The Corporate Social Responsibility and Stakeholder Management

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dr **Biljana Predić**[1], mr **Maja Ivanović-Djukić**[2]
[1] *Faculty of Economics Niš bpredic@ptt.yu*[1]
[2] *Faculty of Economics Niš maja.djukic@eknfak.ni.ac.yu*

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Over the past decade, enterprises are put under a strong pressure of different stakeholder groups and there have been a lot of ethical and social problems such as murder crimes, smoking at the workplace, AIDS at the workplace, sexual harassment at the workplace etc. It is for these reasons that managers pay an increasing attention to corporate social responsibility and stakeholder management. At the same time a higher level of corporate social responsibility and ethical behavior towards stakeholders make it possibile for the firm to build a high reputation in society, and to acquire a competitive advantage. Therefore the corporate social responsibility and stakeholder management are increasingly becoming the focus of attention.

1. Introduction

The needs for social responsibility are increasingly higher in the modern business environment, making the responsible conduct and relationships with stakeholders the key factors of success. An increasing attention paid to corporate social responsibility has not been a voluntary process. A large number of companies became aware of the need for social responsibility only after they were taken aback by the public reaction to some of their former imprudent acts that shockd the public. The "Nike", for example, faced a strong customers' boycott after the "New York Times" and other media reported on the horrible treatment of workforce in the suppliers' factories in the early 1990s. The decision of the "Shell Oil" company to bury their obsolete oil-refining technology (Brent Spar) into the North Sea faced a strong opposition from the environment protecting organizations and was condemned in a host of articles in international journals in 1995. Such examples are numerous. And so the activities of all types of organizations have recently been under an increasing pressure of the public demand that their activities be conducted in a socially responsible manner [1 pp. 78-94].

This increasing demand for social responsibility was further supported by the globalization process, the multinational companies' expansion and the emergence of numerous ecological problems. Traditionally, the care about the companies' social responsibility was the concern of the Governments of states. With the globalization process the enterprises expanded beyond the national boundaries therefore the manufacturing, sales, payment … processes do not end in one country and, consequently, the government of that one country does not have an insight into (cannot control) the company's business. Liberalization of foreign trade has simultaneously resulted into an enormous increase in foreign trade transactions. These transactions caused vast investments and eliminated the financial barriers, thus enhancing the mobility of multinational corporations. As companies expand, the chances that the states monitor and control their work are further reduced. Thus the governments have limited possibilities to monitor and control to what extent the multinational companies observe ethical and legal regulations and standards. It is for these reasons that the multinational companies are expected to exert a much higher level of ethics and social responsibility in their behaviour.

The problems of corporate social responsibility are increasingly visible due to the expansion of global corporations that cause many social problems. It is the corporation's responsibility, then, to solve these problems worldwide. It is also the long-term interest of global companies to solve social problems since this gives them an opportunity to avoid legal limitations in certain countries and build a reputation in the society. Solving social problems comes at a price. By successfully solving social problems and suffering some expences the company shows it is ahead of its competition. These arguments are especially relevant in a global competitive environment, since, if the company is doing business in a number of countries, it means it will solve social problems in each of them.

Technology development is also responsible for the emergence of social problems. For example, the access to the Internet enables the company to use a less expensive, but more efficient marketing and sales of products and services, however it brings the danger of abusing a lot of information, and this gives rise to the problem of protection and safety. Companies in the field of biotechnology are faced with ethical and social problems of genetic engineering, cloning, etc. Technology growth does offer more opportunities to the companies, however it burdens them with an ever greater social and ethical responsibility.

Another serious problem that highlights the importance of social responsibility is the emergence of alarming environment-related problems, such as air pollution, acid rains, radioactive waste, ozone layer damage and similar global problems. These incited the socio-economic awareness that made the companies pay more attention to social responsibility, since they directly affect different eco-systems and social welfare. The newly created awareness of the need to solve environmental and social problems made it a must for scientists and company managers to approach the company social responsibility issue in a more serious way.

