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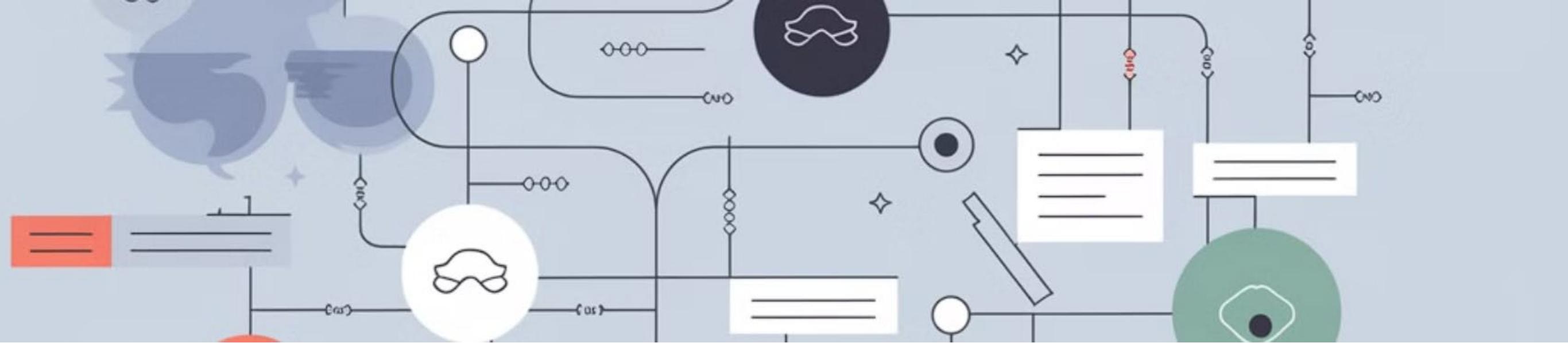
Strategic Management of Stakeholder Relationships



by Milad Pira

Main Objectives

- 2-1** Define stakeholders and understand their importance
- 2-2** Distinguish between primary and secondary stakeholders
- 2-3** Discuss the global nature of stakeholder relationships
- 2-4** Consider the impact of reputation and crisis situations on social responsibility performance
- 2-5** Examine the development of stakeholder relationships
- 2-6** Explore how stakeholder relationships are integral to social responsibility



Stakeholders Framework

Stakeholder framework is recognized as a management theory that attempts to balance stakeholder interests

Evolving Perspectives on Business Responsibility

1 In the latter half of the 20th century, there was a shift in perceptions of business accountability. **The traditional model, centered solely on profit,** expanded to encompass broader societal responsibilities.

2 This shift questioned the appropriate role of business in society, leading to debates about the **balance between economic objectives and social impact.**

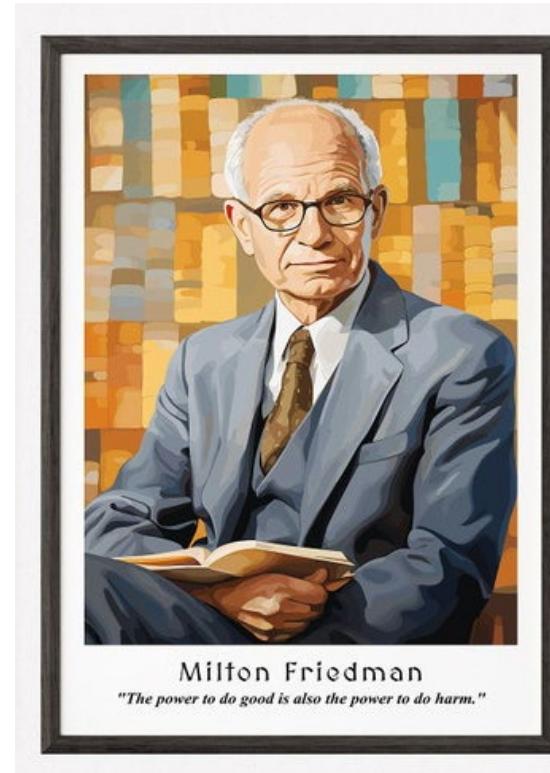
3 While legal and economic responsibilities were widely accepted, the inclusion of **social responsibility** as a key determinant of business performance became **a subject of discussion.**



