humanist management that focuses on the human being this poses a formidable conceptual problem and possibly a self-contradiction; however, for a non-personalist economic concept of humanism such conceptual problems recede. I see the same type of consistency problem for conceptualization strategies of CSR economics that argue that CSR could be altruistically motivated and at the same time be strategically, instrumentally assessed by the firm regarding its own interests. McWilliams et al. (2006, p. 12) point at this conceptualization problem.

The economizing of the Carroll pyramid presents quite a different outlook as stakeholder management shifts towards a means orientation of satisfying stakeholder interests for all domains, i.e. for all CSR; as does the economizing of the Carroll pyramid build on an instrumental 'business case' approach to CSR management in general. In an economic outlook, competing stakeholder claims (towards CSR, and in general) are negotiated and prioritized in terms of their potential to economically affect the firm: This does not imply having to exit from an inclusive, economic social contract approach to managing stakeholder interests and resolving stakeholder conflicts, but some stakeholders could gain more than others, when a mutual gains from trade programme unfolds. As Buchanan's (1975) social contract economics stressed, a mutual gains paradigm (i.e. in our case, for instrumental stakeholder management and how such management handles CSR) does not imply equal gains for all parties involved in social contract.

Merely, applied from 'outside' of economics, 'ethical principles' have to remain 'unknown' for ethically grounding normative CSR economics; Windsor (2006, p. 94) or Scherer and Palazzo (2007) had correctly assessed this. Taken from

within an economic social contract paradigm, however, this would not be the case. The normative imperative of the mutual gains program is here foundational for all CSR reasoning within a social contract economics. This consequently leads me to question Windsor's (2006, p. 98) argument that Carroll's original pyramid framework already provided a 'theoretical synthesis of economics and ethics'. It clearly did not synthesize ethics with an economic, strategic instrumental approach to CSR, and in other places Windsor explicitly attests to this. This hints that Windsor has a more traditional ethics concept in mind, such as virtue ethics (also Windsor 2013). This, however, in turn leaves considerable aspects of CSR management outside economic capability and viability assessments; the 'practical can' of ethics responsibility is not fully addressed (e.g. Windsor 2006, p. 95). This critique applies to non-instrumental CSR approaches in general. I return to this point in the next section from a different angle when I discuss Friedman's critique of an economic approach to CSR and the pervasiveness of such hypocrisy accusations in the field of CSR research.

3. Importance of Economizing the Carroll Pyramid: The Ethical Hypocrisy

Accusation of Traditional Ethics against CSR Economics

Friedman's insight that the 'only social responsibility of firms is to maximize profit while staying within legal rules' captured the bottom domains of the Carroll pyramid. As far as Friedman went in recognising the higher levels of the pyramid, he explicitly rejected an 'economics as ethics'; or ethical capital creation, as I approached this. In Friedman's view, an economic-ethical reconstruction of the top domains of Carroll's framework was to be judged 'hypocritical', 'fraud,' 'nonsense'. This is fascinating

since many associate Friedman with ‘royal’, ‘imperialistic’ Chicago-type economics that aims to reconstruct ‘everything’ through economics.

Here, his hypocrisy accusation gives us insight into his thinking. It reflects a self-misunderstanding and self-denial from within CSR economics. It demonstrates that Friedman’s concept of ethics was based on more traditional ones, such as virtue ethics, or religious ethics. He clearly did not, as Lütge (2005, p. 101) or Homann (1997, 1999) might recommend this, use economic theory as a resource to reconceptualize ethics, and he did not question but indeed uphold a contradiction between ethics and economics. That he did not align economic ethics with the Carroll pyramid indicates this, especially so for instrumentally conducted CSR that linked to ethical capital creation and instrumental stakeholder theory. If such hypocrisy accusations were to be held up, then economic CSR policies – that go beyond economic and legal responsibilities, as Carroll termed them – could not substantially contribute to ethically legitimizing the market economy and management activity within that system.

