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STRENGTHENING STAKEHOLDER-COMPANY RELATIONSHIPS THROUGH MUTUALLY BENEFICIAL CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

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Abstract

Corporate social responsibility (CSR) continues to gain attention atop the corporate agenda and is by now an important component of the dialogue between companies and their stakeholders. Nevertheless, there is still little guidance as to how companies can implement CSR activity in order to maximize returns to CSR investment. Theorists have identified many company favoring outcomes of CSR, yet there is a dearth of research on the psychological mechanisms that drive stakeholder responses to CSR activity. Borrowing from the literatures on means-end chains and relationship marketing, we propose a conceptual model that explains how CSR provides individual stakeholders with numerous benefits (functional, psychosocial, and values) and how the type and extent to which a stakeholder derives these benefits from CSR initiatives influences the quality of the relationship between the stakeholder and the company. The paper discusses the implications of these insights and highlights a number of areas for future research.

STRENGTHENING STAKEHOLDER-COMPANY RELATIONSHIPS THROUGH MUTUALLY BENEFICIAL CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Corporate social responsibility (CSR), or “a commitment to improve community well-being through discretionary business practices and contributions of corporate resources,” (Kotler and Lee 2004, p.3) is by now an important component of the dialogue between companies and their stakeholders (Berger et al. 2007; Smith 2003). The majority of Fortune 500 companies not only engages in social responsibility initiatives, but also devotes considerable resources to reporting CSR activities to a wide array of corporate stakeholders (KPMG 2003). As noted in a recent McKinsey & Company survey of corporate executives (2006), companies engage in CSR in large part because executives believe that such activity will elicit company-favoring responses from stakeholders.

The notion that a company’s investment in CSR initiatives can provide returns to the company, commonly referred to as the business case for CSR, is supported in the scholarly literature by a large and growing body of evidence showing that individuals across numerous stakeholder realms (e.g., consumer, employment, investment) reward companies that engage in CSR activity. For example, Sen and Bhattacharya (2001) found that in the consumer realm, the CSR record of a company has a positive effect on a consumer’s evaluations of the company and their intent to purchase the company’s products. Likewise, in the employment realm, CSR activity has been shown to have a positive effect on job seeking intent (Greening and Turban 2000; Turban and Greening 1997), as well as behaviors on the job like interpersonal cooperation and job-related effort (Bartel 2001). There is also some evidence that investors both attend to - and make investment decisions based upon - the CSR activity of public companies (Domini

1992). For example, Sen et al. (2006) found that individuals who were aware of a large charitable gift by a company had greater intentions to invest in company stock than respondents who were unaware of the gift.

These studies notwithstanding, implementing CSR initiatives can prove quite challenging in practice. Even companies with a history of generously supporting CSR initiatives have struggled to effectively manage their CSR engagement (Porter and Kramer 2006; Smith 2003).

As Business Week (2005) notes:

Indeed, it has been a rude awakening for companies that have not embraced a more strategic approach to social responsibility. For years Wal-Mart has been a top corporate donor. But as the company's image was pummeled by labor unions and lawsuits, research showed its fragmented giving generated little goodwill...Now, it's giving its community outreach a sharper focus.

Thus, despite the clear potential of CSR to drive company favoring outcomes on the part of stakeholders, the return on CSR investment is anything but guaranteed. It is becoming increasingly clear that in order to explain and predict the outcomes of CSR activity with any degree of certainty, we need a more precise understanding of the underlying processes that drive those returns. More specifically, researchers have examined many of the outcomes of CSR in various stakeholder realms, but there remains a dearth of research looking at the psychological mechanisms through which stakeholders interpret and react to a company's CSR activities.

In this paper, we present a model that examines when, how and why CSR activity leads individual stakeholders to produce company-favoring outcomes. Our basic contention is that CSR, can provide stakeholders with numerous types of benefits. Moreover, it is the nature of these benefits and the extent to which they are realized that determine, jointly, the quality of the relationship between the individual stakeholder and the company. Finally, when these benefits do improve the quality of the stakeholder-company relationship, stakeholders display the kinds of company-favoring outcomes that are documented in the extant literature. Our approach

contributes to the literature by providing a framework, adapted from research on consumer behavior, that enables researchers to identify the different types of benefits produced by CSR activity and the impact that these benefits have on stakeholder-company relationship quality.

Our approach is consistent with extant studies examining individual responses to CSR, yet it has two notable differences. First, we take a broader stakeholder perspective than most other examinations (for some notable exceptions, see Maignan and Ferrell 2004; Maignan et al. 2005; Sen et al. 2006). More specifically, our model is meant to explain the responses to CSR initiatives by individuals in multiple stakeholder realms. Broadening the analysis to include multiple stakeholders is consistent with calls by both Smith (2003), who recommends that researchers devote greater attention to multiple stakeholders rather than focusing exclusively on consumers, and Porter and Kramer (2006), who maintain that our conceptualization of “strategic philanthropy” needs to move beyond cause-related marketing campaigns if CSR is to be related to competitive advantage for the sponsoring company. The broadened perspective is also important in light of recent empirical evidence demonstrating that the returns to CSR, even for an individual stakeholder, are not limited to a single stakeholder domain. Sen et al. (2006) show that stakeholders may respond to CSR with an array of company favoring behaviors. In their field study, individuals who became aware of a large charitable gift to a children’s development center by a major consumer goods company intended not only to purchase the company’s products, but also to apply for employment at the company and to invest in company stock. Overall, we believe that a broadened stakeholder perspective is essential to a complete assessment of the return on investment in CSR initiatives.

