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Social Responsibility and Stakeholders



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Learning Outcomes

After reading this chapter, you should be able to do the following:

- Examine strategic approaches to social responsibility.
- Analyze the value of corporate social responsibility.
- Evaluate the stakeholder's role in business ethics and social responsibility and identify the steps required for stakeholder engagement.

Introduction

Patagonia: The Responsible Company

Specializing in outdoor clothing in a niche market, Patagonia, Inc. has long been considered a responsible company. Top executives make it a priority to convey the message that they care about their employees, their customers, and the environment. What does it mean to be a responsible company? The founder and owner of Patagonia, Yvon Chouinard, has admitted that he did not intend for Patagonia to be an industry leader in social and environmental responsibility when he started the company in 1972. Only after addressing a series of decisions in product design, supply, and marketing did Patagonia executives realize that every business has responsibilities beyond profit. Chouinard decided that he wanted to make a difference in the world by offering quality products that had minimal environmental impact and providing employees with meaningful work.

In 1988, staff at one of the Patagonia stores began to experience headaches due to a malfunctioning ventilation system that was recirculating formaldehyde into the air. The source of formaldehyde was linked to the finishing process of the cotton used in the company's products. By exploring the issue in detail, Patagonia discovered that formaldehyde in clothing could create adverse reactions for customers, including cancers and other illnesses. In response, the company investigated the environmental impact of the materials in their clothing. Based on their findings, they initiated a switch to organic cotton that was not readily available. Working with suppliers in the United States and later internationally, Patagonia was able to secure a greater supply of organic cotton that is free from the harmful chemicals that can affect customers and employees as well as the environment. These types of situations have shown that being a responsible company entails focusing on a broad range of stakeholders and provides for a viable and sustainable business.

Patagonia has since become a leader in social responsibility. In their book, *The Responsible Company* (2012), Chouinard and Vincent Stanley, the company's chief storyteller and editor of the Footprint Chronicles (the company's website that provides transparency to the public by showing the social and environmental impact of Patagonia products), share five elements of business responsibility as a model for other companies. These are responsibilities to:

1. The health of the business, including the obligation of a company to stay financially viable.
2. The workers, including caring for the people who make and sell its products.
3. Customers, focusing on the value of the products and services that satisfy the customers through truthful and honest relationships.
4. The community, which incorporates the varied interests of the neighborhoods and cities where they conduct business, including the virtual community of blogs and social media.
5. Nature, by recognizing that our economy depends on nature and the resources that it provides. The authors call on businesses to be more humble and learn to live on the planet without destroying it.

A major theme in the responsibility strategy of Patagonia is to do no harm, which is based on ethical and responsible business practices.

What is the difference between business ethics and corporate social responsibility (CSR)? One major distinction is that the primary goal of business ethics programs is to prevent harm, whereas the objective of CSR initiatives is to do good. Societal expectations are evolving for ethical and responsible businesses. A poll on corporate social responsibility of over 25,000 people in 23 countries shows that making a profit and obeying laws is not enough (Enviro-nics International Ltd., 1999). In most of the countries polled, the majority of citizens expected that companies also exhibit higher ethical standards and improve society. As we see in the Patagonia example, responsible businesses strive to create positive impacts while avoiding harm.

An ethical business goes beyond compliance and recognizes the responsibilities to both internal and external stakeholders. Responsible companies require “leaders who care, who are morally conscious, open towards the diversity of stakeholders inside and outside the corporation and who are aware of and understand the responsibilities of business in society” (Pless, 2007, p. 438). A global survey in 2008 found that 76% of chief executive officers (CEOs) and senior executives believe it is important for senior executives to be able to respond to social issues that their businesses could address, such as natural resource scarcity, poverty, corruption, and human rights violations (Gitsham, 2009). However, fewer than 8% feel that either their organization or business schools develop the knowledge and skills to manage such social responsibility initiatives. Executives surveyed in a 2010 study expect that employees will be tasked with “doing their jobs in a different way, being mindful of their impact on energy and environment” (Deloitte, 2010, p. 16).

This chapter examines the social responsibility of business and the role of ethics in responsible business. We will begin by discussing the different strategic approaches available to responsible companies. Next, industry examples will demonstrate the value of strategic corporate social responsibility by outlining five outcomes that increase competitiveness and foster growth. The chapter concludes with recommendations for meeting ethical and responsible obligations from a stakeholder perspective.

2.1 Foundations of Corporate Social Responsibility

Corporate social responsibility can encompass a variety of different activities, which may be described as good neighborliness or good citizenship. Socially responsive firms actively seek to do no harm, for example by providing a safe working environment or adopting clean production processes. Corporate social responsibility also obliges companies to create initiatives for solving broad social problems such as urban decay, substance abuse, and poverty. There is no consensus on a single definition of corporate social responsibility. Modern perceptions of corporate social responsibility have evolved from initially focusing on individual manager responsibility for social consequences of actions in the 1950s to a firm’s responsibility to multiple stakeholders today. Regardless, a socially responsive firm monitors and assesses environmental conditions, attends to stakeholder demands, and designs policies to respond to changing conditions (Ackerman, 1975).

Social Responsibility and Ethics

The premise of corporate social responsibility is the ethical duty of businesses to accept responsibility for the consequences of their actions beyond financial performance. Howard Bowen's 1953 book *Social Responsibilities of the Businessman* describes social responsibility as "the obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 60). According to DiMaggio and Powell (1983), companies operate within a social framework of norms, values, and assumptions about what constitutes acceptable behavior, and they fear losing the freedom to conduct business independently if they are found to be unresponsive to social pressures for responsible business. If powerful stakeholders in society do not accept a company's actions, they may increase regulation or revoke a company's legitimacy to conduct business. For example, Canadian mining companies have been under mounting pressure from African countries to address negative social and environmental impacts and human rights violations (Campbell, 2008). The companies could lose public support for mining operations within the region if they do not comply with international standards.

A business's relationship with societal expectations is a **social contract**, or a basic agreement that defines the broad duties of a business required to retain society's support. Laws and regulations express the formal part of this contract. The tacit part of the social contract encompasses stakeholders' expectations based on their values and norms. Through legal or stakeholder action, companies recognize that violations can seriously harm the reputation and financial well-being of their businesses. Therefore, one view of social responsibility is primarily a risk management strategy.

Since there is no consensus on how corporate social responsibility guides firm behavior, there are many terms to describe company initiatives for meeting societal expectations: corporate responsibility, corporate citizenship, sustainability, strategic philanthropy, and creating shared value. Regardless of the terminology, companies adopting a responsible approach to business tend to stress ethical behavior and responsiveness to multiple stakeholders. Three common approaches to corporate social responsibility are based on obligations, citizenship, and sustainability.

Social Responsibility as Obligation

Many companies view corporate social responsibility as the obligation to meet society's economic, legal, ethical, and discretionary expectations for the organization (see Figure 2.1). The economic and legal components refer to a business's obligation to produce goods and services at a profit while obeying laws. Economic and legal obligations are an inherent part of corporate responsibility, as businesses contribute to social welfare in the form of jobs, products, and innovation. The ethical component refers to the behaviors and norms that a society expects, and the discretionary component encompasses voluntary and philanthropic activities of contributions of money, time, and talent. Consensus is lacking on the degree of responsibility that businesses have for each of the components and often varies worldwide.

Figure 2.1: Pyramid of social responsibility

The economic, legal, ethical, and philanthropic obligations that a business must meet are viewed as corporate social responsibility.



Source: Adapted from *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders*, by A. B. Carroll, 1991, *Business Horizons*, 34(4), p. 42.

A company's economic responsibilities relate to profits realized in the production of goods and services. A business needs to be financially viable in order to employ workers, pay taxes, and award dividends to investors. The fulfillment of economic obligations of a business is the basis for the company's annual reports for the shareholders. For example, the annual report for Harley-Davidson Inc. begins with a letter to shareholders highlighting revenue, sales growth, and market share (Harley-Davidson, 2012). Economic obligations can focus on internal stakeholders, such as the company's responsibility to create shareholder value, or external stakeholders, such as providing products for consumers, creating employment, and stimulating an industry (Chabowski, Mena, & Gonzalez-Padron, 2011).

Legal responsibilities entail a company's obligations to obey local, regional, national, or international laws. Regulations seek to create a fair and competitive environment for businesses, safeguard natural resources, protect consumers, and ensure safe workplaces. Consequences for not meeting legal obligations include fines, imprisonment of company executives, and revoking of business permits. Companies have legal obligations toward many stakeholders. Compliance with regulations includes protecting employees through a safe workplace free of harassment and fair compensation. Legal obligations to customers require companies to meet product safety requirements, pricing policies, and advertising regulations. Regulations enforcing accurate financial records and reporting protect company investors. Environmental laws protect natural resources.

Companies have ethical obligations beyond those required by law. Ethical responsibilities include concern for employees by creating a fair and equitable work culture. Ethical norms that guide the business's responsibility for ethical behavior can change as new issues emerge. Shifting political and economic environments can also influence a business's ethical obligations. For example, Chinese executives consider ethical obligations to include safeguarding social order and creating a harmonious society; these obligations come from the Chinese government's emphasis on socially responsible businesses (Gonzalez-Padron, Fan, & Zhou, 2014).

Discretionary responsibilities often include voluntary and charitable activities that benefit others and derive from society's expectations to contribute to the well-being of the community. Voluntary programs such as on-site child care, fitness and wellness services, and company picnics improve the quality of employees' work-life balance. Some companies refer to discretionary activities toward external stakeholders as philanthropic responsibilities. Philanthropic activities include donations of money or talents to charities, employee volunteer programs for community projects, cause-related marketing, and collaborations with non-profit organizations to address social issues.

Social Responsibility as Corporate Citizenship

Corporate citizenship refers to a managerial approach to commit to responsible business policies and practices with a strategic focus on serving communities. Business managers use the term corporate citizenship interchangeably with corporate social responsibility with two distinctions. First, corporate citizenship primarily describes organizational initiatives that are not required by law, which support local communities (Gardberg & Fombrun, 2006). These activities often relate to philanthropic initiatives such as corporate volunteerism, charitable contributions, support for community education and healthcare initiatives, and programs to improve the environment.

These ideals are often reflected in corporate citizenship statements, such as that of The Boeing Company: "The enduring strength of our business depends on healthy and vibrant communities. Giving back to communities is important to our employees and a core value of The Boeing Company" (Boeing, 2012, p. 2); and Microsoft: "Our citizenship mission is to serve globally the needs of communities and fulfill our responsibilities to the public" (Microsoft, 2013, p. 4).

Second, many company statements of corporate citizenship refer to business conduct, ethical standards, and responsible business practices (Matten & Crane, 2005).

