

# BUSINESS & SOCIETY

## WEEK 1

1. The Corporation and Its Stakeholders
2. Managing Stakeholder Relationships
3. Corporate Social Responsibility

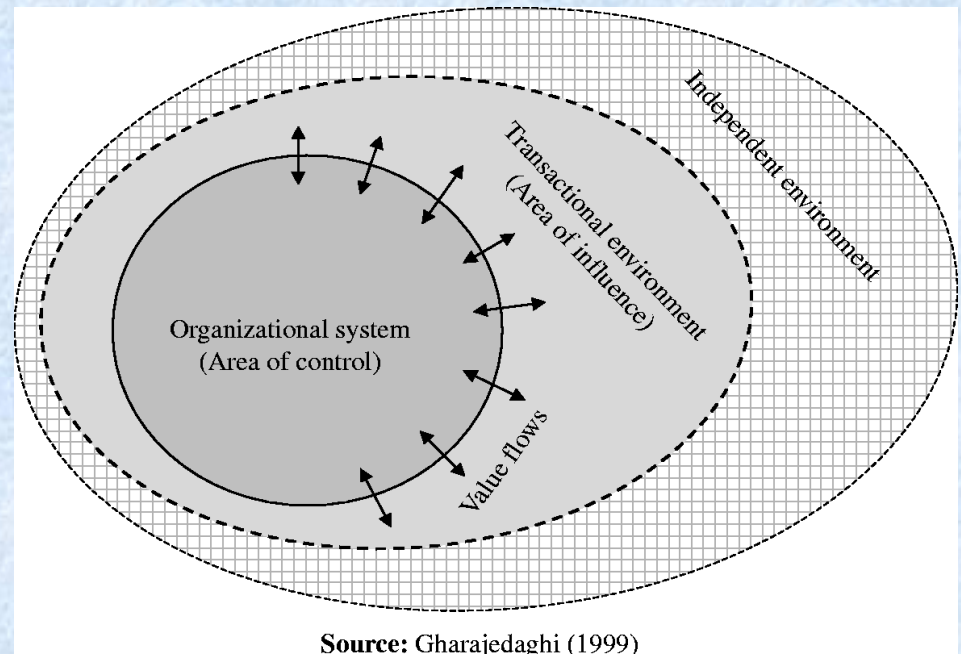
*Case studies 1: 22, 43, 65*

# 1. The Corporation and Its Stakeholders

## Systems perspective 1

Open systems / general systems / cybernetic perspective

A focus on the relationship  
between 2 environments,  
internal & external  
(von Bertalanffy)



## 1. The Corporation and Its Stakeholders

### Systems perspective 1

Open systems / general systems / cybernetic perspective

Drawbacks:

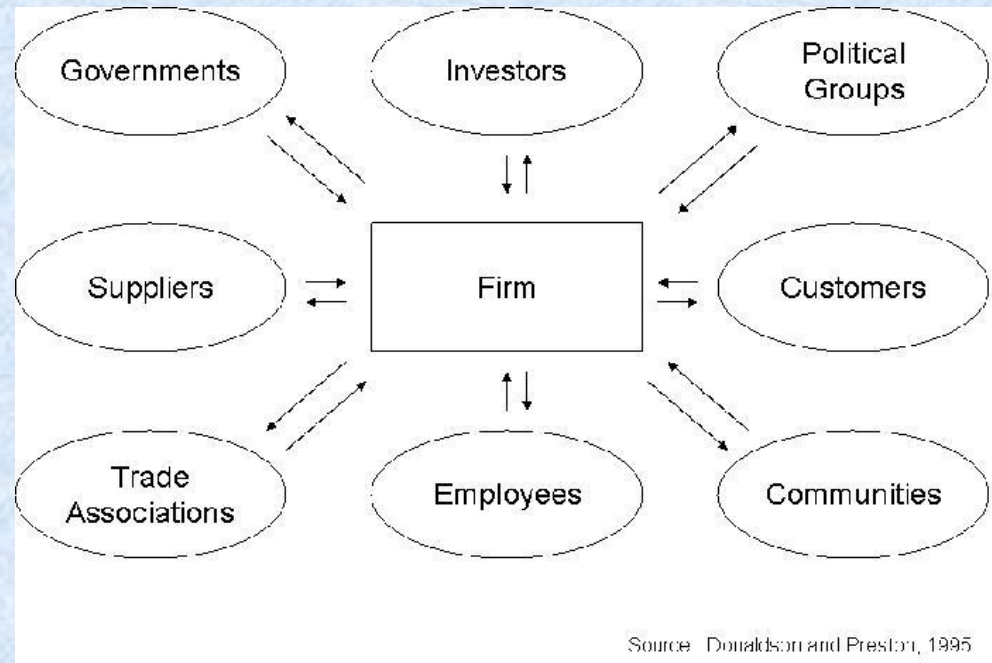
1. Perspective modeled for the benefit of the corporation
2. Meaning and identity creation is centered on the corporation e.g. employee/consumer identities
3. Presents the corporation as a simple locale for transforming inputs into outputs

