Corporate Social Responsibility and Stakeholder in Global Economic

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Abstract
Corporate Social Responsibility (CSR) is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life. But any definition is problematic, and people from different countries emphasize different issues in their understanding of CSR. A stakeholder is any group or individual who can affect or is affected by the achievement of the organization’s objectives. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, governments, and other groups who can either help or damage the firm. Freeman summarized the stakeholder approach as ‘the principle of whom or what really counts. After reading this research you should be able to understand the significance of new global actors in the external business environment, especially non-governmental pressure groups; understand the different views on corporate social responsibility and their business implications; explain the benefits of corporate social responsibility for multinational firm strategies; apply some techniques for conducting stakeholder analysis.

Keywords
CSR, Global Economy, Stakeholders, Multinationals, Sustainable Economical Development

I. Introduction
The activist campaigns against Shell made managers of other companies re-evaluate the relationship between business and society. In both the Brent Spar and the Nigerian case, Shell relied on the British and the Nigerian governments respectively to ‘sort things out’. In both cases it failed to scan the wider external business environment for opportunities and threats. Shell’s actions were entirely legal; the company paid government taxes and believed that it had done nothing wrong. But new and important actors are emerging in the global business environment, and the public increasingly expects businesses to assume new roles. Important new global actors are Non-Governmental Organizations (NGOs) such as Greenpeace or Amnesty International. An NGO can be defined as a ‘group whose stated purpose is the promotion of environmental and or social goals. An NGO does not pursue economic interests and does not stand in elections for political office. NGOs are often multinational. While business aims primarily at making profits, NGOs usually pursue social and environmental goals. One of their objectives is to scrutinize business activities and persuade companies to become more socially responsible.

II. NGO's – Business Relations
One of the most striking developments in international business in the last few decades has been intensification in competitive bidding between states for internationally mobile investment. Multinational firms can exploit regulatory differences between states by relocating some of their manufacturing plants from one country to another, or by shifting to sourcing their supplies from a different country with a more advantageous regulatory regime, which is termed ‘regulatory arbitrage’. Large multinational firms may be able to play off one government against another as states compete against each other to attract foreign investment by offering the best incentive packages. In addition to offering financial aid or favorable taxation rates for foreign investors, national governments may also be reluctant to impose environmental and social regulations on firms. Like national governments, inter-governmental organizations are also reluctant to impose regulations on firms. There are clear international standards and even binding international law in a number of areas such as labor rights, such as the International Labor Organization conventions. But traditional political mechanisms for achieving social and environmental goals are often perceived by NGOs and the public as having failed to resolve many of the world’s most pressing problems. The increased focus of NGOs on multinational firms may reflect frustration with the pace of inter-governmental environmental and social reforms. In the new global business environment, NGOs perceive that firms are often more powerful than states. NGOs’ targeting of multinational firms is indicative of their attempts to check the growth in the power of those firms associated with globalization. NGOs are actively working to develop global norms of corporate behavior, which multinational firms find increasingly difficult to escape. The recent growth of NGOs is a by-product of globalization. Previously, business has often been regarded as apolitical, with managers believing that they should stay out of politics if possible. Shell made it clear that the company had always been (and is) firmly apolitical. Even if oil companies dreamed of political control, they could not achieve it. Therefore, Shell could not use its influence in order (for instance) to ask the Nigerian government to improve the lot of the local people in oil-producing areas. But NGOs feel that such statements are dishonest, as multinational firms have used their power to influence governments when it was to their own advantage. After all, Shell and other international oil companies were members of the controversial Global Climate Coalition, which spent tens of millions of dollars trying to undermine the UN climate negotiations. NGOs and a large segment of the public no longer accept the view that firms are apolitical and should stick to profit-making, while governments should stick to providing social welfare. With growing recognition of corporate power in shaping politics, the previous apolitical or asocial approach to corporate policy is changing. As multinational firms are interconnected with social and political issues, NGOs believe that firms should pursue certain social and environmental goals which were previously the sole responsibility of governments.

