

Stakeholder expectations and corporate social responsibility



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Stakeholders can be primary or secondary (Clarkson, 1995). Primary stakeholder groups comprise of employees, customers, investors, suppliers, government, and community with whom the corporation may have a formal, official or anybody who has claimed on the firm's even though it is not significant. They consist of both internal and external stakeholder groups. Internal stakeholders comprise of employees and investors which are shareholder or bondholder, external stakeholders are the customers, communities, suppliers, government, and the environment which claimed on the firm's if any damage occurs. Secondary stakeholders are media and special interest groups towards a firm where they didn't have any contact with the firm, they just act like a spectators.

Stakeholder theory has a number of strengths and weaknesses in its capacity to address issues of low-wage work. Classifying a group as a stakeholder has moral import (Phillips, 1997, 2003; Cragg, 2002) and significant outcomes (Greenwood and Anderson, 2009) which means that the classifying the stakeholder can ensure that their problems can be treated accordingly after it has been identified. This theory can help various organizational functions such as Human Resource Department become more aware of their activities that will affected the stakeholder which are usually from low wage workers. The less understanding about a the stakeholder needs and will lead to disappointment to both parties especially if they ignore or didn't acknowledgement and centrality of moral content in business decision making; thus holding the universal appeal of the attribution of morality to both stakeholder and the management.

Leaders of a management are questioned with reminders of the importance associated with creating a compelling and shared vision between them and the stakeholders. Given the current economic challenges faced by organizations, the vision of an organization may become more important than ever and the participation from the stakeholder may help the management in making decision accurately. Consequently, it may leads the management to revise and re-evaluate organizational visions with the intent of more interference and discussion with the stakeholders which are quite important toward the successfull of the firm.

Stakeholders

Stakeholder theory is both related to and distinct from work within corporate social responsibility (CSR) because the stakeholders are the claimant of anything that reflected the firm's decisions. CSR encompasses the wide proposition that business organizations have to ethically responsible beyond maximizing profit for shareholders and obeying the law that has been regulate by the government. Corporate social responsibility may seek to bring about positive impact on stakeholders such as employees and the shareholders beyond what would occur through employment relationships with the owner which has been bound by the workplace regulation.

In general corporate social responsibility are connected with how good the stakeholders are treated by organizations in seeking to describe additional expectations for business organizations and their managers. Every organization inherently has a multitude of internal and external stakeholders, each possessing some vested interest in the organization.

While the relative importance and claims of each stakeholder group can be <https://assignbuster.com/stakeholder-expectations-and-corporate-social-responsibility/>

argued, the primary stakeholders, those closest to the organization, are likely to have the greatest interest in the perpetuity of the entity. Indeed, key primary stakeholders such as employees, customers, and owners/investors have a considerable interest in the long-term viability of the organization. Consequently, it is also likely that these stakeholders might have an intense interest in the vision of the organization. This contention is bolstered by the likely effects that the recent economic crises have had on these primary stakeholders. Media reports replete with examples of organizational downsizing, closure and liquidation have likely heightened levels of uncertainty and fear among these primary stakeholders who have financial resources at stake.

Change in the external environment must, by necessity, lead to a re-evaluation of the strategic direction of the organization. This, in turn, may require a re-thinking of the organization's strategic vision. Directly involving primary stakeholders in the visioning process may enhance the planning process associated with possible change by providing leadership with key insight regarding potential barriers that may impede the change process, as well as unknown driving forces that may accelerate the change process. Further, by directly engaging the primary stakeholders, especially the employees, in the visioning process, there is an increased likelihood that they will be supportive of future changes related to the vision.

The magnitude of effects felt by organizations as a result of the recent economic crises has left some organizations in a state of disarray, somewhat akin to a medical patient being in critical condition. For these organizations, the most pressing issue or priority is the engagement of strategic initiatives

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that will help facilitate recovery. While the visioning process is typically viewed as the development of long-term ideals, the process may also generate some short-term benefits aiding in the recovery process. Since primary stakeholders are intimately aware of the specific dynamics, circumstances, and consequences associated with the economic crises, they are uniquely positioned to offer collective insights regarding strategic missteps or oversights that could have made the impact of the economic crises less severe. Conversely, even in situations where the impact of the economic crises may have been virtually impossible to avoid, primary stakeholders may have learned from events related to these crises that can be useful in shaping a renewed vision that will better position the organization to weather similar storms in the future.

It has become almost cliché that employees are an organization's most valuable resource. At the risk of being overly redundant, it is important to recognize that these employees are even more valuable given the current level of uncertainty in the global environment. Without employees, a vision is meaningless because there are no resources to enact the vision. Likewise, customers and owners or investors also become more valuable during times of economic uncertainty since they represent the financial resources necessary to sustain organizational operations. Losses of any of these primary stakeholders could have significant, negative implications for the survival of the organization. Thus, efforts to retain employees, customers and owners or investors are of paramount importance.

At the very least, an awareness that management are undertaking the visioning process during uncertain economic times alerts primary

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stakeholders to the fact that leadership is actively engaged in trying to better position the organization within a shifting organizational context. This awareness of the visioning process may encourage stakeholders who are on the brink of separating from the organization to reconsider. More importantly, efforts to directly involve primary stakeholders in the visioning process send a powerful message to these groups that their input and continued involvement in the future of the organization are valued by leadership. Since we all possess the desire to feel needed, this renewed sentiment of being needed may prompt primary stakeholders to renew their commitments to the organization.