Headquartered in Geneva, Switzerland, the World Economic Forum is an international institution that strives to improve the state of the world by engaging business, political, academic, and other leaders of society to address responses to economic, social, and political changes (World Economic Forum, 2014a). It offers the Framework for Action for organizations that strive to exemplify global corporate citizenship:

- A. PROVIDE LEADERSHIP: Set the strategic direction for corporate citizenship in your company and engage in the wider debate on globalization and the role of business in development.
 - (i.) Articulate purpose, principles, and values internally and externally
 - (ii.) Promote the business case internally

- (iii.) Engage the financial sector
 - (iv.) Enter the debate on globalization and the role of business in development
- B. DEFINE WHAT IT MEANS FOR YOUR COMPANY: Define the key issues, stakeholders and spheres of influence that are relevant for corporate citizenship in your company and industry.
- (i.) Define the issues
 - (ii.) Agree on company's spheres of influence
 - (iii.) Identify key stakeholders
- C. MAKE IT HAPPEN: Establish and implement appropriate policies and procedures, and engage in dialogue and partnership with key stakeholders to embed corporate citizenship into the company's strategy and operations.
- (i.) Put corporate citizenship on the board agenda
 - (ii.) Establish internal performance, communication, incentive and measurement systems
 - (iii.) Engage in dialogue and partnership
 - (iv.) Encourage innovation and creativity
 - (v.) Build the next generation of business leaders
- D. BE TRANSPARENT ABOUT IT: Build confidence by communicating consistently with different stakeholders about the company's principles, policies and practices in a transparent manner, within the bounds of commercial confidentiality.
- (i.) Agree what and how to measure
 - (ii.) Develop a graduated programme for external reporting
 - (iii.) Be realistic about what is possible in a given timeframe and when building expectations (World Economic Forum, 2002/2013, p. 6)

The Center for Corporate Citizenship at Boston College publishes a Corporate Social Responsibility Index that ranks companies based on public perceptions of their citizenship, governance, and workplace culture (Boston College Center for Corporate Citizenship, 2011). The citizenship dimension relates to how the company contributes positively to its surrounding community in a socially and environmentally responsible fashion. **Governance** refers to the degree that the company manages its business fairly and transparently with high ethical business standards. The workplace dimension focuses on fair treatment of employees through wages and training. Table 2.1 lists the top 20 companies ranked by Boston College's Corporate Social Responsibility Index in 2011.

Table 2.1: Boston College Center for Corporate Citizenship's Top 20 Ranked Companies

Rank	Company	Corporate Social Responsibility Index (CSRI)
1	Publix Super Markets Inc.	80.59
2	Google	77.10

(continued)

Table 2.1: Boston College Center for Corporate Citizenship's Top 20 Ranked Companies (*continued*)

Rank	Company	Corporate Social Responsibility Index (CSRI)
3	UPS	76.16
4	Kellogg's	76.16
5	Amazon.com	75.93
6	Berkshire Hathaway	75.78
7	FedEx	75.73
8	Campbell Soup Company	75.40
9	Baxter International	75.18
10	3M	75.03
11	Johnson & Johnson	74.49
12	The Walt Disney Company	74.35
13	Coca-Cola Bottlers	74.14
14	Hershey Company	74.06
15	Texas Instruments	74.05
16	Green Mountain Coffee Roasters	73.89
17	Clorox	73.88
18	Microsoft	73.87
19	Caterpillar	73.70
20	Harris Bank	73.61

Source: Boston College Center for Corporate Citizenship, 2014, retrieved from www.BCCorporateCitizenship.org.

Social Responsibility as Sustainability

In recent decades, it has become increasingly common for businesses to frame their social responsibilities in terms of sustainability. The concept of sustainability reflects the recognition of the finite limits of nature, propagating the need for businesses to optimize the economic, environmental, and social components of society. Because of environmental issues of the 1980s, such as the 1984 Bhopal chemical release and droughts in Africa, the United Nations formed the Brundtland Commission to recommend solutions to the decline in global natural resources. Their report, "Our Common Future," highlights that "economic and ecology can interact destructively" and calls for businesses, governments, and nonprofits to consider sustainable development, or "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987, p. 43). In response, companies have begun adopting sustainable business practices to look beyond financial profit and consider its impact on social, economic, and ecological resources of the community. Read *Business Best: Blue Star Recyclers* for an example of a company with a strategic focus on sustainable business.

Business Best: Blue Star Recyclers

Blue Star Recyclers of Colorado Springs competes in an electronics recycling industry that reclaims components or usable materials from used electronic products. In the United States, the electronics recycling industry generates more than \$5 billion in revenue and employs approximately 30,000 to 45,000 people (2010 estimates) (Daoud, 2011). Electronic recyclers prevent the toxic substances in televisions, computers, computer peripherals, facsimile machines, DVD players, and videocassette recorders from contaminating landfills.

Blue Star Recyclers provides electronic waste (e-waste) pickup and hard drive/data destruction services to over 400 businesses, organizations, and government entities in Colorado. It collects nearly 40% of e-waste from residential sources, which is much higher than the industry average of 25% (Daoud, 2011). To encourage residents to recycle, Blue Star Recyclers has established seven drop-off locations in southern Colorado where residents can recycle their e-waste conveniently. The business claims to have ethically recycled over 5 million pounds of e-waste since 2009.

The company's mission is to recycle electronics and other materials and create local jobs for people with autism and other disabilities. Blue Star Recyclers has 17 employees: six in management and office positions, and 11 workers with disabilities. The company has reported zero turnover, zero accidents, zero theft, and minimal employee absences amongst its workforce with disabilities. Prior to finding employment at Blue Star Recyclers, all of the workers with developmental disabilities were unemployed and spent their time participating in day programs paid for by the state. By creating a vocational path for people with developmental disabilities, the company saves taxpayers and the government approximately \$100,000 per year in Social Security benefits.

Blue Star Recyclers donates hundreds of hours of service to supporting the community, advocating for their workforce, and creating government relations to help support both their recycling and job creation effort. The Colorado Association for Recycling recognized Blue Star Recyclers with the Outstanding Outreach Award for 2012. As a result, the company continues to grow.

Questions to Consider

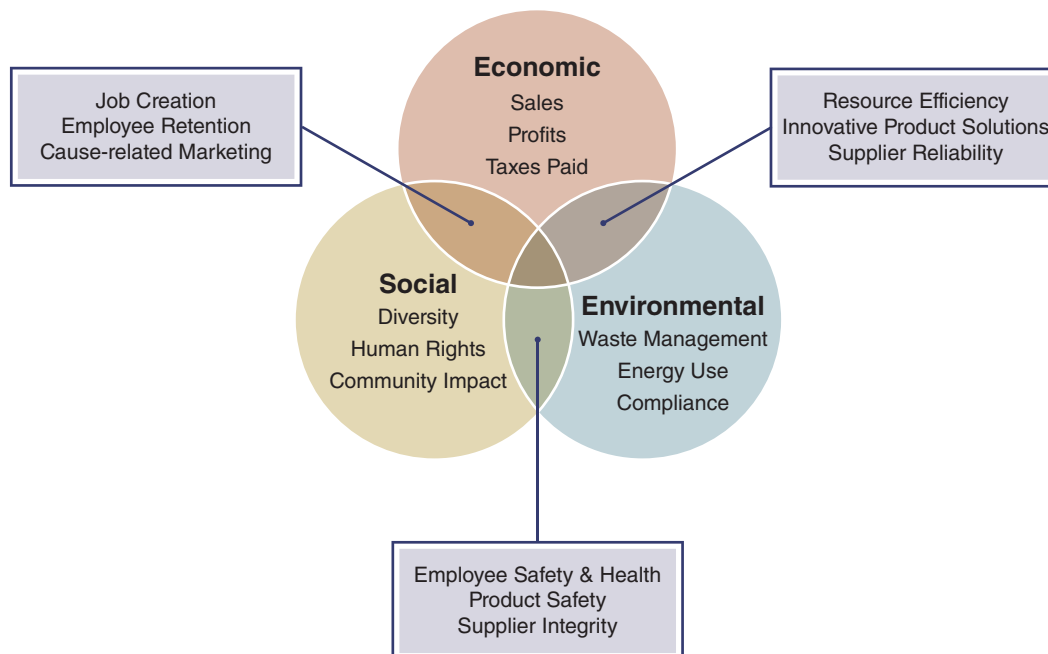
1. How does the business model of Blue Star Recyclers incorporate economic, environmental, and social dimensions of a sustainable business?
2. How might the employees with disabilities benefit from these employment opportunities?
3. How do you think the company has been able to achieve such exceptional outcomes?
4. Evaluate Blue Star Recyclers against the five elements of a responsible company established by Patagonia's leadership. Would Blue Star Recyclers be considered a responsible company?

Sustainable companies view their responsibilities through a triple bottom line, which incorporates economic, environmental, and social dimensions in reporting performance (see Figure 2.2) (Elkington, 1998). Each of the dimensions includes responsibilities to company stakeholders. The economic dimension represents the financial impact of the organization in the economic viability of the surrounding community through the sales of products and services, profits paid to investors or reinvested into the firm, and taxes paid. The environmental dimension centers on the company stewardship of natural resources and includes reducing

waste that ends up in landfills and pollutes waterways, reducing energy use and carbon emissions, and complying with environmental regulations. Finally, the social dimension focuses on the influence the company has on people and includes encouraging an inclusive approach to employees, customers, and suppliers; respecting the human dignity of the workforce; and supporting community projects for addressing social issues.

Figure 2.2: Triple bottom line dimensions

Economic, environmental, and social dimensions make up the triple bottom line of sustainable companies; companies can achieve the greatest competitive advantage at the points where the dimensions overlap.



Companies can achieve the greatest competitive advantage in the areas where the dimensions overlap (Gonzalez-Padron, 2013). Companies that meet responsibilities in the economic and social dimensions create wealth for communities and meet its responsibilities to employees and customers. Activities that contribute to solutions of social issues include creating jobs, employee development programs, and marketing campaigns. Companies collaborate with nonprofit organizations to address social issues for which they have no special competence. For example, Procter and Gamble Co. partners with UNICEF to combat fatal maternal and neonatal tetanus by donating the cost of one tetanus vaccine for every purchase of specially-marked Pampers diapers and wipes. The program also offers employees a three-month paid sabbatical to volunteer with UNICEF, increasing employee commitment and retention while providing valuable knowledge to a nonprofit organization.

At the intersection of the environmental and economic dimensions of the triple bottom line, organizations realize savings from greater resource efficiency, lower regulatory costs, and revenue from innovative energy efficient products. Programs may involve changes that are as simple as turning off computers nightly and using motion detectors to turn off

lights in offices. The chemical company Ecolab reduced material and waste disposal costs by \$320,000 annually by reusing product scraps and saved \$260,000 annually by better controlling chemical use in production. Hewlett-Packard developed an innovative soldering process that eliminated lead well before a 2006 European Union's Restriction of Hazardous Substances Directive regulating the use of lead in electronics products. Procter and Gamble offers cold-water specialty detergents to address the energy costs of heating water for laundry (Nidumolu, Prahalad, & Rangaswami, 2009).

Finally, at the intersection of social environmental dimensions, companies focus on stakeholder groups of employees, customers, and suppliers. Employee health and safety is at risk when toxic materials are present in product manufacturing. The community can experience detrimental effects from chemical use from production and product disposal. Residents worry about clean drinking water in areas where manufacturing facilities discharge wastes into the ground. Energy companies struggle to provide society with fuel while minimizing environmental damage. Natural gas as an energy source is extracted through the process of hydraulic fracturing, also known as fracking, which involves injecting pressurized liquid into the earth to break up shale and release the gas contained within. However, residents near fracking sites express concerns about the impact on the community's water and air quality (Gold, 2013; "Public express concerns over fracking in their communities," 2014; "Water industry sets out concerns over fracking," 2013). An Internet search yields many videos of people who live near fracking sites lighting the water running out of their faucets on fire. There may be some truth to the concerns. A 2013 study of the drinking water wells in an area of hydraulic fracking in northeastern Pennsylvania found that methane was present in 82% of the water, with concentrations six times higher for homes within one kilometer of the gas wells (Jackson et al., 2013).

