CHAPTER 2

Stakeholder Relationships, Social Responsibility, and Corporate Governance

Relationships and Business

- Building relationships is one of most important areas in business today
  - Can be associated with organizational success and misconduct
- **Stakeholder framework**
  - Helps identify internal and external stakeholders
  - Helps monitor and respond to needs, values, and expectations of stakeholder groups
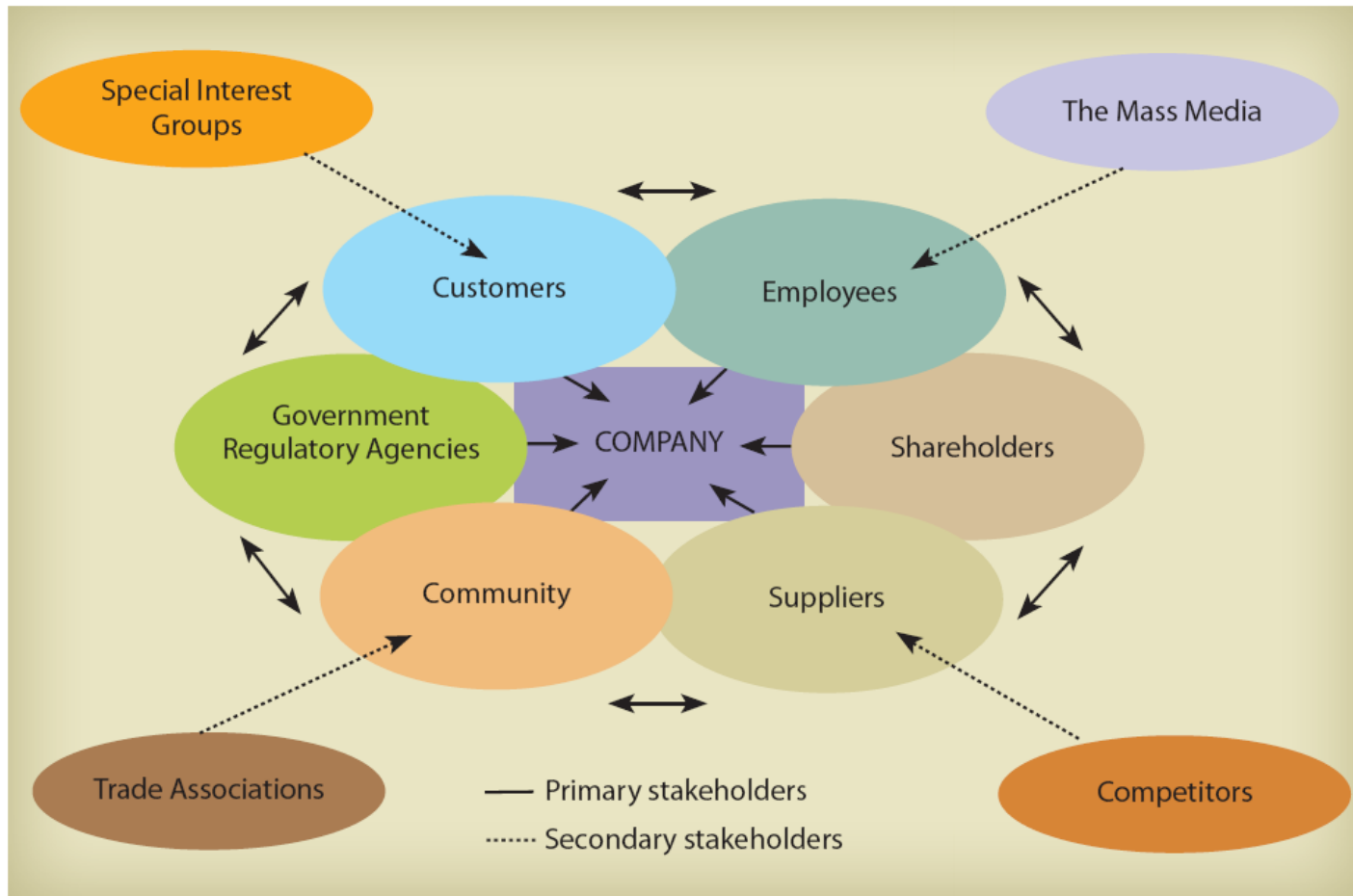

Source: Stockbyte

What Is a Stakeholder?