Friedman is not alone in regard to such hypocrisy accusations against CSR economics. Windsor, as discussed above, may share his opinion; and much CSR debate, both past and present, is caught up in this entanglement. Only on grounds of traditional ethics approaches (e.g. connecting to religious ethics, virtue ethics, etc.), a means-oriented instrumental economic approach to CSR can be viewed as ‘business without ethics’ (Goodpaster 1991) – Friedman’s (1970/1993) ‘hypocrisies’, ‘fraud’, ‘nonsense’ accusation; as of similar accusations of communicative political theory (Scherer and Palazzo 2007) or accusations of critical management theory (Fleming et al. 2013; see also the ‘trash talk’ findings of Bansal and Clelland 2004). Critical management theory here explicitly claims that in an economic reading of CSR ‘ethics

takes a backseat' and that economic CSR were only 'capitalist ideology' (Fleming et al. 2013, p. 338; similarly Roberts 2003; potentially implied by Windsor 2006, p. 112). Porter and Kramer (2011, p. 4) appear to share such legitimacy concerns regarding 'capitalist business' too, although their approach to CSR remains constructive.

The much debated 'business ethics oxymoron' or 'business ethics paradox', as exemplarily debated by Goodpaster (1991), Collins (1994), Duska (2000) or Nash (2000) (similarly Bartlett and Preston 2000), moves into view, and with it further fundamental clarifications on economic CSR theory become possible. Interestingly, Goodpaster admitted that a CSR approach that sidelined economic questions and economic rationality yielded the undesirable outcome of 'ethics without business', bringing the supposed 'stakeholder paradox' (Goodpaster 1991, p. 63) to the point. Duska (2000, p. 124) speaks of 'moral schizophrenia' on the side of management. This is apparently so because viability and capability assessments of CSR still collide in their theories with CSR concepts. It may not come as a surprise that Goodpaster and Duska were not economists enough to see an economic-ethics resolution of this 'paradox'; Goodpaster (1991), for instance, in the end argued for a Kantian resolution, rejecting economic means-orientation – despite the somewhat contrary fact that he otherwise rather consistently stressed the 'economic mission' of the firm: which in my view leads back to capability and viability assessments of CSR in a competitive market economy and the economic-ethics reconstruction of CSR. Carroll and Shabana's (2010) business case analysis of CSR also resorted to concepts of obligation that are reminiscent of duty ethics.

As noted, the same kind of criticism needs to be directed at Friedman: In this specific regard, when rejecting economic instrumentality for corporate donations and

the top domains of the Carroll pyramid, Friedman was not economist enough to set out a CSR approach. He seemingly rejected economics as ethics because he questioned the *ethical nature* of investments in CSR (especially regarding ethical and philanthropic responsibilities) once they were made to contribute to profit generation. This qualifies Husted and Salazar's (2006, p. 76) suggestions on Friedman, as much as I otherwise can follow their arguments: For the fuller aligning of Friedman with CSR concepts (e.g. regarding the 'entire' Carroll pyramid), Friedman's concept of economics is not the only issue that needs to be contested (as done by Husted and Salazar 2006; and implied by economic paradigms on CSR in general) but also, and above all, his concept of ethics. Here, I argued for the economic recasting of ethics theory on CSR, which continues Smith's economic-ethics program.

The analysis of the supposed paradox is fundamentally important for CSR theory development; Carroll's CSR pyramid was referred to above when its seemingly slack-based, 'tailing-off' approach to the top two levels was commented on; Goodpaster, Freeman, or Friedman are involved in this debate; critical management theory contributes from its point of view; others can only be exemplarily mentioned, like Wilson (1989); Vogel (1991); Collins (1994); Bartlett and Preston (2000); Duska (2000); Nash (2000); Kurucz et al. (2008); Reinhardt and Stavins (2010); Harwood et al. (2011); or Baden and Harwood (2013). An economic ethics reconstruction of the Carroll pyramid highlights in this regard that an oxymoron or paradox dissolves because traditional ethics concepts have been reconstructed in terms of economic rationality *and* normative economic ethics. This is a specific conceptual contribution of an economic reconstruction of the Carroll pyramid that is grounded in an admittedly 'imperialistic', instrumental and means-oriented economizing strategy for ethics and for theory building on CSR. Yet, this sets out a

practically feasible and viable route for reconciling ‘business with ethics’. As noted, the wide spectrum of researchers on (business) ethics, CSR, and economics research that are potentially caught up in this debate is intriguing.