Customers care about the responsiveness of a company's supply chain to social and environmental responsibility. Apple Inc. customers became concerned when reports of 137 workers at a Chinese supplier sustained injuries from a toxic chemical used in making the slick glass screens of the iPhone (Barboza, 2011). When Mattel, Inc. discovered unapproved leaded paint in its supply chain, the company recalled over 2 million toys from customers in 2007 (Becker, Edwards, & Massey, 2010). In reaction to parental concern over the safety for their children, Walmart set strict product safety requirements for its toy suppliers that went beyond regulations for lead and other chemical content in toys (Pereira & Stecklow, 2008). As a result of Walmart's stringent criteria, other retailers will be able to access a safe and reliable supply of toys.

Customer safety is a concern for companies as health risks such as cancers, developmental disorders, and obesity are linked to chemical exposures from household, personal care, and food products. Companies have to redesign products to remove banned toxins from their production, while consumers are becoming more educated on the dangers of continuous exposure to the accepted levels of chemicals in daily product use. Consumers cannot rely on industry regulations alone to feel secure about the products they purchase; they must sort through the myriad claims of natural, healthy, and organic product features on labels. There are no regulations on what the term *natural* means on product labels. For example, Kraft Foods Group, Inc. markets a natural lemonade flavor of Crystal Light, a low-calorie drink mix. The consumer advocacy group, Center for Science in the Public Interest (CSPI) has threatened a lawsuit if Kraft Foods continues claiming natural flavor. According to the CSPI, "the products contain several decidedly unnatural ingredients, including the artificial sweeteners

aspartame and acesulfame-potassium, artificial colors such as Red 40, Yellow 5, and Blue 1, the factory-produced texturizer maltodextrin, and the controversial synthetic preservative butylated hydroxyanisole, or BHA” (Center for Science in the Public Interest, 2014, para. 4).

To help customers recognize legitimate natural products, companies may seek certification by third-party associations such as the Natural Products Association (NPA). This nonprofit organization offers certifications for natural ingredients in foods, dietary supplements, home care products, and health/beauty aids. Certification allows product labels to include the recognized NPA Natural Seal so that consumers have confidence that marketing claims are legitimate. Standards focus on four dimensions—natural ingredients, safety, responsibility, and sustainability:

1. **Natural Ingredients:** A product labeled ‘natural’ should be made up of only, or at least almost only, natural ingredients and be manufactured with appropriate processes.
2. **Safety:** A product labeled ‘natural’ should avoid any ingredient that has peer-reviewed, scientific research showing human health or environmental risk.
3. **Responsibility:** A product labeled ‘natural’ should use no animal testing in its development except where required by law.
4. **Sustainability:** A product labeled ‘natural’ should use biodegradable ingredients and the most environmentally sensitive packaging. (Natural Products Association, n.d., para. 4–7)

Strategic Philanthropy

Businesses and organizations that stress philanthropy and charity as part of their approach to social responsibility go beyond economic and legal obligations. The focus of this approach is on activities unrelated to the core business, such as donations or encouraging employee engagement in volunteer work. **Strategic philanthropy** combines a company’s business mission with its charitable mission by linking social initiatives that support commercial objectives. Companies that adopt a strategic view of their philanthropic activities use their organization’s core competencies and resources to address broader social, customer, employee, and supplier problems and needs. Strategic philanthropy includes monetary donations, employee volunteerism, and sharing of specialized talent with a nonprofit organization.

Addressing Social Issues

Companies that engage in strategic philanthropy will often select a social issue that resonates with stakeholders and then initiate a relationship with a reputable nonprofit organization connected to that issue. For example, the pharmaceutical leader, Merck & Co., Inc. uses its expertise in developing and producing drugs to eliminate river blindness, one of the leading causes of preventable blindness worldwide. For the past 25 years, Merck has donated millions of doses to poor countries where river blindness is most prevalent (Merck, 2012). The benefits accrue to both the company and beneficiary organizations. The charitable activities generate greater customer recognition that increases the company’s reputation as a responsible

business. The nonprofit organization gains a higher level of awareness for its cause that creates incremental support by the community.

Many companies support Junior Achievement, a nonprofit organization that teaches K-12 students about entrepreneurship, workforce readiness, and financial literacy by sponsoring business education in classrooms. Participation includes financial support for class materials and providing an employee as the instructor. The company benefits from involvement in the community, providing employees an opportunity to share their business experiences, and increasing the future labor force's understanding of business concepts.

Some companies create their own charitable initiative to address a social issue related to their industry. In 2009, AT&T Inc. began a campaign to deter text messaging while driving that receives support from consumer safety organizations, law enforcement, educators, national retailers, regulatory agencies, and legislators. Since then, three other wireless service providers joined the initiative. The program includes voluntary commitments to avoid text messaging while driving, education programs, mobile applications for blocking text messages if driving, and employee involvement in spreading the message to customers.

Cause Marketing

Cause marketing is a form of strategic philanthropy in which charitable contributions are based on purchases of a product. It entails forming an alliance with a nonprofit charity in an effort to raise funds and awareness for the cause while building sales and awareness of the company. This type of strategic philanthropy ties an organization's product(s) directly to a social concern. Communications include the company's commitment to the cause, which enhances the image that the customer has of the brand. A cause-related marketing campaign may affect consumer attitude toward the product, purchasing behavior, and customer loyalty. Offers tied to a particular product or charity may occur for a specific period of time or become an integral part of the product or brand. For example, Newman's Own donates all profits from the sale of products to charity. TOMS donates a pair of shoes for each pair purchased. The success of the TOMS's business model prompted the company to offer eyewear in 2011. For every purchase of sunglasses, the company is able to restore the sight of visually impaired individuals through prescription glasses, surgery, and medical treatments.

Customers must be willing to purchase the specified products of a cause-related marketing campaign to meet company and nonprofit financial expectations. Therefore, companies strive to understand customer motivations for paying more for a product or service to contribute to a social cause. Cause marketing offers appear to work best for luxury goods, for which donating to a well-known charitable cause may help offset consumers' feelings of guilt associated with the purchase (Boenigk & Schuchardt, 2013). The social issue must also resonate with the target consumer.

According to the International Agency for Research on Cancer (2012), the specialized cancer agency of the World Health Organization, breast cancer is the most common cancer in women worldwide, with an estimation of more than 1.7 million new cases occurring among women worldwide in a year. One customer from the United Kingdom expressed support for this cause-related marketing campaign by donating to breast cancer research and saying:

. . . . it is primarily due to the fact that my mum supports it and also because it is a cause which I am interested in. Because being a woman, I feel that a cause such as Breast Cancer does interest women in particular because so many of us are affected by it. (Broderick, Jogi, & Garry, 2003, p. 594)

In the United States, General Mills, Inc. sponsors a campaign for consumers to help in the fight against breast cancer when purchasing products such as Yoplait, Cheerios, Cinnamon Toast Crunch, Nature Valley, Green Giant, Betty Crocker, and Pillsbury. Since women are the primary purchasers of household groceries, the cure for this disease prompts consumers to participate in this cause-related marketing campaign.

Consumers support cause-related marketing offers depending on the geographic scope of the issue or campaign. Studies show that customers are more likely to support organizations or causes that have local or regional benefits, but consider programs that have an international reach to be more impressive (Grau & Folse, 2007; Vanhamme, Lindgreen, Reast, & Popering, 2012). Short-term initiatives that provide local disaster relief can also generate positive reputational and brand loyalty effects. Denver-based Frontier Airlines donated a portion of its buy-on-board sales over four months to help people affected by the Colorado wildfires in 2013 (Frontier Airlines, 2013).

Some companies affiliate their products with a social issue that is not local nor a natural disaster by supporting co-branding programs like (RED) (Ponte, Richey, & Baab, 2009). (RED) is a nonprofit organization that encourages companies to donate a portion of the profits of specified products to a fund that strives to eradicate HIV/AIDS from African nations where the disease is most prevalent. Companies that participate in the (RED) program include Apple, Starbucks Corporation, Coca-Cola, SAP AG, Shazam, The Girl Skateboard Co. Inc., Nanda Home, Fatboy USA, and Bed Bath & Beyond. For example, Apple offers a (PRODUCT)RED iPhone 5s leather case that retails for \$39. The company prominently displays that the portion of the purchase price donated to the Global Fund to fight AIDS provides for 7.5 days of life-saving pills.

Creating Shared Value

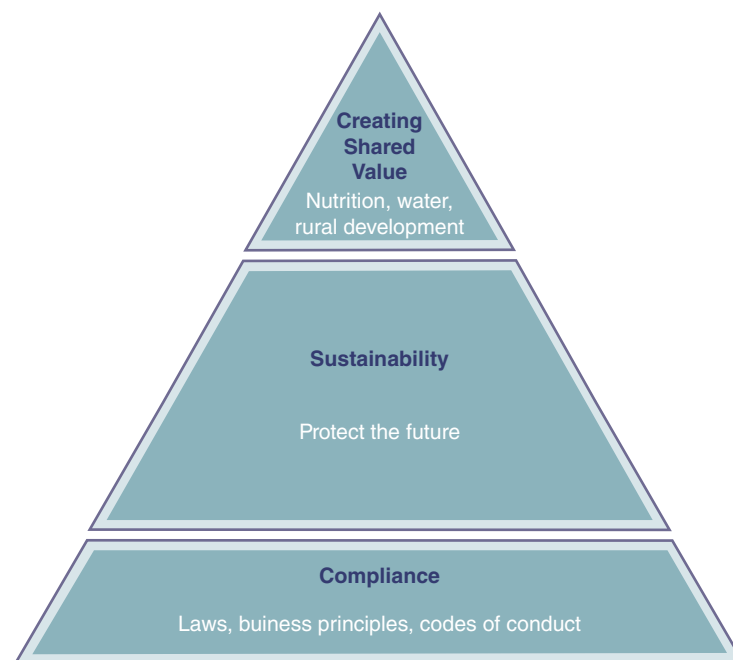
The concept of **shared value** combines social responsibilities with the profit-making motive of business. Creating shared value resonates with companies rather than obligatory or philanthropic views of corporate social responsibility. Porter and Kramer (2011) promote creating shared value in recognition of the close interdependence of a healthy economy and the competitiveness of a company. Companies that publish shared value reports include Nestlé, De Beers, and Novo Nordisk A/S.

Shared value reports differ from corporate social responsibility reports. Reports on shared value expand on company sustainability reports that focus on business impacts to the environment, economy, and society, while corporate social responsibility reports focus on compliance and meeting obligations. In its 2013 Shared Value Report, the electric and gas provider Avista Corp. summarized the shared value approach best: “In our report, we shift to a new perspective that demonstrates how our strategic business interests, including philanthropy and community involvement, create the opportunity to bring value to our stakeholders—shared value” (Avista, 2013, p. 3).

As depicted in Figure 2.3, Nestlé structures its social responsibility initiatives with a shared value approach, building on the foundations of sustainability and compliance.

Figure 2.3: Nestlé in society

For Nestlé, creating shared value builds on compliance and sustainability to mitigate business risks, protect company reputation, and reduce costs. Nestlé creates shared value in three areas: nutrition, water, and rural development.



Source: Reprinted with permission from Nestlé. *Nestlé in society: Creating shared value and meeting our commitments 2012.*

Global Perspectives of Social Responsibility

The Economist article “Going Global” (2008) highlights the necessity for multinational corporations to balance the needs and expectations of local communities in developing a business strategy in other countries. The article references a survey in which executives in five countries outlined the issues they expected to be of particular importance to their communities over the course of five years.

The top five important global issues ranked by executives from the United States, Britain, Germany, China, and Brazil for the years 2009 to 2014 included the environment, safer products, retirement benefits, healthcare benefits, and affordable products. However, rankings varied by country; for example, human rights issues were in the top five only for Brazil and job losses from outsourcing were a concern mainly for the United States and Germany.