## 1. The Corporation and Its Stakeholders

### Systems perspective 2

#### Stakeholder theory

A focus on those parties/ individuals who have an interest in the corporation regardless of whether they are inside or outside the Corporation (Freeman)



## 1. The Corporation and Its Stakeholders

### Systems perspective 2

#### Stakeholder theory

#### Types:

- Market: employees, stockholders/shareholders, customers, suppliers, sellers, creditors
- Non-market: communities, activist groups, media, business associations, governments, general public

## 1. The Corporation and Its Stakeholders

### Systems perspective 2

#### Stakeholder theory

The interest in this perspective lies in Stakeholder Analysis:

- Who are the stakeholders?
- What stakes do they have?
- What is the power of each stakeholder?
- What stakeholder coalitions are there?

## 1. The Corporation and Its Stakeholders

### Systems perspective 2

Stakeholder theory

Drawbacks

1. Stakeholder analysis is carried out for the benefit of the corporation and not necessary for the benefit of the stakeholder

## 1. The Corporation and Its Stakeholders

### Systems perspective 2

Stakeholder theory

Drawbacks

2. Stakeholder analysis reduces the corporation/firm to the board of directors in a relationship with stakeholders placed outside of it and thus fails to explain the position of employees and shareholders who are part of the corporation/firm



## 1. The Corporation and Its Stakeholders

### Systems perspective 2

Stakeholder theory

Drawbacks

3. Stakeholder analysis puts an emphasis on value but little on decision-making and power

## 1. The Corporation and Its Stakeholders

### Systems perspective 3

Changing business context

An emphasis on the environment that corporations thrive in that corporations need to scan the changing societal expectations, changing values and evolving technology to better understand globalization trends and react to them (Nadler & Shaw)



## 1. The Corporation and Its Stakeholders

### Systems perspective 3

Changing business context

Drawbacks

1. This view, based on an open systems perspective, forgets the power that corporations/firms have over changing environments
2. The ability to scan the environment is overrated

## 1. The Corporation and Its Stakeholders

### Suggested perspective

Relational approach (Zamaros)

Assumptions concerning organizations

1. Organizations as units display behavior = *that which the organization does*
2. Organizational behavior expresses an organizational identity = *that which an organization is*
3. Organizational identities are constructed and expressed = *use of description*

## 1. The Corporation and Its Stakeholders

### Suggested perspective

#### Relational approach

#### Assumptions concerning organizations

4. Organizational identities are build on value assumptions  
= *building trust and other values*
5. Organizational identities are a function of organization  
processes = *leadership, structure, culture, ...*

## 1. The Corporation and Its Stakeholders

### Suggested perspective

#### Relational approach

#### Assumptions concerning stakeholders

1. Stakeholders perceive organizational actions as completed acts = *thinking*
2. Stakeholders re-act accordingly = *their action is constitutive of a behavior*
3. Stakeholder behavior varies according to whether a stakeholder is internal or external to the corporation/firm