4. Relevance of an Economic Reconstruction of the Carroll Pyramid:

Implications for Empirical Research on a Link between CSR – CFP

The interpretation of CSR and more generally of corporate social performance (CSP), grounded in an economic translation of Carroll’s CSR pyramid, raises implications for research concerning the link between CSR (CSP) and corporate financial performance (CFP), more often laconically referred to as ‘profitability’; ‘economic viability’; ‘competitiveness’; the ‘bottom line’; or what Goodpaster (1991) termed the essentially ‘economic mission’ of the firm. Previous research has often experienced mixed success and contradictory findings when trying to establish a relationship between CSR(CSP) and CFP (e.g. Clarkson 1995, pp. 95-8; Griffin and Mahon 1997; Waddock and Graves 1997; Bartlett and Preston 2000; Burke and Logsdon 1996, pp. 495; Husted 2000, pp. 33-4; Johnson and Greening 2001; Moore and Robson 2002; Orlitzky et al. 2003; Dentchev 2004, pp. 398, 400; Igalens and Gond 2005, pp. 131, 136-7; Marom 2006; Laan et al. 2008; Kurucz et al. 2008, p. 85; Makni et al. 2009; Baden and Harwood 2013, p. 616; Jia and Zhang 2014, p. 1118).

When the ethical nature of CSR (CSP) is empirically measured with respect to effects on CFP, the bottom domains of the Carroll pyramid are usually left on the sidelines. However, profit-generating management, with its systemic ethics implications, and the law abiding behavior of the firm which predominantly mirror

the bottom two levels of the pyramid, already reflect within their makeup ‘CSR ethics’ in a Smithsonian understanding of ‘economics as ethics’. Therefore, a conceptual link between CSR (CSP) and CFP/profitability really requires examining in this respect. Nevertheless, this is not the point I want to prioritize at this stage.

I advance the thesis that in the first place, theoretical clarifications are a necessity before empirical links between CSR (CSP) and CFP can be ‘tested for’, especially so regarding ethical capital creation that reflects the top domains of Carroll’s economized pyramid. My key argument proposes that conceptual clarifications have to focus on the question as to whether, and if so, how, CSR (CSP) actually reflects the successful economizing of ethics; in particular, how and to what degree was ethical capital created by a firm (regarding the top domains of the pyramid) *and* was traded through the market, entering a mutual gains program between firm and stakeholders. Only if this had happened would a positive link between CSR (CSP) and CFP be empirically expected.

The critical conceptual questions which would drive research on CSR (CSP)–CFP are: Have ethical responsibilities and philanthropic responsibilities of the firm been transformed by the firm into ethical capital, or can they be approached in this way? Could, and if so, should stakeholder management regarding CSR/CSP be turned into a competitive economic advantage (CFP), as Porter (2003) argues for such an economically inspired, strategic research agenda for CSR(CSP) research (see also McWilliams and Siegel 2000; Dentchev 2004, 2009; Wagner-Tsukamoto 2005, 2007; Marom 2006; Kurucz et al. 2008; Orlitzky et al. 2011). The generative transformation of CSR (CSP) into ethical capital is to be searched for. In this vein, Husted and Salazar (2006, p. 88) call for the search of strategic links between CSR and CFP; Galbreath (2010, p. 519) advocates to link ‘CSR policy and CSR practice’; Porter and

Kramer (2011, p. 4) call for ‘value creation’ for the firm that needs to result from CSR; Orlitzky et al. (2011, p. 7) call for research on the ‘implementation of responsibilities through strategies’. Such calls affirm Aguinis and Glavas’s (2012, p. 953) complaint about a dearth of research on ‘mechanisms that link CSR with outcomes’ (similarly Tang et al. 2012, p. 1276; Jia and Zhang 2014, p. 1119).

The significant issue is a practical-normative, ‘generative’ one that concerns the practice of management and the practice of business ethics: As to how a CSR (CSP) program actually is or is not economized by the firm in stakeholder interactions. If not economized, one would expect a negative link between CSR (CSP) and CFP because CSR (CSP) merely yields costs to the firm. In contrast, if CSR(CSP) is economized through ethical capital creation in the market then gains for the firm could result out of CSR(CSP) and potentially such gains may more than offset costs for CSR(CSP). A simple example to illustrate: If a firm donated anonymously in a truly authentic altruistic manner to a charitable cause, then the market could hardly economize or ‘commercialize’ this action and create ‘pay-backs’ for this firm. The firm would face costs for CSR (CSP) only. Hence, a negative link between CSR (CSP) and CFP results (despite the fact that CSR (CSP) programs may have been practically engaged in by the firm to a considerable degree). However, if a firm publicized such donations through internal and external marketing, for instance, to its key stakeholders, then ethical capital can be created, and a positive link between CSR (CSP) and CFP can result. The same rationale applies for ‘ethical responsibilities’ of the Carroll model and how I reconceptualised this as ethical capital. As noted: The important underlying issue is a practical-normative, ‘generative’ one: rather than examining a link between CSR(CSP) and CFP as such, empirical research needs to

investigate the nature and extent of the generative transformation of a CSR(CSP) program in regard to ethical capital creation with stakeholders.

