Chapter 2

Stakeholder Relationships, Social Responsibility, and Corporate Governance

Stakeholders Define Ethical Issues in Business

- Stakeholders are those who have a **stake** or claim in some aspect of a company's products, **operations, markets, industry** and outcomes:
  - Customers
  - Employees
  - Government agencies

  - Investors
  - Suppliers
  - Communities

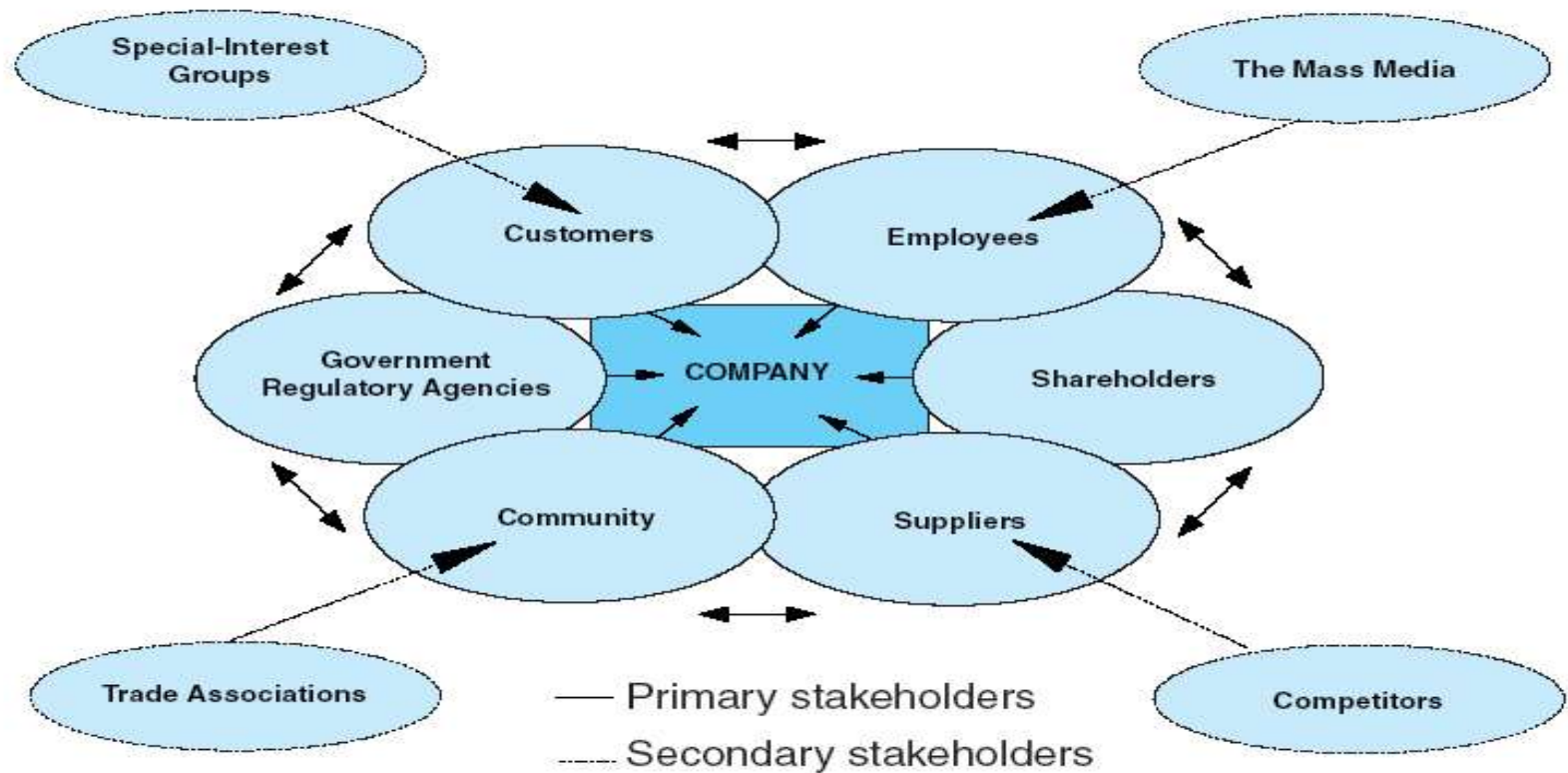- Stakeholders provide **tangible** and **intangible** resources critical to a firm's success.

Types of Stakeholders

- Primary stakeholders are those whose continued association is absolutely **necessary** for a firm's **survival.**
  - Employees, customers, investors, governments and communities
- Secondary stakeholders do not typically engage in transactions with a company and are therefore **not essential** to its survival.
  - Media, trade associations, and special interest groups

Interactions Between a Company and Its Primary and Secondary Stakeholders

FIGURE 2-2   Interactions Between a Company and Its Primary and Secondary Stakeholders

Special-Interest Groups

The Mass Media

Customers

Employees

Government Regulatory Agencies

COMPANY

Shareholders

Community

Suppliers

Trade Associations

Competitors

—— Primary stakeholders

----- Secondary stakeholders

Source: Adapted from Isabelle Maignan, O.C. Ferrell, and Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility in Marketing," *European Journal of Marketing* 39 (2005): 956-977. Used with permission.