The Debate on Stakeholder Responsibility

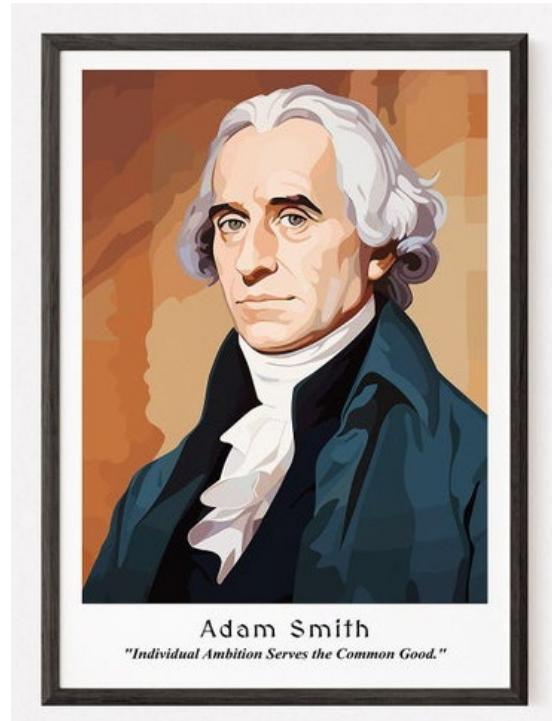
Milton Friedman's View

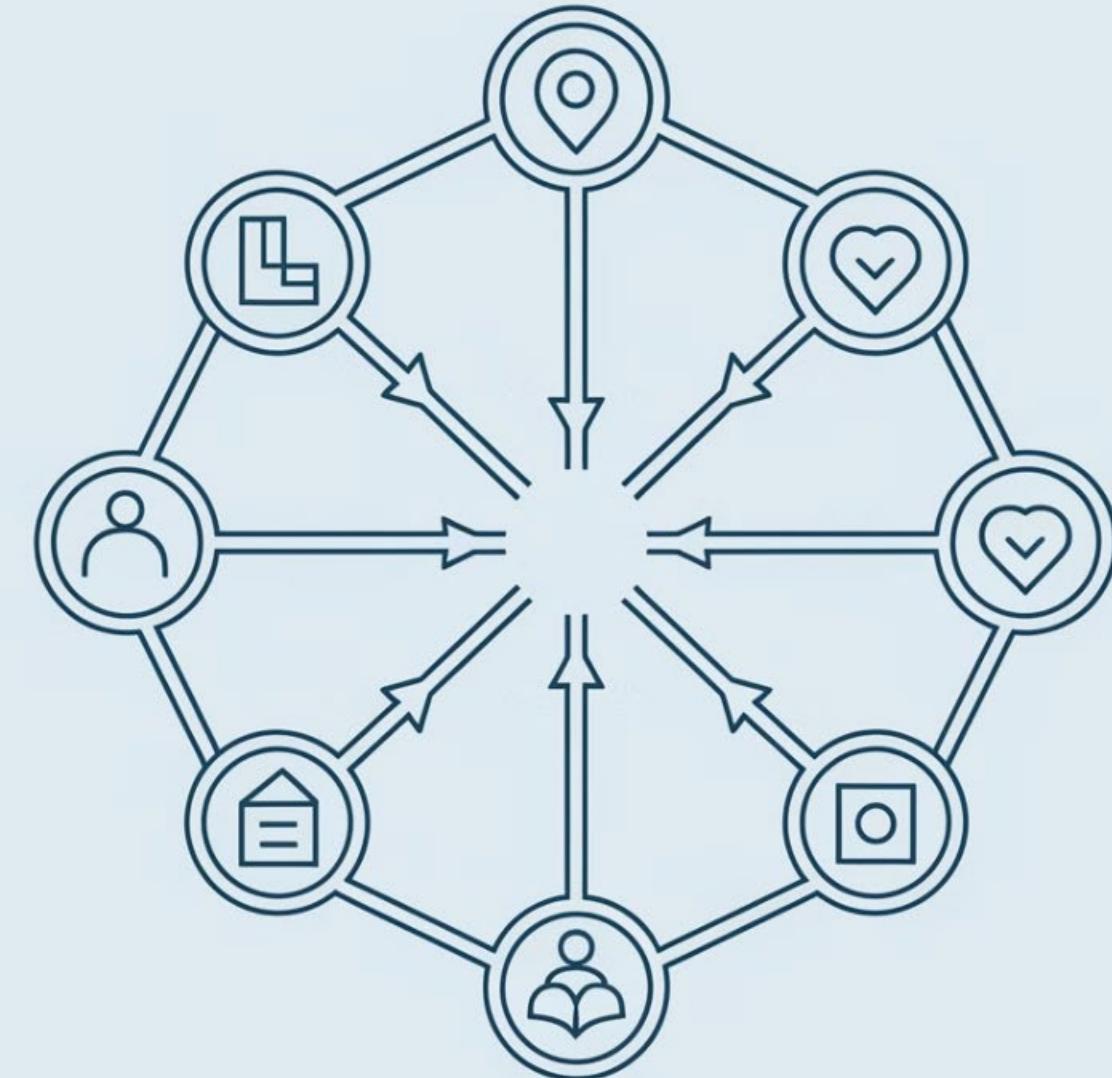
Economist Milton Friedman argued that businesses should primarily focus on **maximizing profits** for their shareholders. He minimized the role of stakeholders like government and employees in dictating ethical behavior.