Global access to computers, fax machines, mobile phones, video cameras, and the internet has provided NGOs with greater knowledge and greater power. Through the availability of communications technology, NGOs can quickly gather information from some of the most obscure parts of the world. An activist in a remote part of the rain forest in Brazil can quickly contact his colleagues in London or New York and can instantly send images of polluted rivers or forests. Communications technology can help to distribute the message quickly across the world. NGOs
use the internet for displaying information and images, which can be seen all over the world. Communications technology can also be used as a campaign tool, for instance, for organizing petitions and for sharing information between groups of people in different countries.

### III. Corporate Social Responsibility

With the rise of NGOs, multinational firms are asked to take on new roles in promoting social and environmental objectives. But there are two major objections to firms assuming such new roles. The only purpose of businesses is to make a profit, and they should not pursue any other objectives; Ethical considerations differ between countries, and firms face a dilemma as to which national ethical system to follow. Milton Friedman is probably the best-known advocate of the idea that private firms have no responsibilities beyond profit maximization. Furthermore, Friedman argued that firms do not have the expertise to engage in solving social problems. By implication, specialized institutions such as government agencies or charities are in a much better position to pursue social and environmental objectives. Friedman’s views are extreme, but they still find supporters today.

Even if firms decide to pursue social or environmental objectives, international business poses a difficulty, as different nations have different ethics. Indeed, managers in different countries have sometimes strikingly dissimilar views on the same business problems. One of the most hotly debated ethical issues in international business is corruption. Many studies have attempted to show that views on taking bribes vary widely between different countries. When confronted with exactly the same situation, managers from one country might consider a payment to a government official a bribe, while managers from another country might consider it a legitimate gift. Some countries are said to be more prone to corruption than others. Many managers believe that business people should adapt to every country in which they operate. The view that morality is relative to a particular culture or community is called ‘cultural relativism’. If paying bribes is prevalent in their host country, then managers should follow the rules of the land. Indeed, managers might say that not paying a bribe may damage business interests. Cultural relativism suggests that managers should not try to find morals in business but should simply follow the laws of the land wherever they operate. An activist group in Britain or the US cannot dictate what the company should do in South Africa or France, as managers have to follow South African or French laws and business traditions.

### IV. CSR & Stakeholder

Few businesses and scholars share the view that the business community has no social responsibility to society. They have a very different view of CSR from that of Milton Friedman. The problem is that there are many definitions of CSR, and there is no universal consensus on which social objectives companies should pursue. The World Business Council for Sustainable Development (WBCSD 2000) defined CSR as ‘the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life’. When asked what CSR means to them, people from different countries emphasize different issues; for instance, environmental issues are stressed in Thailand, while Ghanaians stress the empowerment of local communities. These differences suggest that managers must remain sensitive to cultural differences between countries. The view that businesses should pursue certain social goals suggests that managers have broader responsibilities that extend beyond the company’s owners and shareholders to include employees, customers, suppliers, and local communities. This view goes beyond corporate charitable donations, public relations exercises, or special employee benefits, all of which practices have long been pursued by companies. It stresses that companies have responsibilities to their stakeholders. Many scholars and managers now accept the idea that a firm has stakeholders. A stakeholder is typically defined as ‘any group or individual who can affect or is affected by the achievement of the organization’s objectives. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, governments, and other groups who can either help or damage the firm. Freeman simply summarized the stakeholder approach as ‘the principle of whom or what really counts’. Since managers usually paid enough attention to suppliers or governments in the past, the literature on CSR usually emphasizes ‘non-traditional’ stakeholder groups such as NGOs and local communities. It is those groups which mostly advocate CSR and which have traditionally not been part of the firm’s strategic analysis. The stakeholder view of the firm undermines the notion that a firm should only maximize profits for shareholders. Rather, the goal of any firm should be to satisfy the aspirations of all of the main stakeholders.