Second, our approach differs from extant research in that we focus on the underlying psychological processes that drive individual stakeholder responses to CSR. In particular, our

approach examines the benefits that accrue to the individual stakeholder. Prior research on responses to CSR tends to characterize stakeholders as belonging to monolithic groups with rather homogenous needs and interests. In reality, however, individual responses to CSR initiatives are quite heterogeneous (Sen and Bhattacharya 2001). In the employee realm, for example, Bhattacharya et al. (2007) found that individuals derive benefits from CSR which can vary widely based on personal characteristics and needs. Employees who work in remote locations, far away from corporate headquarters, feel that participating in the company's CSR initiatives helps them feel connected to fellow employees; meanwhile, other employees benefit from the same initiatives because the CSR activity reduces the stress in transitioning between their home and work lives, thereby providing work-life integration. Thus, we feel it is important to recognize that CSR may provide benefits that differ substantially from individual to individual even within a single stakeholder group.

In the following section, we briefly lay the foundation of our approach, highlighting the importance of stakeholder benefits and relationship quality. We then describe our conceptual model in detail. In the subsequent section we discuss the implications of the model and areas for future research.

Relationships and Returns to Stakeholders

The basic premise of our framework is that the contribution of CSR initiatives to stakeholder-company relationships hinges on the benefits they provide to the stakeholder. Essentially, we argue that in order for initiatives to provide returns to the company initiatives must first provide a return to individual stakeholders.

Extant research indicates that CSR initiatives are successful in generating returns to the company to the extent that they foster strong and enduring relationships with stakeholders

(Waddock and Smith 2000). But how do CSR initiatives help to build these relationships? With a few exceptions, the CSR literature is largely silent on this question. Waddock and Smith state that “being a good global citizen in a relational context means treating well the entire range of constituencies – stakeholders – who have invested their capital in the business” (Waddock and Smith 2000, p.49). Maignan & Ferrell (2004) propose that the degree to which stakeholders develop a bond of identification with the company is based upon the extent to which CSR initiatives address issues that are important to the stakeholder group. While relationships and the benefits that drive these relationships has received little attention in the CSR literature, the importance of developing strong and enduring relationships with stakeholders by providing them benefits has solid footing in both stakeholder theory and relationship marketing.

At the core of stakeholder theory is the idea that the long-term sustainability of a corporation is dependent upon procuring the cooperation of numerous constituents, including but not limited to shareholders (Donaldson and Preston 1995; Freeman 1984). Post et al. (2002) explain that stakeholders are essential to the successful functioning of a corporation because they provide resources to the company (e.g., customers, investors, and employees), form the industry structure (e.g., supply chain associates and strategic alliances), and make up the socio-political arena (e.g., communities and governments). They define *stakeholders* as “individuals and constituencies that contribute, either voluntarily or involuntarily, to [the corporation’s] wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers” (Post et al. 2002, p.8).

Stakeholders form relationships with a company in order to obtain benefits and contribute to the wealth of the organization (Donaldson and Preston 1995). According to the stakeholder view, the central challenge for managers and theorists is understanding how to improve

stakeholder-company relationships by delivering benefits to stakeholders through a company's policies and activities (Post et al. 2002). Thus, the objective function of a corporation goes beyond generating profits for shareholders to include a range of benefits that are valued by its stakeholders. The corporation can be seen as a nexus of relationships between a corporation and its various stakeholders with a goal of mutual gain. For stakeholders, the benefits of interacting with the company may range from tangible to intangible, monetary to psychological. It is also important to note that what constitutes a benefit to one stakeholder may hold little value to another, and in some cases, rewards to one stakeholder may conflict with the interests of another stakeholder; for example, closing a factory could benefit many investors even as it harms the people employed there.

Relationship marketing is defined by Morgan and Hunt (1994, p.22) as "all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges." Relationship marketing is rooted in services and industrial marketing, but Morgan and Hunt's conceptualization includes a broad range of potential exchange partners that is consistent with stakeholder theory: supplier partnerships (e.g., goods suppliers, services suppliers), buyer partnerships (e.g., intermediate customers, ultimate customers), lateral partnerships (e.g., competitors, government), and internal partnerships (e.g., employees business units). Any of these partnerships may be described as residing on a continuum from purely transactional exchange at one end to relational exchange at the other (Gronroos 1995). Discrete transactions are generally brief and each interaction is unrelated to previous or future transactions. In contrast, relational exchange is characterized as "longer in duration, reflecting an ongoing process" (Dwyer et al. 1987, p.18), and viewed by both parties with respect to previous exchanges and the potential for future exchanges. Relationships evolve, expanding over time as

the parties receive a continual increase in benefits and as the parties become increasingly interdependent (Dwyer et al. 1987). The notion that relationship benefits contribute to strong relationships has received both considerable attention and confirmation over the years. This is demonstrated in a recent meta-analysis that finds relationship benefits to be an antecedent of the quality of the relationship between buyers and sellers and ultimately to meaningful behavioral outcomes (Palmatier et al. 2006).

Taken as a whole, both stakeholder theory and relationship marketing indicate that the quality of stakeholder-company relationships is commensurate with the benefits stakeholders receive from their interactions with the company. We now turn our attention to our model that delineates the different types of benefits that CSR provides to stakeholders, and how these benefits strengthen stakeholder-company relationships.

A Stakeholder-Centric Model for Understanding CSR

Overall, the framework (shown in Figure 1) describes how CSR activity is perceived by individual stakeholders, produces benefits for individual stakeholders, influences the relationship quality between the stakeholder and the company, and results in behavioral outcomes directed towards the company, the cause, and other stakeholders. The model also delineates key contingency factors which moderate these primary relationships.

The model provides three main insights. First, it shows that stakeholders respond to CSR initiatives based on the degree to which the individual derives personal benefits as a result of the company engaging in CSR activity. Second, the model shows that the nature of the stakeholder-company relationship is determined by the type of benefits that accrue to the individual. Finally, the model underscores the importance of distinguishing between third party measures of CSR spending and the perceptions that stakeholders hold about the company's initiatives.