Alternative Perspectives

Adam Smith, a founder of capitalism, introduced the concept of the "**invisible hand**" and emphasized self-interest. However, he also highlighted that individuals should produce for the *common good*, driven by psychological motives. This idea, now called "enlightened capitalism," focuses on stakeholder concerns and issues, promoting the happiness of mankind. In the 21st century, this form of capitalism is gaining acceptance, especially in developed countries, replacing Friedman's version of capitalism.





The Value of a Stakeholder-Centric Approach

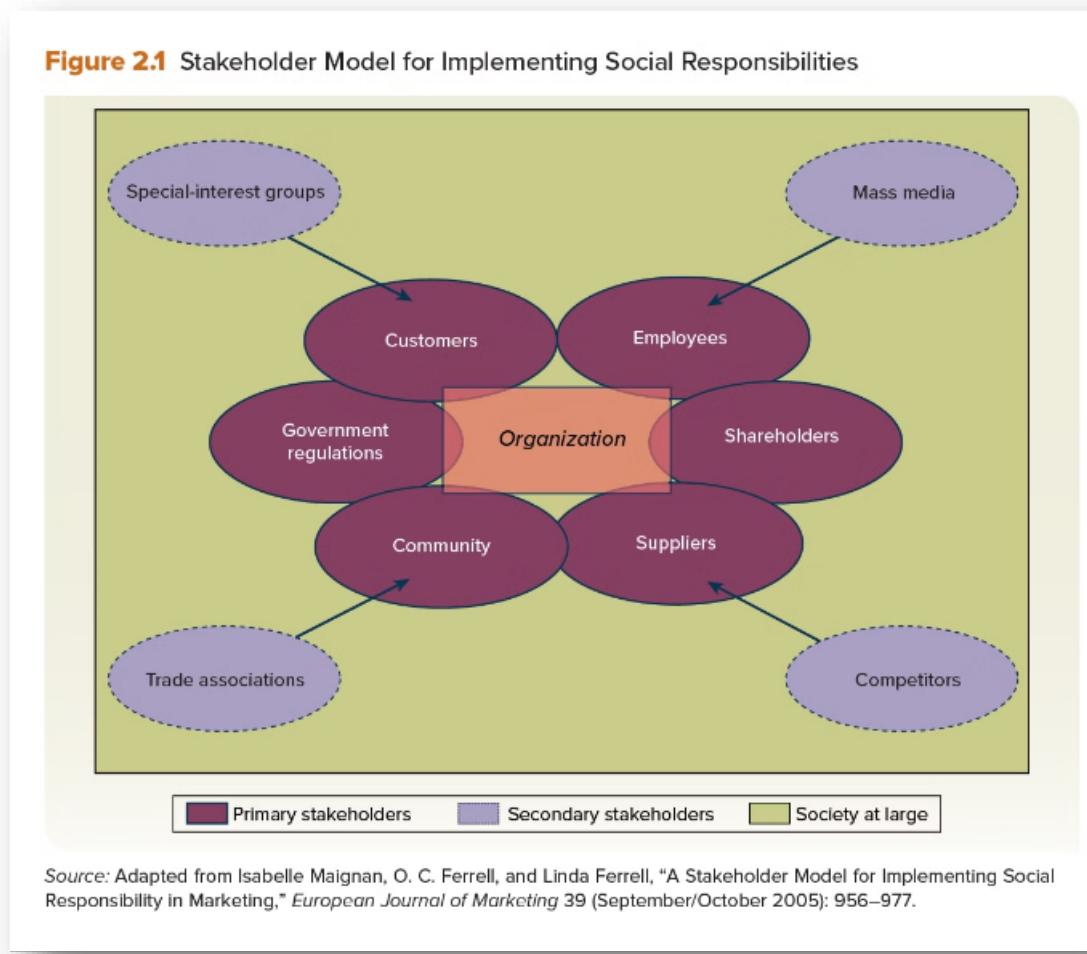
Broader Success

Theodore Levitt argued that while profit is essential, it should not be the sole purpose of business. A company's true success lies in **satisfying the needs of all stakeholders.**

Avoiding the Paradox

Norman Bowie highlighted a potential paradox: focusing solely on profit can lead to negative consequences that ultimately harm a firm's ability to achieve its objectives.

Identifying and Understanding Stakeholders



Primary Stakeholder

They are fundamental to a company's operations and survival; these include shareholders & investors, employees, customers, suppliers, and public stakeholders, such as government and the community

Secondary Stakeholder

- They do not typically engage in direct transactions with a company and thus are not essential for its survival; these include the media, trade associations, special-interest groups, and competitors
- Cannot be ignored
- For example, sometimes the media can have more of an impact than a primary stakeholder

Understanding Stakeholder Relationships

- **Stakeholder interaction model:** a model that conceptualizes the two-way relationship between a firm and a host of stakeholders