Each stakeholder group has different agendas and concerns. One major problem with such a wide variety of stakeholder concerns is how to assess the firm’s performance for addressing stakeholder issues. Traditionally, only the purely economic performance to the benefit of one stakeholder group the shareholder was taken into account. This gives rise to new ways of assessing the performance of the firm such as the triple bottom line concept. Promoted by various NGOs, the triple bottom line (TBL) concept emerged from the recognition that firms are becoming accountable for social and environmental effects on society, in addition to generating profits. TBL is an expanded CSR concept, which suggests that social and environmental indicators should become as important as conventional profit indicators.

### V. Business Opportunities of CSR and Stakeholder

Non-traditional stakeholders such as NGOs do not only pose external threats to firms but also present business opportunities. Local communities and NGOs can help to make government agencies more favorably disposed towards a firm; they can help to market a new product or build barriers to entry. Business opportunities are created as local communities and NGOs are becoming more prepared to work with business for common strategic goals. There is evidence that NGO-business relationships are now shifting from confrontation towards collaboration. A survey of NGOs and companies found a high convergence between companies and NGOs. A remarkable global strategic joint venture is the Global Reporting Initiative (GRI), which brings together a number of NGOs and companies, has the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance, initially that of multinational firms and eventually for any business, government, or NGO. In this way, a global NGO-business partnership aims to establish common global standards, which national governments are unable to provide. There are various reasons for the growth of NGO-business partnerships.

Stakeholder engagement can sometimes help firms to get ahead of the competition. According to Waddell (2000), the involvement of NGOs can help firms to achieve man corporate goals, including: risk management and reduction, cost reduction and productivity...
gains, new product development, new market development, human resource development, building barriers to entry; and creativity and change. Through stakeholder analysis, firms may be able to find business opportunities and resources which they ordinarily would not have been able to identify. We showed that the involvement of non-traditional stakeholders can bring very tangible benefits to companies. In general, there is evidence to suggest that becoming socially responsible can lead to higher profits. It is important to remember, however, that social responsibility does not bring instant results. In essence, CSR is about creating value in the long term. A firm must assess strategic opportunities from socially responsible behavior in the long term. As the previous sections revealed, the involvement of non-traditional stakeholders such as environmental groups may help firms to reap major benefits and help to increase shareholder value in the long term. However, the point of CSR is that unlike targeted corporate sponsorships or employee benefits it does not always pay. The evidence on the profitability of socially responsible companies or investment funds is not entirely clear. Another major issue is that some stakeholders will not lend support to the company unless they are convinced that it is very sincere about CSR. An NGO such as Greenpeace will not publicly work with a company unless it is convinced that top management demonstrates integrity and consistency in strategy and implementation of CSR. Companies which are perceived as insincere are shunned by NGOs.

Somewhat paradoxically, in order to profit from CSR and stakeholder engagement, corporate leaders have to convert to the view that social issues are sometimes more important than profits. But even if there are no profits to be made and a firm is unwilling to yield to stakeholder demands, managers may have to implement social and environmental improvements in order to retain acceptance of the firm in society. Firms may feel under pressure to imitate successful examples of socially and environmentally conscious firms in order to ‘enhance their legitimacy’ by society. Some social and environmental initiatives may be necessary just to stay competitive in the new global business environment.

V. Stakeholder in Global Business Environment

Stakeholder engagement is a complex process, ranging from identifying key stakeholders in the business environment to implementing CSR strategies and monitoring performance. In this research we deal only with the first steps of identifying who the stakeholders are and how businesses should decide which stakeholders are the most important ones to talk to. The mapping of stakeholders is much more complicated as a multinational firm faces different groups in different countries. Furthermore, stakeholders can be very different for different organizations. For example, environmental NGOs may be crucial for a waste-treatment plant but may be of little importance to an online book retailer. Therefore, every firm must identify the specific stakeholders which are important to it globally and in every country in which it operates. It is not easy to construct a stakeholder map. Freeman pointed out that two issues must be considered when stakeholders are identified. First, the same group can have different stakeholder roles for the company. For instance, for Shell in Nigeria, the Nigerian government is a stakeholder as government, but it is also an owner (as joint-venture partner) and a financial institution (the Nigerian Central Bank). Multiple roles for the same stakeholder group can give rise to conflicting demands on the company. Second, stakeholder groups are interconnected and may influence each other. For Shell in Nigeria, the local communities had an impact on environmental NGOs; in turn, the media publicity generated by international NGOs led a financial institution (the International Finance Corporation IFC of the World Bank) to withdraw from its investment in a Shell gas project.