Regardless of the fact that a higher level of social responsibility means higher costs in the company's business operations, it appears that the company's operations with the regard to the environmental and social needs do not collide with profit making. On the contrary, it may significantly increase its competitive advantage. Investing into social responsibility affects value creation in the company, both directly and indirectly. It is true that investment into elements of environmental protection and philantropic behaviour means larger short-term expenses to the company, however, in increasing the safety and product quality the company builds positive reputation which has a favourable impact upon a long-term value creation and therefore these issues atrract more and more attention. The corporation can build a good reputation only if it is socially responsible. For these reasons the practice of successful companies increasingly stresses the importance of social responsibility, while it becomes a frequent subject of academic study by the scientists from various fields of economics.

2. Social responsibility concepts and stakeholder management development

The corporate social responsibility (CSR) means a serious concern about the impact of the company's activity upon the society. The idea of social responsibility demands that individuals and organizations be aware of the impact of their activities upon the social system as a whole and insists that they act with responsibility in conducting any activity that may affect the system. These ideas on corporate social responsibility are not new, they are present in the mind and in the practice of the company since the moment it is set up, however, they are expressed differently. The first ideas on social responsibility that theory knows date back into the year 1899, to Andrew Carnegie's "the Gospel of Wealth". He was the first to write about the need that a company help and improve the society and the environment it operates in. In the 1930-1950 period the state's influence becomes greater. The social responsibility at that time is focused on increasing the social welfare of the employees (retirement and insurance plans), their safety, health care, pension plans, etc. [2 pp. 395-403].

Since the 1950s a modern concept of corporate social responsibility is developed in which the key issues refer to moral standards and ethical behaviour such as: product safety, truthful marketing, employees' rights, opportunities for promotion, environment protection, etc. Since the 1960s strong human rights movements and those promoting consumerism, environmentalism, etc. emerge, generating new demands to companies. A general idea was that the one who has great power, should have big responsibility. Hence numerous organizations were invited to act proactively in search of the causes of social problems and finding solutions to them. Many companies became concerned with the safety of their products, environmental protection, providing opportunities and promoting the employees, etc. Such issue of concern was corporate ethical responsibility too. Moreover, the society now expected the company to participate in problem solving on a voluntary basis, regardless of whether it was affected by the problems concerned or not. In 1970s, however, due to a large number of problems (stagflation, inflation and unemployment increase, oil prices rise, greater operational costs in companies partly due to the previously enacted laws on consumers' interests protection and environmental protection) that threaten normal functioning of the company, Milton Friedman returns to the classic interpretation of social responsibility.

Such an attitude was largely criticised since the behaviour directed only towards satisfying one's own interests may harm the others and have a negative impact upon social welfare. A much more complex understanding of social responsibility arises, which says that business should be conducted in such a way that the influences of society be taken into account, therefore the organization is responsible to the society as regards the activities it carries out. One frequently quoted modern approach to social responsibility is the concept introduced by Archie Caroll. He combines various economic, legal, ethical and philantropic principles by observing to which extent the company does its duty to the society and creates positive relationships with the stakeholders. The company's key liabilities, according to him, are of economic, legal, ethical and philantropis nature, which he represents in the form of a pyramid, therefore the social responsibility pyramid is born [3 pp. 36-54].

Figure 1: *The Social responsibility pyramid*

Source: Archie C.: Business and Society: Ethics and Stakeholder Management, South-Western College Publishing, Cincinati, Ohio, 1966, p. 39.

The social responsibility theory allowed for the stakeholder management concept to develop and besome the prevailing one in the 1990s, in the conditions of high uncertainty of business, when the companies become largely dependant on the behaviour, expectations and objectives of a large number of varied interest (stakeholder) groups with whom they establish different relationships and interactions [4, p. 81]. This does not mean that there was no awareness of the presence and impact of interest groups before 1990s. For example, Preston quotes that 4 interest groups were identified in the General Electric Company as early as 1930: customers, employees, shareholders and social commuity. Their interests had to be taken into consideration since their influence upon the company's successful performance was great [5 pp. 361-375]. Such examples however were scarce in the theory and the practice of management. The earliest serious academic research and explanations of stakeholder management are associated primarily with Edward Freeman, who gives a detailed explanation of the notion of stakeholder, presents certain definitions of stakeholders and offers basic theoretical analyses of stakeholders in his "Strategic Management", published 1984.