CSR Activity

Consistent with Kotler & Lee's definition of CSR (2004, p.3) cited above, we consider a company's initiatives to be socially responsible to the extent that corporate resources (e.g., money, labor) are allocated to activities that are intended to improve societal welfare (it is important to note that our conceptualization of CSR by no means excludes the possibility that the company will also benefit from CSR initiatives; indeed, our model explains how such initiatives result in company-favoring outcomes). While this concept has been operationalized in various ways in the literature, perhaps the most common measurement is a company's total monetary spending on CSR initiatives, a figure often available through annual company reporting (Margolis and Walsh 2003; Orlitzky et al. 2003). CSR activity may also be captured through measures such as CSR-related awards (e.g., Klassen & McLaughlin 1996) or third party ratings such as KLD Research and Analytics (e.g., Graves & Waddock 2000) and Fortune magazine's reputation ratings (e.g., McGuire et al. 1988; Luo & Bhattacharya 2006).

Stakeholder Perceptions of the Company's CSR Initiatives

We contend that an important distinction needs to be made between objective measures of the level of CSR activity and the perceptions held by stakeholders regarding the company's CSR initiatives. As numerous studies have shown (Bhattacharya and Sen 2004; Sen et al. 2001), perceptions of a company's CSR initiatives are anything but uniform; responses to even a single initiative vary from person to person because individual stakeholders develop different assessments of such initiatives. While we expect that large scale CSR initiatives will tend to produce the exposure necessary to lead to positive evaluations, this result is hardly guaranteed. Thus, stakeholder evaluations of the company's CSR initiatives are tied to, yet often entirely distinct from, the absolute level of CSR activity at the company.

Recent research indicates that there are at least two aspects to these perceptions. First, stakeholders evaluate CSR initiatives based on the degree to which initiatives are successful in improving the lives of the intended beneficiaries. In other words, they perceive initiatives in relation to the stated objectives of the initiatives. For example, Du et al. (2007) find that beneficiaries of a corporate sponsored dental hygiene program have heightened intentions to purchase the company's products when they feel that the program is effective in improving their (and their children's) oral health. There is also evidence that stakeholders are sensitive to poor CSR performance as well. For example, Klein et al. (2002; 2004) find that a central factor in whether consumers participate in a boycott is the degree to which the individual perceives transgressions to be egregious. Taken as a whole, it appears that an important aspect of stakeholder perceptions of CSR initiatives is the degree to which initiatives are seen to be effective in benefiting the cause beneficiaries and/or society.

A second aspect of stakeholder perceptions of CSR initiatives is attributions. Prior research (Ellen et al. 2000; Ellen et al. 2006; Forehand and Grier 2003) finds that stakeholders respond to CSR based on motives they attribute to the company's involvement in social responsibility initiatives. These motives may be of two kinds (Batson 1998): extrinsic, in which the company is seen as attempting to increase their profits, or intrinsic, in which it is viewed as acting out of a genuine concern for the focal issue (Lichtenstein et al. 2004). Stakeholders are often tolerant of extrinsic motives as long as CSR initiatives are attributed to intrinsic motives as well (Sen et al. 2006). This tolerance of profit motives may be due to the fact, as we argue in the next section, that extrinsic motivations for supporting CSR initiatives can ultimately provide stakeholders with functional benefits that are highly valued. For example, cause-related marketing promotions may

generate highly profitable sales (Bloom et al. 2006) that can benefit the company, and indirectly, its stakeholders such as investors and employees.

Returns to Stakeholders

The fundamental mediating process of our model is the returns to stakeholders of CSR, that is, the benefits that CSR initiatives produce for individual stakeholders. We borrow from the means-end chain literature (e.g., Gutman 1982; Reynolds and Olson 2001) in marketing to explain how stakeholders relate these benefits to CSR initiatives. According to theory on means-end chains, consumers make purchase decisions because the attributes of products and services provide three causally connected categories of benefits. First are functional, which are tangible and directly related to features of the product or service. Second are psychosocial, which are related to the psychological and sociological well-being of the individual. Third and finally, attributes can affirm the values of the individual, which are end-states of importance to the consumer. In the means-end chain literature, consumers attempt to maximize these benefits through their purchase decisions (Gutman 1982). An example of a means-end chain is a sugarless mouthwash which provides a functional benefit of being non-fattening, which drives a psychosocial benefit of being attractive to others, which produces the end-state (i.e., values) of self esteem (example from Peter and Olson 1999). Thus, the benefits of products or services are arranged as a causal hierarchy with progressive levels of abstraction, functional being the most tangible, and values the most abstract (Gutman 1997).

Extending the means-end approach to the CSR realm allows us to view CSR initiatives as attributes of the company that are only meaningful to stakeholders when these produce self-relevant benefits for the stakeholders, allowing them to achieve personal goals (Gutman 1997). The process proposed in our model is one in which stakeholders gain personal benefits either

through their direct involvement in the company's CSR initiatives or through the mere knowledge, based on their subjective perceptions, of such initiatives. Essentially, consistent with both the stakeholder view and the literature on relationship marketing, we view benefits as the central mediator through which CSR strengthens stakeholder-company relationships. Table 1 shows examples of returns to stakeholders for an oral health initiative run by a major personal products manufacturer (Bhattacharya et al. 2005); the initiative's goal is to improve the oral health of over 50 million American children by providing education, oral care tools, and access to dental care. It is worth noting that these examples are by no means exhaustive; they are merely illustrations of how individuals may relate CSR initiatives to their personal context.

