Corporate social responsibility is incorporated into strategic management at the enterprise strategy level. This paper delineates the domain of enterprise strategy by focusing on how well a firm's social performance matches its competences and stakeholders rather than on the "quantity" of a firm's social responsibility. Enterprise strategy is defined and a classification of enterprise strategies is set forth.

Introduction

Ansoff (1979) coined the term "enterprise strategy", to broadly encompass a firm's product/market/technology strategy, resource strategy, limited-growth strategy, societal strategy, and legitimacy strategy. Schendel and Hofer (1979) refined Ansoff's definition by restricting "enterprise strategy" to social-legitimacy concerns. They argued that, with the exception of social-legitimacy, all the strategic issues referred to by Ansoff were addressed at the corporate, business, and functional strategy levels. According to Schendel and Hofer, "enterprise strategy attempts to integrate the firm with its broader noncontrollable environment...in the sense of the overall role that business...should play in the everyday affairs of society" (1979: 12). They also suggest that "more explicit attention will have to be given to this aspect of strategy in the future" (p. 12).

Since 1979 few researchers have attempted to develop the potentially rich concept of enterprise strategy. The most notable advances have been by Freeman (1984) and Freeman and Gilbert (1988) in conjunction with the stakeholder approach to strategic management. Freeman's use of the stakeholder model has been useful in shedding light on the groups to be seriously considered in enterprise strategy. Though Freeman does present a classification of enterprise strategies, his scheme needs to be linked more closely with traditional strategic management concepts.

This paper takes the next step toward developing a general system for classifying enterprise strategies. We build on Freeman's work, reconciling it with strategic management theory and the requirements of a useful classification.

Abstract

Enterprise strategy is closely associated with the concept of corporate social responsibility (Ansoff, 1979; Schendel & Hofer, 1979; Freeman, 1984). Numerous studies have attempted to establish a linkage between corporate social responsibility and economic performance (Folger & Nutt, 1975; Vance, 1975; Sturdivant & Ginter, 1977; Cochran & Wood, 1984). Most assumed that social responsibility and economic performance have a direct relationship despite organizational and environmental differences. Taken together, the results of these studies have not established the direction of the relationship or even that such a relationship exists. Some found positive relationships (Sturdivant & Ginter, 1977), some found negative relationships (Vance, 1975), some found a weak relationship (Cochran & Wood, 1984), and others found no relationship at all (Folger & Nutt, 1975).

Although some concentrate on the methodological weaknesses of these studies (Aupperle, Carroll, and Hatfield, 1985), the failure to uncover a consistent relationship between economic performance and social responsibility may be due to inadequate conceptual models. More specifically, the nature of this relationship may not be universally consistent, but may instead be contingent on the situation facing the organization. Socially responsive activities are not necessarily related to improved or superior profitability. Rather, as strategic management theory suggests, superior performance comes from successful implementation of a strategy that matches organizational skills and resources with environmental opportunity in ways that create competitive advantage (Hofer & Schendel, 1978).

Historical Development

Economists from Adam Smith to Milton Friedman have argued that business enterprises should behave as purely economic entities driven by the sole purpose of profit maximization. The firm's performance in this economic model is measured by the degree to which financial revenues exceed...
financial costs. Jacoby (1973), among others, has termed this the classical model. The last three decades have brought about changes in the classical perspective (Chrisman & Carroll, 1984). Under this "alternative" perspective, the firm's value to society is contingent on both the value it adds to economic stakeholders and the social benefits it creates for all stakeholders.

In the economic realm, a firm is viable only if the value it adds to raw materials exceeds the costs of production and marketing. Market mechanisms are such that firms unable to operate in an economically profitable manner are eliminated. In the social realm, firms create costs society must bear (environmental pollution, employment discrimination, traffic congestion, and so on) and also generate "social goods" (employment, charitable donations, community improvements, etc.). A firm's "social viability" depends on the degree to which the social goods it generates exceed the social costs it imposes. It is important to note, however, that except for some regulatory legislation (pollution control requirements, minority employment laws, etc.), there is no short run mechanism to eliminate firms whose social costs exceed the social goods they provide. This alternative view contends that it is in the long run that the importance of a firm's social performance is made evident. Economic performance may dictate whether a firm is viable in the short run, but it is the combined social and economic performance which determines long term legitimacy. Legitimacy, here, refers to "the belief or perception by society that a particular social institution is appropriate, proper or consistent with the moral foundations of that society" (Epstein and Votaw, 1978: 3).