- **Stakeholder map:** a company-specific map that names its primary and secondary stakeholders, identifies key issues, and examines relationships and networks between the organization and stakeholders
- **Stakeholder orientation:** the degree to which a firm understands and addresses stakeholder demands. Comprises three sets of activities:

1

Gathering Stakeholder Insights

Conducting a comprehensive analysis of data on our key stakeholder groups and evaluating the firm's multifaceted impact on them.

2

Sharing Stakeholder Intelligence

Distributing these valuable insights throughout the organization to drive informed decision-making.

3

Responsive Action

Empowering the entire organization to respond thoughtfully and strategically to this stakeholder intelligence.

Table 2.2 Stakeholder Attributes

| Attribute | Examples |
|------------|--|
| Power | A well-established employee in a specialized field has power if replacing the employee would require extensive training and resources. |
| Legitimacy | Special-interest groups that are against genetically modified foods encourage protests after legislation favorable to biotechnology companies is passed. |
| Urgency | A company that has discovered a serious product defect that can cause injury must immediately implement a product recall. |



Power

Symbolic power

the use of symbols that connote social acceptance, prestige, or some other attribute (letter-writing, advertising messages, & websites). It often involves shaping perceptions, beliefs, and values.

Utilitarian power

financial or material control or based on a decision's utility or usefulness (boycotts & lawsuits). It involves influencing others by offering incentives or benefits.

Coercive power

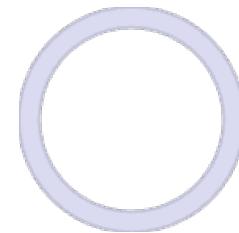
the use of fear, suppression, punishment or some type of restraint (issue is emotionally charged & somewhat controversial). It relies on fear and the potential for negative consequences.