2-4

Stakeholders

- Stakeholder orientation is the **degree to** which a firm **understands** and addresses stakeholder **demands**. Involves three activities:
  - Generation of data about stakeholder groups to **identify** which is relevant to firm
  - Distribution of the information throughout the firm by **employees& managers**
  - The responsiveness of every level of this to this intelligence helps the firm to **impact positively** on stakeholders

Relationship Between Social Responsibility and Profitability

- Business ethics comprises principles and standards that guide behavior in business.
- Social responsibility is an organization's obligation to maximize its positive impact on stakeholders and minimize its negative impact.
- Four levels of social responsibility
  - Economic
  - Legal
  - Ethical
  - Philanthropic

Steps of Social Responsibility

FIGURE 2-3   Steps of Social Responsibility

Philanthropic: "giving back" to society

Ethical: following standards of acceptable behavior as judged by stakeholders

Legal: abiding by all laws and government regulations

Economic: maximizing stakeholder wealth and/or value

Source: Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility," *Business Horizons* (July-August 1991): 42, Figure 3

Corporate Citizenship

- Four interrelated dimensions of corporate citizenship:
  - Strong sustained economic performance
  - Rigorous (strict) compliance (conformity)
  - Ethical actions beyond what is required by the law
  - Voluntary contributions that advance reputation and stakeholder commitment

Corporate Citizenship

How does the firm act on its commitment to the corporate citizenship philosophy? Does it measure the extent to which it follows through by implementing initiatives?
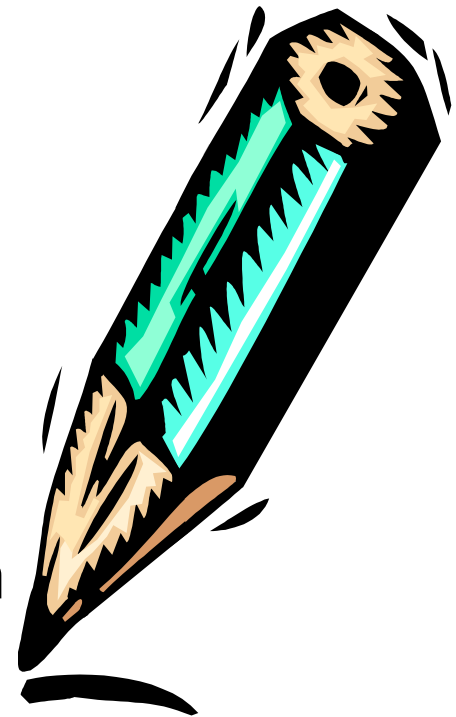
Corporate Governance

- The formal systems of accountability, supervising, and control
- Accountability
  - Refers to how closely workplace decisions are aligned with a firm's stated strategic direction
- Oversight, (supervising)
  - Provides a system of checks and balances that limits employees and manages opportunities to deviate
- Control
  - The process of auditing and improving organizational decisions and actions

Corporate Governance Issues

- Shareholder rights
- Risk management
- Executive compensation
- Auditing and control
- Board of directors composition
- CEO selection and termination decisions
- Integrity of financial reporting
- Shareholder participation and input level
- Compliance with corporate governance reform
- CEO's role in board decisions
- Organizational ethics programs

Corporate Governance

- **Shareholder model**
  - Founded in classic economic precepts, including the maximization of wealth for investors and owners
- **Stakeholder model**
  - Adopts a broader view of the purpose of business that includes satisfying the concerns of other stakeholders, from employees, suppliers, and government regulators to communities and special interest groups

Corporate Governance

- Fiduciaries
  - Persons placed in positions of trust who use due care and loyalty in acting on the behalf of the best interests of the organization
- Both directors and officers of corporations are fiduciaries for the shareholders
- Issues related to corporate boards and directors
  - Accountability
  - Transparency
  - Independence

The Role of Boards of Directors

- Ultimate responsibility for their firms' success or failure, as well as for the ethics of their actions
- Increased demands for accountability and transparency
- Trend toward "outside directors" chosen for their expertise, competence, and ability to improve strategic decision making
- Issues of executive compensation

Issues of Executive Compensation

- Evaluate the extent to which executive compensation is linked to performance.

- Does performance-linked compensation lead to a short-term focus at the expense of long-term growth?

Implementing a Stakeholder Perspective

- Step 1: Assessing the corporate culture
- Step 2: Identifying stakeholder groups
- Step 3: Identifying stakeholder issues
- Step 4: Assessing organizational commitment to social responsibility
- Step 5: Identifying resources and determining urgency
- Step 6: Gaining stakeholder feedback