Global companies recognize that not all countries view corporate social responsibility in the same way. In most Anglo countries such as those in Western Europe, Australia, and the United States, businesses recognize corporate social responsibility as a distinct concept. However, in some regions of the world, treating CSR as a separate strategy is an unfamiliar concept to business leadership because prioritizing the needs of society is already inherent in commerce.

Based on Confucianism values, Japanese managers have a strong sense of the spirit of social responsibility as a way of doing business (*shobaido*). In interviews of Japanese executives, one study found that

CSR is understood to describe those corporate principles or policies [keieirin] which have long been influencing corporate activities. Japanese managers describe the principles as “to put utmost priority on respecting human dignity, safety, and legal compliance,” and “to contribute to society via our business or *mono zukuri* [making things].” (Fukukawa & Teramoto, 2009, p. 138).

Adopting universal norms such as human rights may conflict with ingrained Confucianism beliefs of collectivism, paternalism, and harmony, all of which stress organizational welfare over individual achievements (Ip, 2009).

The business responsibilities to engage in charity and philanthropy are viewed differently across economic systems and cultural dimensions such as ethnicity and religion. Whether managers view the profit motive as the primary role of business can influence their views of the social responsibility of their company. The level of charitable donations for disaster relief by Asian firms varies significantly from that of European or U.S. firms (Muller & Whiteman, 2009). One study found that managers from Singapore and Malaysia, particularly the Malay Muslims, are more oriented toward profit than other business priorities such as employee and environmental welfare (Yong, 2008). Chinese companies expect the government, rather than businesses, to address social and environmental issues, a sentiment reinforced by the Chinese government’s “unwillingness to provide tax incentives for companies’ charitable actions” (Lam, 2009, p. 143). In one study, Chinese managers of subsidiaries of multinational corporations perceived that “the responsibility of enterprises was to pay taxes, follow laws, provide employment, and develop capital for future growth” (Lam, 2009, p. 139). Finland has a strong social system dating from the 19th century when improving living conditions became the responsibility of the state and municipalities. Therefore, Finnish executives have said, “charitable work is neither necessary nor even appropriate for companies paying taxes and fulfilling their obligations to society” (Elisa, 2004, p. 20).

Countries experiencing a transition from a planned economy (e.g., communism) to a free market have ambiguous views of ethics and social responsibility. An extensive survey of Hungarian managers found that more than half of the participants felt that business ethics and social

responsibility are not as much of a concern as company survival. One respondent stated: “. . . if others did not take [corporate social responsibility] into consideration, then we would do the same and not put ethics very high” (Fulop & Hisrich, 2000, p. 12). A later study of the Central Eastern European countries revealed that the majority of residents consider the profit motive of business to be less ethical than residents in the United States do, yet have a more positive outlook of ethical business than a similar sample in the United States (Padelford & White, 2010). One explanation may be that publicized ethical lapses of companies in the United States have generated a cynicism of business in the American public.

To address the global challenges of ethics and responsibility, companies can find many opportunities to help communities through a global corporate citizenship strategy. For companies that intend to conduct business responsibly within the international marketplace, Logsdon and Wood (2002) recommend the following steps:

1. Embed a set of fundamental values that reflect universal ethical standards in the corporate code of conduct and in corporate policies;
2. Encourage thoughtful awareness throughout the organization regarding where the code and policies fit well and where they might not align with stakeholder expectations;
3. Analyze and experiment to deal with problem cases; and
4. Establish systematic learning processes to communicate the results of implementation and experiments internally and externally.

A company should consider the social responsibility approach that fits with their organizational culture, mission, and goals. Industry leaders have shifted from focusing solely on charitable activities and are incorporating their social responsibility approach with company strategy. Strategic corporate social responsibility connects the company’s business objectives with its social initiatives, thereby generating benefits for both the company and society. The next section will take a closer look at the competitive advantage that strategic social responsibility can bring to a company.

2.2 The Advantages of Social Responsibility

A company that prioritizes social responsibility in its business strategies fosters both competitiveness and growth (see Table 2.2 for industry examples for each category). Social responsibility can strengthen company competitiveness by enhancing its position in the industry through developing a talented workforce, achieving a reliable supply of high-quality materials for production, and facilitating rules and incentives that govern competition. Second, socially responsible companies foster growth by increasing innovation through new products and services, and providing access to new market segments and increasing demand for products and services (Gonzalez-Padron & Nason, 2009; Porter & Kramer, 2006).

Table 2.2: Competitive advantages of social responsibility

Outcomes		Examples	
Competitive Environment	Talented workforce	Develop skilled labor pool Reduce costs generated by employee attraction and turnover	Honeywell partners with the National Aeronautics and Space Administration (NASA) in a middle school science education program to promote future supply of scientists, engineers, and technologists Apache Footwear reduced labor turnover by building one-story, red-brick buildings for staff, organizing Saturday night movies and dances, and hiring its employees' relatives
	Reliable supply chain	Secure consistent, long-term, and sustainable access to safe, high-quality raw materials and products	Pepsi shares its expertise about potato farming under desert conditions with the Chinese Ministry of Agriculture to ensure materials for snack foods marketed in China
	Favorable rules and incentives	Reduce costs and regulations within the industry Reduce local resistance to entry in new markets	General Electric, Cinergy, and Bechtel developed solutions to reduce coal emissions in energy plants, meeting environmental regulations and at a lower cost than traditional practices Altria Group works with governments to secure fair excise tax structures in many of its key markets
Growth	New product and services innovation	Create products to reach unmet social needs and increase differentiation Develop cutting edge technology for unmet social or environmental needs	Heinz partners with advisory groups from around the world to guide development of healthier foods meeting diverse dietary needs Ecolab developed a new washing process for hotel and healthcare laundries using an innovative process to conserve energy and water
	New markets and customers	Gain access to new markets Increase demand through education and infrastructure development	Hindustan Unilever Ltd. is improving health conditions in rural India through its education programs on hygiene while creating demand for soap products Cisco, Hewlett-Packard, and Nokia Oyj are partner organizations in the United Nations Information and Communication Technologies Task Force to encourage universal access to information technology

Source: *Social Responsibility as a Strategy*, by T. L. Gonzalez-Padron, 2011, in B. Keillor and T. Wilkinson (Eds.), *International Business in the 21st Century (Vol. 3)*, pp. 117–147.

Socially responsible companies also achieve a sustainable competitive advantage by implementing differentiating strategies that other firms cannot duplicate (Barney, 1991). Socially responsive strategies may be difficult for competitors to imitate for three reasons. First, corporate responsiveness policies develop over a period of years, creating a reputational advantage. Second, the mechanisms by which the corporate responsiveness policies interact to generate value can be complex. Third, competitors would have difficulty replicating social aspects such as company culture and interpersonal relationships that contribute to social responsiveness. Each of these advantages will be explored in the sections that follow.

Competitiveness

Business organizations with a strategic approach to social responsibility can enhance their competitiveness within an industry through attention to employees, suppliers, and regulatory stakeholders. First, companies with an integrated social responsibility program are more likely to attract, develop, and inspire a talented workforce. Second, focusing on the supply chain can provide for a reliable supply of products and raw materials for production. Third, the competitive environment can change through facilitating favorable rules and regulations within the industry.

Talented Workforce

A talented workforce gives a company an advantage that competitors may not easily replicate. Patagonia stresses that employee commitment and productivity comes from a feeling of making a difference and doing the right thing (Chouinard & Stanley, 2012). Volunteer programs help employees make a difference by sharing their expertise to improve the world. Patagonia offers various volunteer programs for employees to support global environmental work. Employees of International Business Machines Corporation (IBM) have opportunities to engage in solving social problems in emerging and developing markets. IBM feels that the program benefits employees by enhancing their global leadership skills that help communities and the company (Guamieri & Kao, 2008).

Companies that engage in education projects that benefit society can create a talent pool for their industry. Honeywell International, Inc. sponsors a middle school science program in the United States with the National Aeronautics and Space Administration (NASA) in order to encourage children to pursue careers in science, engineering, and technology. Hewlett-Packard supports technology centers at 12 Russian universities to focus on building practical information technology-related business skills, with top performers hired as interns at the company's labs.

Attracting and keeping employees is a time-consuming and expensive process for businesses. Companies can spend up to 150% of an employee's salary to search and select a replacement for a vacant position (Palanski, Avey, & Jiraporn, 2014). Turnover is lower when employees perceive a company to be ethical and responsible (Stewart, Volpone, Avery, & McKay, 2011). In China, migrants from rural areas provide much of the factory labor. However, as the demand for labor has increased, the number of workers willing to work for low wages and crowded living conditions has declined. In response to the 10% employee turnover rate in their Chinese

manufacturing locations, Apache Footwear India Pvt. Ltd. offers incentives to factory workers such as private living quarters, Saturday night movies and dances, and hiring preference for its employees' relatives (Roberts, 2005).

Reliable Supply Chain

Secure, consistent, long-term, and sustainable access to safe, high-quality raw materials and products strengthens a company's competitiveness. Suppliers seek buyers who will treat them with respect and integrity. Key ethical issues influencing supplier relationships include a) demonstrating partiality toward suppliers preferred by upper management; b) allowing personalities to improperly influence the buying decision; and c) failing to provide prompt, honest responses to inquiries and requests (Cooper, Frank, & Kemp, 2000).

As supply chains and markets become more global, companies are more likely to accept responsibility for the actions of their suppliers. Social issues in global supply chains include unsafe work environments, harmful environmental outputs, and poor product quality or output. Responsible businesses select and evaluate suppliers on their social and environmental performance; pay more for vendors with good social policies, thereby helping competent vendors become socially responsive; and help socially responsive vendors to become competent (Drumwright, 1994).

There are many examples of how socially responsible initiatives ensure a reliable supply chain. Companies may share agricultural expertise to ensure a sufficient supply of quality raw materials. In the United States, Patagonia worked with cotton growers, ginner, and spinners to establish a reliable supply of organic cotton. As its supply chain expanded to Asia, Patagonia gave the same support to cotton growers in Thailand (Chouinard & Stanley, 2012). Starbucks helps coffee bean farmers to implement new and sustainable farming techniques in many countries. The Hershey Company collaborates with the World Cocoa Foundation to encourage responsible cocoa farming and to support income improvement for cocoa-growing families. Pepsi shares its expertise about potato farming with the Chinese Ministry of Agriculture to increase quality materials for snack foods marketed in China.

Another way to ensure a reliable supply chain is for companies to engage in projects to protect scarce natural resources that are necessary for manufacturing their products. Water is a key ingredient in beverages, resulting in strategic social responsibility projects by Pepsi and Coca-Cola to preserve and conserve water. For example, by 2020, Coca-Cola's goal is to "safely return to communities and nature an amount of water equal to what we use in our finished beverages and their production" ("Collaborating to replenish the water we use," 2013).