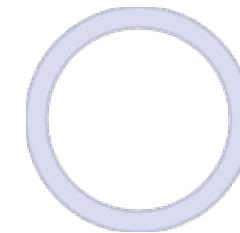
Reputation Management: A Key Stakeholder Consideration

The process of building and sustaining a company's good name and generating positive feedback from stakeholders

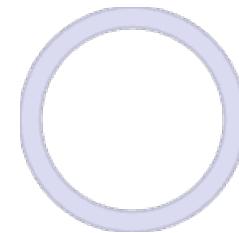
Reputation Management Process



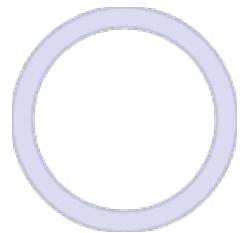
Identify how the organization wants
to be viewed by stakeholders



Determine how stakeholders
evaluate the company and their
impressions of its *image*



Evaluate other's impressions of
organizational *performance*



Understand the company's
reputation

Ethical Misconduct Disaster (EMD)

Unexpected organizational crisis that results from:



Employee Misconduct

Inappropriate behavior that violates organizational standards and professional conduct

Illegal Activities

Fraudulent actions that undermine organizational integrity and legal compliance

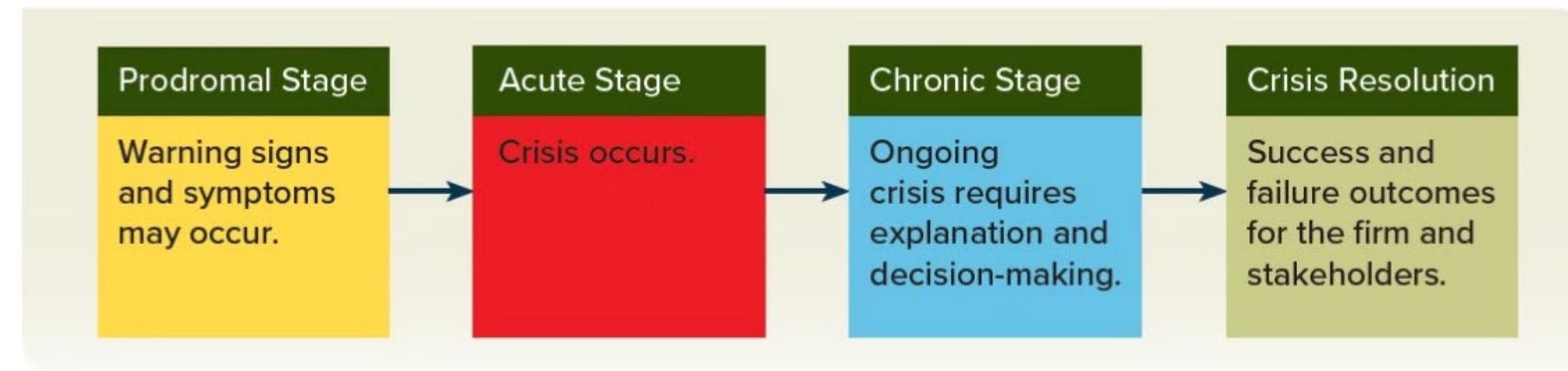
Operational Disruption

Unethical decisions that significantly threaten the firm's continuity and operational stability

Crisis Management: Communicating Effectively

"The process of handling a high-impact event characterized by ambiguity and the need for swift action"

Figure 2.2 The Crisis Management Process



Challenges

- 1 Effective communication during and after a crisis is challenging, especially given the rapid pace of information dissemination and heightened stakeholder expectations.

Uncertainty

- 2 Crisis events are often chaotic, and company leadership may not have a complete understanding of the situation before being asked for a statement.

Communication Strategies

- 3 Companies need clear and concise communication strategies to minimize stakeholder uncertainty and maintain trust.



Building Long-Term Relationships

Collaboration

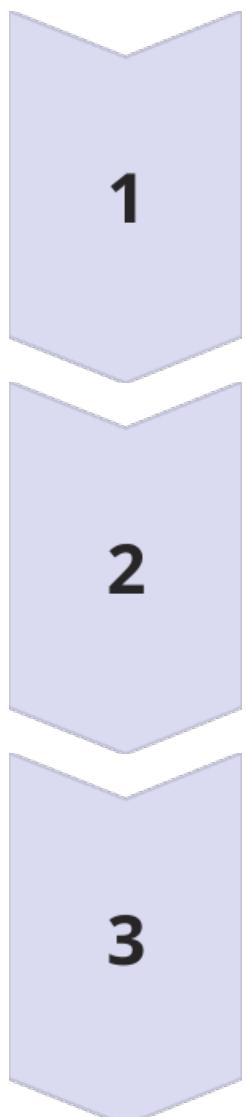
Companies are moving beyond one-time transactions and seeking to establish long-term, collaborative relationships with customers and business partners.