According to Freeman, the term stakeholder was first used on the memorandum of the Stanford University, in 1963, and he adopts it in order to warn the management that it was of great importance that they should pay attention to the interests and expectations of those whose influence is not negligible, or who are affected by the company's business operations. Therefore he defines stakeholders in the following way: [6 pp. 364-369]

- Stakeholders are groups whose support help the company survive;
- Stakeholders may be any group or individual that affects or is affected by the performance in the organizational objectives achievement.

A rather detailed explanation of the notion and a definition of stakeholders are supplied by Archie B. Caroll. According to Archie B. Caroll, stakeholders can be defined as individuals, groups or organizations with whom the company interacts or is in the relations of interdependence. He believes that the term "stakeholder" is derived from the term "stockholder", defining the owner of a certain job or an investor. Regardless of the fact that the term "stakeholder" is much broader compared to that of "stockholder" (since besides the stockholders it includes a large number of other individuals and groups concerned with the company's operations and having a certain share in it), the root of the word "stake" that means interest, investment, participation, primarily refers to the shareholders-owners who invested their own assets, who are most interested in the company's business operations and have a certain share in it [3 p.7].

At the same time, however, "stake" (as claim) means a demand, pretending, expectations, search of something. It is clear that the owner or a shareholder expects that the completion of a business operation should mean achieving some of his objectives, since he invested his money into the business. However, there are other individuals that also have certain expectations and demands, who did not invest the money, but some other elements that entitle them to some requirements and expectations (for example, the employees who invest their work, time and energy; then the suppliers who invested the results of their work, the customers who pay for the products; the state that expects that the reason of its existence should be justified and that a certain social need be honoured, etc). They are all stakeholders. In addition to these, there is a host of other definitions and explanations of the term "stakeholder" that differ to a smaller or a larger extent. What is common to all these definitions is that they all view stakeholders as a very numerous and heterogeneous group of individuals and organizations, whose objectives frequently affect and precondition those of the company. In order that the survival and successful performance of the company be ensured it is necessary that they should be well managed. These are the reasons for the emergence of the stakeholder management concept. The concept means managing the company in such a way as to make it possible that the objectives of key stakeholders be achieved, so that they may have a beneficial influence upon the company's business operations [3 p.81].

3. A need for responsible behaviour of the company

Economy and society are two interrelated factors that are mutually preconditioned. Successful corporations need a sound society: education, health care, equality, productive workforce. Safe products and good working conditions are not only attractive for the customers, but they also reduce internal costs of accidents. An efficient exploitation of land, water, energy and other natural resources enhances business productivity. Effective management, regulations, laws and property rights make the essence of efficiency and innovation. Sound standards and regulations protect both the customers and the competing companies from exploitation. A sound society can be said to offer numerous opportunities to the companies; by increasing the demand for their products, offering productive resources, imposing highly ethical standards, it creates favourable conditions for the companies to do business efficiently and in fair competition conditions on the market. Therefore, by a responsible behaviour towards the society the companies create better business conditions, acquire resources by the transformation of which they create greater value, build higher reputation, and consequently achieve a more favourable competitive position.

The importance of responsible behaviour is further stressed by the following: moral obligations, sustainability, work licence and reputation. The moral appeal tells us that the company is obliged to be a good citizen and do the right things since its activities affect the society both directly and indirectly. Virtually every activity in the value chain affects the society, causing positive or negative effects. When companies are aware of their influence upon the society, the influence may be rather subtle. Sustainability refers to their responsibility towards their natural environment as well as to the political system in the society. Work licence refers to the obligations the company has to meet so that it should be issued a work licence by the state and acquire the support of internal and external stakeholders. And finally, the reputation means that if the company is socially responsible, it will build a more favourable image of itself and of the society, more powerful brands, etc. [1 pp. 78-94].