Favorable Rules and Incentives

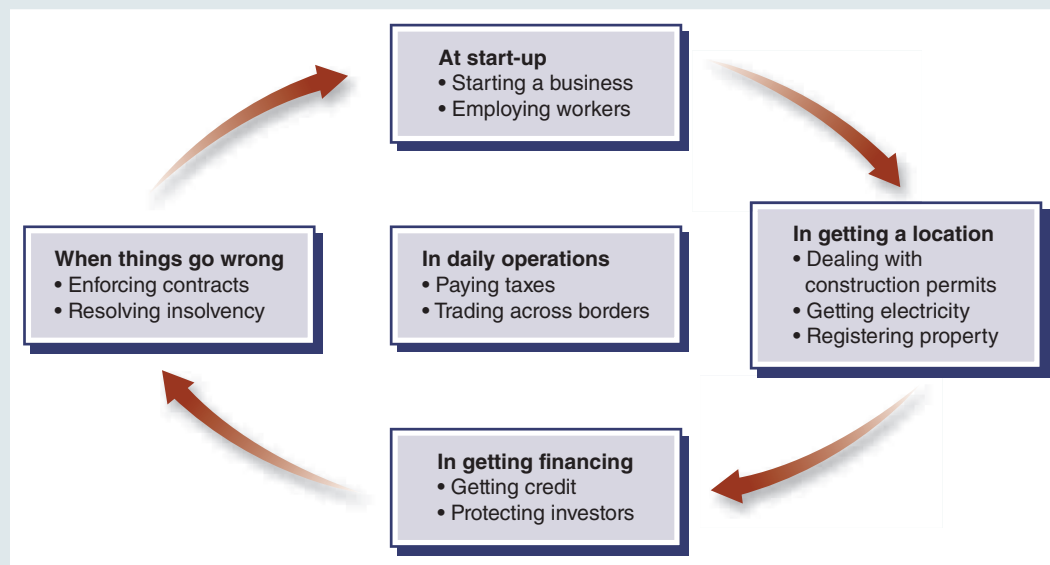
The competitive environment of a firm may improve because of social responsibility activities. Responsible companies experience lower local resistance to entry in new markets and reduced costs and regulations within the industry. Government administrative rules, laws, and policies shape the competitive environment. The costs of compliance with regulations increase the cost of doing business and reduce company resources available for new product development or capital investments (see *Going Global: Doing Business Around the World*). Companies that engage in proactive social responsibility gain a competitive advantage by looking beyond the costs of compliance to seek innovative solutions to regulatory pressures.

Going Global: Doing Business Around The World

The World Bank issues an annual report on the rules and regulations that shape the business environment. The 2014 report examines 11 indicators of regulations relevant to business in 189 countries (World Bank, 2013). The costs and complexity of conducting business vary by country. For example, starting a company in New Zealand takes half a day with almost no fees, but a new business takes 208 days in Suriname and 144 days in Venezuela. Business regulations affect a company's ability to advance from start-up to daily operations (see Figure 2.4).

Figure 2.4: Regulations as measured by *Doing Business* affect firms throughout their life cycle

The World Bank identifies 11 indicators of regulations and legal infrastructure that relate to a firm's life cycle.



Source: *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises (11th ed.)*, by World Bank, 2013.

Ethical and responsible businesses can alleviate some costs by avoiding legal disputes, as the costs can be high to enforce contracts or handle conflicts with customers and suppliers. Companies can spend an average of 622 days in court to resolve a dispute and incur costs up to 35% of the value of the claim (World Bank, 2013). Careful attention to the interests of customers, employees, and suppliers creates a competitive advantage through reliable revenue and supply of labor and materials.

The World Bank report (2013) found a high correlation between a country's regulatory environment and its competitive environment. A stable regulatory environment that supports business and preserves a level playing field allows companies to prosper. Figure 2.5 shows a graphic illustration of the correlation between the *Doing Business* and World Economic Forum rankings on global competitiveness that measure economic stability, public

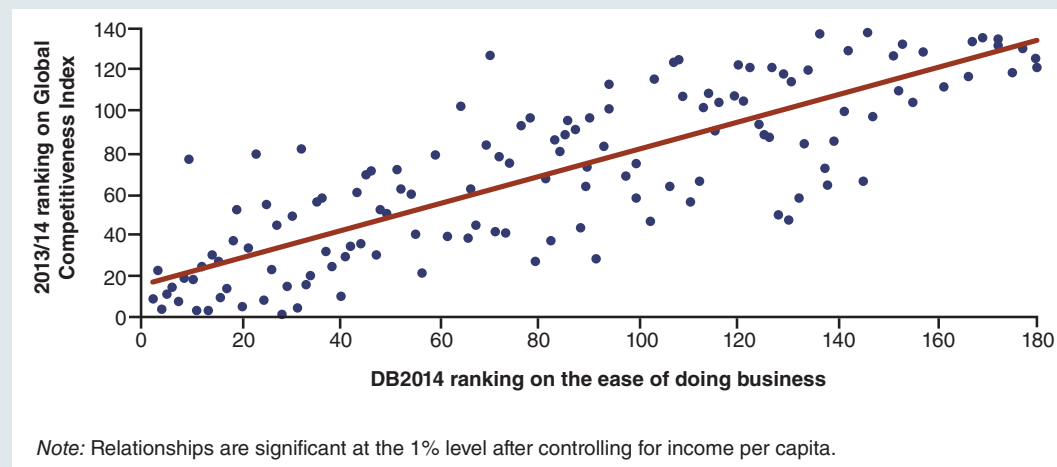
(continued)

Going Global: Doing Business Around The World (*continued*)

institution reliability, and business sophistication. The World Economic Forum's Global Competitiveness Index includes the business community's perception of the business environment. Variations among the company responses within a country indicate that companies' experiences with regulations differ. Perhaps the engagement of local governments allows for ease in doing business.

Figure 2.5: Relationship between *Doing Business* and World Economic Forum rankings on global competitiveness

A high correlation (0.84) between the *Doing Business* and the World Economic Forum's Global Competitiveness Index's rankings demonstrates the relationship between transparent and efficient regulation on the propensity for entrepreneurs to innovate and expand.



Source: *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises (11th ed.)*, by World Bank, 2013, p. 24.

Questions to Consider

1. What methods could a multinational corporation use to navigate through business regulations in other countries?
2. How can a company lobby for favorable business conditions in a country in a responsible manner?
3. How should a manager handle a request to pay a fee to expedite business approvals in order to compete with the local companies?

Some business requirements create entry barriers that protect local industries. The escalation of a global economic crisis beginning in 2008 created a public movement for protecting domestic companies through increased tariff and non-tariff barriers (Bussière, Pérez-Barreiro, Straub, & Taglioni, 2011). In 2009, the Chinese government stipulated that only Chinese companies should receive contracts for government stimulus projects. Meanwhile, the United States reinforced its Buy American requirements in the American Recovery and Reinvestment Act (ARRA)

of 2009. To respond to a public backlash against foreign companies, wind turbine companies from China and Spain have invested in community projects in the United States to generate goodwill and a reputation for quality (Fletcher, 2010).

There are ample examples of companies gaining competitive advantage through proactive social responsibility to address regulatory concerns. When conducting business internationally, collaboration with the government and regulatory agencies provides for a favorable business environment. The tobacco company Altria Group, Inc. works with governments “to secure fair excise tax structures in many of its key markets, with numerous countries adopting minimum excise taxes and several considering the adoption of minimum reference prices” (Altria Group, Inc., 2004, p. 6). The energy industry adopted a proactive approach that reduced costs of compliance. General Electric, Cinergy Corp., and Bechtel Corporation joined forces to develop solutions to reduce coal emissions in energy plants. By working together, the companies discovered innovative approaches for meeting environmental regulations at a lower cost than traditional practices.

Growth

Socially responsible companies can achieve a competitive advantage by developing innovative products and services and accessing new market segments for existing products and services. However, to obtain this benefit, companies require a full understanding of customer needs, competitors’ actions, and technological development (Calantone, Cavusgil, & Zhao, 2002). Companies with a broad base of stakeholders can utilize stakeholders’ knowledge and expertise to generate new ideas. For example, E. I. du Pont de Nemours and Company (DuPont) includes a diverse set of stakeholders from India, Africa, and Latin America in developing a strategy for biotechnology development, and has even invited environmental proponents such as the former head of Greenpeace International to provide divergent views on the issue (Hart & Sharma, 2004). Product development and new market development provide for a sustainable growth of the business.

New Product and Services Innovation

A firm can gain a competitive advantage in its industry by creating products to fulfill unmet social needs. Leading companies in the packaged foods industry recognize the effect their products have on the health and wellness of consumers, as obesity has created health and productivity concerns for society. The United States has one of the highest obesity rates of developed countries. The World Health Organization (2010) estimated that over 48% of adult women and over 44% of adult men in the United States are obese when measured by a body mass index (BMI) over 30. The costs of obesity in the United States have reached \$450 billion annually, including costs to individuals, taxpayers, employers, and other industries (Aglgazy, Gipstein, Riahi, & Tryon, 2010). Obesity-related costs include direct medical costs and indirect costs; direct medical costs related to obesity reach \$160 billion annually (Aglgazy, Gipstein, Riahi, & Tryon, 2010). The individual bears out-of-pocket expenses, taxpayers pay for Medicaid/Medicare costs, and hospitals have to invest in equipment to accommodate obese patients. Through a voluntary industry initiative, food and beverage companies are reducing caloric content by offering new lower calorie products, reducing sodium and sugar content of existing products, and providing packages with smaller portions. Nestlé developed new

technology to make ice cream with half the fat and one third of the calories. Food and beverage companies addressing the social concerns of health and nutrition have experienced stronger sales growth and financial returns (Strom, 2014).

Working with a wide variety of stakeholders has generated innovative approaches in attaining goals of offering healthier food options. For example, Heinz sponsors studies and symposiums with leading nutritionists, dieticians, and physicians from around the world for bolstering nutrient content and reducing sodium and fats in ketchup, soups, sauces, and frozen foods.

Companies can also achieve a competitive advantage from developing technology for addressing concerns for the conservation of natural resources. Ecolab has become a global industry leader in offering cleaning, sanitizing, and food safety products that consider the total impact on the environment. One innovative product, a waterless lubricant called DryExx, addressed concerns of their food and beverage clients wanting to reduce the costs and reputational damage of high water usage in the bottling process. Along with improved production efficiencies, one large bottling plant reduced water use by 1.5 million gallons annually (Milliman, Gonzalez-Padron, & Ferguson, 2012).

Ecolab offers another innovative cleaning product that addresses environmental and social issues for companies. Traditionally, floor cleaning requires strong chemicals and rinsing with water that creates unsafe and slippery surfaces. Ecolab leveraged technology from laundry detergents to develop a new enzyme-based floor cleaning formula (Wash 'n Walk) that negated the need for rinsing with water. This allows Ecolab's customers to purchase a product that reduces slips and falls, provides for a hygienic environment, and reduces water usage. Through a focus on product solutions that meet social and environmental issues, Ecolab maintains growth even during softening industry demand (MarketLine, 2011).

New Markets and Customers

Companies may realize competitive advantages by acquiring new customers through increasing demand for products because of their socially responsible activities. There are two general approaches to developing future demand: promoting product usage and enabling capacity. Consumer companies target educational programs to access populations that could become a viable market for their products and services. Students worldwide achieve computer literacy through computer firms' support for education programs and donations of personal laptops.

The personal care divisions of Unilever drive demand for products through educational initiatives. The company collaborates with the FDI World Dental Federation to fund oral health projects in 38 countries, including mobile dental vans in developing nations. Hindustan Unilever, the Indian subsidiary of Unilever, is improving health conditions in India through its education programs on hygiene that benefit not only the company, but also the quality of life for rural Indians.

“It's not enough for the company to look at market-share increase,” says Anand Kripalu, 42, the company's head of detergents and a creative thinker behind many of the company's rural-outreach strategies. “We want to spread the message of hygiene and really use the Lifebuoy brand to deliver that benefit to consumers. This isn't just good for us as a brand; it's good for the country.” (Balu, 2001, p. 120)

Strategic philanthropic projects enable capacity by developing the infrastructure and capabilities to support future demand for products and services. Computer and information industries recognize that collaboration with government and other industry partners will foster growth for hardware and software in new markets. Hewlett-Packard, Microsoft Corporation, and Cisco joined forces with Jordanian companies to strengthen the country's information technology industry. In 2001, Secretary-General Kofi Annan established a United Nations Information and Communication Technologies (UNICT) Task Force that included industry leaders, government agencies, nongovernmental agencies, and educational institutions to increase access to information technology. Task force members from the private sector included representatives from Cisco, Siemens AG, SAP, Nokia, Microsoft, Hewlett-Packard, Infosys, and Sun Microsystems, Inc. While the task force ended in 2004, the member companies continue to create the infrastructure to allow greater access to information through the Internet and phone.