Shared Value

This shift focuses on creating shared value, where the success of the company is intertwined with the well-being of its stakeholders.



Key to good stakeholder relationships



Trust

Communication Quality

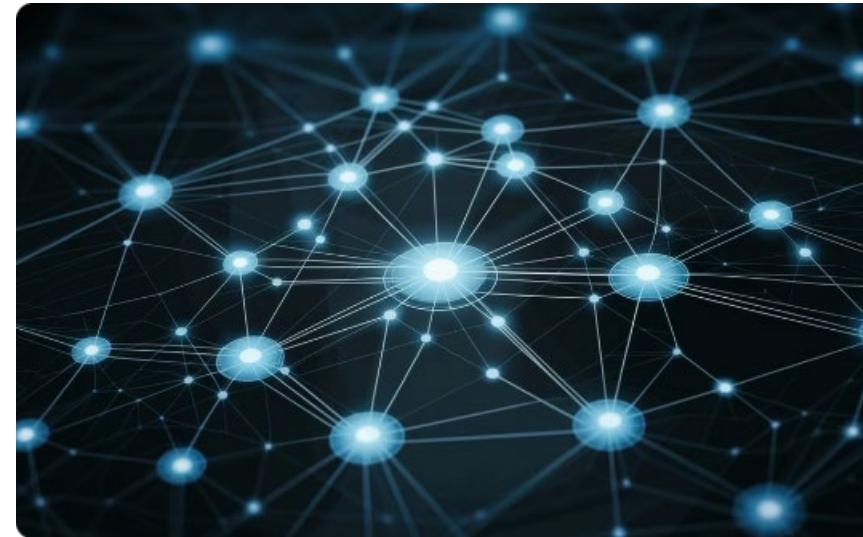
Mutual Respect

Social Capital



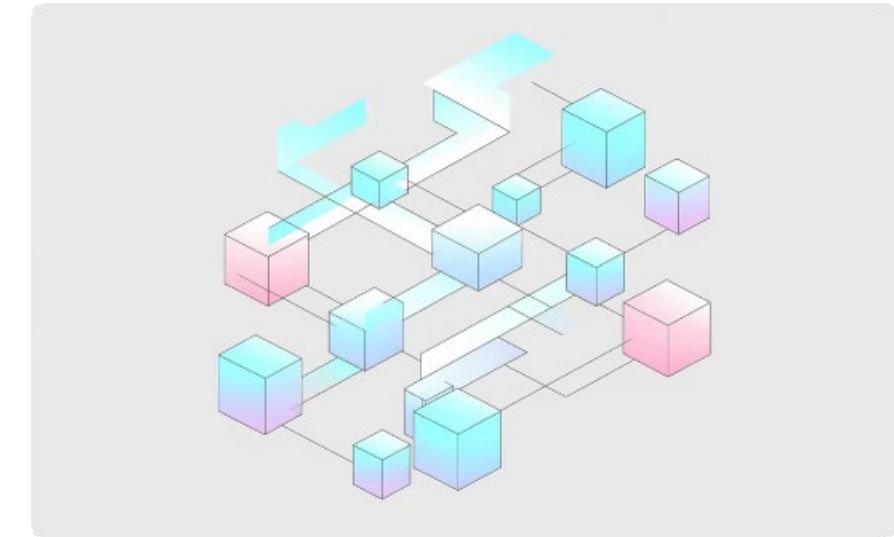
Relationship Asset

Social capital resides in the connections between people, built on mutual goals and trust



Transaction Facilitator

Enables internal and external processes, similar to financial or intellectual resources



Intangible Essence

Unlike other capitals, social capital cannot be owned or easily measured by a single organization