Since firms generate both economic costs (which are assessed against economic revenues) and social costs (which society must bear) along with economic revenues and social goods, the total value added by a business to society can be interpreted as the difference between its total benefits (economic revenue plus social goods) and total costs (economic costs plus social costs). To secure legitimacy a firm should maximize the combined social and economic value it adds to society (see Figure 1).

![Figure 1](null)

<table>
<thead>
<tr>
<th>Classical Interpretation</th>
<th>Value Added Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit = Economic Revenues - Economic Costs</td>
<td>Total value added by firm = Profit + Net Social Benefit</td>
</tr>
<tr>
<td>Economic Revenues = Price x Volume</td>
<td>Profit = Economic Revenues - Economic Costs</td>
</tr>
<tr>
<td>Economic Costs = Operating Costs + Cost of Capital</td>
<td>Net Social Benefit = Social Good - Social Costs</td>
</tr>
<tr>
<td>GOAL: Maximize Profit</td>
<td>GOAL: Maximize value added by firm</td>
</tr>
</tbody>
</table>

Firms may increase the total value they add to society by focusing on either the social or economic aspects of their operations. In today's financially competitive and socially concerned marketplace, firms usually must consider both aspects of their performance (Chrisman & Carroll, 1984). A firm improves its social value added by either reducing "social costs" or increasing "social goods." Economic and social aspects of a firm's performance are obviously inter-related, and different methods of increasing social value will affect the value of different firms in different ways. Consequently, certain strategies for social responsiveness (enterprise strategies) will be more effective for some firms than for others. It is unfortunate that clear definitions and measurements of "social goods" and "social costs" have not yet been reached despite progress in welfare economics and social accounting. This makes measurement of the firm's value to society difficult. However, as means of quantifying social costs and benefits improve an adequate model for capturing the concept of enterprise strategy should be in place.

DEFINING ENTERPRISE STRATEGY

Both Schendel and Hofer's and Ansoff's definitions of enterprise strategy helped place corporate social responsibility concerns within the strategic management paradigm, however neither definition has been used to develop an enterprise strategy classification. Ansoff's definition was extremely complex and included elements incorporated into other strategy levels. Schendel and Hofer's definition, based on the overall role of business in society, was too general to identify the specific components of enterprise strategy. Freeman (1984) has gone a step further by developing a better understanding of the scope of a firm's "social-legitimacy concerns" using the stakeholder approach. Under this approach firms seen as responsible to different groups of stakeholders, and the firm's survival depends on whether it makes adequate contributions to the stakeholders' well-being.

Freeman defines enterprise strategy as "what a firm stands for" (1984: 89). Such a definition, while useful for distinguishing between firms, poses at least two problems for those interested in research concerning enterprise strategy. First, it is quite likely that there will be conflicting values among those belonging to the firm. Second, the normative issues raised in comparing firms' values would subject enterprise strategy research to the ethical judgments of researchers, making it difficult to compare one researcher's findings to another's. To keep within the traditional understanding of strategy, enterprise strategy might better be defined as matching the firm's value creating activities to the values and needs of its stakeholders. The "matching" aspect, while present in Freeman's writing is absent in his definition.

We propose the following definition for enterprise strategy: "How the firm attempts to add value to its stakeholders in order to legitimize its existence and ensure its future." The components of enterprise strategy are, therefore: 1) The environment to which the firm adds value (stakeholders) and 2), the types of
value the firm adds (benefits). This definition maintains Ansoff’s and Schendel and Hofer’s "social-legitimacy concerns" and builds on Freeman’s stakeholder approach. It establishes the criteria for social legitimacy (providing sufficient benefits to stakeholders) and it addresses the components (stakeholders and the valued benefits added) of a firm’s enterprise strategy (Chrisman, Hofer, & Boulton, 1988). And, as will be demonstrated, it can support a classification based on its components.

CLASSIFYING ENTERPRISE STRATEGIES

Classification systems should meet at least three objectives: differentiation, generalization, and identification. To accomplish these objectives, each category within the classification should be mutually exclusive, internally homogeneous, collectively exhaustive, based on relevant names and stable. The classification as a whole must be general in purpose, based on all key characteristics of the phenomena, parsimonious, hierarchical (or capable of supporting a hierarchy), and timeless (Chrisman et al., 1988).