For instance, Bhattacharya et al.'s study (2005) found that the beneficiaries of the CSR program (i.e., the children in the program) received substantial functional benefits from the program in the form of healthier and cleaner teeth. Due to their cleaner teeth, the beneficiaries, in turn, felt greater social acceptance from peers, which lead ultimately to greater social connectedness and self-esteem. Interestingly, this CSR initiative provides no functional benefits to consumers at large (i.e., those who are not beneficiaries the initiative). However, based on their perceptions of the initiative, consumers gain psychosocial benefits such as helping others in need through their purchases of the brand that sponsors the initiative, which in turn leads to a sense of well-being and contentedness. Investors, on the other hand, receive functional benefits through their ownership of stock in the company if the initiative is successful in generating profits through heightened purchase; this is manifested in increased stock returns (Luo and Bhattacharya 2006) and lowered risk (Luo and Bhattacharya 2007). These, in turn, may yield psychosocial benefits of financial and professional advancement, which contribute, in turn, as in the case of other stakeholders, to a sense of achievement and self-esteem. Note that despite the

very different functional benefits that the CSR initiative provides, these often lead to the satisfaction of similar values, aspired to by most if not all individuals. In that sense, the higher order psychosocial benefits and values will be more likely to supersede a single stakeholder role because these benefits are related to more universal human needs that are independent of particular stakeholder role. Finally, in our example, employees receive numerous functional and psychosocial benefits from the CSR initiative (meeting colleagues, work-life integration, and self-expression at work), which while resulting potentially in the satisfaction of values aspired to by all stakeholders, are in and of themselves quite different from those received by other stakeholders. This represents both a challenge and an opportunity for companies looking to communicate and manage their CSR initiatives in multiple stakeholder contexts (Smith 2003). We now discuss the three levels of the means-end chain in more detail.

Functional benefits. There is ample reason to believe that CSR activity provides many stakeholders with tangible benefits. First, many stakeholders may derive functional benefits when a CSR initiative leads to an improvement in corporate performance (for a review and a meta-analysis, see Margolis and Walsh 2003; Orlitzky et al. 2003) . For example, research has shown that CSR initiatives are positively related to stock market returns and to Tobin's Q, a measure of a firm's intangible value (Luo and Bhattacharya 2006). Thus, investors can be expected to receive greater returns on their stock market investments with increasing levels of CSR activity. In the employee domain, on the other hand, prior research finds that those who participate in CSR initiatives often gain concrete skills that can be carried over to their job (Bhattacharya et al. 2007). For example, an employee put in charge of a volunteer program may learn valuable managerial skills (Bhattacharya et al. 2007). Additionally, as seen in the oral care example, beneficiaries of CSR initiatives can gain substantial functional benefits in the form of

improved health (Bhattacharya et al. 2005). Overall, the opportunity for stakeholders to derive these functional benefits is directly and positively related to the nature and level of CSR activity engaged in by the company.

Psychosocial benefits. Theory on means-end chains proposes that psychosocial consequences occur as the result of functional consequences. In our example, beneficiaries feel socially acceptable because they have cleaner teeth as a result of their participation in the program. In addition to the effect of functional benefits, stakeholders, such as employees, can also derive psychosocial benefits as a direct result of their knowledge of or participation in their employer's CSR initiatives (Bhattacharya et al. 2007) rather than as a consequence of functional benefits. In that study, employees derived these psychological benefits from what they deemed to be "high quality" CSR activities of their employer. For instance, by signaling that the company is caring and, more specifically, concerned about causes that they themselves care about, employees felt that CSR enabled them to integrate their work and home lives so that the transition between the two important spheres was not as incongruous or stressful. At the same time, this integration may also result from the employees' usage of work-based skills in helping a cause they support in their personal lives. Therefore, as shown in our model, we contend that psychosocial benefits are the consequence of the functional benefits that are produced by CSR initiatives and/or based directly on stakeholder perceptions of and involvement in CSR initiatives.

Values. Values are the desirable end-states that stakeholders achieve as a result of CSR. In our example of the oral health care initiative, employees for whom CSR enables successful integration of their work and family lives will feel that they are able to express themselves freely at work; they can "be themselves" because the company shares their values. This contributes to

an overall sense of harmony that many people strive for. Just as psychosocial benefits are driven by both functional benefits and stakeholder perceptions of CSR initiatives in our model, so too are values driven by both psychosocial benefits and directly, through stakeholder perceptions of and involvement in CSR initiatives. Values are of particular interest because when stakeholders achieve desirable values through CSR initiatives they are likely to identify with (Bartel 2001; Sen and Bhattacharya 2001), and trust the company (Du et al. 2007), which are indicators of the quality of the relationship with the company.

Stakeholder-Company Relationship Quality

CSR is, among other things, a key stakeholder relationship-building activity (Waddock and Smith 2000) and the success of CSR initiatives is based upon building strong and enduring relationships with stakeholders (Clarkson 1995). We use Palmatier et al.'s (2006) definition of relationship quality as the "overall assessment of the strength of a relationship, conceptualized as a composite or multi-dimensional construct capturing the different but related facets of a relationship." We assert that the quality of the stakeholder-company relationship is influenced by the degree to which stakeholders derive benefits from CSR activity as well as the nature of these benefits. When stakeholders learn about or participate in CSR initiatives sponsored by a company, it sets in motion reciprocal exchanges of information and action that can strengthen the ties between the stakeholder and company. The social norm to reciprocate benefits received from another party in a relationship has been shown to have remarkable explanatory power for consumers' relationships with companies (Bagozzi 1995; De Wulf et al. 2001). The principle of reciprocity, thus can lead stakeholders who benefit from CSR initiatives to form strong bonds with the company.

Based on prior research on relationship quality and CSR, we submit that there are four main types of stakeholder-company relationship quality, ranging from the strongest to the weakest: identification (e.g., Berger et al. 2006; Maignan and Ferrell 2004; Sen and Bhattacharya 2001), commitment (e.g., Morgan and Hunt 1994), trust (Morgan and Hunt 1994), and satisfaction (e.g., Crosby et al. 1990; Garbarino and Johnson 1999).