- **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 can influence and are influenced by businesses

Primary vs. Secondary Stakeholders

- **Primary stakeholders**: Those whose continued association is necessary for a firm's survival
  - Employees, customers, investors, governments and communities
- **Secondary stakeholders:** Are not essential to a company's survival
  - Media, trade associations, and special interest groups

The Stakeholder Interaction Model

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.

Stakeholder Orientation

- The degree to which a firm understands and addresses stakeholder demands

- Three activities:
    - Generation of data about stakeholder groups
    - Distribution of the information throughout the firm
    - Organization's responsiveness to this intelligence

Source: Digital Vision

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

Source: Nancy Ney

Social Responsibility and the Importance of Stakeholder Orientation

- From a **social responsibility** perspective, business ethics embodies standards, norms, and expectations that reflect concerns of major stakeholders
- Social responsibility is associated with:
  - Increased profits
  - Increased employee commitment
  - Greater customer loyalty

Best and Worst Companies for Social Responsibility

Best Companies	Worst Companies
1. Anheuser-Busch	1. Circuit City Stores
2. Marriott International	2. Family Dollar Stores
3. Integrys Energy Group	3. Dillard's
4. Walt Disney	4. Sears Holding
5. Herman Miller	5. Tribune
6. Edison	6. Hon Hai Precision Industries
7. Starbucks	7. Fiat
8. Steelcase	8. PEMEX
9. Union Pacific	9. Surgutneftegas*
10. Fortune Brands	10. Huawei Technologies*

*tied

Source: From *Fortune*, "America's Most Admired Companies, Social Responsibility." Copyright © 2009 Time Inc. All rights reserved. March 16, 2009, http://money.cnn.com/magazines/fortune/mostadmired/2009/best_worst/best4.html (accessed August 4, 2009).

Social Responsibility and Ethics

- **Social responsibility** can be viewed as a contract with society

- **Business ethics** involves carefully thought-out rules (heuristics) of conduct that guide decision making

The 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: Toward the Moral Management of Organizational Stakeholders," *Business Horizons* (July–August 1991): 42, Figure 3.

Corporate Citizenship

- The extent to which businesses strategically meet their economic, legal, ethical, and philanthropic responsibilities

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

Reputation

- **Reputation** is one of an organization's greatest intangible assets with tangible value
  - Difficult to quantify, but very important

Source: Digital Vision

The World's Most Ethical Companies

Trader Joe's	Salesforce.com, Inc.
Xerox	Honeywell International
Nike	Texas Instruments, Inc.
T-Mobile	Unilever
Intel Corporation	Rockwell Automation
General Electric	Waste Management
PepsiCo	Zappos.com
AstraZeneca	Dell Inc.
Stonyfield Farm	Cisco Systems
General Mills	IKEA

Source: "2009 World's Most Ethics Companies," Ethisphere Institute. http://ethisphere.com/wme2009/ (accessed June 2, 2009).

Corporate Governance

- Formal systems of accountability, oversight, and control
- **Accountability**
  - Refers to how closely workplace decisions are aligned with a firm's stated strategic direction
- **Oversight**
  - Provides a system of checks and balances that limits employees and minimizes opportunities for misconduct
- **Control**
  - The process of auditing and improving organizational decisions and actions

