Stakeholder Responsibility and CSR

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Introduction

Corporate Social Responsibility is a self-regulation mechanism whereby an organization actively monitors society, the environment, global trends, ethical principles, and legal standards for compliance. CSR supports the organization's core mission and extends its responsibility and commitments to secondary stakeholders and other members of society. The CSR process fosters organizational actions that positively affect society as a whole environment, communities, and people.

One of the primary functions of a business is to serve the needs of its stakeholders, also known as stakeholder responsibility. However, more and more businesses are taking this responsibility one step further by seeking out ways to address global issues to ultimately make the world a better place. Companies around the world today are being called upon by their stakeholders and various other consumers to support the primary concern, as well as to address a portion of the nation's most demanding issues, including those concerning monetary advancement and the environment. While sentiments vary on how responsibilities ought to be allotted over the general population and private sectors, corporate stakeholders (which ordinarily incorporate shareholders, employees, clients, suppliers, groups, governments and consumers) are requesting that organizations/companies try to be more understanding in tending to those issues. Thus, organizations/companies are progressively working with partners/stakeholders to comprehend their perspectives and concerns on different ecological, social, corporate administration and financial issues (such issues frequently alluded to as corporate social obligation ("CSR") issues) and to join and address those perspectives and concerns in the organization's key basic leadership forms.

Next, we move onto the question of who is a "stakeholder". This however has many definitions. One can commonly say that a "stakeholder" is any group or individual who can affect or is affected by the achievement of the organization's objectives. The most common groups who we consider to be stakeholders include employees, consumers/customers, investors, the government, society at large etc. Many people consider that only people can be stakeholders of an organisation, but many others extend this by saying that the environment can be affected by organisational activity. These organisational activities include the utilisation of natural resources as a part of its production processes, transformation of the landscape due to raw material extraction or waste product storage, etc. Hence many people also consider that the environment itself is an additional stakeholder in an organisation/company.

A Brief History of the Stakeholder Idea[1]

A stakeholder approach to business emerged in the mid-1980s. One focal point in this movement was the publication of R. Edward Freeman's Strategic Management - A Stakeholder Approach in 1984, based on the works of Russell Ackoff, Eric Trist, Ian Mitroff, Richard Mason, and James Emshoff. The catalyst behind Stakeholder Management was to attempt and construct a system that understood the issues and concerns of supervisors and managers who were being struck by new and exemplary levels of environmental turbulence and change. The existing traditional business systems were neither helping managers/supervisors devise new strategic plans, nor were they helping them see how to discover new opportunities amidst so much change. The reason for stakeholder management was to devise techniques to deal with the myriad groups and connections that brought about a vital form of business system. While the stakeholder framework had establishes in various scholastic fields, its heart lay in the clinical investigations of management specialists that were completed more than ten years through the Busch Center, the Wharton Applied Research Center, and the Managerial and Behavioral Science Center, all at The Wharton School, University of Pennsylvania, by a large group of researchers.

While the 1980's provided an environment that demonstrated the power of a stakeholder approach, the idea was not entirely new. The use of the term stakeholder grew out of the pioneering work at Stanford Research Institute (now SRI International) in the 1960's. SRI's work, in turn, was heavily influenced by concepts that were developed in the planning department of Lockheed and these ideas were further developed through the work of Igor Ansoff and Robert Stewart. Thus, the stakeholder approach is firmly rooted in the practice of management. Recently, Giles Slinger has revisited the early history of the idea of stakeholders. Through more extensive interviews, and the examination of a number of historical documents, Slinger rewrites the history as told in Freeman (1984). The important difference is that the early use of the stakeholder idea was not particularly oriented towards the survival of the firm.[2]

[1] For a fuller discussion of the history of the stakeholder idea see Freeman (2005, in press).

[2] Slinger's argument can be found in his doctoral dissertation, Stakeholding and Takeovers: Three Essays, University of Cambridge, forthcoming in 2001.