A further complication in constructing a stakeholder map is that such a map is only useful at a particular point in time for a specific purpose. Managers should never forget that the relative importance of stakeholders may be different for different issues and projects. Therefore, stakeholders require different degrees and types of attention depending on things such as their degree of power or the urgency of the issue, while levels of these attributes (and thereby the importance of a stakeholder) can vary from issue to issue and from time to time. A stakeholder map is usually constructed by people from within the company. But there are problems in doing so. One study found that top managers ascribed more relative importance to stakeholders who played a part in the traditional activities of the firm than to the government or non-traditional stakeholder groups. The functional managers in order to increase their power may exaggerate threats from their stakeholders, leading top managers to form an inaccurate picture of demands on the organization. Such acts of self-interest may cause the organization to be out of sync with the predictions of our stakeholder theory. Finally, stakeholder attributes are socially constructed; they are not objective reality. Managers may have different perceptions of issues such as stakeholder legitimacy compared with a stakeholder’s own perception. As Freeman reminded us, when the managers’ ‘perceptions are out of line with the perceptions of the stakeholders, all the brilliant strategic thinking in the world will not work’. For all of these reasons, it is sometimes better to let someone from outside the company conduct stakeholder analysis.

Stakeholder mapping can be useful in surveying the industry environment. Besides the bargaining power of two stakeholder groups ‘buyers and suppliers other stakeholders can also constrain industries. For example, governments can raise or lower entry barriers through regulations,’ and NGOs can force firms to undertake costly investments. In order to reflect the power of all stakeholders in analyzing the business environment, we are proposing a modified Four Forces Model, which includes rivalry, the threat of new entrants, the threat of substitutes, and the power of stakeholders (which includes buyers, suppliers and others).

VII. Stakeholders of Multinational Firm

Firms cannot accommodate the interests of every stakeholder. There are just too many of them. A multinational firm which operates in many different countries has thousands of stakeholders with very different agendas and demands. Furthermore, stakeholders may have contradictory interests. One environmental group may want the company to divest itself of a certain project, while another group may want the company to introduce anti-pollution measures but continue operating. But some stakeholders are just much more important than others, and it is important to identify who the main stakeholders are and how much power they have over the firm. If a primary stakeholder group becomes discontented with the firm and withdraws its cooperation, the firm will suffer serious damage or may not be able to continue as a going concern. Secondary stakeholder groups are deemed as those who affect or are influenced by the firm, but are not engaged in transactions with the firm and are not essential for its survival. The media and a wide range of NGOs would be seen as secondary stakeholders. However, in the global economy NGOs or local communities can also have a major impact on the survival of a firm, even if they are not engaged in transactions with the firm.
We noted earlier, stakeholders can be very different for different organizations. An organization is dependent on its environment for resources, ‘the importance of a stakeholder will depend on the needs of the organization and the extent to which the organization is dependent on that stakeholder, relative to other stakeholders, for meeting its needs. The firm may need to focus on different stakeholder groups depending on several factors. One such factor is the firm’s corporate nationality. Despite globalization, a firm’s national origin can still account for many differences between multinational firms. As the needs of a firm change over time, the relative importance of stakeholders will change as it evolves.

During the start-up stage, when the firm is most concerned about obtaining initial financing and entering the marketplace, the key stakeholders are likely to be shareholders, creditors, and customers. In contrast, during the maturity stage firms are likely to act proactively towards most of their stakeholders including communities and NGOs. On the one hand, firms are likely to be larger in the mature stage and will attract more scrutiny from stakeholders; on the other, firms will have more cash flow without particularly attractive investment opportunities. The type of industry can also influence a firm’s response to social demands by stakeholders.