Common Corporate Governance Issues

Executive compensation

Composition and structure of the board of directors

Auditing and control

Risk management

CEO selection and termination decisions

Integrity of financial reporting

Stakeholder participation and input into decisions

Compliance with corporate governance reform

Role of the CEO in board decisions

Organizational ethics programs

Corporate Governance Models

- **Shareholder model**
  - Founded in classic economic precepts
  - The maximization of wealth for investors and owners
- **Stakeholder model**
  - A broader view of the purpose of business
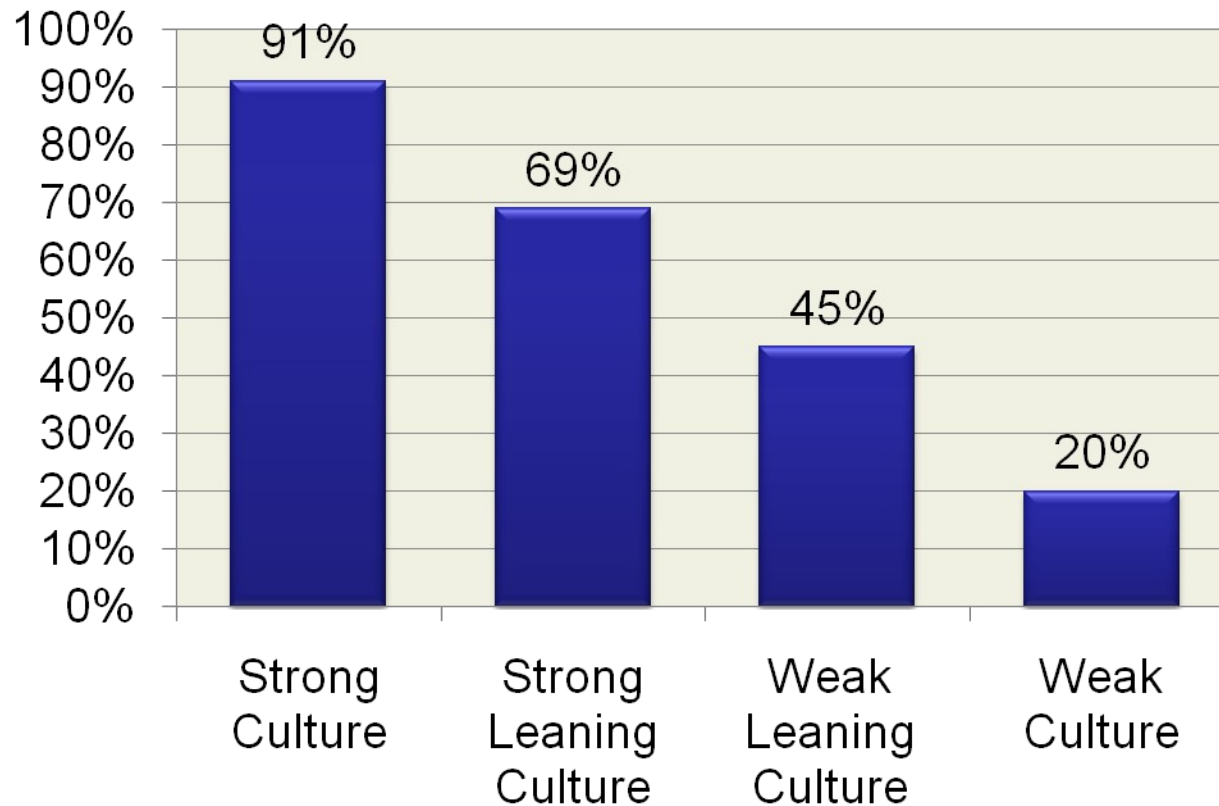 - Includes satisfying concerns of a variety of stakeholders

Boards of Directors

- Hold final responsibility for their firms' success, failure, and ethicality of actions
- Increased demands for accountability/ transparency
- Trend toward "outside directors" chosen for expertise, competence, and strategic decision making
- Executive compensation a large and growing concern

Executive Compensation

- Many boards spend more time discussing compensation than ensuring integrity of financial reporting systems
  - How closely linked is executive compensation to company performance?
  - Does performance-linked compensation encourage executives to focus on short-term performance at the expense of long-term growth?

Percentage of U.S. Workforce Who Feel Executive Compensation Is Appropriate, Based on Ethics Cultural Strength

Source: 2009 National Business Ethics Survey, Ethics Resource Center, p. 27

The Reactive-Accommodative-Proactive Scale

Rating	Strategy	Performance
Reactive	Deny Responsibility	Doing less than required
Defensive	Admit responsibility, but fight it	Doing the least that is required
Accommodative	Accept responsibility	Doing what is required
Proactive	Anticipate Responsibility	Doing more than is required

Implementing a Stakeholder Perspective

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