The Stakeholder Theory

Here, we try to understand in depth, the stakeholder theory. The argument for Stakeholder Theory is based upon the assertion that maximising wealth for shareholders fails to maximise wealth for society and all its members and that only a concern with managing all stakeholder interests helps in finding a solution to this problem. Stakeholder theory states that all stakeholders must be considered in the decision making process of the organisation. The theory states that there are 3 reasons why this should happen. They are: (a) It is the morally and ethically correct way to behave; (b) Doing so actually also benefits the shareholders and (c) It reflects what goes on in an organisation/company. According to this theory, stakeholder management, or corporate social responsibility, is not an end in itself but is simply seen as a means for improving economic performance. This assumption is often implicit although it is clearly stated by Atkinson, Waterhouse and Wells (1997) and is actually inconsistent with the ethical reasons for adopting stakeholder theory. Instead of stakeholder management improving economic, or financial, performance therefore it is argued that a broader aim of corporate social performance should be used (Jones and Wicks, 1999).

According to Freeman and McVea (2001), the stakeholder approach has seven distinguishing characteristics. First, it offers a single strategic framework that allows a manager to deal with changes in the external environment without the need for new strategic paradigms. Second, the stakeholder approach is a strategic management process rather than a strategic planning process. Third, a central concern of the stakeholder approach is the achievement of the organization's objectives through the harnessing of support of all those who are affected by the firm's actions, as well as all those who can affect the progress of the firm. Fourth, the stakeholder approach emphasizes the critical role of values-based management, by recognizing that a wide and myriad collection of stakeholders will cooperate with the firm over the long term only if they share a core set of values. Fifth, it is at once a prescriptive and a descriptive framework. Sixth, rather than take a stylized view of stakeholders based on very general roles-based groupings (such as shareholders, suppliers, etc), the stakeholder approach places great importance in acquiring a fine grained understanding of the particular stakeholders of each firm. Finally, it starts off with the hypothesis that a firm can exist and be self-sustainable only if it offers solutions that balance the interests of multiple stakeholders over time. Taking a stakeholder approach to CSR means that the main focus is on integration across stakeholders and on practical managerial solutions that create value for customers, employees, suppliers, communities, and financiers.

Four Levels of Commitment to Stakeholder Approach[3]

Level 1: Basic Value Proposition

At this most basic level, the entrepreneur or manager needs to understand how the firm can make the customer better off, while at the same time offering an attractive value proposition to employees, suppliers, communities, and financiers. It is important to note that it is not possible to sustain making customers better off, without at the same time making the stakeholders better off. What this example highlights is so obvious that we too often take it for granted: a business model that simultaneously satisfies the different stakeholders is a pre-requisite for any company to start doing business profitably. Business failure and mediocre performance are often attributable to the firm's inability to articulate strong enough value propositions simultaneously to all its stakeholders.

Level 2: Sustained Stakeholder Cooperation

Once the most basic level of stakeholder awareness has been achieved, the entrepreneur or manager must understand that the continued survival and profitability of the company depends on effectively sustaining the cooperation amongst the stakeholders over time. The competitive, macro-economic, regulatory, and political environments are so dynamic that they make it necessary for the initial stakeholder arrangements to be revised on a constant basis. It is important for the manager to have a deep understanding of how these trade-offs affect each stakeholder, the limits to the sacrifice a given stakeholder will accept, and how these current sacrifices can be compensated in the future.

Level 3: An understanding of broader societal issues

According to Haaland - Matlary (2005), the manager today to be aware of and responsive to more international issues, without the moral compass of the nation state or religion to guide her any more. The insecurity caused by the increase in terrorism further compounds matters. A pro-active behaviour is necessary towards all stakeholder groups, both primary, i.e., those that have direct dealings with the company, and secondary, such as NGOs and political activists, who can affect its operations.

Level 4: Ethical leadership

Recent research points to a strong connection between ethical values and positive firm outcomes such as sustained profitable growth and high innovativeness. The Good Work Project, started in 1995 by three teams of investigators led by Howard Gardner, Mihaly Czikszentmihalyi, and William Damon, examined the relationship between ethics and performance. Damon (2002) proposes the three faces of morality: restrictive, philanthropic, and generative. We believe that this form of proactive ethical leadership is possible only if there exists a deep understanding of the interests, priorities, and concerns of the stakeholders.