Freeman (1984), and Freeman and Gilbert (1988) have put forth the only enterprise strategy classifications to date. Freeman’s 1984 classification outlined five possible enterprise strategies: 1) Narrow stakeholder strategy—maximize benefits to one or small set of stakeholders; 2) Stockholder strategy—maximize benefits to stockholders or "financial stakeholders"; 3) Utilitarian strategy—maximize benefits to society; 4) Rawlsian strategy—act to raise the level of the worst-off stakeholder; and 5) Social harmony strategy—act to maintain or create social harmony (1984: 102).

Freeman’s classification is parsimonious, appears to be collectively exhaustive, (the "Narrow" and "Utilitarian" categories alone are capable of embracing all combinations of stakeholders) and seems to be timeless. On the other hand, several problems exist. The "Narrow stakeholder", "Stockholder", and "Rawlsian" strategies are not mutually exclusive. In fact, the Stockholder strategy and Rawlsian strategy are distinct to differentiate between the roles of economic and social stakeholders. Economic and social stakeholders are sufficiently distinguishable to be treated as separate groups. This also raises the issue of stability of the classifications. For example, one researcher could identify a firm as having a "Stockholder" strategy while another researcher might classify the strategy as "Rawlsian" if stockholders happened to be the worst off stakeholder group. Ambiguity might also be encountered in distinguishing the "Social Harmony" from the "Utilitarian" strategy. "Acting to gain consensus from society" (social harmony strategy) may entail "maximizing benefits to society" (utilitarian strategy). These taxa, therefore, fail to meet the mutual exclusiveness requirement of a classification system.

In 1988 Freeman and Gilbert identified seven "flavors" of enterprise strategy (p. 72). Though not explicitly referred to as a "classification," the "flavors" are clearly an extension of Freeman’s 1984 framework: 1) Stockholder Strategy - maximize the interests of stockholders; 2) Managerial Prerogative Strategy - maximize the interests of management; 3) Restricted Stakeholder Strategy - maximize the interests of a narrow set of stakeholders; 4) Unrestricted Stakeholder Strategy - maximize the interest of all stakeholders; 5) Social Harmony Strategy - maximize social harmony; 6) Rawlsian Strategy - raise level of worst-off stakeholder; and 7) Personal Projects Strategy - maximize ability of corporate members to carry out their personal projects. By redefining their groups, Freeman and Gilbert increased the internal homogeneity of their taxa, but the problems of mutual exclusiveness and stability remain. While redefining the categories further may resolve those problems, a more fundamental issue exists: Freeman’s classification is not based on both of the key attributes of enterprise strategy. If strategy is how an organization matches its skills and competences with the opportunities (and threats) in its environment, then enterprise strategy, to be a strategy, must define the scope of the environment and how the organization uses its resources and skills to meet environmental needs. Freeman, however, considers only the stakeholders and not the types of value/benefits offered. Thus, a new classification is needed.

The Components of Enterprise Strategies

The classification proposed in this paper is based on the components which were identified in our definition of enterprise strategy. It distinguishes among the stakeholder groups from which a firm derives its legitimacy and among the types of benefits provided to them.

Stakeholder groups and scope Stakeholders may be defined as individuals or groups who believe they are able to affect or are affected by some aspect of firm behavior (Freeman, 1984). Stakeholder groups include, among others, management, employees, stockholders, suppliers, local communities, governmental bodies, and so on. In keeping with the concept of value added, our classification is built on a distinction between economic and non-economic (social) stakeholders. Any single action of the firm may affect both types of stakeholder groups. Economic and social stakeholders are sufficiently distinct to differentiate between the roles of their members at any point in time (fulfilling the mutually exclusivity requirement). They also account for all possible stakeholder groups that interact with the organization (collectively exhaustive). The possibility of further dividing these groups suggests that the classification is capable of supporting a hierarchy.

Enterprise strategies can vary widely in scope. At one extreme are firms which provide a very specific benefit to a very specific group (e.g., a small manufacturer which provides a single industrial good to one customer). At the other extreme are large conglomerates with high visibility, highly diversified product lines, and a large stakeholder population. To not differentiate between strategies applicable in such highly contrasting situations would weaken the internal homogeneity of the taxa. Therefore the classification accounts for both the breadth of
Types of benefits The benefits provided by the firm may be economic, non-economic, or some combination of both. Based on the distinction between "social goods" and "social costs," social value can be generated by an increase in social goods, a decrease in social costs, or both, in combination. The long term performance of certain types of firms may be enhanced best by focusing on reducing the social costs imposed on society. Other firms may find a strategy of increasing social benefits more effective. Still others may find that they must, at least in the short run, neglect social stakeholders and concentrate solely on economic performance.