The empirical measurement problems involved may be quite complex, but they have to be tackled to advance empirical research into the link between CSR (CSP) and CFP. Progress seems to have been slow but some selective advances have been made, showing that successful CSR(CSP) communication and engagement with stakeholders can indeed be a complex process with multiple variables intervening and mediating (e.g. Pivato et al. 2008; Tang et al. 2012; Jia and Zhang 2014; also Carroll and Shabana 2010, p. 94). On grounds of such clarifications, all three ‘types’ of links that previous research identified – negative, neutral, and positive – could be anticipated, explained and predicted. Relationships would depend on whether and to what degree costs and profits would yield ethical capital for the firm, with ethical capital being traded in market processes with stakeholders; or whether CSR (CSP) initiatives of the firms, despite the potential for considerable costs to the firm, had either been insufficiently economized or had not been economized at all by the firm.

As an example, Makni et al.’s (2009) findings of lower profitability from socially responsible firms (for certain CSR(CSP) activities) can be reconstructed in this economic reading as the unsuccessful economizing of CSR(CSP) into CFP; ethical capital was just not created. Crudely expressed, CSR (CSP) was stuck with the original not the economized pyramid of Carroll. Nevertheless, one cannot generally dismiss CSR (CSP) as a corporate activity simply on grounds of empirical findings such as these. Rather, one has to probe conceptually as to how CSR (CSP) can be approached from within a normative economic ethics perspective.

5. Conclusions

Carroll's works have remained prominent in CSR research and teaching since their proposition in the 1970s. My research projected economic-ethics reconstruction to Carroll's CSR pyramid concept, connecting to the Scottish Enlightenment and Smith's idea of 'economics as ethics'. I outlined how economic issues permeate the pyramid for all its domains, implying economic ethics at all levels. This reconstruction sided with institutional and constitutional economics; the theory of the firm; a model of economic managerial rationality; and instrumental stakeholder theory that aligns itself with an economic multi-level theory of CSR.

In this understanding, the economic approach grounds ethics, i.e. 'economics as ethics', building on utilitarian, social contract economics: the mutual gains from trade paradigm (e.g. Buchanan 1975; Homann 1997, 1999; Lütge 2005). To emphasize an important point, for thinking in such economic terms about ethics; CSR and stakeholder theory; then essentially economic methods and tools which would include the idea of the homo economicus (of self-interested, utility-optimizing choice), are not given up. As Buchanan (1987b, p. 62) put this, seemingly with a specific focus on 'legal responsibilities', for his constitutional economic research:

If one wishes to examine the extent to which a particular institutional order transforms private interest into public interest, it becomes entirely appropriate to focus on a model of man in which private interest dominates. To model man as publicly motivated in making such a comparison would be to assume away the problem that institutional design involves – the problem that was central to Smith's purpose [in the *Wealth of Nations*].

Buchanan examined in this way the economic rationale for enacting ‘basic law’ through constitutional economic contract for government and society at large (e.g. Buchanan and Tullock 1961; Buchanan 1975, 1987a). In a certain sense, he also discussed here the larger legal, constitutional framework that constrains firms. My research transported this approach to the governance of the firm, and CSR economics.

The discussion in this paper linked questions of gain and loss and profitability in a more general sense to all domains of the Carroll pyramid, to any type of CSR, connecting to strategic instrumental economic CSR concepts. This reflects a both wider and more precise economic vision of a ‘business case’ for CSR as advocated, for example, by Kurucz et al. (2008) or Carroll and Shabana (2010). Regarding ethics concept, my theory building strategy is wider since it re-thinks all CSR domains in economic terms; and it is precise since CSR is ethically rooted in economics. This may be viewed by some – who come from a surprisingly diverse spectrum of (business) ethics and economics research – as being rooted in ‘economic imperialism’ on the one hand, and as hypocrisy and exiting from traditional ethics debate on the other. Yet, my research argues that such theorizing can yield considerable benefits:

First, the proposed avenues for economically re-thinking CSR are all firmly compatible with comparatively conventional ideas on the market economy and they take a market economy context for granted, although certain modifications on Smithsonian ‘economics as ethics’ become necessary. By integrating an instrumental, economic ethics view of the firm with a model of ethical capital creation, a new ‘economized’ yet ethical version of CSR management is set out that turns Carroll’s model. In the proposed economic conceptualization, ethical and philanthropic responsibilities are viewed as targets of profit-generating management rather than as constraints on (or sinkholes of) profitability. By necessity ethical capital generation

goes through the market process; the market process as such is then no longer ‘morality-free’, as this was a conceptual necessity and milestone in Smith’s outlook, as upheld by Friedman, or discussed by Lütge (2005, p. 111).