2.3 From Shareholders to Stakeholders

Most businesses are driven by a short-term profit motive and are legally bound to maximize profits for shareholders. The obligation to protect shareholder investments influences strategic business decisions throughout an organization. A **shareholder orientation** refers to the company focus on profits and consideration of the shareholders as the primary stakeholders in the firm. The focus on financial markets in the United States and the United Kingdom has propagated a short-term view of financial success, sometimes at the expense of other key company stakeholders such as customers, employees, and communities. The collapse of Enron, Arthur Andersen, and Lehman Brothers Holdings Inc. has prompted shareholders to demand more attention to the long-term sustainability of the business by including ethical and responsible practices. By shifting focus from solely shareholders to multiple stakeholder groups, companies can provide financial return to shareholders through long-term growth and viability.

Corporate Governance

Responsible companies require a management system that provides oversight, accountability, and control known as **corporate governance**. Oversight refers to the processes that ensure compliance with ethical and legal standards. Accountability references the responsibilities for performance that align with the company's strategic direction and for the way that performance is achieved. Controls refer to processes for auditing and monitoring company activities to ensure compliance with ethical standards.

The basic structure of a legal corporation consists of three main levels of authority:

- The shareholders own the corporation by obtaining shares of stock in it.
- The stockholders, in turn, elect a **board of directors** to manage the corporation.
- The board then designates **officers** to operate the business, with the CEO at the top and various levels of managers beneath. Company officers are responsible for setting the direction of the company under the direction of the board.

Board directors and officers have a **fiduciary duty** to manage the company in a way that protects its shareholders. Their responsibilities are outlined in the company charter that must meet regulatory guidelines of the country where the company is registered. Management is responsible for implementing the business strategy within the policies and procedures that guide acceptable conduct.

Corporate governance provides the structure for establishing relationships between the company's management, its board, its shareholders, and other stakeholders. The trust and confidence in the company depends on the transparent and ethical management of the organization. Corporate governance provides the structure to set the company objectives, establish parameters to achieve the objectives, and monitor the performance in meeting goals. By demonstrating how the company strategy is in the best interest of the shareholders, investors gain confidence in the business and provide access to capital.

The corporate governance of a company relies on the legal, regulatory, and institutional environments that set the operational framework. Regulations address the potential conflicts of interest between the ownership and management of the company. In some jurisdictions, the powers of certain stakeholders are protected. In Germany, stakeholders like banks, labor unions, and community representatives must be a part of the company's supervisory board (Bauer, Braun, & Clark, 2008). The Sarbanes-Oxley Act of 2002 prohibits public companies from extending personal loans to directors or officers. Most regulations are aimed at large publicly listed companies, but corporate governance is just as important for privately held and family-owned businesses. Family businesses in particular must address the potential disputes from employment of family members, private use of assets, and dividend decisions.

The role of the board of directors evolved as business failures evoked a call for greater responsibility for company activities. Early legal cases in the United States and the United Kingdom minimized the board members' liability for company wrongdoings. Rulings on cases expressed the opinions that the board members of a corporation do not have the same amount of time and attention to the running of the business as the managers of the business ("Liability of corporation directors for negligence," 1906). Over the years, sentiments changed to make the board members accountable to company shareholders. After the ethical scandals of Enron and WorldCom, the Sarbanes-Oxley Act reaffirmed that the CEO and chief financial officer (CFO) hold the primary responsibility for the accuracy of financial reports. The act also stresses the role of the board of directors in representing the shareholders, stipulating responsibilities for an audit committee to oversee external audits of the financial statements.

More companies are recognizing that profit cannot be the sole purpose of business. A stakeholder approach to corporate governance includes the views of multiple groups, including employees, suppliers, and the community. Some companies have even gone as far as inviting shareholder activists on the board. In a rare move, Microsoft appointed the president of ValueAct Capital Management LP to its board of directors, who then expressed discontent with Microsoft's performance and high executive compensation (Ovide, 2013). While it seems risky to invite an aggressor to participate in managing the company, Microsoft's approach signaled a trend to take on issues proactively to gain competitive advantage. Paying attention to multiple stakeholder demands provides the company with greater financial performance through increased reputation, customer satisfaction, and financial performance (Maignan, Gonzalez-Padron, Hult, & Ferrell, 2011).

Industry leaders in social responsibility look beyond creating shareholder value to create value for employees, customers, suppliers, and the community. Using these stakeholders allows for better collaboration and opportunities to address social and environmental concerns, as each stakeholder brings different resources and benefits to the company. How can an organization manage multiple stakeholder expectations for a responsible business? A company needs to develop a stakeholder perspective to realize the advantages of socially responsive initiatives.

A Stakeholder Perspective

Responsible companies must attend to its many stakeholders by developing capabilities for managing stakeholder relationships. A stakeholder approach in business contends that managers must satisfy various constituents (e.g., customers, employees, suppliers, and local community organizations) that could withdraw support for the firm if important social responsibilities were unmet. Stakeholders may be concerned about the safety of products, the well-being of employees, the transparency of company reports, and the social or environmental impact of corporate activities. Companies that recognize the strategic importance of doing the right thing consider relevant stakeholder issues when making decisions about the business. As a result, these companies embed a stakeholder perspective into their culture, which becomes ingrained in their values, norms, and behaviors.

The extent to which an organization understands and addresses stakeholder demands in daily operations and strategic planning can be referred to as a **stakeholder orientation**. A stakeholder orientation consists of three activities: 1) the collection of information on relevant stakeholder groups that includes the company's effects on these groups, 2) the dissemination of the stakeholder information throughout the organization for inclusion in strategic decision making, and 3) the responsiveness of the company to the information (Maignan & Ferrell, 2004). Adopting a stakeholder orientation allows firms the opportunity to understand its impact on stakeholders, anticipate changing societal expectations, and use its capacity for innovation to create additional business value from superior social and environmental performance (Laszlo, Sherman, Whalen, & Ellison, 2005).

The importance of a stakeholder varies over a firm's life cycle and shapes the firm's responsiveness to the stakeholder group. Stakeholders that control a company's valuable resources can use various influential strategies to obtain desired actions from the organization, including consumer boycotts such as those against StarKist Co. to change tuna fishing practices. Managers should consider that stakeholders not only interact with the firm, but also interact with other stakeholders, thus increasing the stakeholders' power to exert pressure on the company. An example is Monsanto Company's abandoned attempt to commercialize seed sterilization technology because of protests initiated by Indian farmers that spread worldwide.

Identifying Stakeholders

The first task for a company adopting a stakeholder perspective is to identify and prioritize the stakeholder groups. As was discussed in Chapter 1, a stakeholder includes any person or group who can affect or be affected by a company's activities. This broad definition means that managers should consider many stakeholder groups. There is no generic list of stakeholders for all companies as the groups that an organization affects depend on the size, industry, and

geography of the company. It makes sense that utilities (such as energy and air travel) would have a greater focus on regulatory groups than other industries. Companies with sales and production in many countries struggle with unique issues relating to employees, suppliers, and the government. Harley-Davidson tailors products sold in Asian markets to meet stringent regulations for lower noise levels of their motorcycles that are inconsistent with their brand image. Managers must be able to recognize the **salient stakeholder** groups—those to which their company must devote the most attention (Mitchell, Agle, & Wood, 1997).

Companies generally identify two classifications of stakeholders. **Primary stakeholders** are those groups whose continued association are necessary for a firm’s survival and often include customers, employees, suppliers, investors, and shareholders. Each category of stakeholders may include various subgroups that either share similar perspectives or have differing stakes in the organization. For example, an employee stakeholder group could include management, staff, temporary employees, and retired employees. While most employees would be dependent on the company for earnings, the amount of influence that each subgroup may exert to change work policies can vary. The composition of the stakeholder groups that a company considers primary depends on the industry and business strategy. Table 2.3 provides examples of common subgroups that make up the overall stakeholder groups that companies may consider most important to their business.

Table 2.3: Stakeholder group composition

Stakeholder Category	Company Stakeholders	Stakeholder Concerns
Customers	Distribution channel (wholesaler, retailer, dealer) Consumer	Fair and reliable product supply Safe products Truthful advertising
Employees	Executive level Management Staff New employees Temporary workforce Retirees	Business continuity and success Professional development Equal opportunity Health and safety Benefits
Suppliers	Supplier of materials Service providers Contract manufacturers	Honoring contract terms Timely payment for goods and services Protection of supplier intellectual property Timely and accurate forecasting information
Investors	Fund managers Institutional investors Pension funds Rating agencies	Business strategy and continuity Risk and reputation management Financial performance

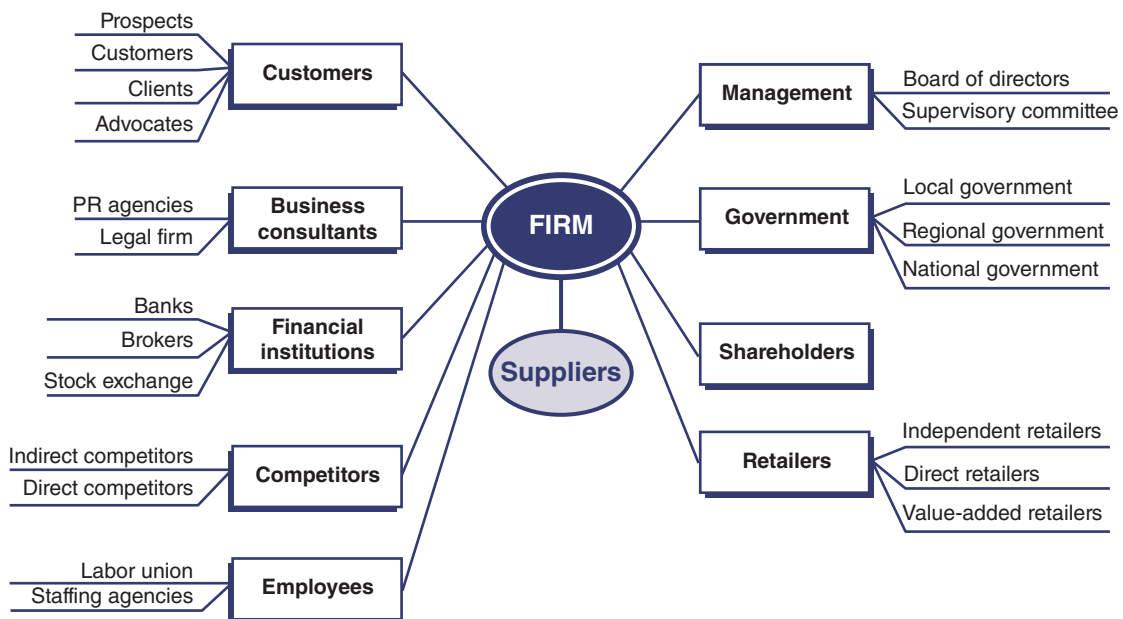
Source: Modified from Stakeholder Research Associates Canada Inc., United Nations Environment Programme, and AccountAbility, 2005b, The Stakeholder Engagement Manual: Volume 2: The Practitioner’s Handbook on Stakeholder Engagement.