Social identity theory describes how individuals categorize themselves as members of social groups or organizations. Dutton et al. (1994, p.242) define *identification* as “a cognitive link between the definitions of the organization and the self.” In essence, identification represents a sense of oneness between an individual’s self-concept and their concept of the group or organization with which they consider themselves a member. This overlap of values can be heard anecdotally when references to “I” become references to “we.” A large and growing literature in management finds that stakeholders can identify strongly with organizations (Ashforth and Mael 1989; Dutton et al. 1994; Scott and Lane 2000) resulting in numerous company-favoring outcomes such as advocacy (e.g., Bhattacharya and Sen 2003), helping behaviors towards other organizational members (e.g., Bell and Menguc 2002), and product purchase (e.g., Lichtenstein et al. 2004). Identification is enhanced by means-end benefits related to CSR because when stakeholders derive benefits from CSR initiatives, it signals to the stakeholder that the company understands their needs and is therefore “like them.”

In cases where a stakeholder-company relationship is not as close, such as when the stakeholder has had few interactions with the company, relationship quality may be manifested as increased levels of trust and commitment rather than identification. According to Morgan and Hunt (1994, p.23), *trust* is a perception of “confidence in the exchange partner’s reliability and integrity.” Thus, it reflects not only the expectation that the company will do what it says it will

do, but also the perceived benevolence of the company in the eyes of the stakeholder. Trust is enhanced by means-end benefits because by providing benefits to the stakeholder, the company indicates that it cares about the individual and that it will not act opportunistically towards him or her. The benevolence and integrity that CSR signals has been shown to stimulate trust (Hess, 1995). Trust is closely related to *commitment*, which is defined by Moorman, Zaltman, and Deshpande (1992, p.316) as “an enduring desire to maintain a valued relationship.” Commitment implies that stakeholders commit resources to the relationship over time because of a psychological attachment to the organization (Gundlach et al. 1995). Once stakeholders receive benefits from the company’s CSR initiatives, they feel a social norm to reciprocate, which will motivate commitment by the stakeholder to the company. This will only be accentuated by the increased levels of trust already mentioned (Morgan and Hunt 1994). Overall, stakeholders will desire an enduring relationship between themselves and the company due to the increased levels of trust and the psychological commitment to continue interacting with the company.

Satisfaction, also called cumulative customer satisfaction, is defined by Anderson et al. (1994, p.54) as “an overall evaluation based on the total purchase and consumption experience with a good or service over time.” Note that this form of satisfaction is not conceptualized as an evaluation of a single transaction, but rather of the full gamut of experiences that a consumer has with the company (Garbarino and Johnson 1999). We extend Anderson et al.’s conceptualization to the stakeholder realm, viewing cumulative satisfaction as the overall evaluation of an individual stakeholder’s experience with the company. From this perspective, satisfaction may include multiple types of interactions with the company (e.g., as an investor, employee, etc.). Stakeholders that enter into a relationship with a company will be satisfied to the extent that their overall experience with the company has provided adequate value (i.e., benefits) in relation to

the resources that they have given up over the course of the relationship (Garbarino and Johnson 1999).

In our view, stakeholder-company relationship quality will depend on the type of benefits that stakeholders receive from CSR initiatives. Initiatives that go beyond providing functional benefits to satisfy important stakeholder values will result in stronger stakeholder company relationships. In particular, CSR initiatives that lead to value satisfaction will tend to foster identification rather than just trust or satisfaction because these will signal an overlap in values between the stakeholder and the company. CSR initiatives that provide psychosocial benefits to the stakeholder without addressing the deep-seated values of the individual will not lead to the same bond of identification. These may, instead, fulfill important psychological needs of the stakeholder, promoting heightened levels of trust in, and commitment to, the organization. Finally, CSR initiatives that provide only functional benefits will likely satisfy stakeholders without having substantial impacts on trust, commitment or identification.

Stakeholder Behaviors

There is little doubt that the quality of the relationship between stakeholders and the company influences the behaviors of stakeholders (Morgan and Hunt 1994; Post et al. 2002; Waddock 2001; Waddock and Smith 2000). In response to CSR initiatives, these behaviors may be directed towards one or more of the following: the company, the cause organization, and other stakeholders (Bhattacharya and Sen 2004). Despite the fact that these outcomes are often related to the company or the cause, we conceptualize these as stakeholder level outcomes because they remain and can only be measured at the individual level.

Company directed behaviors. Stakeholders interact with the company based on the quality of their relationship with it. This occurs because these stakeholders have received benefits from

the company and wish to reciprocate in kind, and because of their desire to maintain the relationship with the company into the future. Stakeholders who either identify with the company or harbor feelings of trust, commitment, or satisfaction will behave in ways that support the company's objectives while those with a lower level of relationship quality will not. Consumers who identify with the company have greater intent to purchase the company's products than those who do not (e.g., Brown and Dacin 1997; Drumwright 1994; Lichtenstein et al. 2004; Sen and Bhattacharya 2001). Identification has also been shown to increase job seeking intent in those seeking employment (Greening and Turban 2000; Turban and Greening 1997). And there is evidence that investors purchase stock in companies that they feel reflect their personal values (Schueth 2003; Sparkes and Cowton 2004). As noted previously, Sen et al., (2006) find that stakeholders may seek out multiple ties to the company simultaneously, intending to purchase products, seek employment, and invest in company stock based on their awareness of a single CSR initiative. This suggests that stakeholders respond to the overall quality of the relationship with the company rather than the quality of the relationship in a given stakeholder role.