## 1. The Corporation and Its Stakeholders

### Suggested perspective

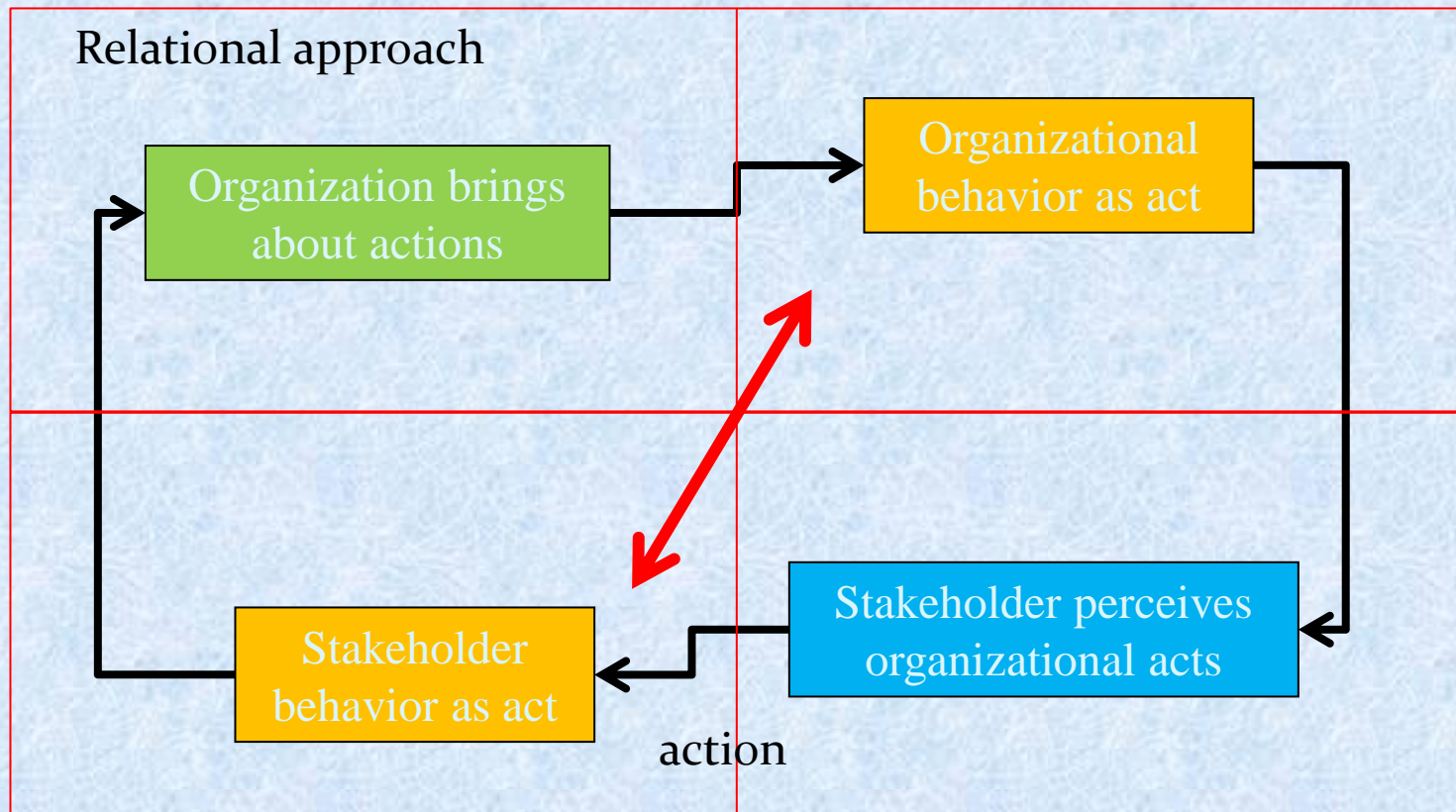
Relational approach

Typology concerning stakeholders

- External stakeholders: consumers, action groups, governments, competitors, shareholders (only for traded corporations), environment = *perception of organizational acts is clearly founded*
- Internal stakeholders: employees, shareholders (non-traded corporations) = *perception of organizational acts is dilemmatic/hybrid*

# 1. The Corporation and Its Stakeholders

## Suggested perspective





## 2. Managing Stakeholder Relationships

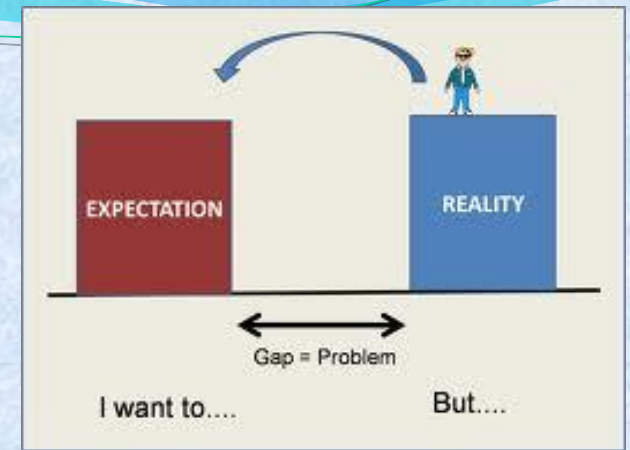
### Dynamics

The essential element of the relational approach is the dynamic character of the relationship:

Where a corporation/firm acts according to how it perceives the behaviors of its stakeholders in a changing environment, its stakeholders perceive and make sense of its acts.

