# Session 7: Stakeholders, Social Responsibility & Ethics

MGCR 423 Strategic Management

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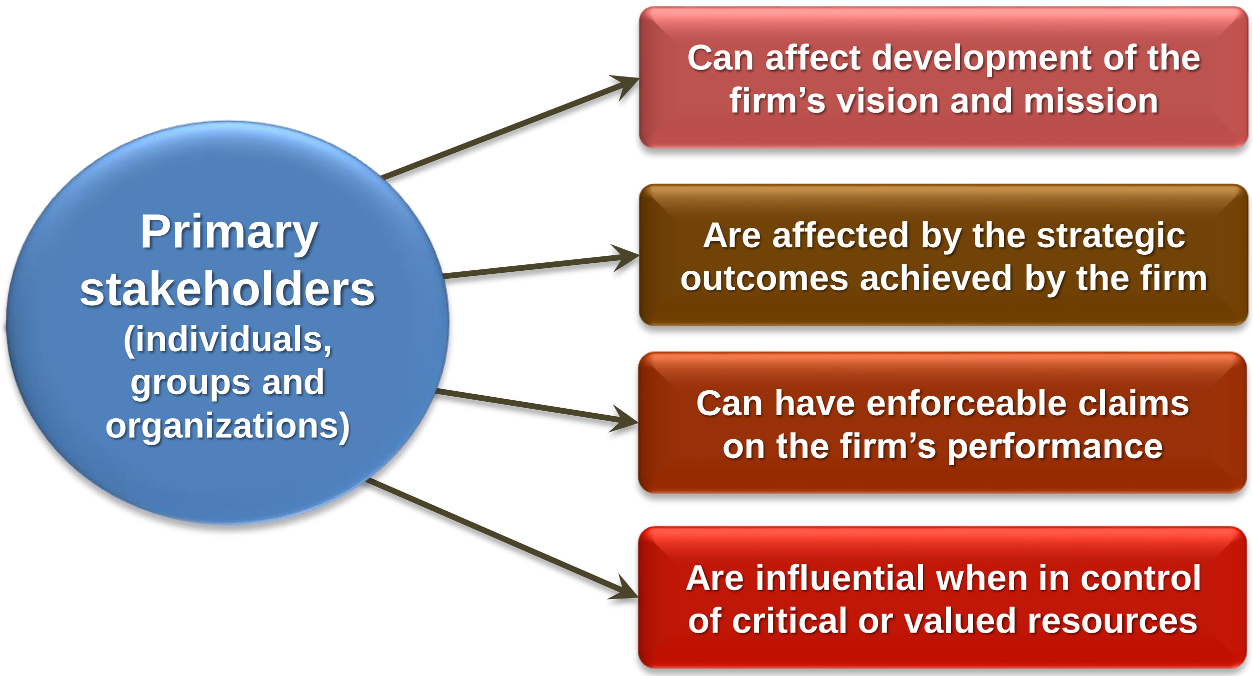
# Stakeholders

- Stakeholder – individuals/groups/organizations that can affect or are affected by the firm's vision and outcomes (longer definition in TX: p. 21)
  - Primary stakeholders – those who have direct connection with the firm and have sufficient bargaining power to affect firm's activities
    - Customers, employees, suppliers, shareholders & creditors
    - Government not primary stakeholder (Wheelen & Hunger) yet Carroll argues social responsibility is essential to avoid future government regulation
  - Secondary stakeholders – those with indirect interests
    - NGOs such as Greenpeace, World Wildlife Fund, Oxfam
    - Activists, local communities, trade associations, competitors, governments

# Primary stakeholders: Impact due to multiple factors

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# Three stakeholder groups: Capital market, product market and organizational stakeholders

| Stakeholder group | Membership | Primary expectation/demand |
|---|---|---|
| Capital market | Shareholders | Wealth enhancement |
| | Lenders | Wealth preservation |
| Product market | Customers | Product reliability at lowest possible price |
| | Suppliers | Receive highest sustainable prices |
| | Host communities | Long-term employment, tax revenues, minimum use of public support services |
| | Unions | Ideal working conditions and job security for membership |
| Organizational | Employees | Secure, dynamic, stimulating, and rewarding work environment |

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# Corporate restructuring/downsizing

- Employees
  - Cut jobs to improve the company's balance sheet during the 2010 recession

- Takeaways
  - Necessary to keep them alive?
  - Critical mistakes?