Stakeholder analysis has come under some criticism recently. Ulrich Steger (2003) suggested that in today’s fast-moving global business environment managers often cannot be sure about either stakeholder groups or their demands. So the use of stakeholder maps may be of limited value because key stakeholders may change or their demands may change. According to Steger, a focus on stakeholder analysis can only work if you have all the information who all your stakeholders are, what do they want at a given moment (which could change), and how to rank the urgency of dealing with the most important stakeholder groups. But firms rarely have all the relevant information in today’s global business environment. Managers may not know whether Greenpeace or another stakeholder is planning campaign against the organization, but they might be aware of a public debate about a specific issue for instance about the proposed phasing out of a dangerous chemical or for better working conditions in a given industry or country. Therefore, Steger suggested that managers should focus on issues which could become threats to the organization rather than on stakeholders.

One tool for issue analysis proposed by Steger is cross-impact analysis, which can be used by managers, for example, during brainstorming sessions. By placing potential threats and opportunities in the business environment in relation to corporate objectives, managers can better understand how an issue could influence the organization. Steger recommends this tool for situations such as when ecological issues prompt customers to direct criticism at a company because of its products, and to begin switching to environmentally friendly products. It could also be used in situations when a firm is confronted with stricter regulations on product quality, which could make innovation more feasible. This type of analysis might indicate that the ability of customers to switch to another firm’s products is high, or that the potential for innovation is higher than previously assumed.

One assumption underlying issue analysis is that most issues do not come entirely out of the blue. In most cases managers could have detected them, as issues follow patterns or a set of criteria. In order to help managers decide how an issue might develop in future. As with stakeholder analysis, one problem with issue analysis is that some information may not be known to the firm. A lack of understanding by managers might call for a deeper investigation of the issue in order to detect any changes in the business environment. As Steger pointed out, a precondition for the use of cross-impact analysis is that no predominating opinion should be allowed to prevail and that advocates of minority opinions are brought into the brainstorming sessions as well as outsiders with a wide background. As with stakeholder analysis, issue analysis relies on managers being open-minded to new trends and developments.

The idea of stakeholders and stakeholder analysis is useful in providing a tool for an understanding of the new business environment. But it is important to keep in mind that stakeholder analysis does not begin and does not end simply with identifying who the stakeholders are or what the key issues are. A firm needs to develop strategies to cope with the new pressures in the external business environment. In doing so, the firm’s objective must be to foster friendly relationships with its stakeholders, avoid risks to its reputation, and benefit from working with stakeholders. It is not enough to know who your stakeholders are; you must have a strategy for dealing with them.

VIII. Summary

In a global business environment where national governments and inter-governmental organizations fail to address many of the world’s most pressing problems, the public looks to business to perform social tasks previously accomplished by the state. In this global environment, NGOs have acquired a powerful influence on business activity. While managers may not necessarily like it, business is now expected to pursue social and environmental objectives. These new pressures have given rise to Corporate Social Responsibility (CSR), which has been defined as ‘the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life’. There are two major objections to multinational firms assuming new social and environmental roles. First, it has been argued that businesses serve the sole purpose of making a profit, and that they should not pursue any other objectives. Second, ethics differ between countries, and multinational firms face a dilemma as to which national ethics to follow. But views are changing, and many international businesspeople now accept that firms have a social responsibility to society. Indeed, CSR may provide various new business opportunities to multinational firms, such as through NGO-business partnerships.

Many international businesspeople have also come to accept the idea that a firm has stakeholders. A stakeholder is typically defined as ‘any group or individual who can affect or is affected by the achievement of the organization’s objectives’. In an increasingly complex globalizing world, firms need to engage with stakeholders, but stakeholder engagement is a complex process. The first step in this process is identifying the relevant stakeholder groups (for instance, through stakeholder mapping) and identifying the relevant stakeholder issues (for instance, through cross-impact analysis). Our view is that firms will increasingly have to manage stakeholder issues in the same way as other strategic issues, as they are relevant to competing in a global market. Indeed, it is crucial that stakeholder concerns are not dealt with by a public relations or a stakeholder unit within the firm, but are incorporated into the formulation of strategic plans and financial budgets.
References