Second, future research needs to discuss further the ethical legitimization not only of CSR management in a market economy context that conceptually and ethically connects to Smith, but also of management studies that still subscribes to the idea of the market economy. A claimed ‘business ethics oxymoron’ or ‘stakeholder paradox’ can be qualified and be rejected, from within an economic perspective. Here, my debate develops as ethics debate that links to pragmatic managerial skills or the ‘bottom line’, which Parker (1998, pp. S28, S31, S35) seems to question as an unfeasible bridging act, at least so for postmodern business ethics. My research and the way it re-approached Carroll’s CSR model through economic ethics conceptually makes a theoretical contribution to this ‘bridging act’, which has manifold implications: Conceptual implications in regard to theory building on CSR; ethical theoretical considerations as to how to normatively ground CSR concept; practical proposals regarding how to transform CSR policy into CSR programs that have effect on stakeholders; and empirical research implications on the CSR(CSP)–CFP link.

Such clarifications would be decisively more economic than the ones envisaged by Kurucz et al. (2008, pp. 1003-106), who ultimately move on to ‘holistic’ and ‘societal value’ arguments in order to set out a ‘business case’ for CSR; or hold on to comparatively duty based ethics concepts of obligation for discussing the business case, such as Carroll and Shabana (2010). Therefore, criticism directed at this project – of arguing for ethical and economic justifications of CSR and business ethics at the same time – can be approached anew.

Here, Goodpaster's or Friedman's early works on CSR are exemplary and intriguing for a historic debate on economic, instrumental CSR theory, stakeholder theory, and business ethics debate in general and the conceptual entanglement it can be seen to be caught up from an economic perspective. They engaged in this debate in a very significant manner, since the 1970s and 1980s, coming from very different directions. I hinted that from the point of view of economic-ethics reconstruction, Goodpaster and Friedman shared both certain understandings and certain misunderstandings as to how economics that aimed to continue Smith can approach CSR *as ethics*. Future research on the history of CSR theory needs to further explore such conceptual alignments between Goodpaster and Friedman, as there may be others drawn into this debate. The identification of such shared understandings / misunderstandings has numerous implications for re-positioning and better understanding the CSR concept favored by a certain paradigm; CSR practice that is driven by a certain conceptual approach; and the economic feasibility and practical viability that resides with CSR concept and practice.

Third, since the 'beginning' of management and modern management studies, managers have been facing the issue of how to align ethics with business and maintain 'profitability' at the same time. An economic paradigm of CSR takes seriously the viability of CSR programs and practical managerial capability to engage in such programs in a market economy context. As a result of opening up all domains of the Carroll pyramid to instrumental economic rationality and 'economics as ethics', the scope for capability for and viability of CSR behavior of the firm grows broader normatively, theoretically / conceptually, and practically. The 'inverting' of Carroll's pyramid figuratively reflects this (as captured by Figure 2).

Historic case studies of highly religious owner-managers here offer more insight since the depth and sincerity of their ethical convictions and what we nowadays may reconstruct as self-imposed CSR responsibilities may be regarded with less doubt than for ‘plain’, ‘professional’ non-owner managers (e.g. Child 1964; Cheung and King 2004; Wagner-Tsukamoto 2008): Their quasi-religious ‘CSR’ programs, in culturally different contexts and different times, faced considerable obstacles or failed altogether. Do even religious owner-managers fall into the category of ‘powerless stakeholders’ of the firm, as Scherer and Palazzo (2007, p. 1100) apply this term to critique an economic approach to CSR? Why were they ‘powerless’ and what does this tell about competitive processes in market economy, and how a theory of CSR needs to account for these in line with viability and capability assessments, as I suggested. In this respect, the main conclusion from this paper would be that viability and capability were not considered seriously enough by religious owner-managed firms; and with regard to their failures, they had been comparatively unsuccessful in economizing CSR and initiating the economic transformation of CSR into ethical capital, especially in regards to the top domains of the Carroll pyramid and the way the current paper translates this in normative economic-ethics terms.

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