Cause directed behaviors. The same effects that are found on corporate outcomes as a result of the stakeholder-company relationship can be found in the not-for-profit sector as well. This is because a relationship quality approach is just as applicable to the cause domain as it is to the for-profit sector (MacMillan et al. 2005). It is important to note, however, that since we are interested in the outcomes of *corporate* social responsibility initiatives the ultimate outcomes described here are the result of changes in the stakeholder-company relationship quality as opposed to the individual's relationship with the cause organization; in other words, the quality of the relationship with the company influences behaviors towards the cause. Perhaps the best example of this is Lichtenstein et al.'s (2004) finding that consumers donate to charities that are

sponsored by the company they purchase from; this occurs as part of a desire to express the values that they share with the company.

Other-stakeholder directed behaviors. In addition to findings that CSR influences company favoring and cause favoring behaviors, evidence indicates that when a stakeholder develops a high quality relationship with a company, he or she will engage in behavior that is beneficial to other stakeholders. This contention is based on the CSR literature as well as decades of research on social identity and intergroup relations. A stakeholder who identifies with the company will perceive other stakeholders to be like-minded to him or herself because he or she will see others as sharing similar values (Maignan and Ferrell 2004; Maignan et al. 2005). Social identity theory also suggests that stakeholders who categorize themselves as company members will display systematic biases in favor of perceived company members and against non-members (Brewer and Kramer 1985; Hewstone et al. 2002). This occurs because individuals who identify strongly with the company want to differentiate their own group from comparison groups (Brewer 1991) and enhance their self-esteem which is entwined with the status of the company (Hogg and Abrams 1990). Research on social exchange in organizations finds further that cooperation between individuals and groups is heightened when organizational members view their identity at the level of the collective as opposed to the individual level (Flynn 2005). Thus, for example, as a result of developing a strong relational bond with the company, employees will be motivated to cooperate with fellow employees because they know that it will further the company's objectives which are aligned with their own. Overall, when individuals develop a strong relationship with the company due to the benefits that CSR provides, they will be prone to engage other stakeholders in cooperative behaviors.

Contingencies

The degree to which the level of CSR activity influences perceptions of CSR programs, CSR related benefits, and relationship quality is dependent upon a number of contingency factors. These factors are manifest at either the *organizational level* or the *stakeholder level* of analysis. That both of these contextual factors influence the effect of CSR activity on outcomes is supported by numerous studies that find moderating effects attributable to individual factors, the company, the program itself, and competitors (see for example Bhattacharya and Sen 2004).

Organizational level contingencies. Organizational level contingency factors moderate the links between the level of CSR activity and both perceptions of CSR initiatives and functional benefits of CSR activity. These factors include characteristics of (1) CSR initiatives, (2) the company, (3) competitors. First, benefits generated by CSR are dependent upon characteristics of the initiative itself including the issue domain (Bhattacharya and Sen 2004) and CSR-company fit (Bloom et al. 2006; Pracejus and Olsen 2004; Sen and Bhattacharya 2001). A useful classification of the issue domain of CSR initiatives is that used by KLD Research and Analytics. Their system classifies initiatives as economic, social, or relating to governance. CSR-company fit refers to the extent of overlap between CSR initiatives and a company's operations or organizational objectives. It is defined as the "perceived link between a cause and the firm's product line, brand image, position, and/or target market" (Becker-Olsen et al. 2006, p.47). High fit initiatives incorporate the company's products or services, attempt to open new markets (e.g., creating wealth for potential customers), or are consistent with the company's strategic direction (e.g., a hiking apparel company supporting environmental causes). CSR-company fit moderates the relationship between the level of CSR activity and functional consequences because they are more strategic and therefore more likely than non-strategic programs to enhance corporate

performance (Porter and Kramer 2006). CSR-company fit can also reinforce what stakeholders believe is central, enduring, and distinctive about the company (Albert and Whetten 1985), magnifying the effect of level of CSR activity on CSR evaluations.

Second, characteristics of the company also moderate the impact of the level of CSR activity on functional benefits and stakeholder evaluations of CSR initiatives. Companies with strong reputations find that the positive effects of CSR are amplified (Bhattacharya and Sen 2004) while the effects of CSR in the case companies with poor reputations are dampened because stakeholders become suspicious of the company's motives in sponsoring the CSR initiatives (Yoon et al. 2006). The industry in which a company operates is also a moderator of these relationships (Bhattacharya and Sen 2004). Stakeholders are often suspicious of companies in certain industries (e.g., tobacco, oil) which can diminish both functional benefits of CSR and the stakeholder's evaluations of the initiatives.

Third, stakeholders do not evaluate CSR initiatives in a vacuum. Rather they make comparisons of a focal company with its competitors or peer companies (Bhattacharya and Sen 2004). Related to company perceptions is the moderating influence of competitor CSR initiatives. Stakeholders will evaluate CSR initiatives relative to expectations and that these expectations are often based on their knowledge of the CSR initiatives of competitor (Bhattacharya and Sen 2004). A company's commitment with respect to competitors is also important because it may signal that the company presents an opportunity for the stakeholders to derive benefits (Lichtenstein et al. 2004) due to its relative advantage over industry peers (Porter and Kramer 2006).

Stakeholder level contingencies. Stakeholder-level contingencies include characteristics of the stakeholder and the level of involvement of the individual in CSR initiatives. By stakeholder

characteristics we refer to the demographic profile of individuals as well as preferences that an individual holds regarding issues that are supported through the company's CSR initiatives. These factors impact the magnitude of the effects in our model because characteristics reflect both the needs and values of the individual stakeholder. Thus, for example, the degree to which a person supports the focal issue (of a CSR initiative) moderates the degree to which the initiative produces stakeholder benefits and enhances the stakeholder-company relationship (Sen and Bhattacharya 2001). There is also some evidence that gender plays a role in employee responses to CSR (Wehrmeyer and McNeil 2000). While many beliefs are essentially equivalent across gender, females are more likely than males to be actively involved in environmentally friendly behavior but score lower than men when asked whether technology can be used to solve ecological problems (Wehrmeyer and McNeil 2000).