As the society consists of a large number of interest groups that directly or indirectly affect the company's business operations and whose expectations from the company are clearly set, the socially responsible behaviour means that the company should meet these expectations of key stakeholders and maintain correct relationships with the other stakeholder groups. Only if the company satisfies the key stakeholders' expectations can it expect to be able to do business effectively, since the achievement of the company goals is preconditioned by the behaviour of its key stakeholders. Andy Neely and Chris Adams depict the relationships between the company and its stakeholders in the following way: according to them, the stakeholders exert a certain influence upon the company's business operations and contribute to its achievements. The stakeholders' influence and the contribution will directly depend on the realization of their goals and their satisfaction with the company's results. Hence the stakeholders' satisfaction and their contribution to the company's business success are mutually preconditioned elements that they present as the bases of the prism. The amount of stakeholders' contribution to the company's success is preconditioned by the strategy, the processes and the company's competences, presented as lateral sides of the prism [7 pp. 7-15]. The graphical presentation of the prism is the following:

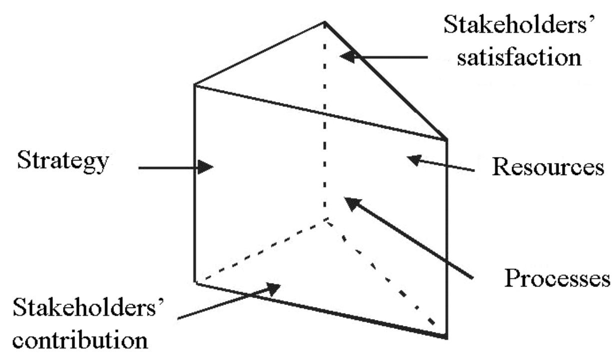

Figure 2: *Performance prism*

Source: Andy Neely and Chris Adams: The Performance Prism Perspective, Journal of Cost Management, 1-2/2001, pp. 7-15

Hence, to ensure a positive influence of stakeholders upon the company's business operations it is necessary to identify their objectives (as sources of satisfaction). Then the adequate strategy, processes and resources should be employed to coordinate and reconcile the key stakeholders' objectives to the objectives of the company.

A conclusion can be drawn that a need for responsible behaviour and creating fruitful relationships with key stakeholders is not only a philantropic one, but is also a precondition for the survival and success of the company, since the company's success and that of the society are mutually enhanced. Typically, a close relationship between the society and the company operations means a more purposeful employment of company's resources that in turn brings benefit to the society. On the other hand, the company works in a competitive environment that also affects its success in its strategy realisation. Social conditions are the key segment of this context. In creating a strategy, a competitive context has a considerably weaker impact compared to the value chain, but may be of a considerably greater strategic importance for both the company and the society. The competitive context consists of a number of elements [1 pp. 78-94]:

- the quality and quantity of important inputs – material and human resources (e.g. transport infrastructure, etc);
- rules and innitiatives that guide the competition (such as the intellectual property protection policy, transparency, safety against corruption, investment incentives, etc.);
- the volume and sophistication of demend, under the impact of such issues as the quality product standards and security, customer rights, fair relations with suppliers, etc.;
- local industries' support, such as providers, equipment and parts manufacturers etc.

Each of the quoted aspects of this context may considerably improve the company's competitive position and trigger a development of a social responsibility programme. For example, a chance of rectuitment and hiring experts they need can be a key source of competitive advantage. The expertise and knowledge of the local population largely depend on the local education system, presence of discrimination, level of development of information infrastructure, the information system level, etc. The company's investments into one of these elements bring benefits to the society, and return to the company in the form of higher competitive opportunities. For example, due to the problems in recruiting the programmers with appropriate expertise the "Microsoft Company" started collaboration with the American College Association (which is responsible for the education and training of 45 percent population in the U.S.A.) for the purpose of improving the college curricula and providing technical support to the Association's faculties. A five-year project worth $50 milion has been carried out to modernize the technology used in instruction and improve the knowledge of the lecturers in this field. The aim was to get the students acquainted with the latest achievements and trends in this field as well as to standardize the biographies of IT graduates so that in the recruitment process for a certain work post their skills should be already outlined. Thus the company brought substantial benefit to the society, and simultaneously provided itself with generations of prospective professionals who are the key value carriers and the source of competitive advantage [1 pp. 78-94].

This and a host of other examples show that there is an increasing demand for social responsibility and that modern companies are increasingly aware of this issue. And, while everybody clearly understands that irresponsible behaviour means great risk, not everybody is clear about what they should do. For these reasons many companies have not undertaken any radical strategic or operational steps but tried to solve the problem introducing only some "cosmetic" improvements (for example, improving their public relations activities, media campaigns, reporting on social responsibility in their annual reports, etc). Hence the measures the companies introduce and the social responsibility programmes vary to a large extent [1 pp. 78-94].