Implementing a Stakeholder Perspective in Social Responsibility

Table 2.6 Six Steps for Utilizing a Stakeholder Framework

| Steps | Example |
|--|--|
| Assess the corporate culture. | New Belgium Brewing decides to invest in wind power because doing so aligns with its mission of environmental responsibility. |
| Identify stakeholder groups. | Whole Foods recognizes the importance of working with animal activist organizations to ensure that the animals supplying its meat products are treated humanely. |
| Identify stakeholder issues. | Chevron identifies sustainability and the increasing concern over greenhouse gas emissions as important stakeholder considerations affecting the industry. |
| Assess the organization's commitment to social responsibility. | CVS determines that eliminating cigarette sales will reinforce its commitment toward becoming a health services company. |
| Identify resources and determine urgency. | Home Depot provides emergency supplies in areas that are struck by natural disasters. |
| Gain stakeholder feedback. | Best Buy asked consumers for feedback and realized that the recycling of electronic waste was a major concern. |

**CLEAN ENERGY****SUSTAINABLE PACKAGING****SUPPORTING BIKING**

GRID Alternatives Colorado has now installed over 5.5 megawatts of solar throughout Colorado, saving hundreds of low-income qualified families and multiple affordable housing providers more than \$9.8 million and offsetting over 47,000 tons of greenhouse gases over the systems' lifetimes.

Our shared Solarthon accomplishments include:

- 19 households installed, totaling 27.8 kw of solar.
- Over \$260,500 worth of clean energy estimated over the systems' lifetimes, saving families 90-100% on their electricity bills.
- Over 530 tons of carbon emissions prevented - the equivalent of planting nearly 12,500 trees.

WIND POWER

In 1998, New Belgium was looking for ways to reduce our carbon footprint. We found an opportunity to bring wind power to our hometown for the first time, but it required a large upfront investment. We had the money in the bank, but it had already been allocated as profit sharing for our coworkers. Unanimously, our coworker chose to give up their profit sharing in order to make us the first wind-powered brewery.

SOLAR AND BIOGAS ELECTRICITY

Did you know your beers are partially made with sunlight and biogas? Our Fort Collins Packaging Hall is covered with 296 kW of solar. At their peak, these panels make enough electricity to power our canning and bottling lines. We also make electricity at our water treatment plant where we clean water before discharging it to the city treatment system. This produces 11% of our electricity in Fort Collins.

ENERGY EFFICIENCY AT THE BREWERY

Over the years, we have invested in several energy efficiency technologies. Nearly every room in our two breweries has access to natural light, we've improved insulation throughout, and implemented boiler tank technology that drastically reduces our energy use per hectolitre of beer. While both breweries are built to a high level of efficiency, our Asheville brewery is also LEED Certified, receiving Silver, Gold, and Platinum distinctions throughout the campus.

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The Reactive-Defensive-Accommodative-Proactive Scale

"a method for assessing a company's strategy and performance with each stakeholder"

Table 2.7 The Reactive–Defensive–Accommodative–Proactive Scale

| Rating | Strategy | Performance | Example |
|---------------|--|----------------------------------|--|
| Reactive | Deny responsibility | Doing less than required | Exxon refuses to continue oil spill cleanup after a certain date. |
| Defensive | Admit responsibility, but “fight it all the way” | Doing the least that is required | Valero Energy claims that it meets federal regulation; therefore, community complaints are not legitimate. |
| Accommodative | Accept responsibility | Doing all that is required | General Motors (GM) promises job security if productivity gains are realized. |
| Proactive | Anticipate responsibility | Doing more than is required | Xerox shares product blueprints with suppliers and takes suggestions before production. |

Source: Adapted from Max B. E. Clarkson, "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance," *Academy of Management Review* 20 (January 1995): 92–117; I. M. Jawahar and Gary McLaughlin, "Toward a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach," *Academy of Management Review* 26 (July 2001): 397–414.



The process of assessing and reporting a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by its stakeholders

Social Audit



1. Explain how fostering a positive relationship with employees could potentially benefit other primary stakeholders such as customers or suppliers.

2. There are short- and long-term outcomes associated with positive stakeholder relationships.

Describe how this video gives Whole Foods a positive reputation.

3. Whole Foods Market dropped off of Fortune's The 100 Best Companies to Work For list after 20 years of being included. Do you think accurate reputation measures are important? Why or why not?