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"Corporate Social Responsibility in the Realm of Stakeholder Potential"

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Abstract

The article discusses about the stakeholder theories that are prevalent in the industry and provides further insights on how stakeholder rights should be realized. The authors compare two forms of notions regarding the stakeholder theories and try to find out which one is more appropriate and how the same can be implemented. The authors try to find an alternative stakeholder policy which is firmer than the stakeholder theories which are currently put in place.

Introduction

Companies over the years have developed corporate social responsibility or sustainability initiatives to fulfil their contract with the society by addressing issues ranging from climate change to obesity to human rights. However, investors and executives often see these programs as separate from the company's core business or unrelated to shareholder value.

Companies often have difficulty linking CSR metrics and indicators to real financial impact. Yet many companies have created value through their environment, social and governance (ESG) programs – through increased sales, decreased costs or reduced risks.

The article argues that ESG programs can create value in many other ways that support growth, improve returns on capital, reduce risk, or improve management quality. It adds that breaking down the value of these activities enables companies to communicate it to investors and financial professionals.

Growth

Five areas where ESG programs have a demonstrable impact on growth:

- New markets – Access to new markets through exposure from ESG programs
- New products – Offerings to meet unmet social needs and increase differentiation
- New customers/market share – Engagement with customers, familiarity with their expectations and behavior
- Innovation - Cutting-edge technology and innovative products/services for unmet social or environmental needs; possibility of using these products/services for business purposes—e.g., patents, proprietary knowledge
- Reputation/differentiation – Higher brand loyalty, reputation, and goodwill with stakeholders

Returns on Capital

Companies generate returns on capital through their ESG programs by achieving operational efficiency and workforce efficiency.

- Operational Efficiency – Bottom-line cost savings through environmental operations and practices—e.g. energy and water efficiency, reduced need for raw materials
- Workforce Efficiency – Higher employee morale through ESG; lower costs related to turnover or recruitment
- Reputation/price premium – Better workforce skills and increased productivity through participation in ESG activities. Improved reputation that makes customers more willing to pay price increase or premium

Risk Management

Companies often see environmental, social, and governance issues as potential risks, and many programs in these areas were originally designed to mitigate them—particularly risks to a company's reputation but also, for example, problems with regulation, gaining the public support needed to do business, and ensuring the sustainability of supply chains.

- Regulatory Risk – Lower level of risk by complying with regulatory requirements, industry standards, and demands of nongovernmental organizations

- Public support – Ability to conduct operations, enter new markets, reduce local resistance
- Supply Chain – Ability to secure consistent, long-term, and sustainable access to safe, high-quality raw materials/products by engaging in community welfare and development
- Risk to Reputation – Avoidance of negative publicity and boycotts

Management Quality

The ESG programs can have a strong impact in all three areas that investors typically consider important: leadership strength and development, both at the top and through the ranks; the overall adaptability of a business; and the balance between short-term priorities and a long-term strategic view.

- Leadership development - Development of employees' quality and leadership skills through participation in ESG programs
- Adaptability - Ability to adapt to changing political and social situations by engaging local communities
- Long-term strategic view – Long-term strategy encompassing ESG issues

STAKEHOLDER THEORIES:

The stakeholder theories challenge the primary motivation of making profits in the business. There are restricted and unrestricted stakeholder theories where the latter concentrates on the firm needing to consider the interests of all groups affected by the firm, and the former is about meeting the needs of only the primary stakeholders.

The authors focus on three types of stake holder theories at large. They are

2.1 Normative: In the case of normative theory, the relations with the stakeholders are determined by some underlying moral principles. It also emphasizes the need for the firm to attend to the need of all the stakeholders. It says firms should just not concentrate only on the shareholders.

2.2 Instrumental: Here stakeholder relation is treated as a means to reach the ultimate goal of the organization, which is the desired end result of a company/organization. This theory says that by maintaining a good relationship with the stakeholders, the company has a competitive edge over another company which does not have that mutual cooperation between their managers and the stakeholders.

2.3 Descriptive: This theory discusses how the relationships are managed with the stakeholders. This has some connection to the resource dependence theory. This theory suggests that the organization will be more concerned about and caters to the need of the stakeholder groups who controls resources critical to the survival of the organization.

MANAGERIAL VOLUNTARISM & INSTITUTIONAL MEDIATION:

This is also known as soft form of governance. Here, the managers take interest in developing stakeholder relationships without any enforcement.

MANAGERIAL VOLUNTARISM	INSTITUTIONAL MEDIATION
- Soft form of relationship with the stakeholders	- Firmer policies set up
- May result in opportunism	- There are firm transaction rules and hence greater uniformity which leads to building a framework.
Both managerial voluntarism and institutional mediation desire for the betterment of CSR and to promote better corporate governance. But it is such that managerial voluntarism does not strive for enforcement of organizational responsibility toward its stakeholders.	

The article also discusses on how the changing political phase in different countries impact the stakeholder relationship management. Most of the capitalistic countries look only for profit maximization, but there is more unionism to be seen in the developing countries where different stand has to be adopted. Coordinating mechanisms play an important role in determining the economic performance. The authors further discuss on the advantages of compromises in different levels. At workplace, it helps develop high workplace participation and higher levels of commitment from the workforce. At the financial system and inter firm relations level this helps in developing long term relationships, high trust and low levels of opportunism. At the community level there will be multiple levels of participation and in polity level there will be more social accords.

CONCLUSION

There has been a lot of growth in interest in the stakeholder theories over the years. It has been observed that there are few limitations with the soft form of managerial voluntarism, where in the stakeholders are at the mercy of the manager. Whereas institutional mediation leads to setting up of firmer guidelines and hence an enforcement is created which aids a better relationship between the managers and the stakeholders. Over the years, with change in political conditions there are community pressure groupings and these pressures leads to compromises at various levels which lead to providing a firmer guideline for the organizations so that they cater to the stakeholders as a whole and not to the chosen elite few. In short the authors propose a change in approach to the stakeholder theory and encourage to go with institutional mediation to counter the shortcomings of the 'lesser teeth' soft form of managerial voluntarism.