Another important moderating factor is involvement in the process of enacting social responsibility. The effects of CSR are most powerful when stakeholders become active enactors of CSR programs (Bhattacharya et al. 2007). Highly involved stakeholders are more likely than uninvolved individuals to benefit from such programs because they can use the programs to express their own identity. Furthermore, highly involved individuals are able, by tailoring their CSR experiences, to co-create the value that programs provide them (Prahalad and Ramaswamy 2000; Vargo and Lusch 2004). People that are involved in creating, supporting, and sustaining CSR programs also derive a sense of accomplishment, learn skills, and encounter other like-minded individuals, each of which is highly beneficial to the stakeholder and fosters a sense of identification with and trust of the company.

Areas for Future Research

Our model provides a number of insights that illuminate some existing gaps in the literature. First, stakeholders respond to CSR activity based on their perceptions of the company's CSR initiatives. Second, the influence of CSR activity on the quality of a stakeholder's relationship with the company is driven by benefits that stakeholders derive from such activity. More specifically, taking a means-end perspective allows us to understand the nature of these benefits and their consequent role in driving relationship quality, ranging from satisfaction to the stronger, more rare, identification. Third, stakeholder responses to CSR activity are manifested in behaviors towards not only the company, but also towards the cause and other stakeholders. Based on these insights, we now briefly outline areas that may be fruitful for future research.

Understanding the Antecedents of Stakeholder Perceptions of CSR Initiatives

While prior research strongly suggests that stakeholder perceptions of CSR initiatives are important (e.g., Bhattacharya et al. 2007; Klein and Dawar 2004; Lichtenstein et al. 2004), our understanding of the factors leading to these assessments is still somewhat limited. As a point of departure, it is clearly important for stakeholders to be aware of CSR initiatives (Sen et al. 2006). However, awareness, and in particular familiarity, are often quite low among stakeholder populations (Sen et al. 2006). This suggests that a better understanding of how and when CSR produces awareness would benefit both theorists and practitioners. Future research might examine which types of communication campaigns are most effective in reaching stakeholders and which conditions are most suitable for such campaigns.

A second important area for future research is the process through which stakeholders assess CSR initiatives. It is clear that stakeholders assess the efficacy of CSR initiatives and that they attribute motives behind a company's CSR activity, however, it is still not clear precisely

how individuals come to make these judgments. Furthermore, since many companies maintain multiple CSR initiatives simultaneously, it would be valuable to understand whether and how numerous initiatives are combined, if at all, into a single assessment of the company's commitment to social responsibility.

Finally, as proposed by our model, stakeholders make comparisons between the CSR initiatives of the focal company and the initiatives of other companies. However, to our knowledge, no research has examined how these comparisons are made. Moreover, it is not clear how individuals determine which companies are referenced in these comparisons. Do individual stakeholders only make comparisons within the industry of the focal company, or do they identify "peers" that they perceive to be similar but in other industries? If the latter is true, and we find some anecdotal evidence of this in focus groups that we have conducted (Bhattacharya et al. 2007), it suggests that the competitive set for CSR assessments may be larger than is typically conceptualized.

Extending the Means-End Approach

We borrow from means-end chain theory to construct a model of stakeholder responses to CSR activity. We also present a number of hypothetical chains to illustrate that stakeholders are often goal directed in their interpretation of CSR activity. However, as recognized by the means-end approach, the consequences of CSR can be highly individualized. Recognizing that our examples are by no means exhaustive, it is important to understand the full range of consequences that occur as a result of CSR activity. Furthermore, a taxonomy of functional consequences, psychosocial consequences, and values would enable future researchers to quantify the relative effects of each consequence on relationship quality and ultimately, on stakeholder behaviors. Since many practitioner-based means-end research studies attempt to

segment individuals based upon the consequences found in these chains, such a taxonomy would also be of great value to practitioners.

In order to extend this insight, future researchers may wish to identify specific attributes of CSR initiatives that are likely to produce meaningful consequences for individual stakeholders. Since we are concerned with responses to CSR across numerous stakeholder domains, it will also be important to document whether there are differences in means-end chains both within and between various stakeholder roles. For example, how do functional benefits for a consumer differ from not only that of other consumers but also employees? Will the same functional benefit provide identical psychosocial benefits regardless of the stakeholder role? Since contemporary research tends to confound these levels of consequences, it will be helpful to delineate these benefits with greater precision. As prior means-end research clearly demonstrates (Botschen and Thelen 1999; Hofstede et al. 1999), documenting these chains provides opportunities for segmentation based on functional benefits, psychosocial benefits, or values.

Finally, there may be times where benefits may create conflict for stakeholders with multiple simultaneous roles. Consider an individual that learns about a \$1 million charitable gift to a community art center. Employees may derive substantial psychosocial benefits from the gift while investors may become disaffected by the short-term functional consequence of such a large monetary expenditure. Such a program could send conflicting messages to some stakeholders, and while predictions about how such a scenario might play out is beyond the scope of this paper, it is worthy of investigation. Regardless, companies need to learn how to balance effectively the potentially conflicting needs of their stakeholders, or at least engage in programs that on aggregate yield win-win situations for it and its multifarious stakeholders.

Understanding Linkages Between Stakeholders

Our model proposes that CSR leads to behaviors directed not only towards the company and the cause, but also towards other stakeholders. Thus, a company engaging in substantial levels of CSR activity can expect to derive direct effects of such efforts as each stakeholder responds with behaviors directed towards the company; such efforts may also yield indirect effects whereby company performance is impacted through the cooperative - or uncooperative - behaviors between stakeholders. Future research may investigate how and under what conditions this cooperation or conflict is most likely to occur.

