Stakeholders and Corporate Social Responsibility

History

Sparked by the labor movement, the concept of Corporate Social Responsibility (CSR) has only been in existence since the 1950's. Society began to expect companies to accept additional social responsibilities outside of the fundamental business functions, including being profitable and obeying the law.

Starting in the 1960's and 1970's, the civil rights movement and environmental protection agencies influenced the way consumers looked at businesses. Consumers believed that those with great power also had great responsibility to positively influence people, the environment, and society. Businesses were called on to help solve global problems, aimed at making the world a cleaner, safer, and more productive place. This view was based on the concept that businesses should extend beyond their required economic and legal responsibilities to accept ethical, moral, and discretionary responsibilities in order to improve society. This view became the foundation for what we know in today's business world as Corporate Social Responsibility.

In order to completely understand the context of Corporate Social Responsibility, you must first understand the role of stakeholders for an organization. The next section will describe the role of stakeholders.

Stakeholders

By definition, *stakeholders* are the individuals or groups that have an interest in the organization and are affected by its actions. Stakeholders are customers, employees, suppliers, board of directors, owners, shareholders, government agencies, unions, political groups, the media, and others. Within the broad spectrum of stakeholders, stakeholders can be broken into two different groups: primary stakeholders and secondary stakeholders.

Figure 1: Organization Stakeholders

Primary stakeholders have a vested interest in how the organization performs and the actions it engages in to conduct business. Examples of these types of stakeholders are customers, employees, suppliers, board of directors, owners, and shareholders. Primary stakeholders benefit from a well-run company but are also harmed by the organization's mishaps. Primary stakeholders directly affect the success and failure of the company.

Secondary stakeholders can influence, both positively and negatively, the actions of the organization. They indirectly affect the organization by taking actions to make it difficult for the organization to succeed or by supporting the organization's efforts. Examples of secondary stakeholders are government agencies, regulation agencies, trade unions, labor unions, political groups, social groups, and the media.

One of the primary functions of a business is to serve the needs of its stakeholders, also known as *stakeholder responsibility*. However, more and more businesses are taking this responsibility one step further by seeking out ways to address global issues to ultimately make the world a better place. These actions are referred to as Corporate Social Responsibility (CSR). The next section will explore the topic of CSR and how businesses can incorporate social responsibility into their operating philosophy.

Corporate Social Responsibility

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

Organizations that adopt CSR have moral, ethical, and discretionary responsibilities in addition to their economic and legal obligations. They have a broader view of responsibilities that include not only primary stakeholder requirements, but secondary stakeholder wants, needs, and desires. The pyramid below provides a visual representation of the responsibilities for an organization that adopts CSR as part of their business mission.

Figure 2: Corporate Social Responsibility Pyramid

As the Corporate Social Responsibility Pyramid indicates, businesses have four levels of responsibilities to achieve excellence in corporate stewardship.

The first and most basic level is referred to as *economic responsibility.* A business must be profitable to remain economically responsible and to remain in business. By being profitable, businesses give back to society by providing jobs to employees and producing goods and services wanted by consumers. The goal of the company at this level of the CSR Pyramid is to maximize profits for shareholders and owners.

Moving up to the next tier of the Corporate Social Responsibility Pyramid, a business is obligated to obey the law to achieve *legal responsibility*. Businesses are required to be profitable within the defined legal structure. Government agencies and regulators establish laws and regulations for businesses to follow. Global stakeholders require businesses to meet country, state, and city legal responsibilities. For example, businesses are legally expected to follow city building requirements when constructing a new office building.

Next, a business not only follows the law, but does what is ethically and morally right, referred to as *ethical responsibility*. Business decision makers must use fairness, equality, and respect to achieve desired organizational goals. Global stakeholders expect a company to be morally and ethically responsible. For example, it is ethically responsible for companies to recycle materials, such as paper, glass, and metal.

Lastly, at the highest level of the CSR Pyramid, a business gives back to society through philanthropic contributions, known as *discretionary responsibility.* Discretionary responsibility is voluntary and is not financially, legally, or ethically required. The goal of businesses at this level of the CSR Pyramid is to improve the welfare of the community and society as a whole. For example, a business that participates in a winter coat drive or hosts a food drive for a local food bank are considered discretionary responsible. Being a good corporate citizen is what global stakeholders ultimately desire.

CSR is a highly complex topic. The social issues and ethical problems facing today’s businesses did not even exist a decade ago. Organizations are pressured to meet higher expectations by consumers, managers, stockholders, government agencies, and environmental regulators. It is no longer good enough to be profitable. A business must also meet high levels of moral, ethical, and discretionary standards. In response to these expectations, most businesses have risen to the challenge by engaging in activities that better society. Research supports the notion that organizations that act socially responsibly experience high levels of performance. While the initial intent of an organization to adopt CSR may not be for financial reasons, the financial benefits cannot be ignored.

Summary:

- *Primary stakeholders* have a vested interest in how the organization performs and the actions it engages in to conduct business.
- *Secondary stakeholders* indirectly affect the organization by preventing the organization from succeeding or by supporting the organization's efforts.

- *Corporate Social Responsibility* (CSR) is a self-regulation mechanism whereby an organization actively monitors society, the environment, global trends, ethical principles, and legal standards for compliance.
- The CSR Pyramid indicates businesses have to achieve four levels of responsibilities for corporate stewardship excellence:
    1. *economic responsibility* is a basic business function where a business must remain profitable;
    2. *legal responsibility* means a business is obligated to obey the law;
    3. *ethical responsibility* requires a business to not only follow the law, but also do what is ethically and morally right; and
    4. *discretionary responsibility* is the highest level of CSR where a business voluntarily donates to philanthropies.
- Organizations that act socially responsibly experience high levels of performance.