4. Social responsibility incentive measures

While everybody is aware that socially responsible behaviour brings benefits to both the company and the society, not everybody clearly understands what it is that should be done and what should be contained in the social responsibility programmes. One problem is that the issues related to social responsibility are generally assocoated with the ethics and relativism. The extent to which the companies will meet their obligations towards their stakeholders and support the achievement of their objectives depends on the legal regulations and the ethics of the management of the organization itself. The legislation affects all organizations in the same manner, while the ethics of the management varies from one organization to another, as well as from one management level to another. It is necessary that organizations define the scope of a minimal level of obligations they will always honour to their stakeholders and the society as a whole [8 p. 195].

On one hand, the level of socially responsible behaviour depends on the ethics of the management and the employees in the organization. On the other hand, the issues of social responsibility are not precisely stipulated, therefore one type of behaviour may be deemed responsible and moral by one group of stakeholders, while another group may condemn it as immoral and unethical. A large number of global companies, for example, conduct mass manufacture in the countries where the work force can be recruited cheaply, and where the state regulation is poor, and the environ-

ment protection and human rights standards are low. Foreign direct investments here enormously improve the economic and social development, therefore their behaviour is valued as ethical and socially responsible, due to which they are highly priviledged. Then these companies observe legal regulations, pay taxes and honour minimum standards related to work force and environment protection, however, they do not find themselves responsible for social problem solving. They observe the ethical and other standards only to the level that entitles them to economic and social stability in the society in which they do business, and these standards may be by far lower compared to the desired ethical standards of behaviour [3 p. 55].

In order that this problem be solved the issues of social responsibility have to be stipulated precisely and become obligatory for all organizations, the standards of their implementation and the institution to control their implementation should be established. Some of the key rules every company should observe are the following [3 p.59].

- manufacture and sell products that do not threat customers lives;
- avoid polluting water;
- observe the law in all aspects of business operations;
- promote sincerity, honesty, ethical behaviour among the employees;
- do not abuse advertising and commercials;
- grow environmentally-friendly relations;
- protect employees from sexual harassment;
- react promptly to customers' problems;
- provide health care for the employees;
- give away money to charity and education improvement;
- use nuclear-free materials;
- continually upgrade the quality; etc.

Sociological institutions in the form of sociological auditors have been formed or are still being formed in a large number of countries to control and evaluate the level of social responsibility of certain companies. In 1990 the "Domini index" was created in the U.S.A., to measure the organizational social responsibility. It was first implemented by Amy Domini, in 1990, in her analysis of 800 U.S.A. companies which she ranked according to the criteria of product quality, customer relations, results in environment protection standards implementation, philantropic behaviour, employee relations, etc. [9 p.51].

It is important that simultaneously a legal act (code of ethics) be established to regulate the behaviour of all the employes in the organization towards the stakeholders and the society in general (customers in general, unions, etc.). The code of ethics and the ethical behaviour programme creation is a legal obligation of companies in some countries, meant to promote the level of social responsibility. All the examples quoted are from the practice, whereas various theories stress an increasing importance of social responsibility and its impact upon the change in the manner of corporate behaviour as well as in the behaviour of managers [8 p. 235].

5. CONCLUSION

The awareness of socially responsible behaviour was present as early as the first companies were set up and has been shown since in various forms. In modern business conditions there is a clearly expressed demand for a corporate responsible behaviour. On one hand, numerous problems in the environment (environmental, sociological, etc.) demand that the company be included into problem solving and prevent these problems from getting more serious. On the other hand, a consequence of the globalization in business is that the company's business activities expand beyond the boundaries of one country, therefore the governments are not in a position to control the behaviour of numerous global companies, but insist on improving their social awareness and responsible behaviour.

A higher level of socially responsible behaviour means more expenses for the company to suffer. However, the company's socially responsible behaviour is the basis of good reputation, the loyalty of most profitable customers, of attracting highly talented work force etc., which is a precondition of competitive advantage in modern business conditions. It is for these reasons that in the modern business conditions the companies pay increasing attention to social responsibility.

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