A Proposed Classification

Based on these factors, we suggest the following classification of enterprise strategies (see Figure 2):

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Economic Only</th>
<th>Economic and Lower Social Cost</th>
<th>Economic and Higher Social Good</th>
<th>Economic &amp; Higher Social Good + Lower Social Cost</th>
<th>Social Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow</td>
<td>CLASSICAL</td>
<td>DEFENSIVE NARROW</td>
<td>OFFENSIVE NARROW</td>
<td>ACCOMMODATIVE NARROW</td>
<td>NOT-FOR-PROFIT</td>
</tr>
<tr>
<td>Broad</td>
<td>DEFENSIVE BROAD</td>
<td>OFFENSIVE BROAD</td>
<td>ACCOMMODATIVE BROAD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not-For-Profit</td>
<td></td>
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</tr>
</tbody>
</table>

The cells containing "x's" are excluded, by definition, from the classification. For example, firms which provide only economic benefits do not serve social stakeholders, and consequently all cells along the top line which incorporate social stakeholders are excluded. The reverse is true for the bottom line. If a firm provides only social benefits, all cells incorporating economic stakeholders are excluded. Finally, cells incorporating both economic and social benefits can be included only when social and economic stakeholders are present. Thus the three center cells in the left-most column (economic stakeholders only) and right-most column (social stakeholders only) are eliminated.

To ensure the classification is based on relevant names, the enterprise strategy titles are based on the social responsibility literature (Jacoby, 1973; Sethi, 1982). A brief description of each strategy follows.

Classical Enterprise Strategy A firm employing this strategy concerns itself only with economic performance. Decisions are made entirely on the basis of the "bottom line." Such a strategy may not "legitimize" the firm in the long run, but may be necessary for short periods of time. Firms following this strategy will usually obey the law, however the social effects of business are often disregarded at times when the firm's survival is in jeopardy or when the power of financial stakeholders is excessive. Start-up firms and firms on the verge of bankruptcy often resort to a "classical" enterprise strategy.

Defensive/Narrow Enterprise Strategy A firm adopting this strategy focuses on a narrow stakeholder segment, and attempts to reduce social costs. The "defensive/narrow" firm waits until stakeholders express dissatisfaction with its actions and then seeks to appease these stakeholders by reducing a social cost. Certain defense contractors seem to have exhibited this strategy in the past. For example, scandals about defense contractors overbilling the DOD for labor on government contracts usually resulted in this behavior being modified in order to appease stakeholders and, presumably, assure compliance with certain ethical standards in order to minimize costs to society.

Defensive/Broad Enterprise Strategy These firms concentrate on lowering social costs, but they respond to the dissatisfactions of a very broad segment of stakeholders. Typically such firms have economic and social performance thresholds which must be met, in an attempt to avoid crises before they occur. The emphasis, however, is not on promoting good, but avoiding costs. Exxon's handling of the Valdez oil spill suggests they followed such a strategy. Concern appeared to be directed more at social stakeholder appeasement than actual environmental concern.

Offensive/Narrow Enterprise Strategy These firms focus on a narrow group of stakeholders and are more concerned with increasing social goods than with reducing social cost. Typically such firms contribute to a few charities, champion selected causes, and publicize their involvement in social issues in order to increase goodwill. InterFirst Bank Dallas' sponsorship of the Dallas Ballet illustrated this approach.

Offensive/Broad Enterprise Strategy These firms seek to increase the "social good" of a broad range of stakeholders. Firms which are actively promoting public welfare are said to possess an "offensive/broad" enterprise strategy. Such firms are often philanthropists on a wide scale, sometimes supporting broadly oriented foundations (e.g., the Coca-Cola foundation).

Accommodative/Narrow Enterprise Strategy These firms both decrease social costs and increase social goods to a narrow group of stakeholders.
Much work remains in developing adequate measures to test the impact of enterprise strategy on both economic performance and legitimization of the firm. Such inquiries will lead to further refinement of the entire enterprise strategy concept and to the development of a hierarchical classification system. However, the relevant question in the social responsibility versus profit debate may not be “how much do corporate social activities affect economic performance?”, but rather “how appropriate is the firm’s enterprise strategy, given its competences and stakeholders?”

REFERENCES