Governments and local communities, whose laws influence company operations and tax obligations while providing infrastructure and markets to the company, can be primary or secondary stakeholders (Clarkson, 1995; Frederick, Davis, & Post, 1988). **Secondary stakeholders** can influence the firm or be influenced by the firm, but are not directly necessary for its survival. These stakeholders typically include consumer advocate groups, media, unions, political groups, the scientific community, and trade associations. A secondary stakeholder can also be a representative for interests that cannot represent themselves, such as the American Heart Association acting for the well-being of current and future generations at risk for heart disease or Greenpeace protecting the environment. Some organizations consider the natural environment as a stakeholder as company activities depend on and affect the supply of resources like water and clean air. However, a question arises about whether the natural environment can be a stakeholder group since it has no voice or ability to engage in dialogue with a company (Jacobs, 1997).

A company’s relationship with its stakeholders involves two-way interaction between the entities. Businesses need to learn from the stakeholder groups regarding their concerns and demands, while stakeholder groups require information from the company. Stakeholder groups can also interact with other stakeholder groups, combining resources to influence company strategy. Figure 2.6 shows a sample **stakeholder map** that illustrates a company’s stakeholder groups and their relationships with the firm and each other.

Figure 2.6: Sample stakeholder map

The company and its stakeholders should have two-way relationships, sharing information to create results.



Three stakeholder attributes contribute to the importance of a stakeholder group to a company—power, legitimacy, and urgency (Mitchell et al., 1997). Power refers to the extent that a stakeholder can impose its will in its relationship with the firm. Power can be

coercive, using force or threats. Utilitarian power entails offering incentives or a material gain. Symbolic influences such as status or trophies create normative power. A stakeholder has legitimacy when its actions toward the firm are desirable or proper within the norms, values, and beliefs of the larger society. Urgency is the extent to which stakeholder efforts call for immediate attention by a firm. It arises from the stakeholder's perception that any delay in attending to the issue is unacceptable and/or the issue is of critical importance to the stakeholder.

While these three attributes are important, companies must understand that stakeholder identification and prioritization is not a one-time task. Stakeholder groups can change over time in reaction to triggering events, such as natural disasters, negative publicity over business practices, and legislative actions (Maurer & Sachs, 2005). Although a stakeholder group has the power to impose its will, they may not exercise that power unless there is an urgent need.

Stakeholder Influence on Ethical Business

Stakeholder groups can exert their power and influence to change a company's behavior. Groups that provide a resource that a company requires, such as labor or capital, can have a greater impact on business than stakeholder groups that do not control valuable resources. Unethical conduct of a business that harms a stakeholder group may incite an adverse reaction from that group. For example, when companies collude to raise prices on common auto parts, the consumers pay more for auto maintenance. The reputation of the industry suffers, and consumers are less likely to trust the service providers for auto repairs. Stakeholder groups can withhold resources or stipulate conditions on the usage of the resource (Frooman, 1999).

Withholding strategies include the threat or actual discontinuance of providing a resource to a company until the company changes a certain behavior or activity. Stakeholder groups may boycott brands that exploit child labor, use deceptive advertising, or offer unsafe products. When stakeholder groups perceive the company is not acting ethically or with integrity, they are more likely to withhold resources. The amount of influence a stakeholder group has depends on the extent to which the company is dependent on the resources that a group provides. For example, workers provide labor to produce products or services. If a company disregards employee needs during a downsizing, such as layoffs without advance notice or forcing employees to quit, then the employees may strike or leave for other employment. However, many employees are not in a position that allows them to forgo wages. Instead of complete withholding of the labor resource, they may withdraw slightly, as evident in slow-downs in production after a downsizing.

Stakeholder groups may continue to supply a resource to a company, but attach conditions on the usage of the resource. Oftentimes these conditions arise after a period of withholding or threat of withholding. Labor issues are one example. Strikes or the threat of strikes can occur when management and employees do not agree on working conditions, wages, or employee benefits. However, if the company agrees to negotiate in good faith, employees may return to work while the conditions are being formalized. As another example, retailers agree to continue with a purchasing agreement from suppliers only with proof of environmental and social standards compliance.

Depending on the power of the stakeholder group to make demands on a company, they may exercise their influence directly or indirectly. Direct strategies are those that the stakeholder group can control on their own. Indirect strategies require stakeholder groups to affiliate with other groups that can shift the power to influence change within the company. Consider the labor issue of disgruntled employees. If the employee group is organized, they may be able to negotiate demands on their own. Otherwise, employees may seek government regulatory assistance to address inequities in the workplace. Indirect strategies are often necessary to effect change that could not be accomplished alone. One example relates to environmental activist groups attempting to reduce dependence on fossil fuels by encouraging energy-efficient products. The largest provider of household appliances, General Electric, initially resisted pressures for product redesign. Change could not occur until the ENERGY STAR program allied with Maytag Corporation and Whirlpool Corporation to educate consumers. In turn, consumers began purchasing ENERGY STAR products instead of General Electric products—a withholding strategy. This strategy forced General Electric to change its behavior and begin developing ENERGY STAR products (Hendry, 2005).

Stakeholder Issues

Responsible companies develop the capability to respond to stakeholder concerns. What are the common issues that may arise when business activities affect stakeholder groups? Some of the general considerations each category of stakeholder may bring to the attention of the company are part of the stakeholder identification process (such as CSR issues). Understanding what each stakeholder group values can improve company responsiveness to their needs.

Customers are primary stakeholders of a company. Their awareness, purchase, use, and repurchase of products are necessary for the financial viability of the firm. Customers want a fair price and reliable supply of desired products. Therefore, companies must consider pricing strategies to offer value to the consumer; reliable supply may depend on securing depleting natural resources. Ethical businesses refrain from price collusion or monopolistic maneuvers. Customers value honesty in the marketing and advertising of products. They value their health and safety and expect products to perform as promised without negative consequences. Parents are concerned that toys, furniture, and accessories do not pose a danger to their children. However, companies recognize unintended consequences of marketing products and services that can affect consumers. For example, products such as pornography, guns, gambling, tobacco, and alcohol are legal but have a high probability of being consumed in a socially unacceptable way. Other issues include the marketing of products and services to vulnerable populations, such as children or the elderly. Companies must balance the different consumer stakeholder groups in developing marketing strategy.

The ethical, social, and environmental impacts of a company and its products are important to customers. Over one third of American consumers are more likely to buy environmentally responsible products, switching to brands that have a positive reputation for ethical behavior, though studies often find that French and German consumers appear more willing to support responsible businesses than their U.S. counterparts do (Maignan, 2001). In China, consumer awareness of issues like the environment and working conditions is increasing.

Another important primary stakeholder group is employees. They are concerned with their livelihood and supporting their families. Issues for employees focus on the continuity of the business to provide wages and benefits. The employee stakeholder category is broad and

includes line workers, administrative staff, management, and executives. Therefore, the issues and concerns may vary by occupation. Employees expect a safe workplace with equal opportunity for advancement and development. Companies are required to comply with regulations that enforce many of these concerns.

Attention to this stakeholder group's concerns makes for happy employees. Employee satisfaction has a direct effect on company performance and customer satisfaction that enhances a company's reputation (Martinez & Norman, 2004). Many organizations provide benefits to support employees in work-family issues. Some companies offer child care benefits to cover costs of working parents, while others may offer flexible work schedules to accommodate family obligations.

Suppliers are also stakeholders in a company. This group refers to individuals, firms, or industries that provide materials, services, and/or assembly/manufacturing to the company. Suppliers seek customers who honor contract terms, provide timely payment for goods and services, respect their intellectual property, and share accurate forecasting information. Managers must pay attention both to the needs of the supply chain and to socially responsible purchasing practices, including incorporation of noneconomic buying criteria related to diversity, environmental, and labor issues. The Institute for Supply Management (2012) has developed a framework of responsible supply chain management that provides direction to professionals on how their companies and suppliers can develop and integrate sustainable and socially responsible practices into the business and supply chain. The guide provides tools and resources for including these principles in sourcing products and services, such as anti-corruption; diversity and inclusiveness; workforce and supply base; environment; ethics and business conduct; financial integrity and transparency; global citizenship; health and safety; human rights; labor rights; and sustainability.

Shareholders are most concerned with the business strategy and continuity of the company. Business failures such as Enron and WorldCom have prompted investors to scrutinize the management of risks and the reputational effects on the business. Concern is mainly on financial performance, but the manner of achieving the financial performance is becoming more of an issue for shareholders. Shareholder activists represent groups of investors that demand changes in business strategy. Their tactics range from shareholder resolution to hostile takeovers. The direct selling company, Herbalife International had to defend its business when hedge fund manager Bill Ackman claimed the company relied on inflated pricing, misleading sales information, and a complicated incentive plan to hide a pyramid scheme. Herbalife promptly responded to assure its investors that it was a legitimate multi-level direct selling company following all ethical standards of the industry.

Stakeholder Engagement

Company efforts to understand and address stakeholder demands in its activities and decision-making processes depend on stakeholder engagement (as introduced in Chapter 1). Stakeholder engagement includes gathering information about stakeholder interests and expectations, sharing information on company activities and performance, and dialogue and consultation. Effective management of stakeholders can reduce the risk that a stakeholder group will engage in withholding or usage methods to influence the company strategy.

Stakeholder Engagement Strategies

Depending on the relationship with specific stakeholder groups, companies can employ a variety of methods for relating to the sub-categories of a stakeholder group (see Table 2.4 for stakeholder engagement strategies). Depending on the power and legitimacy of the stakeholders, management may feel that one-way communication is sufficient. For issues that are of critical importance or are time-sensitive, a dialogue or partnership approach may be preferred to establish a two-way communication. Engagement strategies also need to consider how stakeholder groups interact with each other. Some approaches target a single stakeholder group to address their unique concerns, such as employee training or employee benefit information. Others may include multiple stakeholder groups on an issue, such as a task force to develop energy-efficient products that includes employees, customers, and environmental activist groups.

Table 2.4: Stakeholder engagement strategies

One-way		Two-way	
Communication	Consultation	Dialogue	Partnerships
“Informing”	“Asking”	“Discussing”	“Involving”
Employee training Internal and external newsletters Press releases, press conferences, media advertising Tours Open houses and town hall meetings Websites Social media communications Speeches, conference presentations Company brochures and reports	Employee suggestions Programs Questionnaire surveys Focus groups Community meetings Advisory forums Online discussion forums	Leadership summits or roundtables Advisory panels Online forums	Cross-sector alliances Multi-stakeholder Forums

Source: Based on Stakeholder Research Associates Canada Inc., United Nations Environment Programme, and AccountAbility, 2005a, The Stakeholder Engagement Manual: Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement.

One-way communication with stakeholders is a normal part of business as companies convey information about their company, brand, or product to customers and the public. Through a communication program, internal and external stakeholders become informed on the issues that the company identifies as most important. However, trust in corporate communications is low among customers, employees, and the public (Edelman, 2013). For an effective communication engagement strategy, the company must demonstrate honesty, transparency, accuracy, and timeliness.

Use of Internet communication allows companies to provide information to stakeholder groups on a regular and immediate basis. Social media websites such as Facebook, Twitter, and YouTube allow companies to connect with customers and prospects to generate a

sense of community and loyalty to a brand. The company website is a resource of information that employees, customers, suppliers, and the public can access to learn how the company is addressing their concerns. During a crisis, companies can use e-mail and social media to communicate with all stakeholders. Timberland LLC used an organized e-mail response to address over 65,000 Greenpeace supporters accusing the environmentally responsible apparel company of supporting slave labor, destroying the Amazon rainforest, and exacerbating global warming (Swartz, 2010). The company responded to each person with a carefully crafted message stressing Timberland's commitment to the environment. Follow-up messages continued as the company worked with Greenpeace to address issues in the supply chain.