Research on stakeholder-directed behaviors should concentrate on linkages within groups, across groups, and in multiple groups. Within group analysis might involve how CSR influences the behaviors of employees towards fellow employees. Since we find in prior research that employees in remote locations of the company benefit from CSR by feeling more connected to others, it would be important to find out whether CSR encourages employees to cooperate with employees in geographically disperse offices. This is especially important given the global nature of business today. Between-stakeholder group analyses would study the effects of CSR on the relations between individuals or groups of stakeholders in one role and individuals or groups of stakeholders in another role. For example, a potential research question might be, does an employee's knowledge of CSR activity facilitate cooperation with customers? Finally, research should examine whether and under what circumstances CSR encourages a stakeholder to develop multiple roles (e.g., simultaneously a customer, employee, and investor) with the company and how this might impact relations with other stakeholders. Prior research finds evidence that once aware of CSR activity, individuals do seek to develop multiple ties to the company (Sen et al. 2006), but it is still unclear how this might impact other stakeholders.

Conclusion

This paper attempts to extend our understanding of the strategic effectiveness of CSR by revealing the psychological mechanisms that drive individual stakeholder responses to CSR activity. In particular, we draw on the means-end chain framework to articulate and implicate the types of benefits stakeholders derive from CSR initiatives (i.e., functional, psychosocial, and value-satisfaction) as a fundamental determinant of their reactions to such initiatives. In particular, we argue that the quality of the stakeholder-company relationship resulting from a CSR initiative depends on the type of benefits stakeholders obtain from it. By outlining the process whereby benefits and relationship quality drive CSR related outcomes, we hope to contribute to our understanding of how and when CSR activity influences corporate performance.

Figure 1: A Model for Understanding Stakeholder Responses to CSR

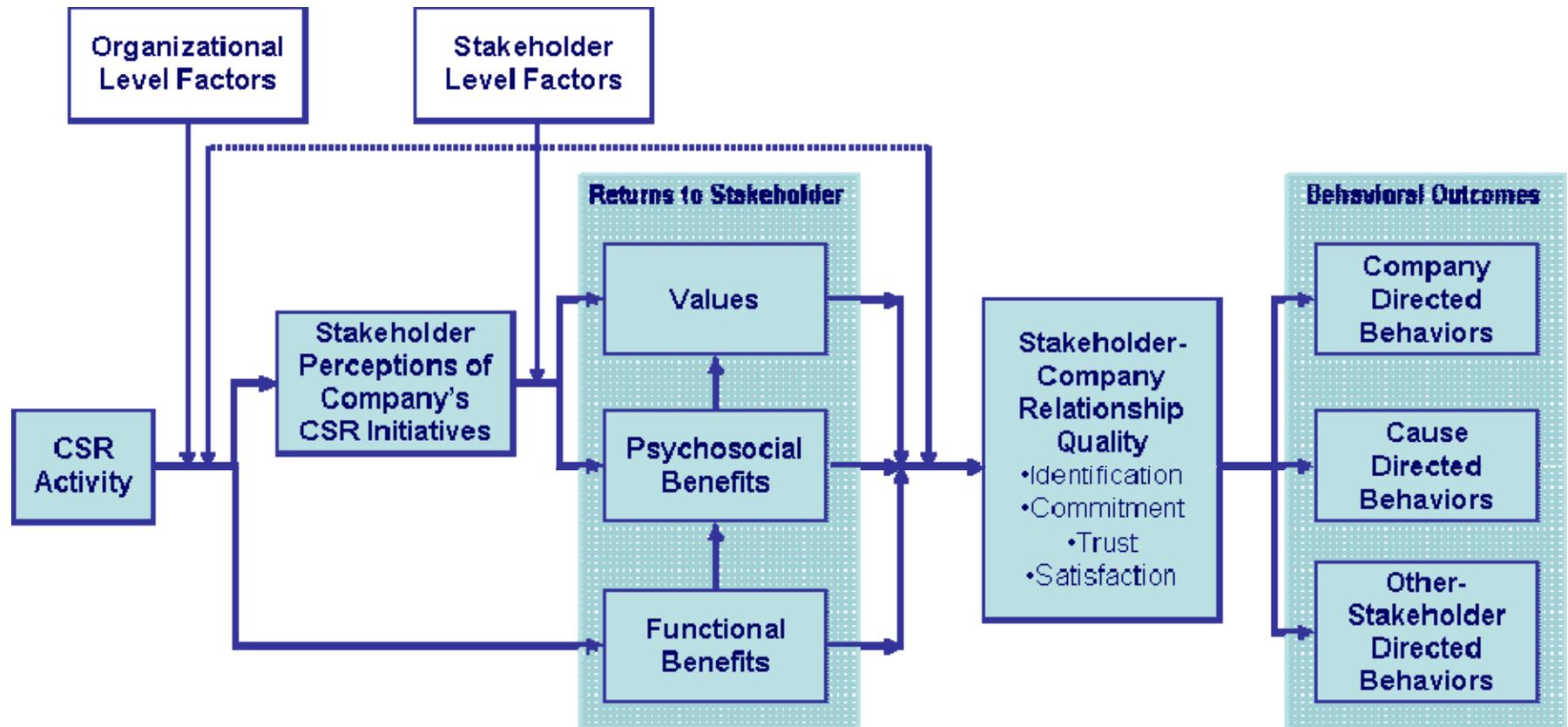


Table 1: Examples of Returns to Stakeholders as a Result of an Oral Health Initiative

Returns to Stakeholders	Beneficiaries	Consumers	Investors	Employees
Functional Benefits ↓	Healthy teeth		Stock returns, Lower risk	Use professional skills to aid personal causes
Psychosocial Benefits ↓	Social acceptance	Altruism	Financial success	Work-life integration
Values	Self-esteem	Well-being	Accomplishment	Harmony

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