## 2. Managing Stakeholder Relationships

### Dynamics



Unlike the open systems perspective that places emphasis on the balance between the behaviors (homeostasis), under the relational approach there is a performance-expectations gap, a lack that both organizations and stakeholders seek to fill in but rare is success.

The organization is therefore concerned with boundary setting and boundary spanning

## 2. Managing Stakeholder Relationships

### Boundary setting

Boundary setting is concerned with setting the contours of the environment that an organization exists

It has two primary roles

- 1) Identify the stakeholders and their locale.
- 2) Enable boundary spanning.

## 2. Managing Stakeholder Relationships

### Boundary spanning

Boundary spanning is concerned with the detection of information necessary to reduce the performance-expectations gap.

It has two primary roles

- 1) Detect information and bring it into the organization.
- 2) Send information into the environment presenting the company in a favorable light.

## 2. Managing Stakeholder Relationships

### Boundary spanning

- Legal environment: Union negotiations; Labor law compliance
- Political environment: Public policy; Lobbying; Business associations
- Social environment: Corporate philanthropy; Educational and NGO partnerships; Volunteerism
- Technological environment: Research and development

## 2. Managing Stakeholder Relationships

### Boundary spanning

- Economic environment: Monetary policies
- Competitor environment: Marketing; Product development
- Customer environment: Product and service quality;  
Consumer protection laws; Public relations
- Geophysical environment: Environment law compliance;  
Technology; Resources

## 2. Managing Stakeholder Relationships

### Boundary spanning management

Performance expectations gap requires the management of boundary spanning (issues management):

It involves:

- Issue identification
- Issue analysis
- Response generation
- Assessment of results



### 3. Corporate Social Responsibility

#### Definition

Given the relationship firm-stakeholders, firms must be accountable for their actions/decisions since these affect the lives of their stakeholders.





### 3. Corporate Social Responsibility

#### Definition

Iron law of responsibility:

Firms that go against social expectations for the purpose of maintaining power, in the longer run lose it.

### 3. Corporate Social Responsibility

#### Background principles

- Charity principle: that the wealthiest members of a society should be charitable towards the less fortunate.
- Stewardship principle: that business leaders are accountable to every stakeholder and not only to shareholders (owners)

### 3. Corporate Social Responsibility

#### Arguments for

- Lowers or balances corporate power against social expectations
- Discourages the state from passing regulation
- Improves business value and reputation
- Corrects those social problems that are caused by businesses and economic activity

### 3. Corporate Social Responsibility

#### Arguments against

- Lowers economic efficiency and profit since the firm must take decisions that are not necessarily profit-maximizing
- Imposes unequal costs among competitors since costs increase with degree of responsibility
- Costs are eventually passed onto stakeholders
- Managers are not trained to deal with social problems
- Liability/responsibility is placed on business rather than individuals (i.e. those who take the decision)

### 3. Corporate Social Responsibility

#### Under the relational approach

If corporations are to be accountable for their actions on grounds that they affect the lives and fortunes of their stakeholders so must the stakeholders.

### 3. Corporate Social Responsibility

#### Readings

<http://academic.udayton.edu/lawrenceulrich/Stakeholder%20Theory.pdf>

[http://www.pdcnet.org/pdfs/forthcoming/BEQ23-1\\_2.pdf](http://www.pdcnet.org/pdfs/forthcoming/BEQ23-1_2.pdf)

[http://faculty.babson.edu/krollag/org\\_site/scott\\_org/chap4.html](http://faculty.babson.edu/krollag/org_site/scott_org/chap4.html)

<http://upetd.up.ac.za/thesis/available/etd-10232001-152437/unrestricted/o4chapter4.pdf>

## Case studies