[3] The first three levels of commitment are explored in greater detail in Wicks, Freeman, and Parmar (2005). The origins of these ideas can be found in part in Freeman (1984) in the idea of "enterprise strategy".

The Ten Principles of Company Stakeholder Responsibility

1) **Bring stakeholder interests together over time:** The very idea of managing for stake-holders is that the process of value creation is a joint process. Companies need to show returns to its shareholders, meet obligations to debt holders, banks, and others. Managers must keep these stakeholder interests in balance, hopefully mutually reinforcing each other.

2) **Recognize that stakeholders are real and complex people with names, faces and values:** We often make assumptions that business people are only in it for their own narrowly defined self-interest. Most human beings are more complicated. Most of us do what we do because we are both self-interested and interested in others. Business works in part because of the urge to create things with others and for others. Employees are far more motivated to give their time, energy and creativity when they believe in their firm's overall mission and goals. The firm in turn needs to live its values.

3) **Seek solutions to issues that satisfy multiple stakeholders simultaneously:** Issues and problems come at managers from many sources, in many forms. Managers need to find ways to develop programs, policies, strategies, even products and services that satisfy multiple stakeholders simultaneously. The first step in that process is to actually recognize the need to look for simultaneous solutions.

4) **Engage in intensive communication and dialogue with stakeholders—not just those who are friendly:** Obviously we need intensive dialogue through multiple methods with customers, suppliers, employees, and shareholders, but communities, the media, critics, and other secondary stakeholders count as well. Critics are especially important dialogue members—they represent unmet market needs.

5) **Commit to a philosophy of voluntarism—manage stakeholder relationships yourself, rather than leaving it to government:** The challenge for managers is to reorient their thinking and managerial processes voluntarily to be more responsive to stakeholders. A situation where a solution to a stakeholder problem is imposed by a government agency or the courts must almost invariably be seen as a managerial failure.

6) **Generalize the marketing approach:** We need to "over-invest" on understanding stakeholder needs, using marketing techniques to segment stakeholders to develop a better understanding of their individual needs and using marketing research tools to understand the multi-attribute nature of most stakeholder groups. "Investing" may be in terms of more time, more energy, or whatever the relevant resource that is required by a given stakeholder group.

7) **Never trade off the interests of one stakeholder versus another continuously over time:** Just as many successful companies think in terms of "how to serve the customer" or "how to serve the employees," it is possible to generalize this philosophy to "how to serve our stakeholders."

8) **Negotiate with primary and secondary stakeholders:** If a group or individual can affect a company or be affected by a company then there needs to be some interaction and some strategic thinking. In our relatively free and open society, the consequences of not negotiating with a broad range of stakeholders is that they use the political process to "negotiate" indirectly by pressuring government to enact a set of rules that is not likely to be optimal to company interests.

9) **Constantly monitor and redesign processes to make them better serve stakeholders:** In today's world no one "gets it right" all the time. Whatever your interactions and strategies are with stakeholders, they can always be improved.

10) **Act with purpose that fulfills commitment to stakeholders. Act with aspiration towards fulfilling your dreams and theirs:** Businesses can have a purpose. Purpose is inspirational. The Grameen Bank wants to eliminate poverty. Fannie Mae seeks to make housing affordable to people at every income level. ITT Industries tries to make products that improve people's lives. All of these organizations have to generate profits, or else they cannot pursue their purposes. And, they cannot generate profits or fulfill their purpose without intense engagement with their stakeholders.

Conclusion

Corporate Social Responsibility has outlived its usefulness, because it is flawed in two aspects. Firstly, it promotes the "**separation thesis**", the idea that business issues and social issues can be dealt with separately. This encourages the idea that the underlying structure of business is either not good or is morally neutral. A stakeholder approach acknowledges the interconnected nature of economic, political, social, and ethical issues. Centred in the practice of management, it provides the manager with a pragmatic framework for action. The second flaw with Corporate Social Responsibility is its focus on corporations. Social responsibility does not only apply to corporations—it applies to all organizational forms. A stakeholder approach applies as much to an entrepreneurial start-up and to a mid-sized closely-held firm as it does to a corporation with diffuse ownership. Based on a stakeholder approach, a distinct Company Stakeholder Responsibility outlines a new capability for organizations to develop.

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