# Stakeholder analysis tool

| Stakeholder | Interests/Expectations<br><br>Put a (+): positive impact on your goals/strategy, (-): negative impact | Importance<br><br>1=Low<br>3=Neutral<br>5=High |
|---|---|---|
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# Two perspectives on social responsibility

**Milton Friedman 1970, 2005**

- Maximize profitability (as this serves economic efficiency)
- Argues against the concept of social responsibility as a "fundamentally subversive doctrine"
- Primary goal of business is profit maximization, so no spending shareholder money for altruistic goals as defined by manager.
- Manager may use own income / wealth for altruism but not shareholder wealth
- Softer view 2005: Whole Foods' social goals are key factor in its business model to attract buyers and employees

**Byron 2003 & Carroll 1979**

- Byron 2003: profits are a means not an end, so profit maximization cannot be main obligation of business
- Carroll 1979: 4 responsibilities of business managers:
  - **Economic -** Be profitable enough to reward creditors & shareholders
  - **Legal -** Act legally
  - **Ethical -** Follow ethical principles (work with community in closures)
  - **Discretionary -** Follow discretionary responsibilities (hire hard-core unemployed, day care)

# Friedman's profit maximization view of business responsibility

- Argues against the concept of social responsibility
- Primary goal of business is profit maximization not spending shareholder money for the general social interest
- Friedman thus referred to the social responsibility of business as a "fundamentally subversive doctrine" and stated that:
  - There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud

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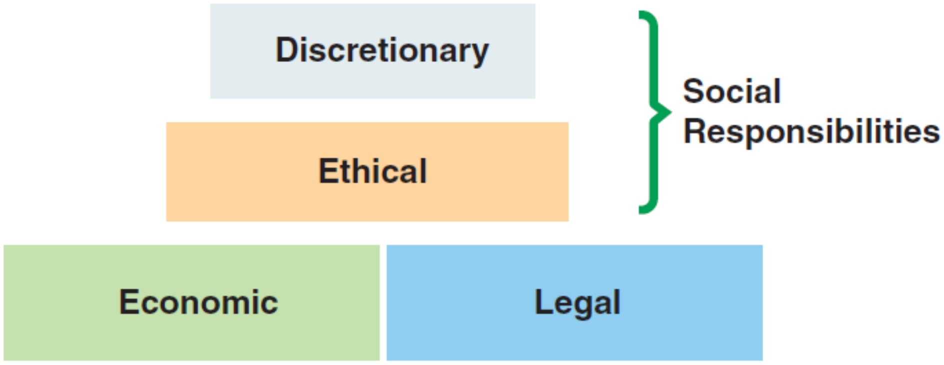
# Carroll’s Four Responsibilities of Business

1. **Economic responsibilities**
   – produce goods and services of value to society so that the firm may repay its creditors and increase the wealth of its shareholders
2. **Legal responsibilities**
   – defined by governments in laws that management is expected to obey
3. **Ethical responsibilities**
   – follow the generally held beliefs about behavior in a society
4. **Discretionary responsibilities**
   – purely voluntary obligations a corporation assumes

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# Can firms do well financially by doing good (social responsibility? Research summarized by Margolis & Walsh 2003

## Measures of social performance

- Disclosure of activities
- Expenditure on initiatives
- Reputation rating (e.g. Fortune)
- Rating on social mutual fund screens
- Environmental awards vs. crises
- Charitable contributions
- Emissions compliance

## Measures of financial performance

- Accounting measures
- Market returns
- Both
- Perception of long-term value

* Generally find positive association across 127 studies
* Hence firm's resources for social goals appear to serve interests of shareholders

# Encouraging Ethical Behavior: Code of Ethics

- Code of ethics
  - specifies how an organization expects its employees to behave while on the job
  - clarifies company expectations of employee conduct in various situations
  - makes clear that the company expects its people to recognize the ethical dimensions in decisions and action

- Whistleblowers
  - employees who report illegal or unethical behavior on the part of others

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