Power and powerlessness

Mitchell et al. (1997) note simply that power is the ability of those who possess it to bring about a desired outcome or a decision to be made, to impose their will in a relationship. Possessing power means that one has the ability to force someone else to do something. It is true that the power of shareholders has limits. Shareholders do not manage the day-to-day affairs of the corporation, for example. Mitchell et al. (1997) suggest that shareholders possess power that is often latent. But when shareholders are dissatisfied, their power to vote for changes in corporate control is significant. Here, even latent power puts real limits of what management can do to shareholders.

Uncompensated risk bearing and consent

In his work on fairness in stakeholder relationships, Phillips (1997, 2003) drew upon Rawls' (1971, 2001) idea of cooperative ventures as the starting point for his principle of fairness. Rawls proposed that society be thought of <https://assignbuster.com/stakeholder-expectations-and-corporate-social-responsibility/>

as a cooperative venture that must be underpinned by principles of justice that free and rational persons would choose from a position of original equality. Phillips' (1997) principle of fairness states that organizational stakeholders should be compensated in proportion to their contributions to and sacrifices for an organization.

Individual rights, or a lack thereof, for low-wage workers

Stakeholders are dependent upon the business entity by virtue of their stake; however, the degree to which the firm is dependent on the stakeholder varies. The organization is not seen as all powerful and the stakeholder as completely powerless; rather, in keeping with Van Buren (2001), it is the differential in power between the organization and the stakeholder that is of issue. Some workers will have a high degree of power and others little, but low-wage workers generally have little power.

Developing stakeholder expectations.

Acknowledging employee value production

Despite their contributions to organizational success, low-wage workers in particular have little scope to have their voices heard, either as individuals or as part of a wider group of workers as compared with shareholders who have voting rights. They incur risks (often unwittingly and without ability to avoid or negotiate away those risks) and are not fully compensated for their contributions to organization no matter what they had contributed for the firms.

Enhancing stakeholder voice

A decline in employee voice, both for individual employees and employees as a group, is well documented (Freeman et al., 2007). The loss of voice is particularly acute for low-wage employees. But there are other powerless stakeholders that lack voice as well, such as communities in poor countries.

CSR from stakeholders' perspective

A firm's survival and success depends on the ability of its managers to create sufficient wealth and satisfaction for its primary stakeholders. If any of the primary stakeholder groups withdraws its support to the firm, the firm's operation is adversely affected (Clarkson, 1995). This requires firms to identify and integrate crucial social issues, specific to each primary stakeholder, with organizational policies and practices. For each stakeholder category, there should be dyadic ties between the firm and the stakeholder group (Rowley, 1997). Accordingly, we define CSR towards each stakeholder group as the organization's policies, processes, and practices towards that stakeholder group. Previous research has failed to examine CSR from the stakeholders' perspective (Andriof et al., 2002; Post et al., 2002). There is a need to evaluate CSR from multi-stakeholder perspectives by incorporating various stakeholder issues in local and global planes. Various global standards on CSR generally evaluate it on the basis of a number of relevant stakeholder issues. We have referred to some of the global standards, and national regulations and guidelines in India to examine CSR issues with respect to six primary stakeholder groups: employees, customers, investors, community, natural environment, and suppliers.

CSR towards employees

Favorable organizational policies and practices towards employees are considered as better CSR indicators towards employees. An employee-oriented company will commit resources to promote employee welfare (Hooley et al., 2000). At a minimum, employers are expected to respect employees' rights (Donaldson, 1989). In a survey of 3, 500 Americans, 85 percent of the respondents opined that better treatment of employees is a high indicator of corporate citizenship (O'Brien, 2005). However, workplace issues such as poor labor conditions, lack of equal opportunity, and child/contractual labor, have frequently caught the attention of media, regulators, and the public. Catering to such issues enhances CSR towards employees.

CSR towards customers

A higher CSR towards customers is seen in terms of a company's ability to provide better products and services while maintaining right quality and price of the product. Addressing issues like curbing unhealthy consumption patterns among consumers, safety of customers during the use of products, and ethical advertising enhance the CSR towards customers.

CSR towards investors

Investors want to be associated with socially responsible firms (Gillis and Spring, 2001). Various committees such as Cadbury committee, OECD guidelines, Security and Exchange Board of India (SEBI) guidelines, etc. have been established to strengthen corporate governance codes and standards. Strengthened governance practices improve the CSR towards investors.

CSR towards community

With the recent focus on triple bottom line – people, planet, and profit, ideas like deepening partnership between business and community (Johnson et al., 1995; Waddock, 2001) are gaining currency. Firms should develop social contract with the community and their corporate citizenship behavior should be assessed (Burke, 1999; Logsdon and Wood, 2002). Addressing of issues such as philanthropic giving, public-private partnerships, and social and economic development of the surrounding community depicts CSR towards the community.

CSR towards environment

The earth summit in 1992 and the subsequent focus on climate change have increased awareness about environmental issues globally. International standards like ISO 14000, EMAS, and OHSAS 18000 along with environmental legislations in different countries have been formulated. Research has highlighted the importance of environmentally sensitive operations and productions by firms (Gupta, 1994; Inman, 1999). Emphasis on issues such as responsible waste disposal and emission standards, conservation of green resources, environmental training, and the like gives positive signal about their CSR towards environment.

CSR towards suppliers

Recent years have seen growing importance of issues related to social responsibility audit of suppliers (Arminas, 2005). By ensuring ethical procurement of raw materials by suppliers, ethical transaction with suppliers,

and elimination of child labor/human rights' violation at suppliers' locations, a company can enhance its CSR towards suppliers.