Consultation involves gathering information or advice from stakeholders that the company may consider in strategic decision making. Surveys are an example of a one-way consultative approach for discovering employee and customer satisfaction, supplier compliance, and community perceptions of the company. While the results of each survey may not influence company actions, the respondents should receive some acknowledgment that the survey results warranted consideration. Field sales representatives gather information about client needs as a part of sales calls, making sales staff an important source of consumer input. Management may also hold or attend community or association meetings to listen to concerns on company activities.

Formal consultative approaches include advisory groups or suggestion programs. Advisory forums include industry or other experts to provide new perspectives on company activities. Online campaigns seeking customer or public input to name a product generate enthusiasm for the brand. Goodyear Tire & Rubber Company sought names for a new blimp, promising the winner use of the blimp for a day. After receiving 21,000 ideas, they settled on the name Spirit of Innovation (Hockensmith, 2006). Companies can use similar approaches to gain input on other business issues. Employee suggestion programs seek ideas for improvement, often offering cash incentives for any cost-saving recommendations that are worth implementing. Employees can be champions for energy conservation and safer work processes.

Dialogue strategies entail two-way conversations that involve an exchange of information. Rather than gathering information through consultation and having the company choose how to use the information, a dialogue approach seeks to foster cooperation on an issue, strategy, or initiative. Stakeholder groups are encouraged to ask questions, interpret information, and make recommendations. Formal dialogue engagement strategies include leadership forums and advisory panels where all stakeholders explore solutions to a business issue. Password-protected extranets encourage dialogue with external stakeholders at Volvo Group. Companies forced to address social issues due to shareholder resolutions may seek to communicate with the activist group to negotiate an acceptable solution to both parties (Rehbein, Logsdon, & Buren, 2013). Dialogue strategies require that all stakeholder groups have mutual trust and good faith in addressing the subject under discussion.

When companies find that responding to stakeholder demands requires additional resources or expertise beyond their capabilities, a partnership with other organizations involves multiple stakeholder groups. This engagement strategy goes beyond talking and focuses on action. When a business works with nonprofits or government agencies to solve a social issue, this is known as a **cross-sector alliance**. There are benefits for all to collaborate. On the business side, the motivations traditionally revolve around increased legitimacy, positive reputation effects, increased social status, recognition, and opportunities for learning. Businesses have

enormous resources at their disposal and can provide partner organizations with managerial efficiency, technical expertise, creativity, dynamism, and access to finance. The nonbusiness partner's motivation is an increased competition for limited funding, escalating societal needs, hostile environmental forces, and serious sustainability concerns. However, the nonbusiness partner may have expertise and knowledge in what is needed in the field, is mission driven, and better able to reach the impoverished. Therefore, through successful collaboration, these two actors can complement each other and better allocate resources for the common good.

Other forms of partnerships include formalizing a network of stakeholders to develop mutually agreed upon solutions and joint plans of action. The Defense Industry Initiative is an example of how companies joined forces to address the ethical conduct. IBM offers a portal called Global Innovation Outlook to create dialogue among business, academia, government, and the social sector to form partnerships to address global social issues. Accenture includes its own employees and commercial client employees to work with nongovernmental organizations in developing countries to address health, education, and energy challenges (Accenture, 2013).

Stakeholder Engagement Process

Stakeholder management is a complex exercise and requires continuous attention. Companies need to anticipate new stakeholders and issues. The critical issues for existing company stakeholders change in reaction to social forces. Stakeholder groups may interact to combine power or legitimacy to exert greater influence on a business. These factors can shift existing relationships with stakeholders. Companies adopting a stakeholder perspective require processes to identify salient stakeholders, monitor issues, and establish engagement strategies with stakeholder groups that add value to the business and the community. Refer to *Checklist: Attention to Stakeholders—Identification, Communication, and Responsiveness* for general questions to check attentiveness to company stakeholders.

Checklist: Attention to Stakeholders—Identification, Communication, and Responsiveness

1. What values are most important to our company?
2. Have we identified stakeholder groups that are affected by or affect our company?
3. Do we recognize how stakeholder groups intersect or interrelate?
4. Do we have an effective way to gather information about stakeholder expectations?
5. Have we assessed how company activity affects each stakeholder group?
6. Do we listen to stakeholder concerns?
7. Are we sending consistent messages to stakeholders about their concerns?
8. Are stakeholder concerns communicated throughout the company?
9. Do we express a commitment to consider stakeholder needs?

Source: Based on DK Essential Managers, by L. Ferrell and O. C. Ferrell, 2009, p. 58.

Before initiating a stakeholder engagement strategy, the company must assess the values that govern daily conduct. The mission, values, and norms of the organization are likely to have implications for stakeholder relationships. For example, if a company values honesty and transparency, then interactions with stakeholders should establish an expectation of mutual trust and open communication. Respect for property rights may highlight a need to monitor supply chains for software piracy. Timberland and Patagonia consider the environmental impact of their products as a differentiator from other outdoor apparel companies, which could affect the stakeholder groups and issues that they hold most critical.

Identifying stakeholder groups may seem like a simple task, but researching the current and potential stakeholders will provide a better understanding of the full range of issues and challenges that could influence business activities. Consider how new business strategies affect existing or new stakeholders. New regulations may require different relationships with sub-groups. One approach for identifying stakeholders is to conduct brainstorming sessions where management lists every group of people that meet the following dimensions:

1. Groups that the firm has *responsibilities* toward,
2. Groups that the firms *interact* with the most,
3. Groups that could *influence* performance of the firm,
4. Groups that are *dependent* on the firm, and
5. Groups that *represent* other individuals such as trade union representatives and community officials (Stakeholder Research Associates Canada Inc., United Nations Environment Programme, & AccountAbility, 2005b).

Once the individuals or groups are identified, consider how they overlap or where they intersect. For example, employees may also be members of a community group that exerts influence on the company.

The next phase of the process entails gathering information on what each stakeholder group values. What is their greatest concern? Tactics for gathering information include surveys, focus groups, and informal conversations. Groups that are not directly accessible may require conducting Internet searches or seeking outside sources on industry stakeholders. Information gathering should be a regular part of the business. Customer surveys should be a standard process. Employee surveys and feedback mechanisms provide valuable insights on issues that affect the workplace.

How do company activities affect the stakeholder groups? Look for where the values of stakeholders groups and their concerns intersect with the company value chain, such as raw material procurement, production, marketing, or product usage. For example, employees who value health and safety may care about the toxicity of chemicals in the production process, the air and water quality of the workplace, and voluntary wellness programs. Customers may value reliable product quality that could influence their acceptance of product modifications to use less expensive material or reduce portion size. By understanding which stakeholder groups have more concerns in certain business activities, the management of each functional area can focus on their most salient stakeholders.

Top management guides the organization on the level of stakeholder engagement. Dialogue with stakeholders on critical issues with a high business impact may reside at the executive level of the company. Functional managers that maintain relationships with stakeholder

groups may be in a better position to address their issues. As one CEO indicated, “You want to embed engagement as a general mindset and competency of managers, not just something done by specialists” (Stakeholder Research Associates Canada Inc., United Nations Environment Programme, & AccountAbility, 2005a, p. 30). Decisions at the functional level include the amount of communication, level of dialogue, and the process for sharing information within the organization. Stakeholder information is not valuable unless shared with company decision makers.

The most critical step in stakeholder engagement is following up with stakeholder groups to report on progress in meeting their expectations. Managers cannot expect to meet all needs, as some will conflict with the needs of other stakeholder groups, and finding a win-win solution is not always possible. Communications with stakeholders need to be clear on what the company can and cannot do. If a company overpromises and does not deliver, the stakeholder group can feel ignored and take action in anger. Companies that initiate business in developing countries are often expected by the government to invest in infrastructure (e.g., roads and telecommunications) that the government should be providing. However, when a company refuses to comply with the government’s expectations, approval for business licenses may be withheld.

Summary & Resources

Chapter Summary

This chapter provides an overview of corporate social responsibility and stakeholder influence on company behavior. Businesses view social responsibilities through different lenses, from a risk management approach to a strategic approach. Companies can view corporate social responsibility as obligations to meet the economic, legal, ethical, and philanthropic needs of stakeholders. Strategic approaches include corporate citizenship, strategic philanthropy, cause marketing, and creating shared value. Strategic corporate social responsibility can create a competitive advantage by facilitating a favorable business environment and fostering growth opportunities. Developing capabilities for a stakeholder perspective can provide a competitive advantage for the firm. Companies need to identify stakeholders and their issues, understand how stakeholders are impacted by company actions, and develop effective engagement strategies to communicate or dialogue with key stakeholder groups.

Key Terms

board of directors A group of individuals elected as representatives of the shareholders to manage the company.

cause marketing A form of strategic philanthropy in which charitable contributions are based on purchases of a product.

corporate citizenship A managerial approach to commit to responsible business policies and practices with a strategic focus on serving communities.

corporate governance A management system that provides oversight, accountability, and control for meeting company objectives.

cross-sector alliance A collaboration among business and one or more economic entities, such as nonprofits or government agencies, to solve a social issue.

fiduciary duty Management of a company in a way that protects its shareholders.

governance The degree that a company manages its business fairly and transparently with high ethical business standards.

officers The chief executive officer and top management responsible for setting the direction of the company under the direction of the board.

primary stakeholders Individuals or groups whose continued association are necessary for a firm's survival and often include customers, employees, suppliers, investors, and shareholders.

salient stakeholders Stakeholder groups to whom a company must devote the most attention.

secondary stakeholders Individuals or groups that can influence the firm or be influenced by the firm, but are not directly necessary for the firm's survival.

shared value Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.

shareholder orientation Company focus on profits and consideration of the shareholders as the primary stakeholder in the firm.

social contract A basic agreement that defines the broad duties of a business to retain society's support.

stakeholder map An illustration of a company's stakeholder groups and their relationships with the firm and each other.

stakeholder orientation The extent to which an organization understands and addresses stakeholder demands in daily operations and strategic planning.

strategic philanthropy Linking social initiatives that support commercial objectives by using the organization's core competencies and resources to address broader social, customer, employee, and supplier problems and needs.

Critical Thinking and Discussion Questions

1. Provide an example from an actual business on how it is meeting (or not meeting) the company's economic, legal, ethical, and philanthropic responsibilities to customers.
2. Consider how the business model of Blue Star Recyclers allows for competitive positioning in the electronics recycling industry. How does hiring workers with autism provide a competitive advantage? How could companies learn from Blue Star's example?
3. The World Health Organization (2014) estimates that approximately 59 million African children suffer from hunger (2013 data). What innovative solution could companies come up with to address this social need? What challenges would they likely face? How might they overcome them? Which stakeholders could they work with to do so?
4. Consider IKEA's discovery that its iconic meatballs contain traces of horsemeat. IKEA sells an estimated 150 million meatballs at their furniture stores and through grocery stores. The meat comes from slaughterhouses in Europe that cut costs by mixing horsemeat into ground beef products. Which stakeholder groups are involved in this situation? How much power does each group have to influence the company? Recommend how the company should engage with the stakeholder groups.

Suggested Resources

Business for Social Responsibility

<http://www.bsr.org/>

Corporate Social Responsibility Newswire

<http://www.csrwire.com/>

Shared Value Initiative

<https://www.sharedvalue.org/>

GlobalEdge Resources

<http://gloaledge.msu.edu/global-resources/social-responsibility>

The Ceres Roadmap for Sustainability (“The Ceres Roadmap”)

<http://www.ceres.org/roadmap-assessment/about>

